

Company Number  
00998314



***Building on our potential***



**ANNUAL REPORT AND ACCOUNTS**  
*for the year ended 31 December 2017*

## Welcome

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SIG is a leading European supplier of specialist building materials.

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### OUR INVESTMENT CASE

- ❑ ***Strong positions in our core markets of insulation & interiors, roofing & exteriors and air handling***  
 Read more on our **locations** on page 4
- ❑ ***Focused on specialist distribution and merchanting for our business customers across the construction industry***  
 Read more on our **business model** on page 10
- ❑ ***Bringing value to our customers as a specialist distributor***  
 Read more on our **markets** on page 12
- ❑ ***Experienced and passionate workforce operating with a strong health and safety focus***  
 Read more on our **strategy** on page 14
- ❑ ***Our strategic goal is to deliver significantly improved operational and financial performance as a leading European supplier of specialist building materials***  
 Read more on our **sustainability** on page 46

### OUR STRATEGY IN ACTION

#### CUSTOMER SERVICE



Read more on page 16

#### CUSTOMER VALUE



Read more on page 18

#### OPERATIONAL EFFICIENCY



Read more on page 20

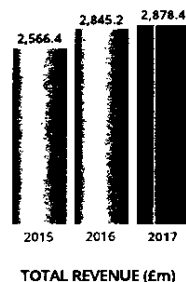
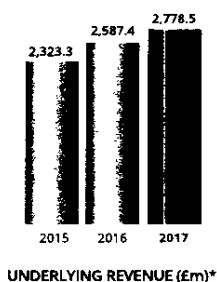
## Highlights

### Like-for-like sales

+3.8%

(2016: +0.4%)

Medium term target:  
Growth in line with market

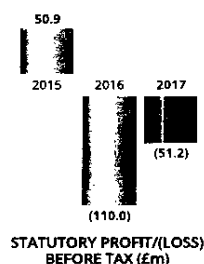
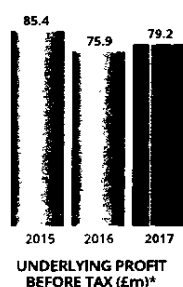


### Return on sales

3.4%

(2016: 3.5%)

Medium term target: c.5%

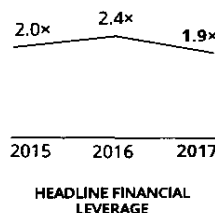
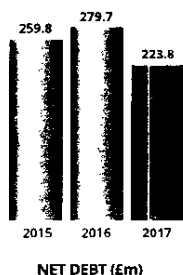


### Return on capital employed

10.3%

(2016: 10.2%)

Medium term target: c.15%



## FINANCIAL HIGHLIGHTS

- **Business performance stabilising, balance sheet strengthening and portfolio being rationalised**
- **Total revenue increased by 1.2% and like-for-like sales up 3.8%**
- **Underlying\* PBT ahead at £79.2m (including £13.7m property profits)**
- **£51.2m statutory loss before tax, reflecting £130.4m non-underlying items**
- **Return on capital employed improved to 10.3% (2016: 10.2%)**
- **Headline financial leverage down to 1.9x**
- **Final dividend of 2.5p bringing total for year to 3.75p (2016: 3.66p).**

## OPERATIONAL HIGHLIGHTS

- **New leadership team with Chairman, Chief Executive Officer and Chief Financial Officer replaced during the year**
- **Plans to deliver turnaround being implemented across the Group**
- **Thorough review of strategy confirms considerable opportunity to improve performance**
- **Organisation right-sized and Group functions scaled back**
- **Peripheral businesses divested or closed down**
- **Operating costs stabilising, debt down**
- **Legacy accounting issues addressed**
- **Strong health and safety record maintained**

\* 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 historic overstatements noted on page 31 and reclassified for businesses identified as non-core since signing of the 2016 Annual Report and Accounts

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Read more on our Performance on page 24 and in our Financial Review on page 28

See Our KPIs on page 22 and Note 32 of the Financial Statements for definitions of like-for-like sales, return on sales and headline financial leverage

## Chairman's statement

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Our strategic goal is to deliver significantly improved operational and financial performance.

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***"As one of Europe's leading suppliers of specialist building materials it is essential that we continue to bring value to our business customers across the construction industry.***

***The changes we have made this year to the leadership of the Group and the plans we have begun to implement provide the foundation for lasting change."***

ANDREW ALLNER

### DEAR SHAREHOLDER,

I am pleased to present my first report to you as your Chairman following my appointment on 1 November 2017.

My initial impressions of SIG plc are that it is a strong business, with leading market positions across our core markets in Europe. With close to £3bn of annual revenues and over 9,000 employees, SIG plays a critical role in the construction supply chain, helping manufacturers of building materials bring their specialised products to a broad customer base across major European markets. We have a loyal, skilled and experienced workforce and through them we help the construction industry to build offices, schools, hospitals and homes by delivering the right product to the right place at the right time.

However, over recent years, the business has struggled to translate these strong market positions and the potential of its people into robust financial performance. SIG has not provided meaningful value to Shareholders for a number of years and, in a challenging market environment, failed to deliver against expectations in 2015 and 2016. In my view, this business lost focus, tried to do too much, and has not been well managed for a long time.

My arrival was the culmination of a series of changes to the senior leadership of SIG last year, with the appointment of Nick Maddock as Chief Financial Officer in February 2017 and the appointment of Meinie Oldersma as Chief Executive Officer in April 2017. In Nick and Meinie, I believe we have a strong management team with a clear sense of what it will take to drive this business forward, and they are already putting improvement plans into action.

## REVIEW OF STRATEGY

Following Meinie's and Nick's appointments, the Board carried out a detailed review of our strategy. This has confirmed the potential for the Group to deliver a significantly improved operational and financial performance, which is the Board's immediate priority. The conclusions of this review were presented to Shareholders on 21 November 2017 and are available in the Presentation & results section of our corporate website at [www.sigplc.com](http://www.sigplc.com).

We have reaffirmed our focus on our core business of distribution and merchandising of specialist products for our business customers across the construction industry. We believe our specialist focus brings us real advantages through our product expertise and our ability to partner with both suppliers and customers. We add value through the building materials supply chain with the depth and availability of stock we hold, our ability to break bulk and our delivery and logistics capability. Our customers benefit from our specialist and technical advice, our product enhancement capabilities and our provision of credit.

The implementation of our strategy, which necessarily is prioritising medium term turnaround, is focused on key strategic levers around customer service, customer value and operational efficiency, and management has put in place dedicated plans around each of these. Highly disciplined execution will be key to delivery and this will require focused investment in key enablers around data, IT and capability to support implementation. Whilst it will not be a quick or easy transition, I believe that 2017 has set the business on the path to build on its potential and deliver a significantly improved performance.

As we deliver progress in turning around the performance of the business we shall continue to develop our strategic thinking to create a long term sustainable business that meets the requirements of all our stakeholders and maximises long term value for our Shareholders.



Read about our Strategy  
on pages 14 to 21

## BOARD AND GOVERNANCE

There were a series of changes to the Board in 2017. In addition to my appointment and the arrivals of Meinie and Nick, as noted above, Ian Duncan joined in January as Non-Executive Director and consequently as Chair of the Audit Committee. Ian has been an excellent addition to the Board.

Leslie van de Walle retired from the Board on my appointment after seven years. He did not have an easy time as Chairman but worked hard and conscientiously to do the right thing. I would like to thank him for his contribution.

One of my first priorities has been to assess the structure and composition of the Board. Chris Geoghegan's third term, nine years in total, serving as a Non-Executive Director of SIG, expires at the Company's 2018 Annual General Meeting on 10 May 2018. After consultation with the Company's Nominations Committee and in line with the recommendations of the UK Corporate Governance Code (April 2016), Chris has decided to retire in

advance of the Annual General Meeting and will not be putting himself forward for re-election. Janet Ashdown has assumed his responsibilities as Chair of the Remuneration Committee, with effect from 19 December 2017 and Mel Ewell will take over his responsibilities as Senior Independent Director from 9 March 2018. Chris has given good service to the Group over a number of years and I would like to thank him for his substantial and valuable contribution. Further, in light of succession planning, it was agreed with Mel that he would also retire from the Board, however would remain as a Director until a new Non-Executive Director is appointed.

Following my appointment, I have conducted a review of Board effectiveness with Non-Executive and Executive Directors and with feedback from some of the Group's larger Shareholders. As a result, I intend to make a number of changes to the way that the Board operates. Specifically, I believe the Board has become rather short term and internal in its focus as the financial performance has deteriorated over recent years. I am seeking to set a more strategic agenda for the Board in 2018 that looks beyond the current turnaround, whilst ensuring we continue to hold management to account for delivery of the plans and targets in our medium term strategy.

I am also looking at ways in which the Non-Executive Directors can become closer to the business with a better understanding of the day-to-day operations of the Group, including a programme of site visits and the regular attendance at Board meetings of senior managers from across the business. I am also keen that the Board has a much greater focus on people and culture as they will be critical to the future success of the Group. The Board is planning an external review of Board effectiveness in 2018 and I will report back formally on the findings from that review in due course.

Under my Chairmanship, the Board will be committed to strong corporate governance, doing business the right way and improving standards of environmental, social and sustainability practices. SIG continues to comply with the UK Corporate Governance Code (April 2016), except for running an external Board evaluation process, as outlined in our Corporate Governance Statement.



Read about Corporate Governance  
on pages 61 to 72

The Board remains determined to hold itself and the broader Group to the highest standards of ethical and professional practices. We will not tolerate any breach of these standards and I support the robust action taken by management, in conjunction with the Audit Committee, in relation to the controls issues identified during the year. We thoroughly investigated and reported the historical overstatements identified, and I would like to assure you that we have moved swiftly and decisively to address these serious matters, which are described further in the Financial Review and Corporate Governance sections later in this Report.



Read about Financial Review  
on pages 28 to 41

The Board is also supportive of management's focus on increasing the level of transparency and openness with Shareholders and other stakeholders. In this context, we continue to enhance the Annual Report so that disclosures represent a fair, balanced and understandable assessment of the Group's position and prospects and we have made a number of improvements this year with the purpose of improving the clarity of the Strategic Report in particular. I hope that you recognise and welcome these improvements.

## DELIVERING SHAREHOLDER VALUE

The Board is committed to delivering value to Shareholders through the operational and financial turnaround of the business. The primary measures that the Board uses to track Shareholder value are profit before tax and average return on capital employed, which in 2017 improved by 10bps to 10.3%. Our stated target is to deliver a ROCE of c 15% over the medium term.

SIG intends to pursue this goal whilst rebuilding a strong balance sheet and is targeting a reduction in headline financial leverage to below 1.0x over the medium term from 1.9x at the year end. This target is set in the context of the recent formalisation of a robust capital allocation policy which recognises cyclical risk.

In 2017, I am pleased to say that actions were being taken to stabilise the business, and the Group delivered an improved underlying earnings per share in 2017 of 9.8p (2016: 9.7p), including the significant benefit from property profits. Statutory loss per share has improved to 10.1p (2016: 20.6p loss per share). As a result, the Board is recommending payment of a final dividend for the year of 2.50p (2016: 1.83p) per share. Together with the interim dividend of 1.25p (2016: 1.83p) per share, this gives a total dividend for the year of 3.75p (2016: 3.66p) per share, in line with the Group's stated policy to target a dividend pay-out in the range of 2-3x underlying earnings cover.

The reported results, which show a loss before tax for the year of £51.2m (2016: £110.0m), reflect the exceptional and largely non-cash costs associated with business disposals, restructuring and other actions aimed at refocusing the Group back on its core business. This process is coming to a conclusion and our objective is that such exceptional costs and charges should not be such a significant feature after the initial years of our turnaround.















I look forward to leading the Board and working on your behalf to ensure delivery of the Group's strategy and the targeted improvement in the Group's operational and financial performance.

**ANDREW ALLNER**  
CHAIRMAN

8 March 2018

## SIG at a glance

## Our locations

	UK & IRELAND	MAINLAND EUROPE		
	UK & IRELAND	FRANCE	GERMANY	OTHER EUROPE
<b>Revenue</b>	£1.3bn	£661m	£426m	£387m
<b>Branches</b>	234	207	59	85
<b>Principal brands</b>	      	  	 	 
<b>Leading market positions</b>	#1 insulation/ interiors in UK #1 specialist roofing in UK #1 insulation/ interiors in Ireland	#1 specialist roofing #1 technical insulation #3 structural insulation #3 interiors	#1 technical insulation #3 structural insulation #3 interiors	#1 insulation/ interiors in Poland #1 insulation/ interiors in Benelux European specialist market leader in Air Handling



Read about Marketplace on  
pages 12 to 13

## Our products

### INSULATION & INTERIORS

SIG is the largest supplier of insulation products in Europe and also the largest supplier of interiors fit out products in Europe.

**Key products:**

STRUCTURAL AND TECHNICAL INSULATION  
CONSTRUCTION ACCESSORIES AND FIXINGS  
CLADDING AND FAÇADE SYSTEMS  
DRY LINING  
CEILING TILES AND GRIDS  
PARTITION WALLS AND DOORSETS  
FLOOR COVERINGS



NUMBER OF TRADING SITES:

**311**

of which 72 shared  
with Air Handling

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

### ROOFING & EXTERIORS

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

**Key products:**

TILES, SLATES, MEMBRANES AND  
BATTEN FOR PITCHED ROOFS  
SINGLE-PLY FLAT ROOF SYSTEMS  
INDUSTRIAL ROOFING AND  
CLADDING SYSTEMS  
ROOM-IN-ROOF PANEL SYSTEMS



NUMBER OF TRADING SITES:

**253**

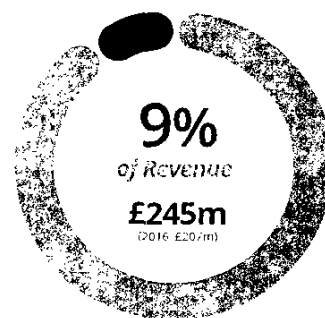
[www.sigroofing.co.uk](http://www.sigroofing.co.uk)  
[www.lariviere.fr](http://www.lariviere.fr)

### AIR HANDLING

SIG is the largest pure-play specialist distributor of air handling products in Europe.

**Key products:**

AIR HANDLING UNITS AND FANS  
DUCTS, COMPONENTS AND FIXINGS  
VOLUME AND FIRE /  
SMOKE DAMPERS  
CLIMATE CEILING AND CONTROLS  
GRILLS AND DIFFUSERS



NUMBER OF TRADING SITES:

**93**

of which 72 shared  
with Insulation & Interiors

[www.sigairhandling.com](http://www.sigairhandling.com)  
[www.ouestventil.fr](http://www.ouestventil.fr)  
[www.sksales.co.uk](http://www.sksales.co.uk)



Read about Performance on  
pages 24 to 27

## Q&A with the Chief Executive Officer

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Highly disciplined execution will be key  
to delivering our strategy.

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MEINIE OLDERSMA

### ***You've been with SIG for under a year. What have been your first impressions of the business?***

**Meinie Oldersma** My view of SIG is that it is a very good business with great people and strong market positions.

Of course, the Group's performance has been disappointing over the last couple of years and SIG hasn't made the most of its potential. Whilst the strategic direction was broadly right during that period, execution proved challenging, and a number of initiatives that were introduced simply added complexity and distraction.

I know that there is a good opportunity to bring this business back to health and, with the help of our people and branches, I'm confident we can deliver a significantly improved financial and operational performance over the medium term.



Read more on our Marketplace on page 12

### ***SIG now has its new leadership in place, and recently also a new Chairman. How is that working?***

**MO** Nick Maddock and I are both relatively new to SIG, but we and our Group Executive Committee are strongly aligned on our strategy for moving SIG forward.

Andrew Allner has also recently joined the business as Chairman and is very supportive of our strategic direction. Along with the Board, he is fully involved and committed to our ambition to return SIG to financial health and to the way in which we're working to deliver on our goal.

We all believe firmly that SIG is a very good business with a great heritage. We're all clear on how we see the future for the Group and that our strategy is the right one for the future of SIG.



Read more on our Strategy on page 14



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***In this section***

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Highly disciplined execution will be key to delivering our strategy.

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MEINIE OLDERSMA

***You've been with SIG for under a year. What have been your first impressions of the business?***

**Meinie Oldersma** My view of SIG is that it is a very good business with great people and strong market positions.

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Read more on our Strategy on page 14

### ***How would you sum up your strategy for SIG for the medium term?***

**MO** As we outline on pages 14 and 15 of this report, our strategy is to build on the potential that clearly exists within SIG, to deliver a significantly improved operational and financial performance. We'll do this by focusing on what we do best as a business, and in particular on customer service, customer value and operational efficiency.

To enable the delivery of our strategy, we're working to improve our IT and our access to effective data. We're also going to make sure that our teams have the capability to help us deliver. Our people and branches are key to our success, and so it's essential that every employee understands our direction and is engaged with it, and that our leaders and people managers are equipped and empowered to lead and guide their teams to deliver the strategy.

### ***You say that people and branches are key to the success of the strategy. How will you empower and incentivise them to deliver?***

**MO** Each of our countries and operating companies has issued a bespoke branch charter to every one of its branches. The charter provides a clear framework for branch managers' responsibilities and authority levels, and also sets out key Group-wide bonus measures, translated into specific targets, which can be tailored to suit each part of the business. The charter also identifies the key business levers, which will be the focus for local delivery of the bonus measures.

Setting this out in a straightforward way, and with clarity and transparency, is just one way in which we are enabling the business to focus on what's really important, empowering people to own the strategy, incentivising them to deliver, and facilitating robust performance management.



Read more on our Performance on page 24

### ***SIG has introduced new strategic goals and a new leadership team a couple of times in recent years, but has still continued to face challenging times. What makes you think you will be successful this time?***

**MO** Firstly, our strategy is a very simple one. We're focusing on our core activities – the things which our business and our people are very good at. We haven't introduced numerous new initiatives. Instead, we're making sure we're equipped to deliver excellence across just three simple levers in support of improved performance: customer service, customer value, and operational efficiency.

Secondly, we're investing in our people and our resources, to equip our teams with the skills, tools, technology and support to enable the successful delivery of the strategy.

And finally, our strategy has been designed 'bottom up', and not 'top down'. That is to say that our starting point in putting our strategy together was to review the business with the leadership teams in each of our countries and operating companies. Each part of the Group developed its own medium term plan, identifying opportunities for significantly improved operational and financial performance in its own area of operation.

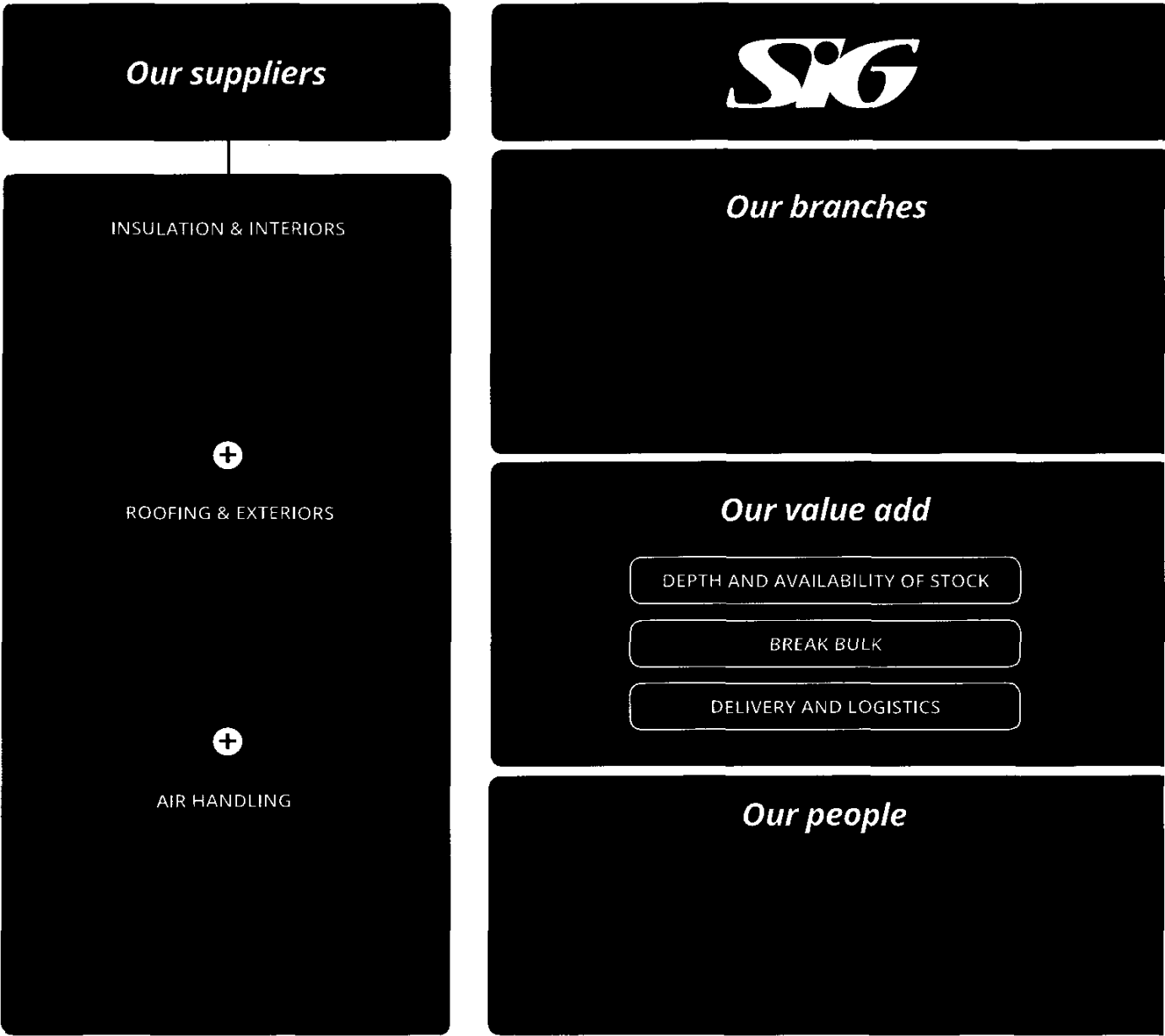
These plans showed numerous synergies, and came together to form our overall Group-wide strategy. From this, we've developed detailed delivery plans and charters, which enable the Group leadership team to ensure highly disciplined execution and to carefully track progress. So, our strategy is not one that has been imposed on the business, and it is set out in a way that is clear and measurable. As such, it has the buy-in of our people, and is perceived as being genuinely achievable.



Read more on our Business Model on page 10

# Our business model

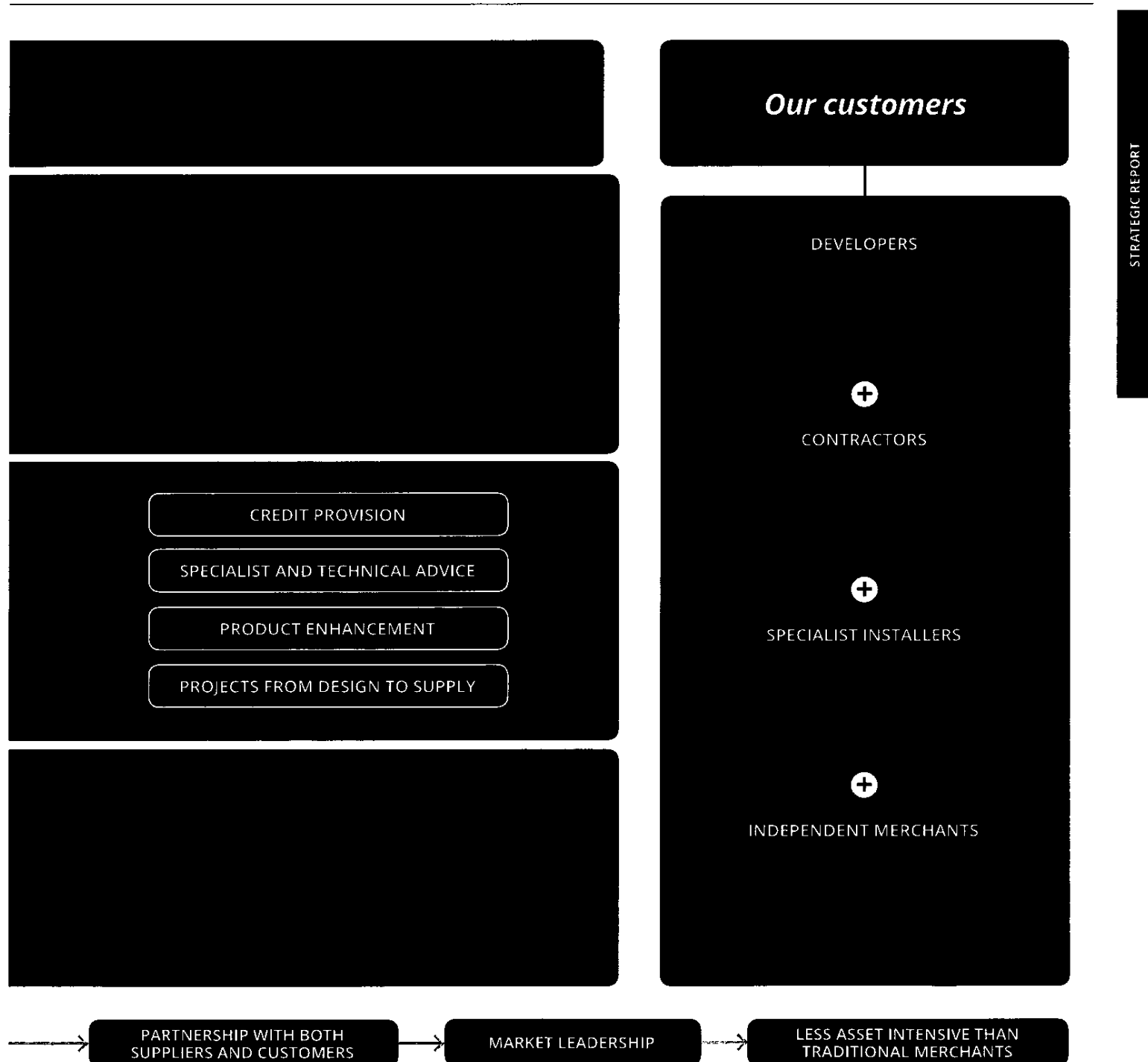
SIG is focused on specialist distribution and merchandising of specialist products for our business customers across the construction industry.



## Advantages of specialist focus:



We play a critical role in the construction industry supply chain, ensuring that our customers receive the right product, at the right place at the right time.



## Our marketplace

### KEY DIFFERENTIATORS OF SIG

- ❑ **Defined product focus in partnership with both suppliers and customers**
- ❑ **Unrivalled scale of offering and technical support to customers**
- ❑ **Market leadership across geographically diverse business portfolio**
- ❑ **Broad exposure across new build and repairs, maintenance and improvements ('RMI') markets**
- ❑ **Technical, diligent and committed employees**

### MARKET DRIVERS

SIG is a leading distributor of specialist construction products and operates in a number of countries and sectors across Europe. Each country and sector demonstrates its own specific characteristics, but all are influenced by common factors. Economic growth is an important demand driver for SIG as it stimulates building activity and industrial output.

### THE MARKET IN THE UK

The UK represents c.43% of the Group's underlying revenue. According to the Construction Products Association ('CPA'), total year-on-year construction output volumes slowed to 3.0% in 2017 (2016: 3.8%) and are expected to remain broadly flat in 2018.

The residential construction sector, which equates to c.53% of SIG UK's total revenue, grew 4.8% in 2017. Despite the flat general UK housing market, private housing grew by 5% in 2017 as housebuilders continued to increase supply and government policies such as Help to Buy continued to have a positive impact. Further growth outside London is expected in 2018, offset by falls in housebuilding in the capital. The private housing repairs, maintenance and improvement ('RMI') sector has also seen growth in 2017, but this is expected to remain flat in 2018, combined with reduced spend on public RMI projects resulting in an overall decline in the residential RMI market.

The non-residential commercial sector (c.23% of SIG UK's total revenue) remained buoyant in the major cities in the first part of the year, however new orders, particularly in central London, have begun to slow. Activity levels in this sector lag new orders by 12-18 months and are beginning to show signs of weakening following a decline in new contract awards since the second half of 2016, post EU referendum and following investor concerns regarding high pricing. With reductions in activity for commercial offices, retail and industrial factories, together with reduced spend on public sector construction, the overall non-residential sector is forecast to decline by 3.2% in 2018.

### CONSTRUCTION MARKET GROWTH FORECASTS

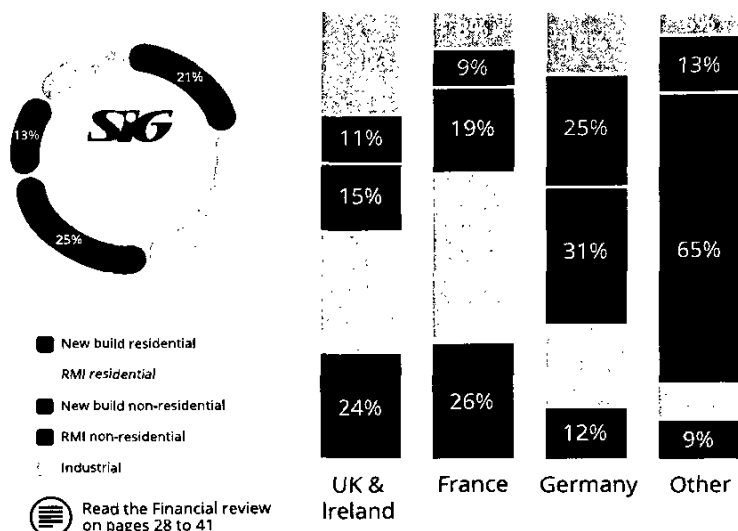
	Residential		Non-residential	
	2017 £m	2018 £m	2017 £m	2018 £m
UK*	4.8%	1.5%	1.3%	(3.2)%
Ireland**	22.4%	18.7%	14.7%	6.3%
France**	5.1%	3.0%	2.8%	3.1%
Germany**	2.9%	1.0%	1.7%	0.5%
Poland**	7.4%	5.2%	5.7%	4.6%
Belgium**	2.5%	2.6%	0.7%	2.2%
The Netherlands**	8.4%	4.0%	4.9%	5.0%

\* Construction Products Association \*\* Euroconstruct

### THE MARKET IN EUROPE

The residential market in France performed strongly in 2017 (5.1% growth) supported by low rates of borrowing and measures announced by the government. Following a buoyant year, growth in this market is expected to slow, but remain positive. A positive macroeconomic outlook is expected to generate growth of at least 3% in the non-residential sector, benefitting in particular SIG France's interiors and ventilation businesses.

In Germany, in line with a strong German economy, the residential sector continued to perform well in 2017, however a reduction in build permits in 2017 is expected to result in a slowdown in growth in 2018. The non-residential sector returned to growth in 2017, performing better than expected, with new build performing significantly better than RMI. This positive performance is expected to continue into 2018.



## INSULATION & INTERIORS

### KEY MARKET DRIVERS AND OTHER FACTORS

- Regulatory changes
- Construction activity (mainly new build)
- Higher energy efficiency standards
- Increasingly stringent fire protection and acoustic standards
- 40% of energy consumption relates to buildings
- Demand for higher standard interior fit outs
- Clear need for distributors in the supply chain

### WHAT THIS MEANS FOR SIG

- Largely consolidated markets, with a relatively small number of large key suppliers manufacturing products to service a large number of small customers.
- Broad product range across technical and structural insulation and interiors; specialist distribution of both value-add and commodity products.
- Key focus for the business in the UK is on data quality to provide visibility of end-to-end customer profitability and ensure greater focus on quality sales.
- Key uncertainty in the German market is the availability of skilled labour in the construction market, however the strong market should enable continued good performance with a focus on stronger returns on sales.
- Positive trends in the French economy expected to benefit in particular the French interiors business and further gains in market share expected.

#### Opportunity:

*Drive performance with sustainable positions and clear strategic rationale*

## ROOFING & EXTERIORS

### KEY MARKET DRIVERS AND OTHER FACTORS

- Regulatory changes
- Construction activity (mainly new build)
- RMI of existing buildings (particularly residential)
- Clear need for distributors in the supply chain

### WHAT THIS MEANS FOR SIG

- Leading specialist merchanting business in regionally-oriented and fragmented market.
- Strong performances relative to the market in the UK specialist timber batten and flat roofing materials businesses through strong service propositions.
- Maintained share with local branch account customers in the UK despite a challenging competitive environment. Market growth in France expected to continue into 2018.
- Sale of Building Plastics during the year reduced the business's exposure to the non-essential residential RMI segment whilst improving the cash position of the Group.
- Challenges in the UK within residential RMI and non-residential new build. The business is focused on select initiatives to increase share within local markets by enhancing the customer value proposition.

#### Opportunity:

*Drive performance with sustainable positions in core markets*

## AIR HANDLING

### KEY MARKET DRIVERS AND OTHER FACTORS

- Regulatory changes
- Construction activity (particularly non-residential)
- Higher energy efficiency and air quality standards
- More rigorous fire protection standards
- Clear need for suppliers with expertise providing total solutions in ventilation

### WHAT THIS MEANS FOR SIG

- Highly unconsolidated market with many suppliers servicing many customers.
- Improved its leading position as an independent distributor with unmatched product breadth.
- Focus on branding and use of smart communication channels has led to higher brand recognition of the European brand Cairox.
- Sale of the business in Turkey due to unstable political and economic conditions.
- Focus in 2018 on developing ventilation solutions to target growth in key markets including offices, education, residential and health.
- Significant opportunity for continued growth with strong profit trajectory.

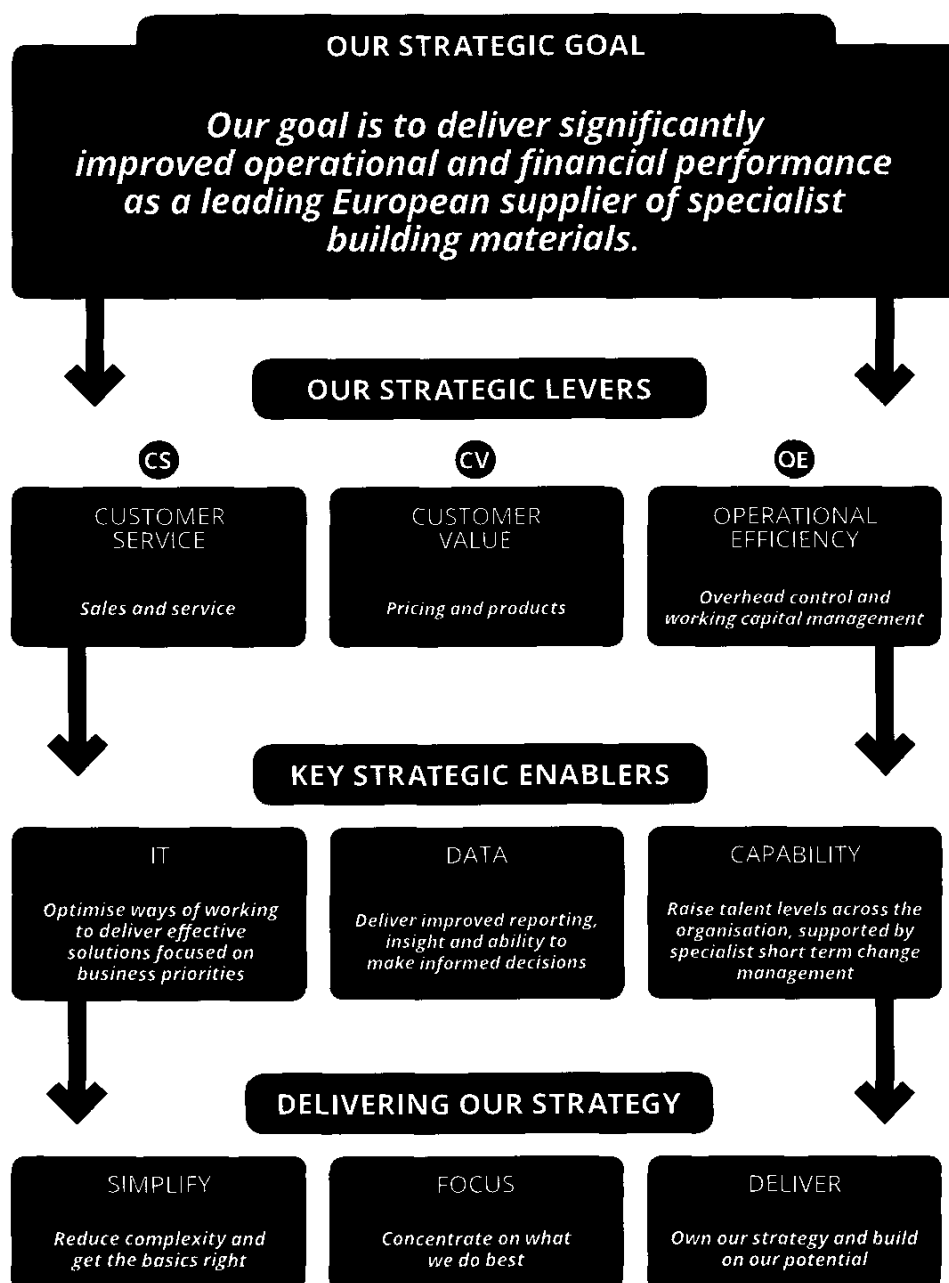
#### Opportunity:

*Highly profitable market potential with opportunity to invest and grow*



Read about Performance on pages 24 to 27

## Our strategy





## OUR STRATEGIC LEVERS

The Group has identified three key strategic levers on which it is focusing to deliver its goal of improved operational and financial performance: **Customer Service**, **Customer Value**, and **Operational Efficiency**. By concentrating on only a small number of short term priorities, the Group can ensure discipline around delivery on each priority and ensure that the transformation is embedded through the whole organisation, right down to branch level.

Our short term focus on operational improvement will ensure that SIG maintains its leading market positions in its three core markets of insulation & interiors, roofing & exteriors and air handling, while maintaining our reputation for customer service, technical excellence and added value, and delivering sustainable growth to Shareholders.

This step change in performance will be driven by a closer focus on operational and capital discipline in markets that offer limited front office synergy and modest top-line growth. SIG aims to simplify the portfolio and enable a strong balance sheet, targeting a headline financial leverage of less than 1.0x in the medium term (current position 1.9x), to protect the business from any market downturn.

These strategic levers will ensure that SIG focusses on being a market leading, operationally excellent and low cost-to-serve provider in its core distribution markets.

## KEY STRATEGIC ENABLERS

Successful execution will require us to invest in three key strategic enablers.

SIG aims to focus on reducing the cost of **IT** service delivery but maintaining flexibility and choice. Investment will be made in technology and systems that will help improve our understanding of our customers and our products.

Access to and the use of **data** is crucial in delivering on SIG's strategy. By investing in the right tools that will improve reporting capabilities, management will have the right information in the right place at the right time to make more informed decisions quicker.

One of the key differentiators of SIG is its talented, loyal, committed people, and their success is our success. SIG aims to raise the talent levels of all individuals within the organisation, through tailored training and development of existing employees to support the strategy. We will develop our **capability** by investing in our skilled and talented people.

Overall this will allow SIG to become more agile and flexible in a changing world.

## DELIVERING OUR STRATEGY


To deliver our strategy, we have provided clarity of purpose to the organisation and we are tracking real and measurable actions to support highly disciplined execution. This requires us to **simplify**, reduce complexity and get the basics right to provide our customers with what they need in the simplest possible way; to **focus** on the execution of customer service, customer value and operational efficiency by concentrating on what we do best; and to **deliver**, by owning our strategy and building on our potential.

# Our strategy

Strategy in action

CUSTOMER SERVICE

SIG is bringing increased value to our business customers across the construction industry by investing in the service standards and effectiveness of our sales force and branches.

EXECUTING OUR STRATEGY	LINK TO KPIs
<ul style="list-style-type: none"><li>Invest in trade counter, branch and sales staff training</li><li>Establish central telephony-enabled sales teams 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 process for inbound leads and use of CRM to drive quote prioritisation and conversion</li><li>Develop enhanced B2B 'click and collect' capability</li></ul>	<div><b>Like-for-like sales</b></div> <div><b>Return on sales</b></div> <div><b>Return on capital employed</b></div> <div><b>Headline financial leverage</b></div> <div><b>Lost work day rate (UK &amp; Ireland)</b></div> <div> Read about our KPIs on pages 22 and 23</div>

## INVESTING IN BRANCHES AND SALES

### CASE STUDY: *Serving our Roofing customers*

Our customer service strategy in our UK Roofing business is focused on enhancing the effectiveness of our sales force by increasing investment in our branches, fleet and staff training. The establishment of off-site telephony-enabled sales teams will provide consistent levels of response to our customers' orders and enquiries, as well as providing a platform to support our branches in customer retention. Further development of our network of IT systems, and in particular CRM, will enable us to increase the accountability of our sales teams through improved data management and performance tracking, as well as facilitating swift and robust quote conversion, ensuring we bring value to our Roofing customers.



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

**Plans to invest**  
**£1.8m**  
**75 LOCATIONS**

**Branch trials**  
**10-30%**  
**GROWTH**  
**IN CASH SALES**

## Our strategy

*Strategy in action*

CUSTOMER VALUE

SIG aims to deliver the right product to the right place at the right price in support of its customers' needs.

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### EXECUTING OUR STRATEGY

- Expand coverage of specialist product offering
- Further develop own-label brands and value-add fabrication capability
- Wider use of pricing tools and enhanced pricing data
- Systematic and prioritised approach to renegotiate or exit unprofitable or unattractive business
- Review and manage spot pricing
- Introduction of carriage and ancillary charges where appropriate
- Management focus and training to drive compliance to target price levels

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### LINK TO KPIs

**Like-for-like sales**

**Return on sales**

**Return on capital employed**

**Headline financial leverage**

**Lost work day rate (UK & Ireland)**



Read about our KPIs on pages 22 and 23

## DELIVERING VALUE TO OUR CUSTOMERS

### CASE STUDY: *Delivering customer value in Air Handling*

Our European Air Handling business is building on its position as a leading distributor with unmatched product breadth through its focus on distribution, service and value. An expansion of the own-label products, trading as Cairox and Sufix, coupled with an extension of the e-commerce offering is enabling the business to deliver rapid sales growth supported by the operational efficiency which can be derived from leveraging the existing platform.

**Market**  
**€7-8bn**  
**AND GROWING**

**FY17 revenue**  
**increased by**  
**18.2%**  
**FROM PRIOR**  
**YEAR TO £245.1M**



[www.sigairhandling.com](http://www.sigairhandling.com)

## Our strategy

### Strategy in action

### OPERATIONAL EFFICIENCY

SIG is targeting robust cost and capital discipline as it strives for greater operational efficiency.

#### EXECUTING OUR STRATEGY

#### LINK TO KPIs

- Downsize Group and functional structure
- Organisation redesign across major operating companies to allow for leaner structure and quicker decision-making
- Process standardisation and system integration at operating company level to generate front and back office synergies
- Optimise branch resource activity
- Close sub-performing branches and centralise stock around 'hubs'
- Short term levers to reduce working capital: changes to purchasing rules, stockholding guidelines, number of SKUs, centralised stock control
- Medium term structural reduction in net working capital: stock, rebates

**Return on sales**  
**Return on capital employed**  
**Headline financial leverage**  
**Lost work day rate (UK & Ireland)**



Read about our KPIs on  
pages 22 and 23

## ROBUST COST AND CAPITAL DISCIPLINE

### CASE STUDY: *Delivering operational excellence in France*

In France, SIG is pursuing a change programme aimed at leveraging best practice across the three French businesses. This is focused on driving operational excellence through organisational structure, process standardisation and data alignment supported by the implementation of modern systems. At LiTT this has started to deliver demonstrable results with a transformation of sales processes and a diversification of customer and product portfolios, delivering strong sales performance in the latter part of 2017.

***Like-for-like  
sales (LiTT)***

**c.10%  
AHEAD OF  
PRIOR YEAR**

***Underlying  
operating profit  
margin of LiTT up  
by 120bps to  
5%***

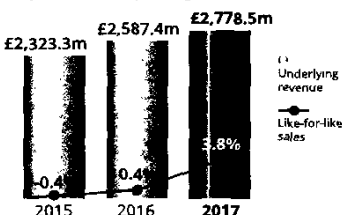
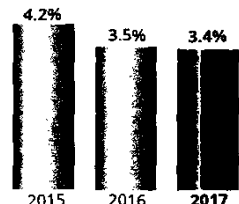
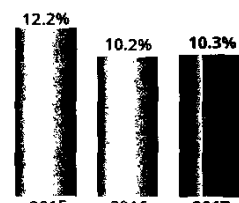
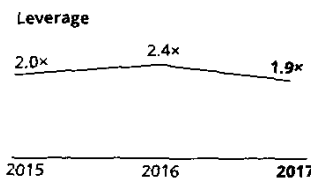
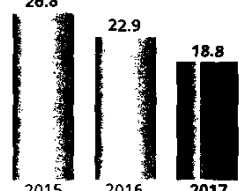


[www.litt.fr](http://www.litt.fr) [www.lariviere.fr](http://www.lariviere.fr)  
[www.ouestisol.fr](http://www.ouestisol.fr)

## Our KPIs

### How we measure performance

In setting our medium term strategy, SIG has identified five key performance indicators against which we will assess and measure the Group's success.

	DEFINITION	WHY IS THIS KPI IMPORTANT?	SUPPORTING PERFORMANCE MEASURES
<b>LIKE-FOR-LIKE SALES (%)</b>  <p>£2,323.3m   £2,587.4m   £2,778.5m</p> <p>2015   2016   2017</p> <p>(+) Underlying revenue ● Like-for-like sales</p>	<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>
<b>RETURN ON SALES (%)</b>  <p>2015   2016   2017</p>	<p>The ratio of underlying operating profit 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 (%)</p> <p>Underlying operating costs as % of sales</p>
<b>RETURN ON CAPITAL EMPLOYED (%)</b>  <p>2015   2016   2017</p>	<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)</p> <p>Like-for-like working capital as % of sales</p>
<b>HEADLINE FINANCIAL LEVERAGE</b>  <p>2015   2016   2017</p>	<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)</p> <p>Trading cash (£m)</p> <p>Net debt (£m)</p>
<b>LOST WORK DAY RATE (UK &amp; IRELAND)</b>  <p>2015   2016   2017</p>	<p>The ratio of lost working days (due to accidents and incidents) per 100 employees</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>n/a</p>



## RELEVANCE TO STRATEGY

- CUSTOMER SERVICE
- CUSTOMER VALUE
- OPERATIONAL EFFICIENCY

PERFORMANCE	MEDIUM TERM TARGET	LINK TO STRATEGY	PRINCIPAL RISK	LINK TO REMUNERATION
The refocus on customers and scaling back of internal initiatives, along with improving construction market conditions across Mainland Europe, has resulted in SIG delivering like-for-like sales growth of 3.8% for the year (2016: 0.4%), comprising 1.6% in UK & Ireland and 5.9% in Mainland Europe. On a statutory basis, SIG reported sales of £2,878.4m, up 1.2% on the prior year.	Growth in line with market Maintain market share	■	<ul style="list-style-type: none"> <li>■ Delivering the change agenda</li> <li>■ Systems and data quality</li> <li>■ Market conditions</li> </ul>	Profit measures in annual bonus scheme for senior management and staff.
In a year of considerable change and challenge, return on sales for the Group has decreased slightly by 10bps to 3.4% (2016: 3.5%), supported by property profits of £13.7m (2016: £3.3m). Excluding these property profits, return on sales decreased by 40bps to 2.9% (2016: 3.3%), due in part to a 20bps decrease in gross margin, reflecting market pressures for UK & Ireland and competitive and operational challenges at SIGD.	c 5%	■	<ul style="list-style-type: none"> <li>■ Delivering the change agenda</li> <li>■ Systems and data quality</li> <li>■ Market conditions</li> <li>■ Supplier rebate income</li> </ul>	Profit measures in annual bonus scheme for senior management and staff.
ROCE increased 10bps to 10.3% (2016: 10.2%), reflecting an improved working capital performance with like-for-like working capital to sales down 90bps at 9.0% (2016: 9.9%). 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 (12.3%) in 2016 to (5.4%), reflecting the reduction in statutory operating loss and the impact of impairments reducing capital employed for the Group.	c 15%	■	<ul style="list-style-type: none"> <li>■ Delivering the change agenda</li> <li>■ Systems and data quality</li> <li>■ Working capital and cash management</li> </ul>	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 1.9x, which is 50bps lower than 2.4x (restated) reported for 31 December 2016. This reduction reflects the short term strategy implemented during 2017 to increase cash generation from debt factoring, improved working capital practices and from the sale of owned assets. Levels of working capital and debt vary through the year, with specific short term actions taken to reduce working capital and net debt around period ends.	Under 1.0x	■	<ul style="list-style-type: none"> <li>■ Delivering projects aligned to strategy</li> <li>■ Working capital and cash management</li> <li>■ Access to finance</li> </ul>	Capital measures in annual bonus scheme for senior management and staff.
The Group has been experiencing a sustained decline in accident rates and continues to put steps in place for further improvements.  However, the only acceptable result in all locations is to experience a zero accident ratio.	Zero accidents in any given period	■	<ul style="list-style-type: none"> <li>■ Health and safety</li> </ul>	Safety gateway in annual bonus scheme for senior management and staff.

KPIs have been updated in 2017 to align with the new medium term strategy. In the prior year gross margin and like-for-like working capital to sales were considered key performance measures; these are now included as supporting performance measures. The Group's KPIs are restated to the Financial Statements in Note 32 of the Financial Statements.

## Performance

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We are beginning to make initial progress towards the Group's medium term financial targets.

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***"We have achieved much this year, beginning to stabilise the business, returning SIG Distribution to underlying profitability and rationalising the loss-making Offsite Construction division.***

***We have begun to get a grip on operating costs and working capital and we have made significant steps in refocusing the portfolio, exiting from eleven businesses as we continue to strengthen our balance sheet."***

MEINIE OLDERSMA

## LIKE-FOR-LIKE SALES

**3.8%**

(2016: 0.4%)

**Total Group revenue****£2,878.4m**

(2016: £2,845.2m)

## RETURN ON SALES

**3.4%**

(2016: 3.5%)

**OVERALL PERFORMANCE**

In 2017, the Group delivered its first improvement in underlying operating profit in three years as well as an improvement in its underlying profit before tax ('PBT'), up 4.3% to £79.2m (2016: £75.9m). Progress has been made in the year against the Group's medium term financial targets of like-for-like sales and headline financial leverage, with return on sales and return on capital employed stabilised at similar levels to the prior year. Included in the underlying PBT for the year is £13.7m (2016: £3.3m) of property profits relating to ongoing property portfolio management.

On a statutory basis, the Group made a loss before tax of £51.2m in the year (2016: £110.0m restated) after £130.4m (2016: £185.9m restated) of non-underlying items.

**STABILISING THE BUSINESS**

Following a disappointing 2016, the Group has taken a number of preliminary actions over the past year to stabilise the business under its new leadership. In particular, management has restored customer focus by reducing the distraction from internal initiatives, is bringing cost increases under control, is starting to reduce levels of working capital and debt (including through debt factoring), and is simplifying the business through ongoing portfolio management.

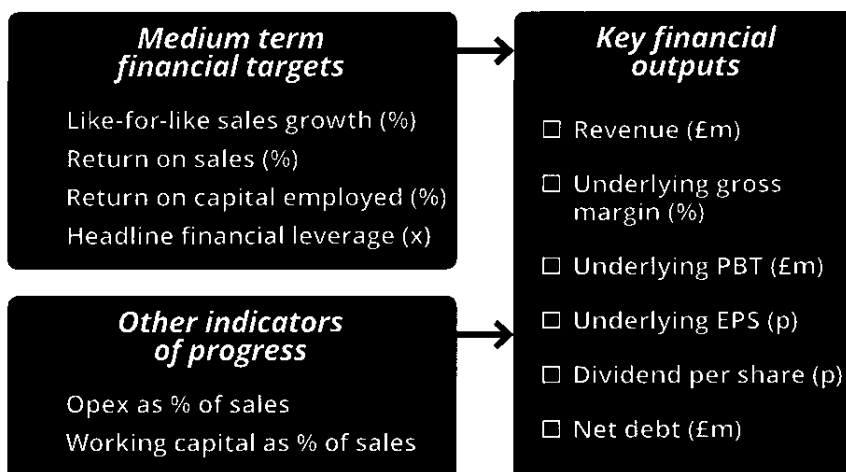
Internal initiatives which have been stopped or slowed down during 2017, in order to free time for branch employees to refocus on customers, include the suspension of the Group's Regional Distribution Centre programme and the completion of roll-out of a new ERP system across the core UK businesses. In combination with improving construction market conditions across Mainland Europe and Ireland, this renewed focus on our customers has helped the Group to deliver LFL sales growth of +3.8% in 2017 (2016: +0.4%) and a 1.2% increase in total revenue to £2,878.4m (2016: £2,845.2m).

The Group has also looked to address the rapid rise in costs across the business; eliminating duplication and reducing discretionary expenditure. Group functions have been significantly scaled back and a number of layers of management have been removed, including the UK & Ireland executive management team. The back office support functions for both the

insulation and roofing businesses in the UK have been combined and co-located in a single shared services centre in Sheffield. A number of headcount reductions have also been made in the back office team in Germany. The Group has terminated the lease on its corporate office in Paddington and will move to smaller, fit-for-purpose premises in April 2018. SIG's historical head office in Hillsborough, Sheffield, has been sold and will be vacated later this year.

As a result, underlying operating costs (excluding profits from property disposals) have now begun to fall as a percentage of underlying revenue to 23.3% in the second half, from a peak of 23.9% in the first half. Further progress is expected in 2018, benefitting from the full year impact of actions taken in 2017 and some further initiatives currently in progress.

Initial steps have also been taken to bring levels of working capital under control. Like-for-like working capital as a percentage of sales fell from 9.9% at the end of 2016 to 9.0% at the end of 2017, benefitting from a number of non-recourse factoring arrangements and other short term actions to improve the balance sheet. Management continues to focus on delivering sustainable improvements in the Group's working capital, in particular its levels of stock, with the aim of reducing average working capital levels throughout the year and beyond.

**REPORTING OUR PROGRESS****SUBDUED UK TRADING ENVIRONMENT**

The UK & Ireland business generated 1.6% like-for-like sales growth, primarily reflecting industry price inflation, with volumes falling 2.9%. Operating margins fell 50bps as the business only partially recovered the deterioration in performance seen in the second half of 2016.

UK trading conditions have become increasingly challenging in recent months, reflecting increased macro uncertainty and recent events in the construction industry. Whilst new housing starts continued to grow, RMI markets remained subdued and there have been some delays to new starts in commercial new build.

## Performance

### RETURN TO UNDERLYING PROFITABILITY IN SIG DISTRIBUTION

On 1 February 2018, the Group announced that it had identified accounting irregularities relating to rebates and other potential supplier recoveries at SIG Distribution, the core insulation and interiors business in the UK, resulting in an overstatement of profit for the years ended 31 December 2016 and 31 December 2015, further details of which are set out on page 31. In addition, the business saw intensified competition and a weaker performance during 2016, resulting in the business falling into loss in the second half of the year.

From this loss-making position, management has made some initial progress during 2017 in restoring underlying profitability to SIG Distribution. The business returned to profitability in the first half of 2017 and delivered full year underlying operating profit of £9.9m (2016: restated £18.2m) on revenue of £797.5m (2016: £781.2m).

The business has a new leadership team which is placing particular focus on operational efficiency through improved cost and working capital control, and on customer value from effective pricing pass-through and improved management of customer profitability. Following the accounting irregularities identified during the year, the team is also further developing the controls environment within SIG Distribution.

Although there remain competitive pressures in the UK specialist insulation and interiors sector, the business is optimistic that it can make further increases in profitability in 2018 at both a gross and operating margin level.

### EUROPEAN RECOVERY

The Group's Mainland Europe businesses benefitted from improving construction market confidence during 2017, with LFL revenues increasing by 5.9% for the full year. Underlying revenues increased by 12.8% to £1,473.2m (2016: £1,305.9m). Margins were largely in line with 2016 and, as a result, underlying operating profit increased by 23.5% to £59.4m (2016: £48.1m).

In particular, SIG France posted an improvement in underlying operating profit, up £1.8m on 2016 at £26.2m. Underlying revenues grew by 12.1% to £660.7m, with LFL sales in France up by 5.9%. SIG operates three market leading businesses in France, and management anticipates all three continuing to grow through 2018.

The Group's Air Handling business also finished the year on a record high, delivering growth of 22.2% in underlying revenues, benefitting from a healthy LFL sales growth of 10.9%. Management expects the air handling market to continue to outperform the wider construction sector due to continuing strong demand drivers, including higher energy efficiency and air quality standards.

As we move into 2018, the early signs are that the market confidence witnessed across our European business is continuing and we do not expect any erosion in gross margin. However, management recognises that there were some indications of both labour and capacity constraint during the second half of 2017, and so will continue to monitor developing trends closely.

### ONGOING PORTFOLIO MANAGEMENT

The Group's medium term strategy recognises that there are a number of smaller businesses which are peripheral to its core focus. Management has identified a number of 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 have limited fit with Group strategy or because their small scale is a management distraction. In many cases, these businesses are also suffering from poor financial performance.

At the end of FY 2016, the Group announced the disposal of Carpet & Flooring, a UK distributor of floor covering products, as well as the sale of its joint venture interest in Drywall Qatar, an independent material supplier and specialist installer of interior finishing materials. During the first half of 2017, the Group closed Metecho, the offsite manufacturer of bathroom pods and utility cupboards (part of its UK Offsite Construction division) and exited its small-scale Austrian operation, WeGo Systembaustoffe Austria. During the year, the Group also completed the disposal of Building Plastics, a leading provider of roofline, drainage and building plastics products to the UK construction industry.

The sale of SIG's majority shareholding in its small Air Handling business in Turkey, ATC Turkey was also finalised in December 2017. In the same month, SIG Poland ceased the processing of insulation product at its Sitaco subsidiary.

**RETURN  
ON CAPITAL  
EMPLOYED  
10.3%**

Since the 2017 year end, the Group has confirmed the disposal of the trade and assets of SIG Building Systems, its UK modular offsite construction business, and also of GRM, a small manufacturer of phenolic pipe insulation serving UK industrial and HVAC markets. The Group has also disposed of IBSL, a UK fabricator and supplier of cryogenic and high-temperature insulation solutions used by the petrochemical, power generation, and offshore exploration industries. SIG has also recently announced the exit from its Dubai-based distribution business, SIG Middle East, which will be completed over the coming months.

A reconciliation of underlying revenue to statutory revenue for 2017 as a result of these portfolio changes is set out on page 33 and in Note 32 of the Financial Statements, together with the impact on 2016 comparatives.

In total, this means the Group has exited 11 businesses since 2016, representing 9.1% of statutory Group revenue reported in the 2016 full year results. The Group continues to review its ownership of a number of other peripheral businesses and will update on further changes to the portfolio in due course.

### RATIONALISATION OF UK OFFSITE CONSTRUCTION DIVISION

As part of the portfolio rationalisation, the Group has continued to review the potential for sustainable profits from the UK Offsite Construction division during the year and, as a result, has now concluded an exit from two of the three businesses in that division. The only remaining offsite construction business is RoofSpace, a panelised room-in-roof manufacturer serving the UK new build residential market, which continues to deliver above-market growth at attractive margins, and has been transferred into SIG Distribution for management and reporting purposes.

## INITIAL PROGRESS ON LEVERAGE

At 31 December 2016, the Group reported headline financial leverage of 2.1x, based on net debt of £259.9m and made leverage reduction a key priority for the Group during 2017. Management accordingly took a number of short term actions to strengthen the balance sheet, including asset disposals, debt factoring and a tighter control over cash, coupled with some short term working capital improvements and temporary constraints over capital expenditure. In the first half of the year, this enabled the Group to reduce headline financial leverage to 1.6x (as reported at the half year).

On 9 January 2018, the Group announced that it had identified a historical overstatement of cash and trade payables related to cash cut-off procedures in SIG Distribution, associated with the issue of cheques around previous period ends. This resulted in a overstatement of net cash of £19.8m at 31 December 2016, which, when adjusted, led to a restated net debt at 31 December 2016 of £279.9m and headline financial leverage of 2.4x. The restated headline financial leverage at 30 June 2017 increased to 2.0x.

The Group ended 2017 with net debt of £223.8m and headline financial leverage of 1.9x, an improvement of 0.5x on the restated 2016 closing position. A reconciliation of the improvement in net debt in the year is set out on page 34.

This is still considered by management to be at a higher level than is desirable, taking into account cyclical risk, and further leverage reduction remains a key priority. Accordingly, a number of actions have been initiated with the aim of delivering sustainable reductions in levels of working capital, as well as seeking to monetise a number of businesses for cash proceeds as part of the refocusing of the portfolio.

These actions are expected to deliver further reductions in net debt during 2018, which, coupled with improvements in the level of profitability, mean the Group continues to target a 1.0-1.5x leverage range during 2018. SIG's infill acquisition programme remains suspended until leverage has been brought under control and the Group continues to target leverage below 1.0x over the medium term.

## SIGNIFICANT BENEFIT FROM PROPERTY PROFITS

One of the actions taken by the Group to reduce leverage during 2017 was the sale of a number of properties across the Group's portfolio for a total net cash consideration of £33.4m (£5.7m being received in January 2018), on which it realised an underlying profit of £13.7m and a non-underlying profit of £5.8m. The non-underlying element relates to the unutilised proportion of property and land and therefore not related to the ongoing operations of the Group.

Excluding the underlying property profits, SIG's underlying PBT was £65.5m (2016: £72.6m).

## STRATEGY REVIEW – BUILDING ON OUR POTENTIAL

In parallel with operational improvements to stabilise the business, management conducted a review of the Group's strategy during 2017. This review concluded that there is considerable opportunity for a significant improvement in the operational and financial performance of the Group over the medium term. To deliver that improvement, management is focusing on the execution of initiatives across the operating companies in support of three key strategic levers: customer service, customer value and operational efficiency.

Customer service activities focus primarily on investment in sales capability and the effectiveness of the sales effort to deliver LFL sales growth and gross margin improvement. Customer value targets improved management of pricing and customer profitability, along with the development of the Group's specialist and own-label product offerings to drive LFL sales growth and gross margin improvement. Operational efficiency seeks to deliver improved control over operating costs and working capital, to improve return on sales and return on capital employed.

Delivery of these initiatives is being supported by investment in three key enablers: data, IT and capability. During 2018, SIG is rolling out a consistent data foundation, making it easier to analyse and improve performance. In IT, SIG is working towards a common infrastructure and central portfolio management, with projects delivered under a standard framework, building a platform for future integration.

In parallel, SIG is reinforcing the breadth and depth of its management capability to improve on a poor track record of delivering successful changes to the business.

During the initial weeks of 2018, the leadership team presented the strategy and detailed action plans across the operating companies to around 1,200 managers from eleven countries, followed by a cascade of the same key messages to all employees across the Group. All parts of the business have aligned around the key strategic priorities, with robust messaging about the need to simplify, focus and deliver. Performance management mechanisms have been revised to support the strategy, with tools now in place for close monitoring and support, and the realignment of reward structures up and down the organisation. There remains considerable work to be done to improve returns over the medium term and highly disciplined execution will be critical to success.

## CURRENT TRADING AND OUTLOOK

2017 has been a year of challenge and change for SIG, reporting an underlying profit before tax of £65.5m (2016: £72.6m) excluding property profits.

As the Group moves into 2018, we are seeing increasingly confident markets across Mainland Europe and Ireland, but also the first signs of capacity and labour constraint in buoyant construction markets. In contrast, we are seeing an increasingly challenging environment in the UK, created by macro uncertainty and recent events in the construction industry, such as the liquidation of Carillion. Notwithstanding this outlook, we see considerable potential for a significant improvement in operational and underlying financial performance, with execution largely within management's control, and we are working to ensure effective delivery.

The Group will provide a further update on trading and outlook on 10 May 2018, when it will hold its Annual General Meeting.



Read about KPIs on pages 22 and 23

## Financial review

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In a year of challenge and change, the Group delivered its first improvement in underlying operating profit in three years, including the benefit of property profits.

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***"During the year, we have brought operating cost increases under control, started to reduce levels of working capital and debt, and simplified the business through ongoing portfolio management.***

***We see considerable potential for a significant improvement in operational and financial performance and are working hard to ensure effective delivery."***

NICK MADDOCK

RETURN ON  
CAPITAL EMPLOYED  
**10.3%**  
(2016: 10.2%)

**Headline  
financial leverage**  
**1.9x**  
(2016: 2.4x)

	Results from underlying operations*			Statutory		
	2017 £m	2016 (Restated)** £m	Change	2017 £m	2016 (Restated)** £m	Change
Revenue	<b>2,778.5</b>	2,587.4	7.4%	<b>2,878.4</b>	2,845.2	1.2%
Gross profit	<b>736.5</b>	691.1	6.6%	<b>752.5</b>	747.9	0.6%
Operating profit/(loss) excluding property sales	<b>80.6</b>	86.4	(6.7)%	<b>(53.4)</b>	(100.8)	(47.0)%
Operating profit/(loss)	<b>94.3</b>	89.7	5.1%	<b>(33.9)</b>	(94.7)	(64.2)%
Profit/(loss) before tax	<b>79.2</b>	75.9	4.3%	<b>(51.2)</b>	(110.0)	(53.5)%
Net debt	<b>223.8</b>	279.7	(20.0)%	<b>223.8</b>	279.7	(20.0)%
<b>Other performance measures</b>						
Like-for-like sales growth	<b>3.8%</b>	0.4%	340bps	<b>n/a</b>	n/a	n/a
Gross margin	<b>26.5%</b>	26.7%	(20)bps	<b>26.1%</b>	26.3%	(20)bps
Return on sales	<b>3.4%</b>	3.5%	(10)bps	<b>(1.2)%</b>	(3.3)%	210bps
Basic earnings/(loss) per share (pence)	<b>9.8p</b>	9.7p	0.1p	<b>(10.1)p</b>	(20.6)p	10.5p
Total dividends per share	<b>n/a</b>	n/a	n/a	<b>3.75p</b>	3.66p	0.09p
Working capital to sales	<b>9.0%</b>	9.9%	(90)bps	<b>8.8%</b>	10.5%	(170)bps
Post-tax return on capital employed (ROCE)	<b>10.3%</b>	10.2%	10bps	<b>(5.4)%</b>	(12.3)%	690bps
Headline financial leverage (covenant net debt/ covenant EBITDA)	<b>n/a</b>	n/a	n/a	<b>1.9x</b>	2.4x	(0.5)x

\* 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 the historic overstatements described on page 31.

## OVERVIEW

The Group delivered higher revenues and like-for-like sales growth which, together with return on sales at similar levels to 2016, enabled it to deliver an improved underlying operating profit performance for the first time in three years and an increased dividend. Net debt came down sharply, principally due to debt factoring and the sale of property, despite the adverse impact of a historical overstatement of net cash, meaning that headline financial leverage fell. Return on capital employed stabilised at a similar level to 2016.

During 2017 the Group undertook a strategic review of its operations and has made significant operational steps to stabilise the business in preparation for sustainable medium term growth. The Group Board believes that it can deliver and has set financial targets of a c.5% return on sales and c.15% post tax return on capital employed in the medium term.

Key financial metric	Medium term target	2017 Performance	2016 Performance
Like-for-like sales	Market growth	<b>3.8%</b>	0.4%
Return on sales	5%	<b>3.4%</b>	3.5%
Return on capital employed	15%	<b>10.3%</b>	10.2%
Headline financial leverage	<1.0x	<b>1.9x</b>	2.4x

## REVENUE AND GROSS MARGIN

Group revenue from underlying operations increased 7.4% to £2,778.5m (2016: £2,587.4m), benefitting from foreign exchange translation (+3.9%) and acquisitions (+0.2%), though offset by fewer working days (-0.5%). As a result LFL sales were ahead by 3.8%. On a statutory basis Group revenue was up 1.2% to £2,878.4m (2016: £2,845.2m).

In the UK & Ireland, revenue from underlying operations increased 1.9% to £1,305.3m (2016: £1,281.5m), benefitting from acquisitions (+0.2%) and foreign exchange translation (+0.5%), offset by fewer working days (-0.4%). LFL sales increased 1.6%. In Mainland Europe revenue increased 12.8% to £1,473.2m (2016: £1,305.9m), benefitting from foreign exchange translation (+7.3%) and acquisitions (+0.2%) offset by fewer working days (-0.6%). LFL sales increased by 5.9%.

Underlying operations excludes the results from the businesses divested during the year or in the process of being divested as at 31 December 2017, in order to give a better understanding of the underlying earnings of the Group. These businesses reported a combined operating loss of £14.3m in 2017 (2016: £7.9m) on revenue of £99.9m (2016: £257.8m).

The Group's underlying gross margin declined by 20bps to 26.5% (2016: 26.7%), due to a 40bps decrease in the UK & Ireland to 25.5% (2016: 25.9%) and by a 10bps decrease in Mainland Europe to 27.4% (2016: 27.5%). On a statutory basis the Group's gross margin decreased by 20bps to 26.1% (2016: 26.3% restated). The decrease in gross margin in the UK & Ireland is largely attributable to the market and operational challenges at SIG Distribution, which had a significant impact on underlying profitability in the business from the second half of 2016, albeit with some initial recovery seen in 2017.

## OPERATING COSTS AND PROFIT

SIG's underlying operating costs, excluding the benefits of property profits, increased by £51.2m to £655.9m in 2017 (2016: £604.7m), due to a foreign exchange translation cost of £23.6m, the full year impact of additional costs from 2016 acquisitions of £3.2m, and other cost increases of £24.4m. As a result, operating costs (excluding property profits) as

## Financial review

a percentage of sales increased from 23.4% in 2016 to 23.6% in 2017. Costs peaked in the first half of 2017 at 23.9% of revenue.

The LFL sales growth and the favourable impact from the foreign exchange translation of improved European profitability were partially offset by lower gross margins and higher costs. This meant that the Group's underlying operating profit increased by 5.1% to £94.3m (2016: £89.7m) with return on sales, one of the Group's primary performance metrics, decreasing 10bps to 3.4% (2016: 3.5%).

In the UK & Ireland, underlying operating profit fell 9.2% to £47.6m (2016: £52.4m) and underlying operating margin declined 50bps to 3.6% (2016: 4.1%). In Mainland Europe, underlying operating profit increased by 23.5% to £59.4m (2016: £48.1m), including a £3.7m foreign exchange translation benefit, with underlying operating margin increasing slightly, up 30bps, to 4.0% (2016: 3.7%). The Group made a statutory operating loss of £33.9m in 2017 (2016: £94.7m).

SIG's underlying net finance costs increased by £1.3m to £15.1m (2016: £13.8m), mainly due to higher average borrowings during the year, which offset some of the increase in operating profit, resulting in underlying profit before tax increasing 4.3% to £79.2m (2016: £75.9m). Excluding underlying property profits, underlying profit before tax declined 9.8% to £65.5m (2016: £72.6m). On a statutory basis the Group made a loss before tax of £51.2m (2016: £110.0m) after non-underlying items of £130.4m (2016: £185.9m).

Underlying basic earnings per share from underlying operations increased by 0.1p to 9.8p (2016: 9.7p). On a statutory basis the Group made a basic loss per share of 10.1p (2016: loss per share 20.6p).

### 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. As at 31 December 2017 Group ROCE was 10.3% (2016: 10.2%). This improvement primarily reflects reduced levels of working capital and debt at the year end, with working capital falling from 9.9% of sales in 2016 to 9.0% of sales at 31 December 2017, and net debt falling from £279.7m to £223.8m.

### UK & IRELAND

	Revenue (£m)	Change	LFL change	Gross margin	Change	Underlying operating profit (£m)	Underlying operating margin	Change	Reported operating profit/ (loss) (£m)***
SIG									
Distribution*	797.5	2.1%	+2.3%	23.9%	(60)bps	9.9	1.2%	(110)bps	(25.1)
SIG Exteriors*	409.5	(1.3)%	(1.1)%	28.6%	(20)bps	32.9	8.0%	60bps	2.8
Ireland & Other UK*	98.3	15.0%	+8.1%	25.0%	(70)bps	4.8	4.9%	60bps	(39.9)
UK & Ireland*	1,305.3	1.9%	+1.6%	25.5%	(40)bps	47.6	3.6%	(50)bps	(62.2)
Non-core businesses	80.3	(62.8)%	n/a	13.7%	(780)bps	(13.7)	(17.1)%	n/a	n/a
UK & Ireland**	1,385.6	(7.5)%	n/a	24.8%	(50)bps	33.9	2.4%	(50)bps	(62.2)

\* Before results attributable to businesses identified as non-core.

\*\* On a statutory basis 2017 revenue was £1,385.6m, operating loss was £62.2m and operating margin was (4.5)%. The Other division has been removed as it primarily related to SIG's activities in the Middle East which are in the process of being closed. SIG Spain, which was also part of Other and had revenue of £1.8m in 2017 (2016: £1.5m), is now reported in SIG Distribution. The UK Offsite Construction division has also been removed as SIG has exited from two of the three businesses in that division, with the remaining business, Roofspace, transferred to SIG Distribution for management and reporting purposes. Roofspace had revenue of £17.6m in 2017 (2016: £15.0m).

\*\*\* Reported operating profits/(losses) are shown on a segmental basis including the operating result of non-core businesses

Underlying revenue in SIG Distribution ('SIGD'), the Group's market leading specialist UK insulation and interiors distribution business, was up 2.1% to £797.5m (2016: £781.2m) and by 2.3% on a LFL basis. The underlying operating margin for the full year of 1.2% represents a decline on 2016 (2.3%). As a result, underlying operating profit for the full year of £9.9m reflects a decline of 45.6% on 2016 (£18.2m). Excluding property profits, underlying operating profit decreased by 36.6% to £9.0m (2016: £14.9m). On a statutory basis, after taking into account Other items, SIGD reported an operating loss of £25.1m (2016: profit £5.7m).

SIG Exteriors ('SIGE'), the market leading and only national specialist UK roofing business, saw underlying revenues down by 1.3%, at £409.5m (2016: £414.8m), and by 1.1% on a LFL basis. As expected at the half year, trading conditions in the second half continued to be weak in the UK repairs, maintenance and improvement ('RMI') sector, to which the business has a high degree of exposure. As a result, the business saw underlying operating profit fall by £5.3m to £25.2m. Including £7.7m of property profits recognised by the division, total underlying operating profit was £32.9m (2016: £30.5m).

In Ireland & Other UK, SIG grew underlying revenue by 15.0%, benefitting from foreign exchange movements and by 8.1% on a LFL basis, as the business continues to benefit from favourable market conditions in Ireland. This helped the business grow underlying operating profit by £1.1m to £4.8m. On a statutory basis after taking into account Other items, Ireland & Other UK reported an operating loss of £39.9m (2016: £49.3m).

### MAINLAND EUROPE

	Revenue (£m)	Change	LFL change	Gross margin	Change	Underlying operating profit (£m)	Underlying operating margin	Change	Reported operating profit (£m)***
France	660.7	12.1%	5.9%	27.6%	(10)bps	26.2	4.0%	(10)bps	25.2
Germany*	425.9	10.5%	4.8%	26.4%	(50)bps	11.5	2.7%	70bps	9.1
Poland	142.8	24.1%	13.7%	20.0%	-	1.0	0.7%	(20)bps	-
Benelux	101.7	2.0%	(4.3)%	25.8%	60bps	6.3	6.2%	210bps	1.5
Air Handling*	142.1	22.2%	10.9%	38.4%	110bps	14.4	10.1%	90bps	5.2
Mainland Europe*	1,473.2	12.8%	5.9%	27.4%	(10)bps	59.4	4.0%	30bps	41.0
Non-core businesses	19.6	(53.1)%	n/a	26.4%	140bps	(0.6)	(3.1)%	(560)bps	n/a
Mainland Europe**	1,492.8	10.8%	n/a	27.4%	-	58.8	3.9%	30bps	41.0

\* Before results attributable to businesses identified as non-core.

\*\* On a statutory basis 2017 revenue was £1,492.8m, operating profit was £41.0m and operating margin was 2.7%

\*\*\* Reported operating profits/(losses) are shown on a segmental basis, including the operating result of non-core businesses



Revenue in France, where SIG operates three businesses (Larivière, the market leading specialist roofing business; LITT, the leading structural insulation and interior business; and Ouest Isol / Ouest Ventil, a leading supplier of technical insulation and air handling products), increased by 12.1% to £660.7m (2016: £589.2m), having benefitted from foreign exchange translation. On a LFL basis sales were up by 5.9%.

Improved market conditions in France have helped revenue this year, particularly in the residential sector which accounts for 64% of revenue in the country. The business has also benefitted from some of the actions taken at LITT to drive improved operational performance, which are now also being applied to the Larivière business. As a result, SIG France overall had a strong year, delivering £26.2m of underlying operating profit, up £1.8m on 2016.

Underlying revenue in Germany grew by 10.5% to £425.9m (2016: £385.6m), as it benefitted from foreign exchange translation. LFL sales grew by 4.8%, as the Group sought to improve its performance and reposition the business towards the higher growth segments of the German market, such as the residential sector. Underlying operating profit increased by £3.8m to £11.5m (2016: £7.7m). Excluding property profits, underlying operating profit decreased by 9.1% to £7.0m (2016: £7.7m).

In Poland, SIG grew revenues by 24.1% to £142.8m, benefitting from strong sales performance and foreign exchange translation. Following last year's subdued performance, resulting from political and economic uncertainty, construction markets stabilised in the first quarter of 2017. There was then significant improvement during the remainder of the year, leading to a 13.7% increase in SIG's LFL sales growth for the year. After operating cost inflation and other cost increases, the business delivered an underlying operating profit of £1.0m in 2017 (2016: £1.1m).

Air Handling, the largest pure-play specialist air handling distributor in Europe, grew underlying revenue by 22.2% as it benefitted from a healthy LFL growth of 10.9%, and from acquisitions and foreign exchange translations. 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. As a result, Air Handling delivered an improved underlying operating profit performance up £3.6m to £14.4m.

The 2% increase in underlying revenue in Benelux reflects foreign exchange translations, with LFL sales decreasing by 4.3%. Following a construction market recovery during 2016, conditions became tougher in 2017, with increased price competition for interior products and a weaker demand for technical insulation. However, robust cost management ensured that underlying operating profit improved by £2.2m to £6.3m.

## HISTORICAL OVERSTATEMENTS

On 9 January 2018, the Group announced that it had identified during initial year end close processes, historical overstatements of net cash and trade payables related to cash cut-off procedures associated with the issue of cheques around previous period ends. There was no impact from this on the Consolidated Income Statement, but it resulted in an understatement of net debt of £19.8m (comprising £19.5m in SIGD and £0.3m in Ireland) at 31 December 2016 and £27.2m at 30 June 2017 (£26.9m in SIGD and £0.3m in Ireland).

As a result, net debt has been restated to £279.7m at 31 December 2016 (previously reported £259.9m) and to £193.4m at 30 June 2017 (previously reported £166.5m) and headline financial leverage has been restated to 2.4x at 31 December 2016 (previously reported 2.1x) and 2.0x at 30 June 2017 (previously reported 1.6x).

In addition on 1 February 2018, the Group announced that following a whistleblowing allegation of potential accounting irregularity at SIGD, it had identified that a number of balances relating to rebates and other potential supplier recoveries were overstated at 31 December 2016, in some cases intentionally. This resulted in an overstatement of profit for the year ended 31 December 2016 of £3.7m, with a further £0.4m overstatement of profit relating to the year ended 31 December 2015, and a further £2.5m overstatement of profit for the half year ended 30 June 2017.

Both of these overstatements have been restated in the results presented in this Annual Report. In response to these issues, the Group has implemented a number of priority controls recommendations in relation to both rebates and cash. With support from KPMG, the Group has completed a review of financial reporting controls at SIGD, which has identified no further material accounting cause for concern, although it has made some controls recommendations which are now being implemented. A number of employees are leaving the business following disciplinary investigations into the circumstances. Further details on the overstatements and actions taken are also included in the Corporate governance report on page 61.

SIG is in the process of formalising and rolling out a key controls framework across the Group, which will provide additional discipline around the appropriate design and effective operation of key controls going forward.

## Financial review

### RECONCILIATION OF STATUTORY RESULT TO THE UNDERLYING TRADING PERFORMANCE

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.

	2017 £m	2016 £m
Underlying profit before tax	79.2	75.9
Other items – impact operating profit:		
Amortisation of acquired intangibles	(9.3)	(10.3)
Impairment charges	(6.8)	(110.6)
Losses on agreed sale or closure of non-core businesses and associated impairment charges	(72.4)	(40.1)
Net operating losses attributable to businesses identified as non-core	(14.3)	(7.9)
Net restructuring costs	(21.1)	(13.3)
Acquisition expenses and contingent consideration	(9.8)	4.6
Defined benefit pension scheme curtailment loss	-	(0.9)
Other specific items	5.5	(5.9)
Other items – impact net finance costs:		
Net fair value losses on derivative financial instruments and unwinding of provision discounting	(2.2)	(1.5)
Total Other items	(130.4)	(185.9)
Statutory loss before tax	(51.2)	(110.0)

Amounts reported in the Other items column of the Consolidated Income Statement which in total amounted to a loss before tax of £130.4m (2016: £185.9m) are as follows:

- Amortisation of acquired intangibles – £9.3m (2016: £10.3m). Intangible amortisation is dependent upon the number and value of acquisitions made by the Group over time. The Accounting Policies section on page 109 and Note 13 of the Financial Statements on page 135 provide details of what is included within intangible assets and over what periods the assets are amortised.
- Impairment charges – £6.8m (2016: £110.6m). An impairment of £6.8m has been recognised in relation to the carrying value of the UK ERP system, Kerridge K8. In the prior year a goodwill and intangible asset impairment charge of £100.4m associated with the Larivière Cash Generating Unit ('CGU') was recognised as a result of the annual impairment review following continued challenging conditions in the French roofing market, and growing uncertainty around market growth, macroeconomic conditions and uncertainty within the European Union in the medium term. In addition, a goodwill impairment charge of £10.2m associated with the Poland CGU was recognised following a change in short term forecast profitability.

- Losses on agreed sale or closure of non-core businesses and associated impairment charges – £72.4m (2016: £40.1m). The charge was recognised in respect of the agreed sale or exit of businesses during the year. Further detail of the nature and breakdown of this charge can be found in Note 11 of the Financial Statements on pages 128 to 131.
- Net operating losses attributable to businesses identified as non-core in 2017 – £14.3m (2016: £7.9m). The 2017 results of businesses sold or agreed to be sold or closed, together with their 2016 comparatives have been reported as Other items on the basis of their non-recurring nature and to provide an indication of the underlying earnings of the Group.
- Net restructuring costs – £21.1m (2016: £13.3m). The Group performed a strategic review of its cost base and commenced a series of restructuring actions during the year to improve the efficiency of its fixed cost base. These actions have resulted in redundancy costs of £3.9m (2016: £1.7m), property closure costs of £2.8m (2016: £4.4m), rebranding of Enil (2016: £0.5m)

and other restructuring costs of £14.4m (2016: £6.7m), comprising supply chain review costs £11.7m (2016: £6.7m) and redundancy consultancy costs £2.7m (2016: £nil).

- Acquisition expenses and contingent consideration – £9.8m (2016: credit of £4.6m) relating in particular to the acquisition of HC Groep by Air Handling in 2015. Acquisition expenses and movements in contingent consideration linked to employment contracts or other targets where the measurement period has expired vary depending on the number, size and future profitability of acquisitions.
- Defined benefit pension scheme curtailment loss – £nil (2016: £0.9m). On 30 June 2016 the UK defined pension scheme was closed to future benefit accrual. The change in assumptions associated with the closure resulted in a curtailment loss of £0.9m in 2016. Further details can be found in note 29c to the Financial Statements.
- Other specific items – credit of £5.5m (2016: £5.9m). Other specific items include the profit on sale of non-operational property of £5.8m (2016: £2.8m) and other costs of £0.3m (2016: credits of £0.4m). In 2016 Other specific items also included impairment charges and other costs following the cessation of the UK eCommerce project of £9.7m, a net charge arising as a result of movements in provisions associated with businesses disposed of in previous years of £0.5m, fair value gains on fuel hedging contracts of £0.4m and a credit of £0.7m arising as a result of the reassessment of the provision associated with the closure in 2015 of the Group's operations in the Kingdom of Saudi Arabia.
- Net fair value losses on derivative financial instruments and unwinding of provision discounting – £2.2m (2016: £1.5m). Amortisation of amounts previously recorded in reserves from the cancellation of certain interest rate derivative contracts in 2009 are being amortised through the Consolidated Income Statement over the life of the associated debt to 2018 in line with the relevant accounting standards (2017: £1.8m; 2016: £1.9m). Also included within finance costs is a credit of less than £0.1m (2016: credit of less than £0.1m) relating to hedge ineffectiveness incurred on the Group's financial instruments and a net charge of £0.5m in respect of unwinding of provision discounting (2016: charge of £0.1m).

## DIVESTMENTS AND CLOSURE OF NON-CORE BUSINESSES

	2017 £'m	2016 £'m
Losses on agreed sale or closure of non-core businesses and associated impairment charges	(72.4)	(40.1)
Net operating losses attributable to businesses identified as non-core	(14.3)	(7.9)
Total	(86.7)	(48.0)

During the year the Group has exited or has resolved and is in the process of exiting a number of businesses that are deemed to be non-core and which offered a low probability of significant improvements in performance over the medium term. Total losses of £86.7m (2016: £48.0m) have been recognised in Other items on the face of the Consolidated Income Statement in relation to these. The revenue and profits/(losses) attributable to these businesses are shown in the table below. The table also shows the impact on profit of the historical overstatement in order to derive comparatives for the underlying Group.

	2017		2016	
	Revenue £m	Underlying profit/(loss) before tax £m	Revenue £m	Underlying profit/(loss) before tax £m
<b>Statutory Group revenue as reported at 2016 full year results</b>	<b>Not applicable</b>		2,845.2	n/a
Drywall Qatar <sup>1</sup>	(1.2)	1.4	(7.9)	2.8
Carpet & Flooring <sup>1</sup>	(11.4)	0.7	(97.5)	3.0
<b>Underlying Group as reported at 2016 full year results</b>	<b>2,865.8</b>	<b>67.0</b>	2,739.8	77.5
Metecho <sup>2</sup>	(1.3)	3.4	(3.3)	0.1
WeGo Austria <sup>2</sup>	(7.6)	0.2	(27.6)	(0.6)
Building Plastics <sup>3</sup>	(34.5)	(0.9)	(63.0)	(2.9)
Middle East <sup>4</sup>	(19.5)	0.7	(30.4)	(0.9)
<b>Underlying Group as reported at 2017 half year results</b>	<b>2,802.9</b>	<b>70.4</b>	2,615.5	73.2
ATC Turkey <sup>4</sup>	(12.0)	0.4	(14.2)	(0.2)
Building Systems <sup>5</sup>	(8.0)	7.6	(9.2)	6.2
GRM Insulation <sup>5</sup>	(2.6)	0.8	(2.6)	0.6
IBSL <sup>6</sup>	(1.8)	-	(2.1)	(0.2)
Historical overstatement	n/a	n/a	n/a	(3.7)
<b>Underlying Group at 2017 full year results</b>	<b>2,778.5</b>	<b>79.2</b>	2,587.4	75.9

<sup>1</sup> First announced at SIG's 2016 full year results on 14 March 2017

<sup>2</sup> First announced in SIG's AGM trading update on 11 May 2017

<sup>3</sup> First announced at SIG's half year results on 8 August 2017.

<sup>4</sup> First announced in SIG's trading update on 9 January 2018.

<sup>5</sup> First announced on 28 February 2018

<sup>6</sup> First announced on 9 March 2018.

Further details of these non-core businesses are included in Note 11 of the Financial Statements on pages 128 to 131.

## TAXATION

The Group's approach to tax matters is to act in a responsible manner and in accordance with the laws and objectives of the territories in which we operate. The Group seeks to pay, at the right time, the correct amount of taxes due, both direct and indirect, in accordance with all relevant tax laws and regulations.

The Group takes appropriate advice from reputable professional advisers to ensure compliance with applicable rules and regulations, and to consider potential mitigating actions in order to manage tax risks.

The Group 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 £20.5m (2016: £18.1m) which represents an underlying effective rate of 25.9% (2016: 23.8%). On the statutory loss before tax of £51.2m (2016: £110.0m), the income tax charge of £7.4m represents an effective rate of negative 14.5% (2016: 14.5%). These differences arise as a result of amounts included as Other items in the year.

Cash tax payments amounted to £18.8m, £1.7m below the £20.5m 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.£8m gross utilised during the year).

The Group's underlying effective tax rate in 2018 will be determined by the mix of profits from different jurisdictions. It is anticipated that the underlying effective tax rate in 2018 (excluding any prior year effects) will be c.27%

## Financial review

### SHAREHOLDERS' FUNDS AND RETURNS TO SHAREHOLDERS

Shareholders' funds decreased by £58.7m to £476.8m (2016: £535.5m). The decrease comprised the following elements:

	£m
Loss after tax attributable to equity holders of the Company	(59.6)
Exchange differences on assets and liabilities after tax	11.7
Gains and losses on cash flow hedges	2.5
Movements attributable to share options	0.5
Actuarial gain on pensions schemes (net of deferred tax)	4.4
Dividends paid to equity holders of the Company	(18.2)
Decrease in Shareholders' funds	(58.7)

The Company pays dividends out of the Parent Company retained earnings and has sufficient distributable reserves to pay the final dividend for 2017 and an appropriate interim dividend for 2018. 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 2017, the Group delivered an improved underlying earnings per share in 2017 of 9.8p (2016: 9.7p). As a result the Board is recommending payment of a final dividend for the year of 2.50p (2016: 1.83p) per share. Together with the interim dividend of 1.25p (2016: 1.83p) per share, this gives a total dividend for the year of 3.75p (2016: 3.66p) 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 6 July 2018 to Shareholders on the register at the close of business on 8 June 2018. The ex-dividend date will be 7 June 2018.

### CASH FLOW AND FINANCIAL POSITION

Taking into account the restatement of the opening net debt position, the Group ended 2017 with net debt of £223.8m and headline financial leverage of 1.9x. The £55.9m reduction in net debt includes the benefit of £48.7m of receipts relating to non-recourse debt factoring arrangements.

	2017 £m	2016 Restated £m
Cash inflow from trading	62.8	95.2
Cash inflow from factoring arrangements	48.7	-
Increase in working capital	(11.8)	(15.3)
Cash inflow from operations	99.7	79.9
Interest and tax	(31.4)	(22.1)
Maintenance capital expenditure*	(22.8)	(29.5)
Free cash flow available for investment	45.5	28.3
Investment capital expenditure	-	(10.4)
Proceeds from sale of property, plant and equipment	34.6	39.5
Cashflow from divested businesses	17.6	-
Acquisition investment (including deferred consideration)	(23.9)	(29.6)
Foreign exchange (losses)/gains	(4.2)	(11.6)
Issue of shares	0.1	-
Dividends paid to equity holders of the Company	(18.2)	(28.0)
Other items (including fair value movements)	4.4	(8.1)
Movement in net debt	55.9	(19.9)
Opening net debt (restated)	(279.7)	(259.8)
Closing net debt	(223.8)	(279.7)

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

This is still considered by management to be a higher level than desirable taking into account cyclical risk and accordingly further leverage reduction remains a key priority. In particular, management has initiated a number of actions to deliver sustainable reductions in levels of working capital as well as seeking to monetise a number of businesses for cash proceeds as part of the refocusing of the portfolio.

These actions are expected to deliver further reductions in net debt during 2018 which, coupled with improvements in the level of profitability, mean the Group continues to target a 1.0 – 1.5x headline financial leverage range during 2018. SIG's infill acquisition programme remains suspended until leverage has been brought under control and the Group continues to target headline financial leverage below 1.0x over the medium term.

Notwithstanding the current levels of headline financial leverage, the Group retains considerable headroom against its financing facilities, with total debt facilities of £553m as at 31 December 2017 (31 December 2016: £549m) and only £78m drawn from the Group's £350m Revolving Credit Facility at the year end (2016: £161.9m drawn).

#### FIXED ASSETS

Net capital expenditure (including computer software) was a net cash inflow of £11.8m (2016: £0.4m outflow), representing a capex to depreciation ratio of negative 0.44x (2016: positive 0.01x). Capital expenditure includes new vehicles, new brownfield sites and investment in plant and machinery.

The capex to depreciation ratio has been strongly influenced in the year by the level of proceeds from the sale of property, plant and equipment, which were £34.6m (2016: £39.5m). Excluding these proceeds, the capex to depreciation ratio would be 0.86x (2016: 1.35x).

#### FOREIGN CURRENCY TRANSLATION

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

	Average rate		Movement	Closing rate		Movement
	2017	2016	%	2017	2016	%
Euro	<b>1.14</b>	1.22	(6.6)%	<b>1.13</b>	1.17	(3.4)%
Polish Zloty	<b>4.85</b>	5.32	(8.8)%	<b>4.70</b>	5.16	(8.9)%

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 2017	
Underlying revenue	<b>£101.7m</b>	<b>3.8%</b>
Statutory revenue	<b>£103.6m</b>	<b>3.7%</b>
Underlying operating profit	<b>£4.0m</b>	<b>4.5%</b>
Statutory operating profit	<b>£2.5m</b>	<b>6.9%</b>
Underlying profit before tax	<b>£3.6m</b>	<b>4.7%</b>
Statutory profit before tax	<b>£2.1m</b>	<b>3.9%</b>
Consolidated net assets	<b>£11.6m</b>	<b>2.5%</b>
Net debt	<b>£4.2m</b>	<b>1.9%</b>

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 37.

#### 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".

At the last triennial valuation of the UK scheme, the Trustees and the Company agreed a long term funding plan where the Company is paying contributions of £2.5m a year to the UK defined benefit scheme. The next triennial actuarial valuation is effective as at 31 December 2016 and work is underway. The Trustees are aiming to conclude the valuation by the end of March 2018. The overall gross defined benefit pension schemes' liability decreased during the year by £6.7m to £30.4m (31 December 2016: £37.1m).

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 153 to 156.

#### 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 2017.

The main measure used to assess the appropriateness of the Group's capital structure is its net debt to EBITDA (see Note 3 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 8 March 2018, SIG's share price closed at 149.8p per share, representing a market capitalisation of £886m 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 pages 94 and 95.

## Financial review

### Treasury risk management

#### TREASURY RISK – INTRODUCTION

SIG's Finance and Treasury Policies set out the Group's approach to managing treasury risk. These policies are reviewed and approved by the 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 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:

	2017 £m	2016 Restated £m
Obligations under finance lease contracts	9.9	11.2
Bank overdrafts	29.6	22.7
Bank loans	84.2	171.9
Private placement notes	204.2	200.7
Loan notes and deferred consideration	17.0	2.7
Derivative financial instruments (liabilities)	3.5	3.8
<b>Total</b>	<b>348.4</b>	<b>413.0</b>
Derivative financial instruments (assets)	(1.3)	(4.5)
<b>Gross debt (after derivative financial assets)</b>	<b>347.1</b>	<b>408.5</b>
Cash on deposit (restated)	(121.8)	(127.0)
Other financial assets	-	(1.1)
Deferred consideration	(1.5)	(0.7)
<b>Net debt</b>	<b>223.8</b>	<b>279.7</b>

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

	2017 £'m	2016 £'m
Net debt	223.8	279.7
Other covenant financial indebtedness	11.8	3.5
Foreign exchange adjustment	(1.5)	(6.4)
<b>Covenant net debt</b>	<b>234.1</b>	<b>276.8</b>

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

	2017 £m	2017 %	2016 £m	2016 %
Gross financial liabilities with a maturity profile of greater than five years	141.7	40.8%	136.3	33.4%
Gross financial liabilities held on an unsecured basis	336.8	97.0%	396.6	97.1%

Details of derivative financial instruments are shown in Note 19 of the Financial Statements on pages 140 to 143.

## 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. In addition the Group commenced non-recourse factoring during the year.

The maturity profile of the Group's debt facilities at 31 December 2017 is as follows:

	Facility amount £m	Amount drawn £m	Amount undrawn £m	Date of expiry
Bank debt	350.0	78.0	272.0	May 2021
Private placement loan notes	20.0	20.0	–	November 2018
Private placement loan notes	26.7	26.7	–	October 2020
Private placement loan notes	17.8	17.8	–	October 2021
Private placement loan notes	44.4	44.4	–	October 2023
Private placement loan notes	94.2	94.2	–	August 2026
	553.1	281.1	272.0	

SIG has no immediate refinancing requirements, and can repay the £20.0m of Private Placement loan notes maturing in November 2018 through existing resources. SIG has sufficient funding headroom with existing facilities to support its medium term plans.

### 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 net debt (on an average basis) at fixed rates of interest at 31 December 2017 is 81% (2016: 73%) and on a gross debt basis is 75% (2016: 60%), which is within the Group's targeted medium term range.

### FOREIGN CURRENCY RISK

#### INCOME STATEMENT

SIG has a number of overseas businesses whose revenues and costs are denominated in the currencies of the countries in which the operations are located. 57% of SIG's 2017 underlying revenues (2016: 54%) were in foreign currencies, being primarily Euros and Polish Zloty. Less than 3% 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 revenues 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.

## Financial review

### Treasury risk management

#### 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):

	2017 Local currency net borrowings/ (cash) LC'm	2017 Sterling equivalent borrowings/ (cash) £m	2016 Sterling equivalent borrowings/ (cash) £m
Euro	163.9	145.6	152.7
PLN	(81.8)	(17.4)	(14.6)
Other currencies	multiple	1.5	8.2
Total		129.7	146.3
% of net debt		58%	52%

Euro net debt at 31 December 2017 represented 65.1% of Group net debt (2016: 54.6%).

#### IMPACT OF FOREIGN CURRENCY MOVEMENTS IN 2017

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

#### COMMODITY RISK

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

In 2015 the Group entered into four commodity derivative instruments to hedge a portion of the UK, Polish and French fuel requirements for 2015 and 2016. At 31 December 2016 these commodity derivative instruments had matured, and the Group has not entered into any further commodity derivative instruments.

#### 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 2017 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 2017	Year ended 31 December 2016 Restated
Consolidated net worth <sup>1</sup>	>£400m	<b>£476.8m</b>	£538.5m
Interest cover ratio <sup>2</sup>	>3.0x	<b>5.0x</b>	6.2x
Leverage ratio <sup>3</sup>	<3.0x	<b>1.9x</b>	2.4x

<sup>1</sup> The consolidated net worth covenant is applicable to the private placement debt only.

<sup>2</sup> 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).

<sup>3</sup> 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 of the Financial Statements on pages 158 to 164.

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

The 2017 year end headline financial leverage has decreased as a result of short term prioritised actions undertaken by the Company, but is still above the Group's medium term target of below 1.0x. Going forward, the Group will continue to prioritise leverage reduction by more tightly focusing on its cash generation, moderating capital expenditure and suspending its infill acquisition programme.

The Group is expecting leverage to increase at 30 June 2018 over the 1.9x reported at 31 December 2017 due to normal seasonal working capital patterns.

## 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 42 to 45. 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 2020 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.

# Financial review

## Treasury risk management

### 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 2020. 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:
  - **Operational efficiency:** operating cost savings and working capital reduction;
  - **Customer value:** pricing and product, enhancing gross margin for the Group; and
  - **Customer service:** sales and service improvements.
- **Dividends:** No change in the stated dividend policy.
- **Availability of financing:** No change in capital structure as the refinancing undertaken in 2016 ensures that SIG has sufficient funding headroom and liquidity in place to support its plans over the medium term.

### 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.	Delivering the change agenda Market conditions Working capital and cash 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.	Market conditions
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.	Delivering the change agenda Market conditions
The impact of a severe and prolonged economic downturn on the Group's financial results was modelled using a scenario based on the 2009 economic crisis.	Market conditions

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 2020.

## GOING CONCERN BASIS

In determining whether the Group's 2017 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 2 to 45 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;
- 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 2017 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 42 to 45 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 55) was approved by a duly authorised committee of the Board of Directors on 8 March 2018 and signed on the Board's behalf by Meinie Oldersma and Nick Maddock.

**MEINIE OLDERSMA**  
CHIEF EXECUTIVE  
OFFICER

8 March 2018

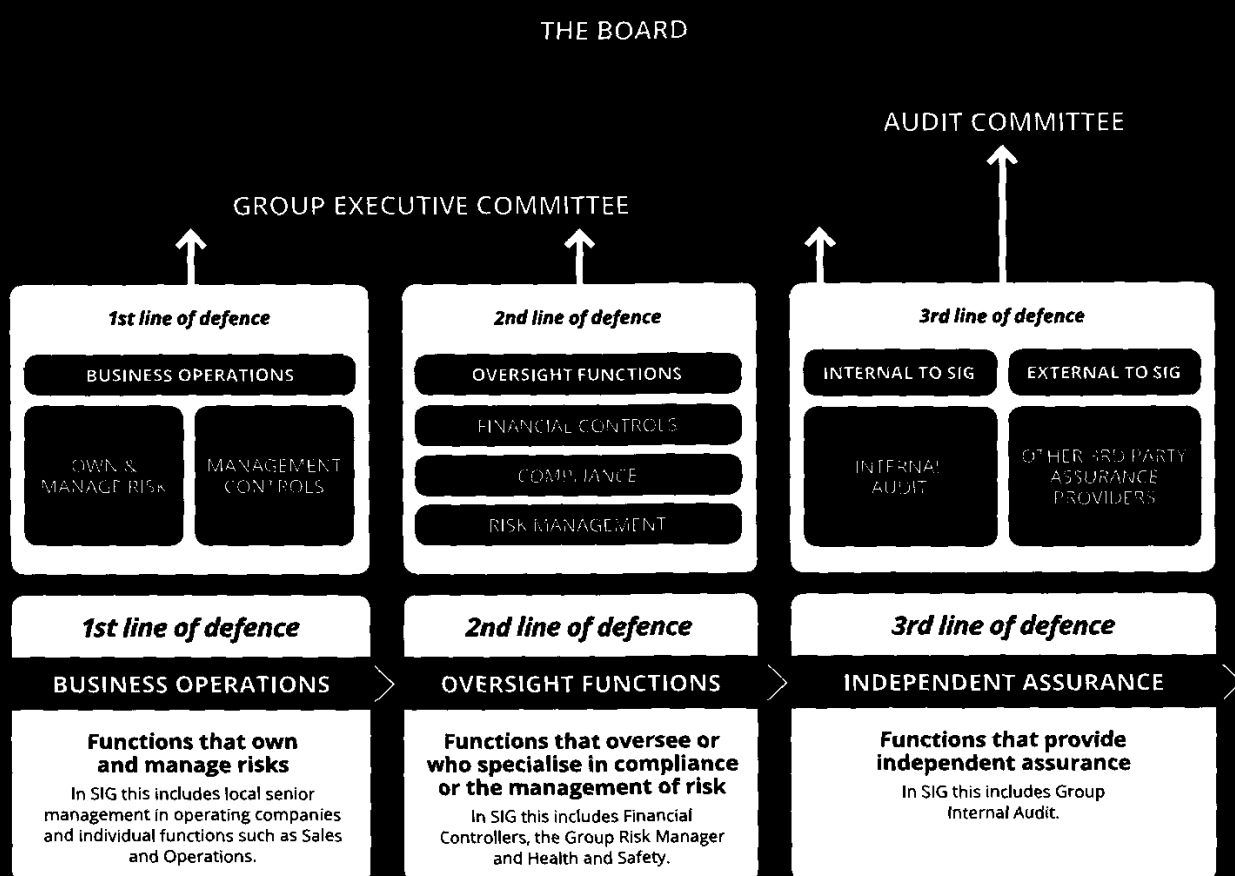
**NICK MADDOCK**  
CHIEF FINANCIAL  
OFFICER

8 March 2018

*M. Oldersma*  
7 -

## Principal risks and uncertainties

The Group has this year formalised a three lines of defence model to provide a simple and effective way to enhance communication on risk management and control by clarifying essential roles and duties. By ensuring that there is effective and sufficient control within each line, SIG management co-ordinates activity effectively to ensure that there are neither 'gaps' in controls nor unnecessary duplications of coverage.



### RISK MANAGEMENT FRAMEWORK

A comprehensive risk management framework is necessary to ensure that SIG is able to sufficiently manage its risks to deliver its three-year strategic plan. The Board sets the strategy for the Group and monitors performance in all key areas. It also assesses and monitors risk through implementation of the SIG risk management framework. During 2017 this framework was strengthened in several ways. The framework is outlined below along with the improvements.

The SIG risk management framework is based on identification of Group risks by the Group Executive Committee ('GEC'). These risks are aligned to the three-year strategic plan. Each risk is owned by a GEC member and sponsored by either the Chief Executive Officer or Chief Financial Officer who are also members of the Board. This addition to the risk management framework in 2017 strengthened risk management in the Group.

Risks are assessed at both a gross and net level using an agreed risk scoring methodology. Each risk on the register is managed to an acceptable level through a series of control activities identified by the risk owner and, in some instances, Group policies which are included in new starter inductions (through online tools) or implemented through business as usual activities. This includes policies such as those relating to fraud and theft, whistleblowing or gifts and hospitality. Where it is not possible to manage risks effectively through existing controls, the risk owners identify actions to enhance the control environment and allocate owners for each action with completion dates. These are followed up by the Group Risk Manager and progress reported back to the GEC and Board. Whilst the risk process at the GEC takes place formally every 6 months, the GEC also examines in detail an individual risk from the Group Risk Register on a monthly basis. This addition to the risk management framework in 2017 strengthened risk management in the Group. Examples of risks reviewed in this way in 2017 include the Delivering the Change Agenda and the Working Capital and Cash Management risks.

Once the Group Risk Register process has been completed by the GEC, the Board reviews it to ensure that the right risks have been identified and that the controls framework is sufficient and proportionate to the level of risk. The overall process with the GEC and Board is now well established.

In 2017 the Group has started to monitor Key Risk Indicators (KRIs) for the seven risks on the Group Risk Register. KRIs are lead indicators of risk, helping the Group to identify when a risk profile may be changing. KRIs can lead to implementation of additional measures to further manage risk or even prevent it from crystallising. The KRIs are monitored on a monthly dashboard by the GEC and shared with the Board on a quarterly basis. As an example of a KRI, the Group monitors developing market conditions by tracking the Purchasing Manager's Index (a recognised measure of construction sector economic health in specific countries).

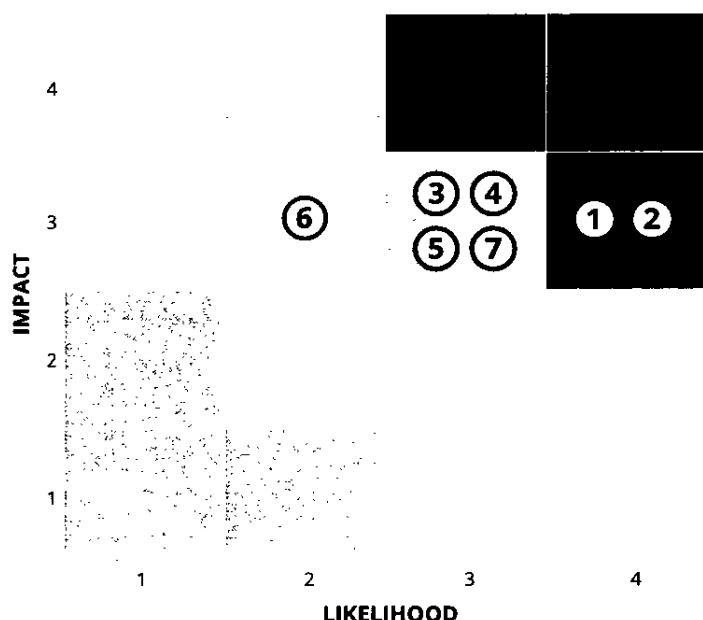
A similar process occurs at the operating company level where the risk register comprises risks based on the local Medium Term Plans (MTP) which are aligned to the Group strategy. Local management teams take into account Group risks during the risk identification process. Local Key Risk Indicators are monitored by each operating company management team.

## ASSURANCE ACTIVITY

Internal Audit bases its annual audit plan on the Group and individual operating company risk registers. It also reviews all key controls 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 2018 includes a Group-wide review of controls over the supplier rebates process, following the issues identified during the year.

The audit team obtains updates from management on progress towards completion of agreed actions and tests the controls where management consider that the actions are complete. The status of management agreed actions is monitored on a monthly basis by the Chief Financial Officer and on a quarterly basis by the GEC and the Audit Committee. The impact on the local risks of internal audit findings is assessed by management.

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 or the Controls Self-Assessment for key controls.



## PRINCIPAL RISKS

The matrix opposite illustrates the seven principal risks identified by the Board as having a potential material impact on the Group. The risks have been plotted by net impact and likelihood (after taking account of mitigating actions). The risks are described in detail in the table on pages 44 and 45.

- ① **DELIVERING THE CHANGE AGENDA**
- ② **SYSTEMS AND DATA QUALITY**
- ③ **ACCESS TO FINANCE**
- ④ **WORKING CAPITAL AND CASH MANAGEMENT**
- ⑤ **MARKET CONDITIONS**
- ⑥ **HEALTH AND SAFETY**
- ⑦ **SUPPLIER REBATE INCOME**

## DEVELOPMENTS IN 2017

A number of developments for the management of risk have taken place in the year. The highlights are:

- Detailed focus at GEC and Board of specific strategic risks to promote risk awareness and management.
- Hiring of an experienced Director of Risk and Internal Audit to support and develop Group-wide risk management.
- Approval of a new IT strategy, including a plan to enhance cybersecurity controls further.
- The introduction of a Portfolio Management Review Board to prioritise IT resource and identify and manage project risks.
- The establishment of an information and data forum to improve data management and security.
- A Group-wide revision of the controls self-assessment process, with a greater focus on key financial controls.
- A revision of the Delegation of Authority Policy to reinforce authorisation principles of operating and capital expenditure.

## IMPROVEMENTS PLANNED FOR 2018

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

- Implementation of new systems in operating companies as assessed on a case-by-case basis.
- Creation of a Group data warehouse to improve Group reporting.
- Development of a risk assurance map to identify assurance gaps and inefficiencies.
- Roll-out of the new key controls framework.




The Board monitors approximately 18 risks on the Group Risk Register which includes risks which are significant but not considered to be principal, such as relating to legislative breaches or cybersecurity. The key controls and planned future actions for all of the risks on the Group Risk Register are documented and updated by the GEC and reviewed by the Board on a regular basis. In view of the Group's new strategy to re-affirm its focus on its core business of distribution and merchandising of specialist products, principal risks were identified in 2017 which were different from the previous year but could still impact its performance, future prospects and reputation. The management of these risks will result in potentially stronger outcomes for the Group. An example of this is the change agenda risk (included in the Principal Risk table) which recognised the importance of executing key initiatives across the Group.

## Principal risks and uncertainties

SIG assesses and monitors risk through the implementation of the SIG risk management framework.





RISK TITLE	RISK DESCRIPTION	RISK MOVEMENT IN 2017	KEY MITIGATION ACTIVITIES	FOCUS FOR 2018
① <b>DELIVERING THE CHANGE AGENDA</b>	Without appropriate and sufficient capability and capacity, the Group will suffer initiative overload resulting in management stretch and failure to focus on core activities.	NEW	<ul style="list-style-type: none"> <li>Medium term plans for each operating company have been reviewed and prioritised from the outset and KPIs are monitored by senior management through local and Group dashboards.</li> <li>Appropriate resources and personnel are brought in to deliver and support initiatives, for example, consultants, delivery directors and programme managers.</li> <li>Appointment of a Group Transformation Director to support delivery of initiatives in the operating companies.</li> </ul>	<ul style="list-style-type: none"> <li>Development of Group dashboard to monitor delivery of initiatives</li> <li>Incentive plans to be aligned to delivery of change agenda.</li> </ul>
② <b>SYSTEMS AND DATA QUALITY</b>	Lack of appropriate systems and availability and reliability of data and Management Information have an adverse impact on the ability of the business to make properly informed decisions, identify override/ weakness of controls and to conduct processes consistently and accurately.		<ul style="list-style-type: none"> <li>There are adequate firewalls, offsite back up and Disaster Recovery plans to safeguard existing systems.</li> <li>A dedicated team is responsible for preparing appropriate management information for the business</li> <li>A new IT strategy for the Group has been approved by the Board.</li> <li>New overlay systems in development to fill the gaps that exist in diverse systems and to define common master data.</li> </ul>	<ul style="list-style-type: none"> <li>Deliver the Group's IT strategy, which includes considerations around data availability, consistency and reporting.</li> <li>Select and implement new or improved systems for specific processes (such as supplier rebates) or countries (such as France).</li> <li>Define an upgrade approach for stable applications and desktop/end-user solutions.</li> <li>Embed the new key controls framework across the Group to ensure that weaknesses in systems or paucity of data is compensated by a stronger control environment. GEC members will assess the 'tone from the top' in their individual operating companies and make changes as necessary.</li> </ul>
③ <b>ACCESS TO FINANCE</b>	The Group may not reduce its leverage sufficiently in order to gain access to funds for further investment and growth. This will impact its ability to grow profits.		<ul style="list-style-type: none"> <li>The Group has strong relationships with its banking partners.</li> <li>Capex and other expenditure is tightly controlled through robust planning, budgeting, and monitoring controls at operating company and Group level.</li> <li>A Delegation of Authority policy is in place to ensure expenditure is approved at the right level.</li> <li>Leverage position closely scrutinised through a series of senior forums.</li> </ul>	<ul style="list-style-type: none"> <li>Leverage reduction strategy will be pursued.</li> <li>Working capital targets to be tracked throughout 2018 against budget at Group level.</li> <li>Establishment of Group forums to monitor operating costs.</li> <li>Strengthening of performance management team</li> </ul>

**RELEVANCE TO STRATEGY**

-  CUSTOMER SERVICE
-  CUSTOMER VALUE
-  OPERATIONAL EFFICIENCY

**UNDERSTANDING MOVEMENTS IN BUSINESS RISKS**

Increase      No change      Decrease

RISK TITLE	RISK DESCRIPTION	RISK MOVEMENT IN 2017	KEY MITIGATION ACTIVITIES	FOCUS FOR 2018
<b>④ WORKING CAPITAL AND CASH MANAGEMENT</b> 	Failure to manage working capital effectively may lead to a significant increase in the Group's net debt, thereby reducing the Group's funding headroom and liquidity		<ul style="list-style-type: none"> <li>▪ Working capital forum has been established to develop workstreams to optimise stock, debtors and creditors.</li> <li>▪ Budgets set for all areas of the business, with accountability for performance established.</li> <li>▪ Stretch targets on inventory reduction have been applied to all branches.</li> <li>▪ Working capital is closely monitored at operating company and GEC level.</li> <li>▪ Weekly cash flow forecasting has been developed and piloted in the UK</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cash flow forecasting capabilities to be improved in all operating companies, following pilot.</li> <li>▪ Deliver targeted process improvements across operating companies for pay to procure and order to cash cycles.</li> <li>▪ All operating companies will eliminate use of manual cheques with exceptions to be approved by the Chief Financial Officer only.</li> </ul>
<b>⑤ MARKET CONDITIONS</b> 	Market downturn, impacting our ability to meet budget and City expectations.		<ul style="list-style-type: none"> <li>▪ The Group's geographical diversity reduces the impact of changes in market conditions in any one business.</li> <li>▪ Medium term plans for each operating company include consideration of forecast market conditions.</li> <li>▪ Cost reduction plans for each operating company have been agreed and are monitored monthly.</li> <li>▪ Industry-based KPIs are monitored monthly at operating company and Group level.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development of mitigation plans that can be triggered in the event of a major downturn.</li> <li>▪ Further consideration of the Brexit risk at the Board.</li> <li>▪ Continue to build balance sheet strength across all operating companies.</li> <li>▪ Ensure that key measures around the direction of the economy have been identified within each country.</li> <li>▪ Monitor the potential impact of the failure of Carillion and take necessary steps; identify other customers who have a similar risk profile to that of Carillion.</li> </ul>
<b>⑥ HEALTH AND SAFETY</b> 	Health and safety risks, including major injury or loss of life.	<b>NEW</b>	<ul style="list-style-type: none"> <li>▪ Health and safety policy and procedure documents in place for use in all branches and risk assessments performed as appropriate</li> <li>▪ The Group maintains its health and safety accreditation for ISO 18001 management systems.</li> <li>▪ Targeted training and awareness is delivered to relevant personnel</li> <li>▪ Health and safety KPIs are monitored at Group level.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improve health and safety controls in targeted areas.</li> </ul>
<b>⑦ SUPPLIER REBATE INCOME</b> 	Rebate income recognised is not fully supported by rebate agreements.	<b>NEW</b>	<ul style="list-style-type: none"> <li>▪ Regular review of rebate income and rebate debtors by commercial and finance teams in operating companies</li> <li>▪ Monthly reconciliations of rebate debtor balances</li> <li>▪ Rebate forecasts and assumptions are reviewed monthly and changes agreed between commercial and finance teams</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regular review of rebate income and rebate debtors by commercial and finance teams in operating companies.</li> <li>▪ Monthly reconciliations of rebate debtor balances</li> <li>▪ Rebate forecasts and assumptions are reviewed monthly and changes agreed between commercial and finance teams.</li> <li>▪ Review of rebate controls in all operating companies as part of the Internal Audit plan.</li> </ul>

# Sustainability Principles

SIG recognises its corporate responsibilities towards its Shareholders, employees, customers and suppliers and is committed to socially responsible business practice. In 2017 SIG continued to integrate Corporate Responsibility ('CR') across the Group.

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

## BUSINESS PRINCIPLES AND CODE OF ETHICS

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

### ETHICS POLICY

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

The policy sets out the following key principles:

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

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

### DIVERSITY AND EQUAL OPPORTUNITIES POLICY

The Group has published its Diversity and Equal Opportunities Policy on its website ([www.sigplc.com](http://www.sigplc.com)). SIG is committed to developing a working culture that is fair and inclusive, enabling all employees to make their distinctive contributions to the benefit of the business.

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

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

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

## ANTI-BRIBERY 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 salespeople. This training is provided via our online training resource, and also includes modules on competition law.

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

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

- Setting out a clear policy on anti-bribery and corruption.
- Training all employees so that they can recognise and avoid the use of bribery by themselves and others.
- Encouraging employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately.
- Rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution.
- 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 2016 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 2017. The statement will be uploaded to the Company website within six months of the financial year end.



## CASE STUDY *Developing our people*

### Colchester branch leads the way for apprenticeships

SIG's student on's Colchester branch has no less than six team members who are either on an apprenticeship programme, or who have completed one.

The apprenticeship programme and the associated NVQ training is of benefit not only to the apprentices themselves, but also to longer-serving branch colleagues, who have found that it can give them a different perspective on how things are done in the work environment.

Nick Holliday, the Branch Director, says: "Recruiting apprentices brings new challenges, as some candidates have no, or very little, work experience and in all cases require closer support and more attention than someone who has been working for years. However, the rewards and benefits make it very worthwhile. There is so much satisfaction in seeing these young people develop into skilled and professional employees of whom the Company can be exceedingly proud."

The six past or current apprentices on the Colchester team are Connor Aves (NVQ in Customer Service); Becky Cutmore and Holly Birkett (NVQs in Business Admin and Customer Service); Tom Blackiston (Warehouse and Distribution); Kurt Excell (Business Admin); and Charlie Blackiston (currently doing his NVQ in Customer Service).

## OUR VISION AND VALUES

At SIG, our vision is Stronger Together, which is underpinned by six values guiding the way we work with one another, with our customers and suppliers, and also in our communities. These values are Trust, Respect, Integrity, Commitment, Teamwork and Fun.

Our vision and values sit alongside and complement our strategy, with its focus on our people as key to successful delivery across the Group.

## INVESTING IN OUR PEOPLE AND CAPABILITY

We firmly believe that our people and our branches are central to our success, and that their development is essential for them and for our business. Ensuring that our people have the skills and capability to take SIG forward is a key focus of our strategy to deliver excellence in customer service, customer value and operational efficiency.

When new starters join the Group, their local induction programme informs them about our history, culture, values and strategy. Induction is an important part of welcoming a new joiner into the business and explaining and embedding our Stronger Together ethos and strategy. Over the last year, we have been reviewing our local induction programmes to ensure that they are refreshed and reflect the current direction of SIG, and to check that they are a valuable and positive experience for all of our new joiners.

Our Performance Development Review ('PDR') process ensures all managers and employees know what is expected of them in their roles from year to year, and helps measure and manage their performance. The PDR process also provides an opportunity for employees to discuss their career aspirations, and set individual development plans. 2017 has seen a review of our PDR processes across the Group. SIG Benelux, Air Handling and the UK & Ireland business have all revised their local processes to make sure they provide the best support for their part of the Group and for their people. We are currently reviewing our senior leadership PDR process, with a view to refreshing it to provide the most effective support for our needs.

The intention is to simplify the process and ensure there is a focus on individuals' developmental needs, to support them in their careers, through in-depth conversations. We continue to support our managers, with training and materials to help them conduct an effective performance review, and over 80% of our colleagues now benefit from an annual, and sometimes bi-annual, review.

Alongside our PDR process, our annual Talent Review is a key mechanism for identifying our top performers, and those with potential for growth. In 2017 we worked with the leaders of all business areas across the Group to highlight our high performers and also our high-growth-potential employees. The aim is to develop these individuals through on-the-job experience, projects, international assignments, coaching or mentoring from internal and external managers, and also via our new programme specifically created for our high-potential individuals - known as the RISE programme. This scheme, which was launched in November 2016, draws together our high-potential middle managers on an 18-month development programme that is focused on:

- creating a cohort of leaders equipped to drive the strategic growth of SIG;
- embedding a stronger culture of collaboration and understanding across the Group; and
- accelerating the development of high-potential managers, ensuring that we significantly improve our talent pipeline and support succession plans.

## Sustainability Our People

The training and development of employees at all levels remains a key investment area, to support our people and develop the capability necessary for our future growth. We continue to invest in e-learning solutions to give more of our people access to a convenient and efficient learning opportunity. We are continuing to develop our language skills across the Group, particularly at our middle manager level.

### GROWING OUR TALENT

Finding talented people, and developing and retaining them as they begin their careers is key to our future success.

#### APPRENTICESHIPS

Apprentices continue to be an important source of new talent for our business. We are committed to supporting the emerging careers and development of people as they come into our business, through a variety of local apprenticeship schemes. Following the launch of the apprenticeship levy in the UK in 2017, we have had an increased incentive to widen the apprenticeship offering in our business. The UK now provides driver, administration, operations and commercial trainee apprenticeships, and we are also considering offering Executive MBA qualification support via a levy-funded scheme.

In 2017, eleven apprentices joined our UK business, and 26 new apprentices joined us in SIG Germany. In the UK, our focus has been on upskilling our existing workforce, and by the end of 2017, we had signed up a further 33 employees from our existing workforce to apprenticeship programmes.

#### GRADUATES

Our International Graduate Programme is well established within the Group. The new recruits who joined us in September 2016 as Cohort 2 moved through their programme and rotations throughout 2017. Cohort 1, who joined us in September 2015, completed their programme in August of 2017. A number of them were retained in roles within the business after the completion of the programme.

While we continue to recruit graduates directly into specific functional areas on a country-by-country basis, the international graduate programme provides successful applicants with greater insight and exposure across our whole business. 2017 has seen international graduates complete their overseas rotations in Germany, Belgium, Poland, France, UK, and for the first time in the UAE. The two-year programme is aimed at attracting high-calibre individuals who are capable of becoming our leaders of the future. It involves four rotations in different business areas and five extensive development modules supported by both internal and external development expertise.

Alongside our internal work with graduates, we continued to support Enactus as a Gold Sponsor throughout 2017, sponsoring a number of aspects of the Enactus World Championships held in London in September. Enactus is a community of students, academics and business leaders that develops outreach projects to improve the lives of people across the world.

### CASE STUDY *Developing our people*

## The Gold standard in respect

*Read the story of how we became a Gold Sponsor of the Enactus World Championships 2017. Enactus is a community of students, academics and business leaders that develops outreach projects to improve the lives of people across the world.*

Enactus is a global organisation that provides a platform for students to develop their leadership and management skills, and to work on projects that address social and environmental issues. We are proud to be a Gold Sponsor of the Enactus World Championships 2017, which took place in London in September.

Our sponsorship of the Enactus World Championships 2017 is part of our commitment to supporting the development of our people. We are proud to be a Gold Sponsor of the Enactus World Championships 2017, which took place in London in September. Our sponsorship of the Enactus World Championships 2017 is part of our commitment to supporting the development of our people.

The Enactus World Championships 2017 is a global event that brings together students from over 100 countries to compete in a range of challenges. We are proud to be a Gold Sponsor of the Enactus World Championships 2017, which took place in London in September. Our sponsorship of the Enactus World Championships 2017 is part of our commitment to supporting the development of our people.

## INTERNAL COMMUNICATION

Two-way internal communication is recognised as essential in SIG and is well supported by our leadership. We reach our senior leadership through interactive leadership conferences, broadcast calls at least monthly, email bulletins, and face-to-face briefings. Our leaders are responsible for cascading key messages and information to their teams, in support of direct colleague communications. Group-wide communications include a quarterly digital magazine in employees' local languages, direct emails, posters and intranet articles, print materials and roadshow events, all of which support local print, digital and face-to-face communications.

In 2017, we introduced a Group-wide communications campaign week in support of our Stronger Together vision, with the intention of a similar campaign week becoming an annual event.

A key communication campaign to engage employees with our strategy also launched in 2017. The 'Building on our Potential' campaign introduced the key strategic levers, enablers and, more importantly, behaviours underpinning the strategy across the Group, through a leadership conference, a series of local country roadshows and an onward cascade to all employees. This is set to form the basis for our communications throughout 2018.

## ENGAGED EMPLOYEES

'SIG Listens' is our employee engagement survey. It gives our people the chance to have a voice and to tell us what we are doing well, how we can improve, and how we can make SIG an even better place to work.

In 2017, we continued to focus on the areas for improvement that were highlighted in our last survey carried out in 2015, such as the need for better communication across the Group. Our quarterly e-zine was established and is shared across the business in five different languages in response to this. Our Polish business created focus groups, and in the Benelux a review of communications and improved cascade mechanisms were carried out.

The SIG Listens survey also highlighted a need for improved induction processes across the Group – which led to the creation of two Induction Manager roles in the SIG Exteriors business.

During 2017, we ran a smaller SIG Listens pulse survey across a randomly selected 20% of our population, to take a temperature check of the business at a time of some change. We plan to run the next full SIG Listens survey in the first quarter of 2018.

## RECOGNISING OUTSTANDING PERFORMANCE

A key aspect of the SIG culture is to recognise and celebrate our employees' excellent performance and successes.

The SIG Awards, which cover employees across the Group, are awarded on an annual basis, and give our leaders the chance to nominate employees who have gone 'above and beyond' for SIG. Senior leaders present the awards and the winners are then recognised and celebrated through newsletters and intranet articles across the organisation.

Following the introduction of our Values in Practice (ViP) recognition programme in the UK last year, a number of our mainland European businesses are also now interested in launching this programme.

This scheme allows peer-to-peer recognition of colleagues who have demonstrated our values.

## EMPLOYEE BENEFITS

We adopt a fair and consistent approach to both fixed and variable pay throughout the organisation, and it is regularly benchmarked both externally and internally.

The bonus schemes we have in place are designed to reward exceptional performance across the business.

The bonus operates to an aligned reward framework across the Group for our Senior Leadership population, and it focuses specifically on Group-wide deliverables and performance outcomes. The bonus awards are also made in the local operating businesses, where they are aligned to local performance results. This year, we are focusing in particular on aligning our bonus objectives to our medium term planning process across the organisation, to ensure delivery of key financial and operational improvements.

We also encourage all of our employees and new joiners to become Shareholders in the Company. Our Long Term Incentive Plan operates at the senior level, and across our whole UK organisation we operate a Share Incentive Plan (SIP) that gives one matching share for each share purchased by the employee up to a maximum of £20 per month. As at 31 December 2017, there were 768 employees participating in the SIP.

## EQUAL OPPORTUNITIES

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

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

## DIVERSITY

Across the total workforce as of 31 December 2017, 1,864 (20%) of all employees are female and 7,351 (80%) are male. Two Board members (25%) are female and six Board members (75%) are male. Nine senior managers (16%) are female and 47 senior managers (84%) are male. The Board considers SIG to be diverse in other areas including age and race. In line with its Diversity Policy, published on the Company's website ([www.sigplc.com](http://www.sigplc.com)), SIG continues to work towards improving all aspects of diversity across its workforce.

## GENDER PAY GAP

SIG welcomes the UK Government's requirement for large companies to be more transparent on gender pay. This year, for the first time, UK companies with over 250 staff have to report on their gender pay gap. We're committed to creating a diverse and inclusive place to work where our people can be themselves and be at their best. SIG is confident that its gender pay gap does not stem from paying men and women differently for the same or equivalent work. Rather its gender pay gap is the result of the roles in which men and women work within the organisation and the salaries that these roles attract. The Gender Pay Gap reporting is published on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

# Sustainability Health Safety and Environment

## HEALTH AND SAFETY

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

SIG's Zero Harm health and safety programme is fully embedded across the Group. The programme has delivered on its aims to move away from compliance based auditing to a risk based process and to transfer ownership of health and safety back to management and away from the technical support. Achieving these aims has brought about significant benefits to the business including a 39% reduction in the Accident Incident Rate ('over three day' and 'specified major injury') (AIR) since its launch in 2014.

These achievements have resulted in SIG receiving the prestigious RoSPA Gold standard for occupational health and safety in each year since the launch of the Zero Harm programme. Retaining the Gold Standard in 2017 for the third year running is external recognition of SIG's very high level of performance, with a well-developed occupational health and safety management system, outstanding control of risk and very low levels of error, harm and loss.

Despite this being a UK-based award scheme, the submission represents the Group's Health and Safety programme and the achievement reflects the hard work and dedication of the Health and Safety team across the Group, as well as the leadership of SIG's management at all levels in taking ownership of health and safety and driving the key initiatives.

The SIG Charter for Zero Harm which commenced in 2016 provided new impetus to the programme in 2017 with management and colleagues committing to high standards of health and safety. Within the programme is a commitment to twelve 'Life Saving Rules' developed to target SIG's risk profile. A communication programme including business presentations, tool box talks, workshops, posters, e-learning and monthly information updates targeting the 'rules' commenced in 2017 and will continue in 2018.

A key element of the success to date has been the introduction of the RoSPA accredited SIG Certificate in Health, Safety and Environmental Management modular training programme, delivered to managers and supervisors. The programme continued throughout 2017, and has been supplemented with regionally-based training workshops in 'Supervising Safely', 'Working Safely' and 'Work at Height', targeting local supervisors and branch employees.

A robust Risk Assessment and Management Review process is in place through dedicated Health, Safety and Environmental (HSE) professionals across the Group through which the key health and safety risks are identified. This is supplemented by an Accident Review Panel process involving senior management to identify learnings from accidents and near misses.

SIG's Risk Profile is reviewed annually to inform the Group's HSE Plan. Occupational road risk and deliveries, along with traffic management, have been identified as areas of significant exposure to be targeted in 2018. Manufacturing also remains an area of focus following the growth of this area in the Group in 2016. A dedicated HSE team provides competent support and manages the HSE plan for continuous improvement for this group of businesses.

SIG has a zero tolerance to anyone being unfit for work due to drugs or alcohol and reserves the right to provide for testing of individuals subject to the legislative constraints within the countries where it operates. A routine programme of random testing by in-house testers is provided in the UK & Ireland businesses 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.

*The Zero Harm programme continues to deliver significant reductions in accidents, both in terms of numbers and the AIR per 1,000 employees for 'over three day' and 'specified major injury'. Since its launch in 2014, the AIR has fallen by 39% across the Group, and the number of accidents in this category has fallen by 36%. The rate of RIDDOR reportable accidents and equivalent has reduced over that time by 35% for the Group, by 52% in the UK & Ireland and by 22% in Mainland Europe businesses.*

## OCCUPATIONAL ROAD RISK

SIG recognises that its drivers represent the business and its values whilst they are on the road and it promotes through its policy and training the requirement for drivers to drive with due care and courtesy to others and to obey the law and site rules.

The Group also recognises that driving is among the most hazardous tasks performed by its employees. Drivers are assessed for competence and selected through an authorisation and licence check procedure. Road vehicles and the compliance of each business with fleet procedures are subject to routine audits and inspections. A fleet maintenance and inspection programme for commercial vehicles is managed centrally.

Road traffic accidents and statistics are reviewed through the Accident Review Panels to identify high-risk areas, to enable the Group's operational management to focus its attention accordingly. Significant issues are communicated to Board level and the Group shares this information with its insurers and brokers.

SIG is keen to adopt road safety schemes, including the voluntary Fleet Operator Recognition Scheme (FORS) scheme which encompasses all aspects of safety, fuel efficiency, economical operations and vehicle emissions and is designed to help improve operators' performance in each of these areas. SIG is also an active champion of the Construction Logistics and Cyclist Safety Group with the aim of minimising the risk to vulnerable road users such as cyclists and pedestrians and has taken part in Safer Urban Driving courses, which are essential to SIG drivers in understanding the cyclist's point of view. In support of this, new innovative solutions are being tested, such as lower windows in vehicle doors to improve visibility. SIG will continue to work with the major manufacturers in developing new processes.

## ACCIDENTS AND INCIDENTS

### UK & IRELAND

	Rate per 1,000 employees			
	2017	2016	2015	2014
Major injury	<b>1.6</b>	2.3	2.3	2.5
Injury resulting in over three absence days from work	<b>6.4</b>	6.8	10.8	12.1
All RIDDORs	<b>5.8</b>	6.5	9.3	10.9
Average UK & Ireland headcount*	<b>4,968</b>	5,569	5,174	4,880
Lost work day rate – number of work days per 100 employees	<b>19.2</b>	22.2	26.3	32.9

### MAINLAND EUROPE

	Rate per 1,000 employees			
	2017	2016	2015	2014
Major injury	<b>1.1</b>	1.7	1.8	1.6
Injury resulting in over three absence days from work	<b>12.4</b>	12.6	13.2	18.7
All RIDDORs (equivalent)**	<b>12.2</b> ↓	11.0	13.0	15.7
Average Mainland Europe headcount	<b>4,688</b>	4,746	4,467	4,395
Lost work day rate – number of work days per 100 employees	<b>27.5</b>	28.1	29.9	44.3

### GROUP

	Rate per 1,000 employees			
	2017	2016	2015	2014
Major injury	<b>1.3</b>	2.0	2.1	2.0
Injury resulting in over three absence days from work	<b>9.3</b>	9.5	11.9	15.2
All RIDDORs (equivalent)*	<b>8.9</b>	8.5	11.0	13.2
Average Group headcount	<b>9,674</b>	10,315	9,641	9,275

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

## QUALITY ASSURANCE AND MANAGEMENT SYSTEMS

The Group's management systems are maintained to a high standard through management review and internal auditing. Where it is commercially advantageous the quality and chain of custody management systems are externally certificated to ISO 9001:2015, FSCSTD 40-004 and PEFC-ST 2002:2013 standards. These universally recognised standards are fully integrated into the daily operations of the business and ensure that the products and services consistently meet customers' expectations. It also ensures that quality and responsible procurement is constantly maintained and improved. The Group's ongoing commitment to maintaining the highest possible quality standard is demonstrated by the successful transition from the UK ISO 9001:2008 to the ISO 9001:2015 accreditation in July 2017.

## ENVIRONMENT

SIG operates a combined Health, Safety and Environmental (HSE) Policy and management system to OHSAS 18001 for health and safety and ISO 14001 for the environment. SIG's UK operations' management systems are accredited to both standards through external verification by Intertek.

The Board member responsible for HSE is the Chief Executive Officer, who has stated that "The safety of our people is paramount and will always be more important than anything else" and is the signatory to the Group's HSE policy, a copy of which is displayed in the local language at each operating branch. The Group's HSE plan is reviewed annually and supports the objectives of the Group's strategic business plan. It is managed and supported by the Group HSE Manager and a team of directly employed HSE professionals in each part of the Group.

Continuous improvement is maintained through a programme of objectives set at Group, operating company and local level with regular reviews of associated key performance indicators ('KPIs'), including those set out in this report and on the Company's website.

The risks associated with SIG's operations are set out in qualitative and quantitative, generic, model and task-specific risk assessments, and the Group's Aspects and Impacts Register and are regularly reviewed. Significant findings are formally communicated to management and operatives. Compliance and the integrity of any control measures are reviewed through a Group-wide audit programme and local management inspections, with significant risks recorded and progress on actions reviewed up to Board level.

# Sustainability Health Safety and Environment

## ENVIRONMENTAL MANAGEMENT

The potential impact of SIG's operations on the local and global environment is set out in the Aspects and Impacts Registers provided for the Group and its operating sites along with a Corporate Environmental Risk Assessment.

SIG is committed to maintaining good environmental management standards across its operations to meet its statutory obligations and best practice, and has continued its excellent record of environmental legal compliance and environmentally sound operations throughout 2017 with no prosecutions or actions from the authorities.

## CARBON MANAGEMENT

The Group's Low Carbon Policy supports its HSE Policy and is signed by the Group's Chief Executive Officer who is responsible for the Group's environmental performance.

SIG's carbon footprint accounting process is annually verified to ISO 14064-3 to a limited level of assurance. In 2017, following a detailed assessment, both qualitative and quantitative, of the Group's Greenhouse Gas ('GHG') emissions assertions, SIG has achieved the standard for the fourth year in succession.

The emphasis for the Group's environmental objectives for 2017 is derived from its Low Carbon Business Policy, which aims to reduce fuel, energy and water consumption as well as reduce waste. This report details the progress made by the business.

In addition to internal scrutiny by the Group and the operating companies and publication on the Group's website, environmental KPIs are published externally through the voluntary Carbon Disclosure Project ('CDP') and the UK's statutory Energy Savings Opportunities Scheme ('ESOS').

CDP works with investors, companies, and governments to drive environmental disclosure and action that will deliver a sustainable economy, prevent dangerous climate change and protect natural resources. SIG achieved a performance rating of band 'B' in 2017 against an average of all respondents and industry activity group of band 'C'.

The Group continues its investment in both capital projects and energy-efficient technology installations across the property portfolio, including refurbishment of existing buildings, along with the fit out of new sites. Together with the continued consolidation and upgrade of the Group's road vehicle fleet, this has contributed to the continued reduction in the Group's GHG emissions.

## TRANSPORT

Vehicle fuel consumption is the primary KPI for SIG, with road vehicle fuel consumption making up 75.6% of the Group's total carbon footprint emissions. The Group target in 2017 to reduce the absolute consumption was achieved, with a reduction of 2.4% compared to 2016.

Reductions in fuel consumption have been achieved through a range of projects, including branch consolidation and fleet sharing programmes; the installation of Masternaut Telematics in vehicles across the Group providing accurate driving efficiency measurement; a Group wide initiative to introduce a Vehicle Routing and Scheduling System ('VRS') to improve journey planning; and the investment in new Euro 6 standard vehicles fitted with fuel consumption reducing features, enabling commercial vehicle access to 'Low Emissions Zones'.

Driver awareness and behaviour is a primary focus for the reduction of fuel consumption. Driver eco training courses and the five-year 'Driver Certificate of Professional Competence' (CPC) training programme continued throughout 2017. Fleet management driver trainers also provided an auditing and advice programme. The highlight of the 2017 programme was the Driver of the Year competition which reached its conclusion in June. Awards were issued in several categories and the overall winner was Steven Miller from SIG Distribution Eurocentral.

A review of the Company car policy within SIG has led to the introduction of hybrid and Plug In Hybrid Electric Vehicles ('PHEVs') as an option. The hybrid vehicles are more fuel efficient through the use of on-board battery technology, when compared with their normal diesel or petrol counterparts. These types of vehicle are also more tax beneficial for the individual user.

## ENERGY

Electricity consumption is SIG's second highest priority for carbon management, accounting for 12.9% of the Group's Scope 1 and 2 emissions in 2017 (2016: 14.4%).

SIG has maintained a programme of energy auditing through internal and external competent persons in compliance with both voluntary and statutory carbon accounting schemes. Initially working with the Carbon Trust ('CT') and achieving the CT Standard in compliance with the CRC Energy Efficiency Scheme, for the past three years SIG has worked in close partnership with Carbon Credentials to improve the data accounting process, achieve the ISO verification standard and continue the downward trend for carbon emissions.

SIG's carbon accounting programme meets all the requirements of the UK Government's statutory Energy Saving Opportunities Scheme ('ESOS') and the energy efficiency opportunities identified through ESOS, and the ongoing internal audit processes continue to feed into the objectives for the business for 2018 and beyond.

SIG continues to invest in capital projects, including energy efficient movement and daylight sensed LED lighting systems, energy-efficient heating and cooling systems and energy-efficient hand driers. These systems are installed at both new sites and existing sites undergoing refurbishment. In 2017 SIG invested £0.25m on such energy efficient projects. This has not only improved the efficiency of the building stock, but provided a safer working environment. Emissions from electricity consumption reduced by 13.7% in 2017 compared to 2016.

## GREENHOUSE GAS ('GHG') EMISSIONS

SIG's 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, and in order to maintain accurate and consistent data, the emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014 are applied to calculate its GHG disclosures.

SIG is committed to providing full and accurate data for its carbon footprint across all of its operational businesses. That is why for the fourth year in succession in 2017 it has achieved external verification of its carbon accounts by Carbon Credentials to the ISO 14064-3 standard.

The Group's 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. The Group has also disclosed Scope 3 CO<sub>2</sub> emissions over which the business has limited control, being third party air and rail transportation.

SIG is committed to providing full, accurate and actual data for its footprint with minimal reliance on estimates. For this reason SIG's emission accounting period is non-coterminous with the Group's financial year, with current year data reflecting the year to 30 September 2017. This policy enables the Group's businesses to

dedicate the appropriate time and resource to enable more accurate carbon reporting and for a suitable audit of the process. In 2017, 95.1% of calculations are based on actual data (2016: 96%). Estimates are prepared on the basis of agreed and verified accounting processes.

Following a small increase in the emissions in 2016 due to an increase in the number of operational sites, headcount and turnover, SIG has recorded a decrease of 3.7% in Scope 1 and 2 emissions in the last reporting year.

The overall footprint of the business for Scope 1, 2 and 3 emissions showed a decrease of 3.7% in the last reporting year.

## CO<sub>2</sub> EMISSIONS – SCOPE 1 – DIRECT

	Metric tonnes 2017	Metric tonnes 2016	Metric tonnes 2015
Road vehicle fuel emissions <sup>1</sup>	62,950	64,510	63,352
Plant vehicle fuel emissions <sup>2</sup>	5,287	5,335	4,562
Natural gas <sup>3</sup>	3,072	2,894	2,772
Coal/coke for heating <sup>4</sup>	46	51	45
Heating fuels (Kerosene & LPG) <sup>5</sup>	689	722	801
<b>Total</b>	<b>72,044</b>	<b>73,512</b>	<b>71,532</b>

Data source and collection methods

<sup>1</sup> Fuel cards and direct purchase records in litres converted according to BEIS guidelines

<sup>2</sup> Direct purchase records in litres converted according to BEIS guidelines.

<sup>3</sup> Consumption in kWh converted according to BEIS guidelines.

<sup>4</sup> Purchases in tonnes converted according to BEIS guidelines

<sup>5</sup> Purchases in litres converted according to BEIS guidelines

## CO<sub>2</sub> EMISSIONS – SCOPE 2 – INDIRECT

	Metric tonnes 2017	Metric tonnes 2016	Metric tonnes 2015
Electricity <sup>1</sup>	10,677	12,371	12,307

Data source and collection methods

<sup>1</sup> Consumption in kWh converted according to BEIS guidelines

## CO<sub>2</sub> EMISSIONS – SCOPE 3 – OTHER INDIRECT

	Metric tonnes 2017	Metric tonnes 2016	Metric tonnes 2015
Third-party provided transport (air and rail) <sup>1</sup>	570	586	352

Data source and collection methods

<sup>1</sup> Distance travelled converted according to BEIS guidelines.

	Metric tonnes 2017	Metric tonnes 2016	Metric tonnes 2015
Emission per £m of revenue			
Scope 1	25.1	25.8	27.9
Scope 2	3.7	4.4	4.8
Scopes 1 & 2 as required by GHG Protocol	28.8	30.2	32.7
Scope 3	0.2	0.2	0.1
<b>Scopes 1, 2 &amp; 3</b>	<b>29.0</b>	<b>30.4</b>	<b>32.8</b>

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 2017 data includes the Carpet and Flooring business and the businesses classified as non-core in the Financial Statements for the year ended 31 December 2017.

# Sustainability

## Health Safety and Environment

### WATER CONSUMPTION

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

In excess of 95% of the Group's water consumption is consumed for welfare purposes. Water efficiency is a key element of the specification for new and refurbished properties and facilities, including dual flush and cistern management systems for toilet facilities. SIG continues to identify significant opportunities for water consumption efficiencies through the branch audit and bill validation process.

	Litres ('000) 2017	Litres ('000) 2016	Litres ('000) 2015
Third-party provided water supply from national network for processes and welfare	114,113	116,122	104,999

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

### WASTE MANAGEMENT

SIG's main objective for waste management is to minimise the production of waste. As a break bulk supplier of products, the primary source of waste is through packaging opened on the premises. Where practicable these materials, for instance cardboard boxes, pallets and bearers, are reused or returned to the supplier.

Where reuse is not an option, materials are segregated for recycling and for this purpose each of the Group's businesses has partnered with a waste management business. Waste contracts are managed and monitored centrally and through the environmental audit and inspections process. Waste bailers and compactors are provided where practicable, to maximise waste segregation and recycling opportunities and minimise storage and welfare hazards.

SIG also offers waste take-back schemes to its customers for 'off-cut' materials including plasterboard and plaster products and fibre ceiling tiles as well as packaging return programmes for reusable pallets and bearers.

Due to the difficulties in measuring and quantifying the amount of waste disposed of in a year, the KPI for waste management remains the percentage of waste diverted from landfill. However, the Group continues its programme to reduce overall the amount of waste generated, by adopting paperless delivery processes, online activity reports and the consolidation of photocopying and printing facilities.

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

### HAZARDOUS WASTE

	Absolute tonnes* 2017	Absolute tonnes* 2016	Absolute tonnes* 2015
Landfill	0.0	5.0	2.0
Recycled	147.4	87.0	28.0
Incinerated	-	-	-
Total	147.4	92.0	30.0

	Absolute tonnes* 2017	Absolute tonnes* 2016	Absolute tonnes* 2015
Hazardous waste per £m of revenue	0.05	0.03	0.01

### NON-HAZARDOUS WASTE

	Absolute tonnes* 2017	Absolute tonnes* 2016	Absolute tonnes* 2015	Absolute tonnes* 2014
Landfill	3,635.35	4,426.00	4,469.00	5,626.00
Incinerated	0.00	8.00	15.00	12.00
Total	3,635.35	4,434.00	4,484.00	5,638.00

### OTHER WASTE DIVERTED FROM LANDFILL

	Absolute tonnes* 2017	Absolute tonnes* 2016	Absolute tonnes* 2015	Absolute tonnes* 2014
WEEE (Waste, Electrical and Electronic Equipment)	1.8	7.0	2.0	8.0
Glass	0.2	5.0	1.0	3.0
Wood	1,893.0	1,586.0	1,145.0	904.0
Metal	870.0	1,072.0	1,249.0	1,098.0
Plasterboard <sup>a</sup>	461.0	195.0	973.0	2,502.0
Paper/cardboard	970.0	1,212.0	747.0	588.0
Plastic	295.0	267.0	353.0	383.0
Other	10,643.0	8,601.0	8,284.0	6,573.0
Total	15,134.0	12,945.0	12,754.0	12,059.0

	Absolute tonnes* 2017	Absolute tonnes* 2016	Absolute tonnes* 2015	Absolute tonnes* 2014
Non-hazardous and other waste per £1m of revenue	6.5	6.1	5.0	6.7

\* Volume per annum converted to tonnes

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

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



# Sustainability

## Community and charity

### COMMUNITY

Across the SIG Group, we are committed to supporting the communities in which we operate, in a wide variety of ways.

For example, in the UK, we have been working with business students at Sheffield Hallam University as they study for a course module on strategy, and our WeGo business in Germany was recognised during the year for its support of AfB, a Social Enterprise employing people with disabilities, which is engaged in recycling discarded IT hardware.

Our German business has also supported a community project to construct a new building at a local fire station, and has donated materials to aid the work.

In Belgium, our Air Handling business sponsors The Red Dragons – the national Belgian men's volleyball team.

With a focus on safety, SIG Poland took a significant role in the annual industry-organised Safety Week campaign, by hosting safety presentations at construction sites across the country.

### CHARITABLE ACTIVITY

In 2017, SIG relaunched its charitable activity policy internally, with the aim of encouraging colleagues to take part in activities to support local and national charities. The policy encourages colleagues to 'give something back' through team or individual volunteering, payroll giving and fund raising.

During the year, colleagues took part in a diverse range of fund-raising activities, individually and in teams. As a Group, we are committed to supporting their efforts, by matching the amounts they raise by up to £500 (or equivalent). We also help to publicise their fundraising activities, and support them with branded clothing and materials.

Employees' individual activities have ranged from running in the London Marathon, to raise funds for charities like Cancer Research UK and the Alzheimer's Society, taking part in a 12k Iron Run race for Macmillan Cancer Support, and supporting the Teenage Cancer Trust and the Rainy Day Trust by driving through 10 countries in the Pavestone Rally – to list but a few.

Our WeGo team in Germany has also once again supported the Hanau Soapbox Derby, hosted by the not-for-profit Hanau Family Network Association. Colleagues volunteered at the event and raised funds, alongside a direct donation from WeGo.

Other charitable donations made by SIG as a business include €30,000 given by SIG Air Handling as an element of its partnership with the European Federation of Allergy and Airways Diseases Patients' Associations (EFA). Air Handling has also extended its commitment to support EFA as a partner into 2018.

In all, in 2017, the Group donated £63,589 to charity (2016: £64,395), including donations made through our matched funding scheme.

It is the Group's policy not to make political donations and no such donations were made in the year (2016: £nil).

Employees in the UK can also make charitable donations through our payroll giving scheme. In 2017, £13,765 was raised through this scheme (2016: £14,490).

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# GOVERNANCE

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## Board of Directors

### ANDREW ALLNER

#### NON-EXECUTIVE CHAIRMAN AGE 64

Became Non-Executive Chairman on 1 November 2017.

#### EXTERNAL ROLES

Andrew is Chairman at The Go-Ahead Group plc and Fox Marble Holdings plc, and a Non-Executive Director at Northgate plc. While also the current Chairman at Marshalls plc, Andrew is due to stand down from this at their AGM in May 2018.

#### EXPERIENCE AND PAST ROLES

Andrew has significant current listed company Board experience as Chairman and as a Non-Executive Director. He was previously Non-Executive Director of 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 58

Appointed a Director and Chief Executive Officer on 3 April 2017

#### EXTERNAL ROLES

Meinie is Non-Executive Chairman of Kondor HOLDCO Ltd and a Non-Executive Director of KidsFoundation Holdings B.V. He is also 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 a Non-Executive Director of Bunzl Plc

#### 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 47

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 listing on the London Stock Exchange in November 2015. Before this, Nick worked as Finance Director for Centrica's upstream oil and gas business, Financial Controller at British Gas and 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 driving improved operational and financial performance across a range of industries for public, private and private equity Shareholders.

### MEL EWELL BSC (HONS)

#### NON-EXECUTIVE DIRECTOR AGE 59

Became Interim Chief Executive on 11 November 2016, having previously been a Non-Executive Director from 1 August 2011. Mel resumed his Non-Executive Director duties from 1 May 2017.

#### EXTERNAL ROLES

Mel is a Non-Executive Director of High Speed Two (HS2) Limited and The Manufacturing Technology Centre Limited. He is also a trustee of The Duke of Edinburgh's Award.

#### EXPERIENCE AND PAST ROLES

Up until the end of March 2016, Mel was Chief Executive and an Executive Director of Arney Plc, one of the UK's leading infrastructure services providers. Mel previously held a number of senior management positions for TNT International, Xerox and ADI Group.

#### KEY STRENGTHS

Considerable executive management experience

## BOARD COMMITTEES

### AUDIT COMMITTEE

Mr I.B. Duncan – Chairman  
Ms A. Abt  
Ms J.E. Ashdown  
Mr M. Ewell  
Mr C.V. Geoghegan

### REMUNERATION COMMITTEE

Ms J.E. Ashdown – Chair  
Ms A. Abt  
Mr C.V. Geoghegan  
Mr I.B. Duncan  
Mr M. Ewell

### NOMINATIONS COMMITTEE

Mr A.J. Allner – Chairman  
Ms A. Abt  
Ms J.E. Ashdown  
Mr I.B. Duncan  
Mr M. Ewell  
Mr C.V. Geoghegan  
Mr M. Oldersma

## **JANET ASHDOWN** BSC (HONS)

### **NON-EXECUTIVE DIRECTOR** **AGE 58**

Became a Non-Executive Director on 11 July 2011.

#### **EXTERNAL ROLES**

Janet is a Non-Executive Director of the Nuclear Decommissioning Authority, Marshalls plc and most recently Victrex plc where she is the Chair of the Remuneration Committee. She is also Chair of the charity 'Hope in Tottenham'.

#### **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.

## **ANDREA ABT** MBA

### **NON-EXECUTIVE DIRECTOR** **AGE 57**

Became a Non-Executive Director on 12 March 2015.

#### **EXTERNAL ROLES**

Andrea is a Non-Executive Director of 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 of 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.

## **IAN DUNCAN** MA, ACA

### **NON-EXECUTIVE DIRECTOR** **AGE 56**

Became a Non-Executive Director on 1 January 2017.

#### **EXTERNAL ROLES**

Ian is a Non-Executive Director and Chair of the Audit Committee of Babcock International plc and Bodycote 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 the Royal Mail Group plc.

#### **KEY STRENGTHS**

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

## **CHRIS GEOGHEGAN** BA (HONS), FRAES

### **SENIOR INDEPENDENT** **NON-EXECUTIVE DIRECTOR** **AGE 63**

Became a Non-Executive Director in July 2009, as such will complete three full terms with SIG this year and will retire on 9 March 2018.

#### **EXTERNAL ROLES**

Chris is a Fellow of the Royal Aeronautical Society.

#### **EXPERIENCE AND PAST ROLES**

Previously and prior to his retirement, Chris was Chief Operating Officer of BAE Systems plc with responsibility for all European joint ventures and UK defence electronics assets. He was past President of the Society of British Aerospace companies. Chris was formerly a Non-Executive Director of Lakehouse plc and Rentokil Initial plc.

#### **KEY STRENGTHS**

Commercial European business experience.

## Introduction to governance

***"Your Board is responsible for ensuring that the Group complies with its legal obligations, as such I take my duty as the head of the Group very seriously"***

ANDREW ALLNER

### DEAR SHAREHOLDER,

SIG is committed to business integrity, high ethical values and professionalism in all of its activities. At SIG, we believe that good governance comes from an effective Board which provides strong leadership to the Group and engages well with both management and stakeholders. As an essential part of this commitment, the Group supports the highest standards in corporate governance. This section of our report outlines how the Board ensures that high standards of corporate governance are maintained. Details of the overstatements relating to cash and trade payables and of profits for previous financial years, about which we notified the market earlier this year, are provided on page 61. The actions taken by individuals are clearly unacceptable. As your Chairman I take this very seriously and have established Culture and People as a key matter in the Board agenda.

### COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Board considers that throughout the year under review, the Company has, except for the Board evaluation explained below, complied with the provisions of the UK Corporate Governance Code ('the Code') of April 2016 issued by the Financial Reporting Council ('FRC').

The Code can be accessed at [www.frc.org.uk](http://www.frc.org.uk).

### BOARD EVALUATION

Under the Code, the Board is required to undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors.

In January 2018 the Board conducted such an evaluation. In accordance with the requirements, this being the third year in the cycle, the evaluation should have been externally facilitated. However, due to the number of recent Board changes, it was felt that an internally facilitated evaluation be undertaken at this time. Details of the process concerning this evaluation and its outcome are covered on page 66 of this corporate governance report.

### BOARD DIVERSITY

The Board of SIG acknowledges the importance of diversity in its broadest sense in the boardroom as a driver of Board effectiveness. Diversity encompasses diversity of perspective, experience, background, psychological type and personal attributes. The Board recognises that gender diversity is a significant aspect of diversity and acknowledges the role that women with the right skills and experience can play in contributing to diversity of perspective in the boardroom. The Board also acknowledges the work of Sir John Parker and his report into the Ethnic Diversity of UK Boards. The Board Diversity Policy is published on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

We reported in last year's Annual Report that female representation on the Board had risen to 25%. The matter continues to be reviewed, particularly in light of the second Hampton-Alexander Report on FTSE Women Leaders.

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.

### 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 80 to 96, the Audit Committee Report on pages 73 to 77 and the Nominations Committee Report on pages 78 to 79 describe how the principles of good governance set out in the Code are applied within SIG.

The Company's external Auditor, Deloitte LLP, is required to review whether the above statement reflects the Company'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

8 March 2018



## 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. Except for the requirement to have an externally facilitated Board evaluation, as explained on page 66, we are fully compliant with the Code.

<b>1</b> LEADERSHIP  See pages 61-65	<b>2</b> EFFECTIVENESS  See pages 66-72	<b>3</b> ACCOUNTABILITY  See pages 73-77	<b>4</b> RELATIONS WITH SHAREHOLDERS  See page 68	<b>5</b> REMUNERATION  See pages 80-96
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# Corporate Governance report

## OVERSTATEMENT OF CASH AND TRADE PAYABLES

The Group reported in its Trading Update on 9 January 2018 that during the initial year end close processes, the Group identified a historical overstatement of cash and trade payables related to cash cut-off procedures. This was associated with the issue of cheques around previous period ends whereby cheques had been written and passed to suppliers but not accounted for. There was no impact from this on the Consolidated Income Statement, but it resulted in an overstatement of cash of £20m at 31 December 2016 and £27m at 30 June 2017. Internal Audit has completed a review of the controls around cheque issuance.

After adjusting for the overstatement, the headline financial leverage at 31 December 2017 is 1.9x (2016: 2.4x). This did not impact compliance with the Group's covenants but resulted in additional interest charges of £0.4m. The Group continues to target a 1.0-1.5x leverage range during 2018 and is aiming to maintain leverage below 1.0x over the medium term.

## OVERSTATEMENT OF PROFIT

On 1 February 2018, following a thorough review, the Group released a stock exchange announcement in relation to identification of a historical overstatement of profit relating to the year ended 31 December 2016 and prior years and relating to the half year ended 30 June 2017.

Following a whistleblowing allegation of potential accounting irregularity at SIG Distribution, the core insulation and interiors business in the UK, the Group, with support from its external Auditor Deloitte and from KPMG, conducted a forensic review of the recoverability of a number of balances recognised at 31 December 2016 in relation to rebates and other potential recoveries from suppliers. Findings from this ongoing review were presented to the Audit Committee of the Board on 31 January 2018 and confirmed that a number of these balances were overstated at 31 December 2016, in some cases intentionally. This resulted in an overstatement of profit for the year ended 31 December 2016 of £3.7m, with a further £0.4m overstatement of profit relating to years before 2016.

The review had also identified an overstatement of balances at 30 June 2017 relating to recoverable balances brought forward from 2016 and some additional receivables accrued in the first half of 2017. This resulted in up to a further £2.5m overstatement of profit for the half year ended 30 June 2017. The Board considered that these misstatements were qualitatively material and required restatement under IAS 8. The Group has restated previous Financial Statements for the overstatements in these Financial Statements on pages 100 to 166, which have been subject to audit.

A number of employees are leaving the business following disciplinary investigations into the circumstances. The Group has also confirmed that, whilst no incentives were paid in error as a result of the overstatements, potential bonus payments to certain individuals in relation to 2017 will not be payable.

In addition, the Group identified a number of actions to remediate the control environment in SIG Distribution, including some specific additional controls around rebates and other supplier recoverables, which were implemented with immediate effect. The Group had also engaged KPMG to conduct a detailed review of financial reporting controls at SIG Distribution to confirm the accounting treatment of other material items at 31 December 2017, prior to finalising the year end results.

## THE BOARD

At 31 December 2017, 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:

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### MR A.J. ALLNER

Non-Executive Chairman (appointed 1 November 2017)

### MR M. OLDERSMA

Chief Executive Officer (appointed 3 April 2017)

### MR N.W. MADDOCK

Chief Financial Officer (appointed 1 February 2017)

### MS A. ABT

Independent Non-Executive Director

### MS J.E. ASHDOWN

Independent Non-Executive Director

### MR I.B. DUNCAN

Independent Non-Executive Director (appointed 1 January 2017)

### MR M. EWELL

Independent Non-Executive Director (served as Interim Chief Executive from 11 November 2016 until 31 March 2017)

### MR C. V. GEORGHEGAN

Senior Independent Non-Executive Director

### MR D. G. ROBERTSON

Group Finance Director (retired 31 January 2017)

### MR J. C. NICHOLLS

Independent Non-Executive Director (retired 31 March 2017)

### MR L. VAN DE WALLE

Non-Executive Chairman (retired 31 October 2017)

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# Corporate Governance report

Mr I.B. Duncan was appointed a Non-Executive Director with effect from 1 January 2017. Mr J.C. Nicholls retired from the Board on 31 March 2017 as a Non-Executive Director and Chair of the Audit Committee. Mr Duncan succeeded Mr Nicholls as Chair of the Audit Committee following Mr Nicholls' retirement on 31 March 2017.

Mr S.R. Mitchell stepped down from the Board as Chief Executive by mutual agreement on 11 November 2016. Mr M. Ewell, a Non-Executive Director, was appointed as Interim Chief Executive from 11 November 2016 on a full time basis while the Board conducted an external search for a new Chief Executive. Mr M. Oldersma was appointed as Chief Executive Officer on 3 April 2017. Mr Ewell stepped down as Interim Chief Executive on 31 March 2017 and remained as an Executive Director until 30 April 2017. He resumed his Non-Executive Director duties from 1 May 2017.

Mr D.G. Robertson retired from the Board as Group Finance Director with effect from 31 January 2017 and was succeeded by Mr N.W. Maddock with effect from 1 February 2017.

Mr L. Van de Walle retired from the Board as Non-Executive Chairman on 31 October 2017 and was succeeded by Mr A.J. Allner with effect from 1 November 2017.

Biographical details of the Directors holding office at the date of this report appear on pages 58 and 59. Details of Committee memberships are set out on page 65.

At 31 December 2017, SIG had two female Board members, equating to 25% female representation of its Directors.

Each of the Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent 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. Biographical details of each of the Directors, which illustrate their range of experience, are set out on pages 58 and 59.

The Company's policy relating to the terms of appointment and remuneration of both the Executive and Non-Executive Directors is detailed in the Directors' Remuneration Report on pages 80 to 96.

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

The Senior Independent Director is Mr C.V. Geoghegan. Mr Geoghegan will complete three full terms this year and in accordance with the Code he has offered himself to retire from the Board on 9 March 2018. Mr M. Ewell will succeed Mr Geoghegan as the Senior Independent Director until a new Non-Executive Director is appointed.



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 2018 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.

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 84 to 86. Full details of Directors' remuneration, interests in the share capital of the Company and of share options held are set out on pages 89 to 96 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 10 May 2018.

### 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 15 occasions during the year and individual attendance at those and the Board Committee meetings is set out in the table on page 64. All Board members are supplied with information

in a form and of a quality appropriate to enable them to discharge their duties. Board and Committee papers are sent out seven days before meetings take place. The Directors are provided with opportunities for training to ensure that they are kept up to date on relevant new legislation and regulation changes, corporate governance developments and changing commercial risks. There is an agreed schedule of matters reserved for the Board for collective decision, which can be viewed on the Company's website ([www.sigplc.com](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 above a prescribed limit.
- Corporate governance matters.
- Approval of Group policies and risk management strategies.

The Board has formally delegated specific responsibilities to Board Committees, including the Nominations, Audit and Remuneration Committees. The Board also appoints Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve 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.
- Consider proposed significant changes to the Group's capital structure, management and control structures, listings or status as a public limited company.
- The development and assessment of the Group's Health and Safety and Corporate Responsibility policies and performance.

Full details of delegated matters to the Group Executive Committee and Terms of Reference for each of the Board Committees are available on request from the Company Secretary or on the SIG website ([www.sigplc.com](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 for ensuring that Board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the Board. There is an agreed procedure whereby Directors wishing to take independent legal advice in the furtherance of their duties may do so at the Company's expense.

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

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

Following the successful roll-out of a secure iPad based paperless meeting system in 2012, the Group moved from BoardPad to the Diligent software system during 2017. This further supports our online drive across the Group and is consistent with reducing the impact of our operations on the environment.

# Corporate Governance report

## 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.

## COMPLIANCE WITH S172 OF THE COMPANIES ACT 2006

The Directors consider that they have performed their fiduciary duty, as stipulated under s172 of the Act in good faith to promote the success of the Company for the benefit of its members as a whole. They have taken into consideration:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster relationships with suppliers, customers and others;
- the desirability of the Company to maintain a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

## ATTENDANCE BY DIRECTORS AT MEETINGS OF THE BOARD AND COMMITTEES IN 2017

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nominations Committees during the year to 31 December 2017:

	Board (15 meetings) <sup>1</sup>	Audit (4 meetings)	Remuneration (7 meetings)	Nominations (6 meetings)
A. Abt	15	4	7	6
J.E. Ashdown	14	4	7	6
I.B. Duncan	15	4	7	6
M. Ewell <sup>2</sup>	15	3	4	6
C. V. Geoghegan	15	4	7	6
N.W. Maddock <sup>3</sup>	14	N/A	N/A	N/A
M. Oldersma <sup>4</sup>	10	N/A	N/A	4
A.J. Allner <sup>5</sup>	3	N/A	N/A	1
Mr L. Van de Walle <sup>6</sup>	13	N/A	N/A	3
Mr J.C. Nicholls <sup>7</sup>	6	1	2	2

<sup>1</sup> There were seven unscheduled Board meetings in 2017. The attendance to all the meetings is detailed above.

<sup>2</sup> Mr M. Ewell resumed his Non-Executive Director duties from 1 May 2017 and attended all meetings to which he was entitled to attend.

<sup>3</sup> Mr N.W. Maddock was appointed to the Board on 1 February 2017 and attended all meetings to which he was entitled to attend.

<sup>4</sup> Mr M. Oldersma was appointed to the Board on 3 April 2017 and attended all meetings to which he was entitled to attend.

<sup>5</sup> Mr A.J. Allner was appointed to the Board on 1 November 2017 and attended all meetings to which he was entitled to attend.

<sup>6</sup> Mr L. Van de Walle resigned from the Board on 31 October 2017.

<sup>7</sup> Mr J.C. Nicholls resigned from the Board on 31 March 2017.

Of the 15 Board meetings held in 2017, seven were held by telephone conference call.

This table only shows those meetings which each Director attended as a member rather than as an invitee. Where "N/A" appears in the table the Director listed is not a member of the Committee. Directors do not participate in meetings when matters relating to them are discussed.

The Chairman also holds meetings with the Non-Executive Directors without the Executive Directors present. The Senior Independent Director also meets with the other Independent Non-Executive Directors without the Chairman present. In general, the Board endeavours to hold at least two Board meetings each year at Group business locations both in the UK & Ireland and Mainland Europe to help all Board members gain a deeper understanding of the business. This also provides senior managers from across the Group with the opportunity to present to the Board as well as to meet the Directors on more informal occasions. Board members also attend divisional and Group management conferences whenever possible.

All Directors attended the 2017 AGM and were available to answer any questions raised by the Shareholders.

## GROUP BOARD

### AUDIT COMMITTEE

The Audit Committee operates under written Terms of Reference, which are consistent with current best practice. The Committee comprises only Independent Non-Executive Directors. The Chairman of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 73 to 77.

The Group has an Internal Audit function and additional outsourced specialist support from KPMG LLP. The Board annually reviews the need for such a function and the effectiveness of the outsourced Internal Audit function.

#### DELEGATED AUTHORITIES:

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

#### MEMBERS:

Mr I.B. Duncan (replaced Mr Nicholls as Chair from 31 March 2017)  
Ms A. Abt  
Ms J.E. Ashdown  
Mr M. Ewell  
Mr C.V. Geoghegan (to 9 March 2018)  
Mr J.C. Nicholls (to 31 March 2017)

### NOMINATIONS COMMITTEE

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

#### DELEGATED AUTHORITIES:

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

#### MEMBERS:

Mr A.J. Allner (replaced Mr Van de Walle as Chair from 1 November 2017)  
Ms A. Abt  
Ms J.E. Ashdown  
Mr I.B. Duncan  
Mr M. Ewell  
Mr C.V. Geoghegan (to 9 March 2018)  
Mr M. Oldersma  
Mr L. Van de Walle (to 31 October 2017)  
Mr J.C. Nicholls (to 31 March 2017)

### REMUNERATION COMMITTEE

The Remuneration Committee operates under written Terms of Reference, which are consistent with current best practice. The Committee comprises only Independent Non-Executive Directors. The Chairman of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 80 to 96.

#### 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 (replaced Mr Geoghegan as Chair from 19 December 2017)  
Ms A. Abt  
Mr I.B. Duncan  
Mr M. Ewell  
Mr C.V. Geoghegan (to 9 March 2018)  
Mr J.C. Nicholls (to 31 March 2017)

### GROUP EXECUTIVE COMMITTEE

The Executive Committee operates under written Terms of Reference, details of which are provided on page 63. The Committee addresses operational issues and is responsible for implementing Group strategy and policies, day-to-day management and monitoring performance. The Committee met 27 times during the year.

#### MEMBERS:

**Mr M. Oldersma (Chairman)**  
Chief Executive Officer  
(from 3 April 2017)  
**Mr N.W. Maddock**  
Chief Financial Officer  
(from 1 February 2017)  
**Mr R.T. Barclay**  
Managing Director, UK & Ireland  
**Mr A. Wakelin**  
Managing Director, Exteriors  
**Mr C. Horn**  
Group Operations Director  
**Mr P. Dénecé**  
Managing Director, France  
**Mr J. Neves**  
Managing Director, Benelux  
**Mr L. Hemels**  
Managing Director, Air Handling  
**Mr M. Szczgiel**  
Managing Director, Poland  
**Mr M. Chappell**  
Interim Group Transformation Director  
(20 November 2017 to 2 March 2018)

#### Mr E. Hutt

Group Chief Information Officer  
(from 1 September 2017)

#### Mrs L.H. Kennedy-McCarthy

Group Human Resources Director  
(to 31 December 2017)

#### Ms G. Hannen

European Finance Director  
(to 18 December 2017)

#### Mr L. Lvovich

Corporate Development Director  
(to 15 September 2017)

#### Mr M. Pearson

Group Chief Information Officer and Programmes Director  
(to 15 September 2017)

#### Mr M. Hamori

Managing Director, Germany (to 7 July 2017)

#### Mr D.G. Robertson

Group Finance Director  
(to 31 January 2017)

#### Mr M. Ewell

Interim Chief Executive  
(to 31 March 2017)

### GROUP TAX AND TREASURY COMMITTEE

The Treasury Committee operates under the written Treasury Policy Manual. 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:

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

**Mr N.W. Maddock**  
Chief Financial Officer  
(from 1 February 2017)

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

**Ms H. Jones**  
Group Treasurer  
(from 29 August 2017)

**Mr A. Gupta** Group Director of Risk & Internal Audit  
(from 2 October 2017)

**Mr I. Norris** Risk & Financial Controller  
(to 30 June 2017)

**Mrs S. Clarke** Group Treasurer (to 25 August 2017)

# Corporate Governance report

## BOARD EFFECTIVENESS AND PERFORMANCE EVALUATION

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

Under the Code, the Board is required to undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In January 2018 an effectiveness review of the Board and its Committees (Audit, Remuneration and Nominations) was undertaken. This was facilitated by the Chairman, who conducted one-to-one interviews. As a result, the summary report was presented to the Board in January 2018. The discussions then focused on how the actions and improvements identified through the process should be implemented. The Board was satisfied that the evaluation of its performance was a worthwhile exercise and that the Directors had participated on an open and frank basis.

In accordance with the requirements of the Code, this being the third year in the cycle, the evaluation should have been externally facilitated. However, due to the number of recent Board changes and more recently the appointment of the new Chairman in November 2017, it was felt that an internally facilitated evaluation be undertaken by the Chairman at this time.

Whilst concluding that the Board, its individual Directors, and its Committees continue to improve key processes and effectiveness, the evaluation identified a number of areas for improvement, including:

- improved management information at meetings to assist in making informed decisions.
- better understanding of the business and its divisions.
- increased emphasis on people and culture.
- strategic focus.

The proposed Board priorities for 2018 will cover:

- monitoring the progress in executing the medium term strategy and business turnaround.
- focusing on developing the long term vision and strategy for SIG beyond turnaround.

- increasing Board focus on people, culture, succession planning, employee engagement and organisational effectiveness.
- ensuring the Non-Executive Directors become closer to the business through a programme of visits to operations, attendance at leadership team conferences, greater access to management below Executive Director level and improved Board information.

The Chairman regularly reviews and agrees with each Director their training and development needs. During the year a number of the Directors attended training courses and seminars on various subjects, including those that the Chairman had identified as being areas where training would increase the knowledge and effectiveness of the Director. The Board received agenda specific training throughout the year and as a whole received training from its advisors on the Listing Rules. Further training is programmed for 2018.

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

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The key elements of the existing systems of internal control, which accord with the FRC's Guidance on Risk Management and Internal Control and Related Financial and Business Reporting (September 2014), are as follows:

## OPEN CULTURE

The Board considers that the Group operates a risk-aware culture with an open style of communication. This facilitates the early identification of problems and issues, so that appropriate action is taken quickly to minimise any impact on the business. The details and processes in identifying the overstated cash and trade payables and of profits are provided on page 61.

## ONGOING PROCESS FOR RISK IDENTIFICATION, EVALUATION AND MANAGEMENT

This process includes the following:

- The Board maintains an overall corporate risk register, the content of which is determined by regular discussions between senior management, the Group Board and the Audit Committee. This is also formally reviewed twice yearly by the Audit Committee and discussed with the Board. The risk register contains the significant risks faced by the Group and identifies the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). This provides the Board with the opportunity to review the level of risk that the business is prepared to accept. The register also contains the assurance provided over current key mitigating controls. Where further actions have been identified to mitigate risks to a level deemed acceptable, these are agreed with specific timelines for delivery and are monitored closely until fully implemented. This is summarised in the Strategic Report on pages 6 to 55:
- The risk management process is cascaded throughout the Group, with operating subsidiary boards responsible for maintaining their own risk registers and assessing their internal control systems.
- A defined organisation structure with appropriate delegation of authority.
- Formal authorisation procedures for all investments with clear guidelines on appraisal techniques and success criteria.
- Clear responsibilities on the part of financial management for the maintenance of good financial controls and the production and review of detailed, accurate and timely financial management information.

- A comprehensive system of financial reporting. An annual budget for each operating company is prepared in detail and approved by the Chief Executive Officer. The Board approves the overall Group budget and plans. Monthly actual results are reported against budget and prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the Board and remedial action taken where appropriate. There is also regular cash and treasury reporting to the Chief Financial Officer and periodic reporting to the Board on the Group's tax and treasury position.
- Provision to management and the Board of relevant, accurate and timely information including relevant key performance indicators, based on reliable management information systems which are continually being improved and updated.
- Monthly reports to the Board from the Chief Executive Officer and Chief Financial Officer.
- Regular business unit management board meetings (periodically attended by the Chief Executive Officer or Chief Financial Officer), Executive Board meetings and the Company Board meetings at which existing, new and evolving operational, financial and other risks are discussed, and appropriate actions to manage these risks are agreed and followed up.
- Discussion of any significant issues or control weaknesses identified and, if considered necessary, their inclusion in reports to the Executive Board and the Company Board.
- Operating units, both trading sites and central functions, completed comprehensive Control Self-Assessment ('CSA') questionnaires for the early part of 2017. These questionnaires required managers to respond to questions about procedures and controls in the unit for which they have responsibility. These were analysed by local and Group management and all potential risks or control failure issues which were raised by the CSA process were classed in terms of escalation levels with any significant Group level issues being reported to the Audit Committee. As part of the continually improving approach to risk and internal audit, the control self-assessment underwent a complete refresh during the year and this has now become the Key Controls Framework

process, which has been further developed since year end giving Group and local management an improved oversight of procedures and controls. The Key Controls Framework has greater focus over cash and supplier rebates.

- A structured and approved programme of Internal Audit visits with the implementation of recommendations made being monitored as part of a continuous programme of improvement.

#### FINANCIAL REPORTING

In addition to the general internal controls and risk management processes described on pages 66 to 67, 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. These are comprehensively detailed in the Group Finance Manual, which is used by the businesses in the preparation of their results. Financial control requirements are also set out in the Group Finance Manual.

#### ANNUAL ASSESSMENT OF THE EFFECTIVENESS OF SYSTEMS OF INTERNAL CONTROL

During 2017 the Board conducted a review of the effectiveness of the Group's system of internal control. This review covered all controls including operational, compliance and risk management procedures, as well as financial controls. The Board will continue to assess the effectiveness of systems of internal control.

The Board and Audit Committee requested, received and reviewed reports from Group Internal Audit, senior management, its advisors, the outsourced Internal Audit function and our external Auditor in order to assist the Board with their annual assessment of the effectiveness of the Group's systems of internal controls. Through the ongoing processes outlined on pages 66 to 67, improvements in internal controls are continuously identified and action plans are devised. Progress towards completion of actions is regularly monitored by management and the Board.

The Board considers that the information that it receives is sufficient to enable it to review the effectiveness of the Group's internal controls in accordance with the internal control guidance for Directors on the

Code issued by the FRC. There had been a significant breakdown of internal controls in relation to supplier rebates and presentation of cash, which is discussed further on page 61.

#### WHISTLEBLOWING

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

The Company also has in place a confidential hotline which is available to all of the Group's employees and provides a facility for them to bring matters to management's attention on a confidential basis. The hotline is provided by an independent third party. During 2017 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 2017 Group employees used this system to raise concerns about a number of separate issues, all of which were appropriately responded to.

During the year a matter was raised under the Whistleblowing Policy in respect of supplier rebates and other supplier receivables, which was fully investigated. Details of the investigation and outcomes are covered in this Report on page 61.

#### OVERALL ASSESSMENT

The risk framework, as outlined above, gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business, apart from the two significant deficiencies as set out on page 61.

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.

## Corporate Governance report

### RELATIONS WITH SHAREHOLDERS

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

Following a review of strategy in 2017, the Chief Executive Officer and Chief Financial Officer met with the Shareholders in November 2017 to update them on the conclusions, the resulting medium term financial targets and the plans to achieve these targets.

Each year, the Chairman offers one-to-one meetings with SIG's largest Shareholders. Following the November 2017 strategy day, the Chairman met with SIG's large institutional Shareholders.

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

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

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

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

### SUBSTANTIAL SHAREHOLDINGS

At the date of approval of the 2017 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 2017 and 8 March 2018:

Shareholder	Voting Rights as at 31 December 2017		Voting Rights as at 8 March 2018	
		%		%
Investec Asset Management	70,084,874	11.86%	70,084,874	11.86%
IKO Enterprises Limited	40,539,710	6.85%	40,539,710	6.85%
Templeton Investment Counsel LLP	30,321,866	5.13%	30,321,866	5.13%
FIL Limited	29,955,004	5.06%	29,955,004	5.06%
Tameside MBC re Greater Manchester Pension Fund	29,951,996	5.06%	29,951,996	5.06%
UBS Asset Management	29,578,718	5.00%	Below notifiable threshold	n/a
Massachusetts Financial Services Company	26,799,365	4.53%	26,799,365	4.53%
Kames Capital Plc	29,196,351	4.93%	23,339,648	3.95%
Schroder Investment Management Limited	23,005,522	3.89%	23,005,522	3.89%
Norges Bank	18,163,702	3.07%	18,163,702	3.07%

### STATEMENT OF THE DIRECTORS ON THE DISCLOSURE OF INFORMATION TO THE 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 Auditor is unaware; and
- Each Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**GOING CONCERN**

The Going Concern Statement can be found on page 41 of the Strategic Report.

**VIABILITY STATEMENT**

The Viability Statement can be found on pages 39 to 40 of the Strategic Report.

**INDEPENDENT AUDITOR**

On the recommendation of the Audit Committee (see pages 76 to 77), in accordance with Section 489 of the Companies Act 2006, resolutions are to be proposed at the AGM for the reappointment of Deloitte LLP as Auditor of the Company and to authorise the Audit Committee to fix its remuneration. The remuneration of the Auditor for the year ended 31 December 2017 is fully disclosed in Note 4 to the Financial Statements on page 121.

**PUBLICATION OF ANNUAL REPORT AND NOTICE OF AGM**

Shareholders are to note that the SIG plc Annual Report 2017 together with the Notice convening the AGM have been published on the Company'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 Mercure Sheffield Parkway Hotel, Britannia Way, Catcliffe, Sheffield, S60 5BD at 12 noon on Thursday 10 May 2018, 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.

**OTHER STATUTORY DISCLOSURES****PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The principal activity of the Group is the supply of specialist products to construction and related markets in the UK, Ireland and Mainland Europe. The main product sectors supplied are insulation and interiors, roofing and exteriors and air handling.

The Chairman's Statement and Strategic Report on pages 2 to 55 contain a review of these activities and comment on the future outlook and developments. The financial risk management objectives, policies and key performance indicators of the Company are also set out in the Strategic Report.

**POLITICAL DONATIONS**

It is the Group's policy not to make political donations and no political donations were made during the year (2016: Enil).

Details of the Group's policies in relation to Corporate governance are disclosed on pages 46 to 49.

**GROUP RESULTS AND DIVIDENDS**

The Consolidated Income Statement for the year ended 31 December 2017 is shown on page 100. The movement in Group reserves during the year is shown on page 103 in the Consolidated Statement of Changes in Equity. Segmental information is set out in Note 1 to the Financial Statements on pages 114 to 118.

The Board is recommending a final dividend of 2.50p per share (2016: 1.83p) which, together with the interim dividend of 1.25p per share (2016: 1.83p), makes a total for the year ended 31 December 2017 of 3.75p (2016: 3.66p). Payment of the final dividend, if approved at the AGM, will be made on 6 July 2018 to Shareholders registered at the close of business on 8 June 2018.

**GREENHOUSE GASES**

Details of the Group's greenhouse gas emissions are detailed on pages 52 to 53 of the Corporate Responsibility Report.

**EMPLOYEES**

Details of the Group's policies relating to employees are detailed on pages 46 to 49 of the Corporate Responsibility Report.

Details of the Group's policies in relation to employees (including disabled employees) are disclosed in the Corporate Responsibility Report on pages 46 to 49.

**POST BALANCE SHEET EVENTS**

Details of post balance sheet events are included in Note 11 on page 131 of the Financial Statements.

**RELATED PARTY TRANSACTIONS**

Except as disclosed in Note 30 to the Financial Statements on page 157 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 36 to 39 and in Note 19 to the Financial Statements on pages 140 to 143.

**ACQUISITIONS AND DISPOSALS**

Details of acquisitions made and businesses identified for sale or closure are covered in Note 11 on pages 128 to 131 and Note 14 on page 136 of the Financial Statements.

# Corporate Governance report

## GROUP COMPANIES

A full list of Group Companies (and their registered office addresses) is disclosed on pages 191 to 192.

## SHARE CAPITAL

The Company has a single class of share capital which is divided into ordinary shares of 10p each. At 31 December 2017, the Company had a called up share capital of 591,548,235 ordinary shares of 10p each (2016: 591,460,301).

During the year ended 31 December 2017, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 87,934 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 126 to 127 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. The office of a Director shall be vacated if:

- (i) He/she ceases to be a Director by virtue of any provision of law or is removed pursuant to the Company's Articles of Association or he/she becomes prohibited by law from being a Director;
- (ii) He/she becomes bankrupt or compounds with his/her creditors generally;
- (iii) He/she becomes of unsound mind or a patient for any purpose of any statute relating to mental health and the Board resolves that his/her office is vacated;
- (iv) He/she resigns;
- (v) He/she fails to attend Board meetings for six consecutive months without leave of absence from the Board and the Board resolves that his/her office is vacated;

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

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

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

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

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).

## 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.

## 2018 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 59,146,030 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 2018 AGM.

## AUTHORITY TO ALLOT ORDINARY SHARES

Shareholders' authority to allot ordinary shares up to an aggregate nominal amount of £39,430,686 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 2018 AGM.

During the year ended 31 December 2017, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 87,934 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 126 to 127 which also contains details of options granted over unissued share capital.

## FAIR, BALANCED AND UNDERSTANDABLE

The Directors have a responsibility for preparing the 2017 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 77.

## CAUTIONARY STATEMENT

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

# Corporate Governance report

## CONTENT OF DIRECTORS' REPORT

The Corporate governance report (including the Board biographies), which can be found on pages 58 to 72, the Audit Committee Report on pages 73 to 77, the Nominations Committee Report on pages 78 to 79, and the Directors' Responsibility Statement on page 97 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 2017 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.

SIG has been mindful of the best practice guidance published by Defra and other bodies in relation to environmental, community and social KPIs when drafting the Strategic Report. The Board has also considered social, environmental and ethical risks, in line with the best practice recommendations of the Association of British Insurers. Management, led by the Chief Executive 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.

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

Section	Topic	Location
(1)	Interest capitalised	Financial Statements, Note 13, page 135
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long term incentive schemes	Directors' remuneration report, pages 91 to 92
(5)	Waiver of emoluments by a Director	Not applicable
(6)	Waiver of future emoluments by a Director	Not applicable
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Item (7) in relation to major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Not applicable
(11)	Provision of services by a controlling Shareholder	Not applicable
(12)	Shareholder waivers of dividends	Not applicable
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling Shareholders	Not applicable

## APPROVAL OF THE DIRECTORS' REPORT

The Directors' Report set out on pages 58 to 97 was approved by the Board of Directors on 8 March 2018 and signed on its behalf by the Company Secretary, Richard Monro.

**RICHARD MONRO**  
COMPANY SECRETARY  
8 March 2018

# Audit Committee report

***"It is vitally important that we continually strengthen the controls culture and operate a robust control environment throughout our operations."***

IAN DUNCAN

## DEAR SHAREHOLDER,

I am pleased to present the Audit Committee report for the year ended 31 December 2017, on behalf of the Board.

I was appointed a Non-Executive Director with effect from 1 January 2017. Jonathan Nicholls retired as a Non-Executive Director and Chair of the Audit Committee on 31 March 2017. I therefore succeeded Mr Nicholls as Chair of the Audit Committee from that date.

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 (April 2016) ('the Code') but, in line with good practice, membership is reviewed annually.

It is vitally important that we continually strengthen the controls culture and operate a robust control environment throughout our operations. Accordingly, the Audit Committee not only continually reviews and updates our activities in line with new legislation but also against the context of the evolving nature of our operating businesses. A major part of the Committee's work this year has been dominated by the discovery of the overstatements in historical financial information published by the Company. An Investigation Committee, which I chaired, was set up to investigate the allegations.

Areas of particular concern for the Committee in relation to the overstatement of both cash and trade payables and the overstatement of profit issues have been:

- to understand how the overstatements identified have accumulated over time, how they have affected prior year's results, and to consider whether the impact on past year's results was such as to require them to be restated;
- to understand the circumstances surrounding the breakdowns in controls, as to why and how they happened and what was done to resolve the issues; and
- to satisfy itself, that the remedial steps proposed to the Group's financial systems and internal controls and the interim measures to be applied until these new steps are fully implemented are sufficient to avoid any repetition of the issues that have emerged in relation to the overstatements. This was done in discussions with the Chief Executive Officer and Chief Financial Officer and the internal and external auditors and advisors and included comprehensive internal audit reviews of financial reporting controls at SIG Distribution.

Further details about the overstatements are set out on page 31 of the Financial Review and on page 61 of the Corporate Governance Report.

The Group's Internal Audit function receives specialist support, when required, from KPMG. Management actions continued to be taken to improve controls and bring efficiencies across the business in 2017. During the year KPMG performed reviews in K8 Post-Implementation Review, UK Cashflow Forecasting, SIG Distribution Margin Management Review, UK Initiative Overload and France ERP Pre-Implementation Review to identify opportunities for further improvements to the control environment.

The Committee plans on building on the programme in 2018 with continued focus on areas of risk to the business to ensure that the control environment is effective and robust.

Although going concern is a matter for the whole Board (see page 41), a review is made by the Audit Committee of the Group's headroom under its covenants and undrawn facilities in relation to the Group's financial forecasts and sensitivity analyses.

The Committee has again considered the issue of external Auditor rotation and is continuing to keep this under review.

The Company has complied during the financial year ended 31 December 2017 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

CHAIRMAN OF THE AUDIT COMMITTEE

8 March 2018



# Audit Committee report

## 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 the Group's responsibilities, providing independent monitoring, guidance and challenge to executive management in these areas.

Through this process the Committee's aim is to ensure high standards of corporate and regulatory reporting, an appropriate control environment, 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 and co-sourced Internal Audit function.
- The appointment, independence, effectiveness and remuneration of the Group's external Auditor, including the policy on the award of 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 UK Corporate Governance Code.

The Audit Committee's Terms of Reference are available on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

## AUDIT COMMITTEE MEMBERSHIP

As at 31 December 2017, the Committee comprised the five independent Non-Executive Directors of the Company.

Chairman of the Committee	Members
Mr I.B. Duncan	Ms A. Abt Ms J.E. Ashdown Mr M. Ewell Mr C.V. Geoghegan

The Board considers that each member of the Committee is 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 provision C.1.3 of the Code.

## AUDIT COMMITTEE STRUCTURE

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

The Committee has in its Terms of Reference the power to engage outside advisors and to obtain its own independent external advice at the Company's expense, should it be deemed necessary. During 2017 no member of the Committee, nor the Committee collectively, found it necessary to obtain such separate advice beyond the advice that is directly provided to the Committee by the external Auditor, Deloitte LLP or from KPMG LLP, who operate the Group's co-sourced Internal Audit function.

As part of Corporate Governance the Committee reviews its own performance annually and considers where improvements can be made. The Committee reviewed its own performance in January 2018 and the results of this review were reported to the Board.

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

## MEETINGS

The Committee meets regularly throughout the year, with four meetings being held during 2017. Its agenda is linked to events in the Company's financial calendar.

Attendance by individual members of the Committee is disclosed in the table on page 64. The Committee Chairman 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 four of the meetings in 2017. The external Auditor also attended all four meetings of the Committee in 2017 and has direct access to the Committee Chairman. The Committee also meets with the external Auditor and the internal Auditors without the Executive Directors being present. The Committee Chairman also meets with the internal Auditor and the external Auditor in advance of Committee meetings.

The Committee addressed the following key agenda items during its four meetings in 2017:

9 March 2017	7 June 2017	2 August 2017	18 December 2017
<ul style="list-style-type: none"> <li>Internal Audit update</li> <li>Review of going concern basis of accounting and Viability Statement</li> <li>Goodwill and intangible assets impairment review</li> <li>Consideration of the risk management review process</li> <li>Internal control review</li> <li>Review of 2016 audit process and results, and discussion of significant accounting matters</li> <li>Review of the 2016 external Auditor report</li> <li>Review of the 2016 Annual Report (including fair, balanced and understandable) and preliminary results announcement</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Internal Audit report</li> <li>Review of the Committee's Terms of Reference</li> <li>Review of whistleblowing and non-audit services policies</li> <li>Discussion of the 2016 Annual Report compared to best and emerging practice</li> <li>Consideration of 2017 interim results (including goodwill and going concern)</li> <li>Review Auditor plan for interim review</li> <li>Assessment of performance of external Auditor</li> </ul>	<ul style="list-style-type: none"> <li>Review of 2017 interim results</li> <li>Goodwill and intangible assets impairment review</li> <li>Review of going concern basis of accounting</li> <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 of initial forensic reports on supplier rebates</li> <li>Review of internal control report</li> <li>Consideration of the risk management review process</li> <li>Review and approve the 2018 Internal Audit plan</li> <li>Review of audit pre-close accounting and reporting issues</li> <li>Goodwill and intangible assets impairment discussion</li> <li>Review of the updated year end external audit planning report</li> <li>Agreement of 2017 audit fee and review of Auditor independence</li> <li>Discussions regarding going concern and the Viability Statement</li> <li>Review of policy on non-audit services provided by external Auditor</li> </ul>

An additional meeting was held on 31 January 2018 in relation to the historical overstatement of profit and considered forensic reports, reports from Internal Audit and a revised external audit plan. A further update on the investigation of overstatement of profit was provided at the 6 March 2018 Committee meeting.

## 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 work performed in investigating the historical overstatement of profit. It received and reviewed reports from the Investigation Committee, the forensic accountants and the Auditor to enable the Committee to understand the extent of the control

breakdowns. It considered the systems that have subsequently been put in place by management to strengthen the control environment within SIG Distribution. The Committee considered whether these issues could impact other parts of the Group. The Committee agreed with the Auditor that the procedures performed over supplier rebates should be enhanced to provide the Committee with assurance over the valuation of the rebate receivable.

The Committee has challenged and reviewed the control remediation plan proposed by management and considers that it is appropriate.

The Committee considered the nature and amount of the misstatements identified and considered that they were qualitatively material and that the Financial Statements were to be restated.

### CARRYING VALUE OF GOODWILL AND INTANGIBLE ASSETS\*

The carrying value of goodwill and intangible assets are 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 and SIG Distribution. The Committee considered the appropriateness of the assumptions including growth rates.

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

# Audit Committee report

## PRESENTATION OF CASH

The Committee considered the work performed by the Investigation Committee into the cash processes undertaken across the Group. The Committee assessed whether the errors required restatement and considered that this was appropriate.

The Committee considered the proposed changes to internal control and determined that they were appropriate.

## 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.

## CORPORATE CULTURE

The Committee considered the circumstances that led up to the accounting irregularities that occurred, the cultural backdrop and actions which allowed the overstatements. This identified that senior leadership of the organisation need to instill a culture whereby improvement in financial performance must come from underlying improvement in operational performance.

The Committee endorsed the actions identified by senior management to address and embed this change in culture.

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

## 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 £223.8m at 31 December 2017 and reported a headline financial leverage of 1.9x 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. Our 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.

## OVERSIGHT OF INTERNAL AUDIT

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

The Group Director of Risk & Internal Audit was appointed on 2 October 2017, reporting directly to the Chairman of the Audit Committee. This is seen as a key measure and commitment from the Board to improve reporting and consequently control systems. 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.

## OVERSIGHT OF EXTERNAL AUDITOR

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

The Group has an agreed policy with regard to the provision of audit and non-audit services by the external Auditor, which was operated throughout 2017. 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 Auditors in the last three consecutive financial years. In all cases, any instruction above a project cost of £20,000, or where the fee is contingent in full or in part on success, must be pre-approved by the Chief Financial Officer and the Chairman of the Audit Committee before the external Auditors are engaged. The policy, which was reviewed at the December 2017 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.

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 by its external Auditor for non-audit services in 2017 were £0.1m, primarily the Interim Review (2016: £0.1m). The total fees payable to them for audit services in respect of the same period were £1.6m (2016: £1.5m). The ratio of audit to non-audit fee was 16:1. 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 121.

A full breakdown of Auditor fees are disclosed in Note 4 to the Financial Statements on page 121.

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

The Committee reviewed the performance of the external Auditor at its meeting in March 2017 and had been satisfied with the independence, objectivity, expertise, resources and general effectiveness of Deloitte LLP, and that the Group was subjected to a rigorous audit process.

More details of the tender plans are reported below.

## AUDIT TENDER

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

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

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

The current lead audit partner, Simon Manning, took over the audit for the year ended 31 December 2013. The Committee reported its view in its Report last year that it was potentially more effective to align the tender of the external Auditor with the rotation of the current lead audit partner. This is in line with the transition arrangements outlined by the Financial Reporting Council in relation to the Code.

The Committee has since reconsidered the position. Given the recent appointment of a new Chief Financial Officer, coupled with the recent appointment of Mr Duncan as the Chair of Audit Committee, the Committee believes that it is appropriate to delay the consideration of the audit tender until after the 2018 audit. A new audit partner will however be appointed at the conclusion of the 2017 audit.

Therefore, the Committee recommends, and the Board agrees, that a resolution for the reappointment of Deloitte LLP as Auditor of the Company for a further year will be proposed at the forthcoming Annual General Meeting.

## 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.

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

On behalf of the Board

### IAN DUNCAN

CHAIRMAN OF THE AUDIT COMMITTEE

8 March 2018



## Nominations Committee report

***"It has been a busy year for the Committee in terms of various new appointments to your Board. The Committee continues its work of ensuring the Board composition is right and supports good governance of the Board"***

ANDREW ALLNER

### PURPOSE AND AIM

The Terms of Reference of the Nominations Committee, a copy of which is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)), are closely modelled on those set out in the UK Corporate Governance Code (April 2016) (the Code). 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 six 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 2017, 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 M. Ewell
	Mr C.V. Geoghegan
	Mr M. Oldersma

### BOARD SUCCESSION PLANNING

The Nominations Committee gives full consideration to succession planning for Directors, both Non-Executive and Executive, and other Senior Executives 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.

It was intended that a consultation with Shareholders concerning the Company's remuneration plans for Senior Management would take place in early 2018 and noting that Mr Geoghegan would have completed three terms (nine years) as a Non-Executive Director of the Company in May 2018 and would therefore cease to be regarded as independent as defined in the Code, proposed that Ms Ashdown be appointed Chair of the Remuneration Committee in order that she could lead that consultation. It was agreed that Ms Ashdown be appointed Chair of the Remuneration Committee with effect from 19 December 2017.

The Committee considered the position of Ms A. Abt, who will complete her first three-year period of office in March 2018,

and who was appointed to serve for a further year of office expiring at the May 2018 Annual General Meeting ('AGM'). It was the Committee's view that, noting the skills and experience of Ms Abt and in particular her knowledge of the European market, it would be in the best interests of the Company's Shareholders, subject to careful and rigorous review, for Ms Abt to offer herself for re-election at the 2018 AGM. In the Committee's view, Ms Abt brings considerable management experience and an independent perspective to the Board's discussions and is considered to be independent of management and free from relationship or circumstance that could affect or appear to affect, the exercise of her independent judgement, therefore providing continued valuable support. Therefore, Ms Abt has, subject to her re-election by Shareholders at the AGM in May 2018, been invited to serve for a further term of office expiring at the May 2021 AGM.

Mr I.B. Duncan was appointed a Non-Executive Director on 1 January 2017.

Mr D.G. Robertson retired from the Board as Group Finance Director on 31 January 2017 and Mr N.W. Maddock was appointed as Chief Financial Officer on 1 February 2017.

Mr J.C. Nicholls retired from the Board on 31 March 2017 as a Non-Executive Director and Chair of the Audit Committee. Mr I.B. Duncan succeeded Mr Nicholls as Chair of the Audit Committee following Mr Nicholls' retirement.

Mr M. Oldersma was appointed as an Executive Director and Chief Executive Officer with effect from 3 April 2017.

Mr L. Van de Walle retired from the Board as Non-Executive Chairman with effect from 31 October 2017. I was appointed as Non-Executive Chairman with effect from 1 November 2017 and will offer myself for election at the May 2018 AGM.



Mr C.V. Geoghegan is due to complete three terms this year, and as such in line with the Code he has offered to retire from the Board on 9 March 2018 and will not offer himself for re-election.

Taking the considerations mentioned above and subject to annual re-election by the Shareholders, Ms Ashdown was offered to serve a further two years as a Non-Executive Director.

A process to identify a new Non-Executive Director has commenced. As part of the succession process the Committee agreed that Mr Ewell, who has been a Non-Executive Director since 1 August 2011 and served as the Interim Chief Executive from 11 November 2016 to 28 March 2017, would continue to serve until a new Non-Executive Director has been identified. Subject to annual re-election by Shareholders, Mr Ewell was offered to serve a further year as a Non-Executive Director, expiring at the May 2019 AGM.

It was the Committee's view that Mr Ewell continues to bring management experience and independent perspective to the Board's discussions and is considered to be independent of management and free from relationship or circumstance that could affect or appear to affect the exercise of his independent judgement. Noting the departure of Mr C.V. Geoghegan, the Committee appointed Mr Ewell as the Senior Independent Director until a new Non-Executive Director is appointed.

## 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 I.B. Duncan, Mr N.W. Maddock, and myself, the Committee used the services of The Zygos Partnership (who have no other connection with the Company).

During the year under review, in connection with the appointment of Mr M. Oldersma, the Committee used the services of Korn Ferry (who have no other connection with the Company).

The process described above was followed in respect of the appointments of Mr I.B. Duncan as a Non-Executive Director with effect from 1 January 2017, Mr N.W. Maddock as Chief Financial Officer with effect from 1 February 2017, Mr M. Oldersma as Chief Executive Officer with effect from 3 April 2017, and my own appointment as Non-Executive Chairman with effect from 1 November 2017.

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 and Corporate Development) and an overview of the Group's structure and strategy (including site visits and an overview of operations).

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

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 Board also recognises that gender diversity is a significant aspect of diversity and acknowledges the role that women, with the right skills and experience, can play in contributing to

diversity of perspective in the boardroom. The policy on Board diversity is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

SIG supports the principles of gender diversity. Female representation on the Board is 25%. The Committee will continue to consider gender diversity when recommending any future Board appointments, and final appointments will always be made on merit. 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 reviewed its own performance in January 2018 and the results of this review were reported to the Board. Details of the process and its outcomes are covered on page 66 of the Corporate Governance Report.

## 2018 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. During 2018 the Nominations Committee will also continue to closely monitor the structure, membership and succession plans of its Committees and, more generally, the leadership requirements of our businesses, making recommendations to the Board where considered appropriate.

The proposed activities for the Committee in 2018 are:

- review the terms of reference of the Committee to ensure they reflect best practice;
- review findings of the Parker Review on ethnic diversity on the Board as well as reporting against the recommendations of the McGregor-Smith Review and Hampton-Alexander Review;
- continue to monitor and assess the Board's composition and diversity in light of the second report of the Hampton-Alexander Review; and
- longer term succession planning.

## ANDREW ALLNER

CHAIRMAN OF THE  
NOMINATIONS COMMITTEE

8 March 2018



# Directors' remuneration report

## Annual statement

***"Our aim is to ensure that remuneration arrangements support the strategic aims of the Company and enable the recruitment, motivation and retention of senior executives while also complying with the requirements of regulation."***

JANET ASHDOWN

### DEAR SHAREHOLDER,

On behalf of the Board, I am pleased to present the Remuneration Committee's (the Committee) Directors' remuneration report for 2017.

Having been a member of the Remuneration Committee since 2011, I was duly appointed Chair of the Committee on 19 December 2017 to replace Mr C.V. Geoghegan. The change in chairmanship was agreed with Mr Geoghegan in preparation for the Company's remuneration plans for Senior Management in early 2018. As Mr Geoghegan was due to complete three terms (nine years) as a Non-Executive Director in May 2018 he would cease to be regarded as independent as defined in the UK Corporate Governance Code (April 2016).

As in previous years, this report is split into three sections: the Annual Statement, the Remuneration Policy and the Annual Report on Remuneration. SIG's current Remuneration Policy was approved by Shareholders with a 99.4% vote of support at the 11 May 2017 Annual General Meeting ('AGM') and is due for renewal in 2020. Our Remuneration Policy, detailed on pages 81 to 83, remains consistent with that approved by Shareholders at the 2017 AGM, and is reproduced in full for both ease of reference and in order to provide context to the decisions taken by the Committee during the year.

### REMUNERATION COMMITTEE MEMBERSHIP

As at 31 December 2017, the Committee comprised the five independent Non-Executive Directors of the Company.

Chair of the Committee	Members
Ms J.E. Ashdown	Ms A. Abt Mr I.B. Duncan Mr M. Ewell Mr C.V. Geoghegan

### REMUNERATION DECISIONS IN 2017

SIG's clear strategy over 2017 has been the continued focus on seeking to grow its three core markets of insulation and interiors, roofing and exteriors and air handling by combining the reputational strengths of its local brands with the scale efficiencies and know-how of a multinational group. Furthermore, by working together more as a Group, and by fully leveraging its scale and presence in the marketplace, our aim is to make SIG's whole greater than the sum of the parts, for example by improving the way in which we conduct procurement. However, while enacting our transformation programme, we need to ensure that we balance business change with the day-to-day operations of the Group, and that we remain focused on our customers.

For the year ended 31 December 2017, underlying Profit Before Tax ('PBT') was £79.2m and Group Working Capital to Sales was 9.0%. The objectives linked to underlying Profit Before Tax, Group Working Capital and Health & Safety in the annual bonus were achieved in part. The resulting annual bonus outcome was therefore 70% of salary for Mr N.W. Maddock and Mr M. Oldersma. This is payable, two-thirds in cash and one-third deferred as shares in the Company.

Based on performance to 31 December 2017, 100% of the awards granted under the 2014 Long Term Incentive Plan ('LTIP') in September 2015 will lapse. These awards were based two-thirds on ROCE and one-third on underlying earnings per share ('EPS'); targets were not met in respect of either element.

### DIRECTORATE CHANGES

Mr S.R. Mitchell stepped down from the Board as Group Chief Executive on 11 November 2016, and Mr D.G. Robertson retired from the Board as Group Finance Director on 31 January 2017. All payments made to both individuals were in line with the Company's Remuneration Policy in place at the time, and consistent with their service agreements and statutory employment rights. Further details of both individuals' exit payments and treatment of outstanding equity awards may be found on page 80 of the 2016 Annual Report and page 93 of this Report.

As replacements for the outgoing Group Chief Executive and Group Finance Director, Mr M. Oldersma was appointed as Chief Executive Officer on 3 April 2017 and Mr N.W. Maddock was appointed as Chief Financial Officer on 1 February 2017. Further details of Mr M. Oldersma and Mr N.W. Maddock's remuneration packages may be found on pages 84 to 85.

### IMPLEMENTATION OF THE REMUNERATION POLICY IN 2018

Towards the end of 2017 the Committee reviewed the salaries of our Executive Directors. This review took into account a number of factors including individual experience and performance, pay conditions across the Group, economic factors and the business environment. Following this review, the Committee agreed that base salaries for the Executive Directors would increase by 1.5% for 2018. This is consistent with the increase for members of the Senior Leadership Team, and with the average increase across the rest of the Group.

Following a review of the annual bonus in 2017, the Committee made a change to the mix of performance measures to better support the Company ethos of Stronger Together, as reflected in the 2018 bonus metrics. The metrics for the 2018 annual bonus will be linked 50% to Group underlying

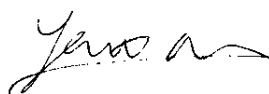
PBT and 50% to Group ROCE. Any bonus payments will also be subject to a health & safety gateway eg bonuses may be reduced to nil at the Remuneration Committee's discretion in the event of a major health & safety incident. One-third of the bonus will continue to be deferred into shares for three years for Executive Directors. Both annual bonuses and LTIP awards are subject to malus and clawback provisions.

The Remuneration Committee is conducting a review of the incentive arrangements for the Executive Directors and other Key Executives of the Company. At the time of this Report the Committee is consulting with Shareholders on different incentive approaches. At the end of the consultation period, if the Committee determines to make any changes to the incentive arrangements, a revised Remuneration Policy will be put to Shareholders at a General Meeting of the Company.

If the Committee determines not to proceed with a new plan, awards will be made to Mr Oldersma and Mr Maddock in 2018 under the existing LTIP. The performance measures will be determined closer to the time and disclosed via a stock exchange announcement and in next year's report.

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We continue to value any feedback from Shareholders and hope to receive your support at the AGM.

**JANET ASHDOWN**  
CHAIR OF THE REMUNERATION COMMITTEE  
8 March 2018



## 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 167 to 177 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.

## REMUNERATION POLICY

The Directors' Remuneration Policy was approved by a binding vote at the 2017 AGM and took effect from the date of the AGM. This section presents the full Policy, for ease of reference. The sections presented are as disclosed in the 2016 Directors' Remuneration Report, save the following changes:

- References to financial years have been updated where appropriate.
- Pay scenario charts have been updated to reflect the latest salaries.
- Details of current Non-Executive Directors' letters of appointment.

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. The Group's financial and strategic objectives are set out in the Strategic Report on pages 8 to 41.

The Remuneration Policy for Executive Directors is summarised in the table overleaf:

# Directors' remuneration report

## Directors' remuneration policy

### FIXED REMUNERATION

Element	Purpose and link to strategy	Operation and process	Opportunity	Performance metrics	Recovery of sums (clawback)
<b>Base salary</b>	To attract and retain talent in the labour market in which the Executive Director is employed.	Reviewed on an annual basis (with effect from January) or following a significant change in responsibilities, taking into account the individual's performance and experience, with reference to published remuneration information from similar sized companies (excluding financial services) and companies operating in a similar sector. The Committee also takes account of the annual salary review for the rest of the Group.	It is anticipated that salary increases will generally be in line with the general employee population.  In certain circumstances (including, but not limited to, a significant increase in role size or complexity, or no increase for a number of years) the Committee has discretion to make appropriate adjustments to salary levels.	Not applicable.	Not applicable.
<b>Benefits</b>	To provide benefits that are appropriately competitive within the relevant labour market.	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.	Benefits may vary by role The cost of benefits may vary as a result of factors outside the Company's control (eg 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 this Policy.  The Committee retains the discretion to approve a higher cost in exceptional circumstances (eg relocation).	Not applicable	Not applicable.
<b>Pension</b>	To provide retirement benefits that are appropriately competitive within the relevant labour market	The Company provides a contribution to a defined contribution pension scheme (open to all UK-based employees of the Group), or provides a cash equivalent at the request of the individual	15% of base salary.	Not applicable	Not applicable.
<b>Share Incentive Plan ('SIP')</b>	To encourage share ownership across all UK-based employees using HMRC tax-advantaged schemes	The SIP is an HMRC tax-advantaged plan which provides all UK-based employees with a potentially tax-efficient way of purchasing shares and receiving matching shares. The Company gives one matching share for each share purchased by the employee up to a maximum of £20 each month.  Executive Directors are entitled to participate in the SIP on the same terms as other employees.	Maximum opportunity is in line with HMRC limits	Not applicable.	Not applicable.

# VARIABLE REMUNERATION

Element	Purpose and link to strategy	Operation and process	Opportunity	Performance metrics	Recovery of sums (clawback)
<b>Annual bonus and Deferred Share Bonus Plan ('DSBP')</b>	To incentivise and reward the achievement of annual financial and non-financial targets, in line with the Company's strategic priorities. Mandatory deferral of part of the bonus into shares to strengthen shareholder alignment.	<p>The annual bonus is reviewed annually prior to the start of each financial year to ensure bonus opportunity, performance measures, targets and weightings are appropriate and continue to support the strategy.</p> <p>Executive Directors are required to defer one-third of any bonus earned into an award over SIG shares for a period of three years under the DSBP. Dividend equivalents are payable over the vesting period in respect of the DSBP awards which vest.</p>	<p>Maximum opportunity is 100% of salary.</p> <p>For entry level and target performance, the bonus earned is up to 30% and up to 65% of maximum, respectively.</p>	<p>Performance is determined by the Committee on an annual basis by reference to Group financial measures and non-financial measures.</p> <p>The personal/strategic element will not be weighted more than 30% of the total in any year.</p> <p>When assessing financial performance, the Committee typically considers underlying Profit Before Tax ('PBT') and Group working capital, as well as other indicators of performance defined at the start of the year.</p> <p>Details of the measures and weightings applicable for the financial year under review are provided in the Annual Report on Remuneration.</p>	The annual bonus is subject to malus and clawback, ie forfeiture or reduction of the deferred portion or recovery of paid amounts, in exceptional circumstances. Such circumstances may include (but are not limited to) material misstatement of the Group's financial results or gross misconduct
<b>Long Term Incentive Plan ('LTIP')</b>	To incentivise and reward the delivery of the Group's long term strategy whilst providing strong alignment with Shareholders.	<p>Executive Directors are granted annual awards of nil-cost options or conditional share awards, which vest based on performance over a minimum of three years.</p> <p>Awards normally vest after three years, and a two-year holding period applies for vested awards, during which time Executive Directors may not sell shares save to cover tax.</p> <p>Dividend equivalents are payable over the vesting and holding periods in respect of the awards which vest</p>	<p>Maximum annual award is up to 150% of salary.</p> <p>In exceptional circumstances, such as to facilitate the recruitment or retention of an executive, or to recognise exceptional individual performance which the Committee considers has generated significant value for Shareholders, the Committee may, in its absolute discretion, exceed this maximum annual opportunity, up to 200% of salary.</p> <p>Threshold performance will result in vesting of no more than 25% of the award</p>	<p>Vesting of LTIP awards is subject to the Group's performance measured over a minimum of three years.</p> <p>The performance measures and respective weightings may vary year-on-year to reflect strategic priorities, subject to retaining an element based on underlying EPS growth and Return On Capital Employed ('ROCE').</p> <p>Details of the measures, weightings and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration.</p>	LTIP awards are subject to malus and clawback, ie forfeiture or reduction of unvested awards or recovery of vested awards, in exceptional circumstances (eg material misstatement or gross misconduct).

# Directors' remuneration report

## Directors' remuneration policy

The Committee is satisfied that the Remuneration Policy on pages 81 to 83 is in the best interests of Shareholders and does not promote excessive risk-taking. The Committee has discretion to adjust the formulaic annual bonus and LTIP vesting outcomes to ensure alignment of pay with performance, ie to ensure the final outcome is a fair and true reflection of underlying business performance. Any adjustments will be disclosed in the relevant Annual Report on Remuneration. The Committee also retains discretion to make non-significant changes to the Policy without reverting to Shareholders.

### NOTES TO THE REMUNERATION POLICY TABLE

#### PAYMENTS FROM EXISTING AWARDS

Executive Directors are eligible to receive payment under any award made prior to the approval and implementation of the 2017 Remuneration Policy including under the existing LTIP.

#### SELECTION OF PERFORMANCE MEASURES

Annual bonus and LTIP performance measures used under the annual performance bonus are selected annually to reflect the Group's main short and long term strategic objectives and reflect financial and non-financial priorities, as appropriate.

In respect of the annual bonus, Group PBT is selected for the year as an objective as it is a well understood measure of the Company's financial performance. The use of Group ROCE helps reinforce delivery of other key strategic goals.

In respect of the LTIP, the Committee continues to believe that ROCE reinforces the focus on capital efficiency and delivery of strong returns for our Shareholders, thereby further strengthening the alignment of management's incentives with SIG's strategy. The Committee also continues to believe that underlying EPS is a key driver of long term Shareholder value for SIG.

Performance targets are set to be stretching and achievable, taking into account the Group's strategic priorities and the economic environment in which the Company operates. Targets are set taking into account a range of reference points including the Group's strategic plan and broker forecasts for both SIG and its peers. The Committee believes that the performance targets set are very challenging and that the maximum outcomes are only available for truly outstanding performance.

### REMUNERATION POLICY FOR OTHER EMPLOYEES

Our approach to salary reviews is consistent across the Group, with consideration given to the level of responsibility, experience, individual performance, salary levels in comparable companies and the Company's ability to pay. Remuneration surveys are referenced, where appropriate, to establish market rates.

Senior managers participate in a similar annual bonus plan to that for the Executive Directors, with performance measures tailored to individual business areas. A limited number of senior managers are also eligible to receive LTIP awards. Performance conditions are consistent for all participants, while award sizes vary by organisational level. All UK employees are eligible to participate in the SIP on the same terms.

Pension and benefits arrangements are tailored to local market conditions, and so various arrangements are in place for different populations within SIG. Executive Directors participate in the same pension scheme as other senior managers.

### APPROACH TO RECRUITMENT REMUNERATION

The Committee's policy is to set pay for new Executive Directors within the existing Remuneration Policy in order to provide internal consistency. The Committee aims to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

When appointing a new Executive Director, the Committee may use any element of remuneration as set out in the Policy table. Where an individual is appointed on an initial salary that is below market, any shortfall may be managed with phased increases over a period of years, subject to the Executive Director's development in the role and Company performance. This may result in above-average salary increases during this period.

The annual bonus is normally reduced on a pro rata basis to reflect the proportion of the year employed. The Committee retains flexibility to apply different performance measures and targets in the first year of appointment, depending on the timing and nature of the appointment. The maximum level of variable remuneration which may be granted to a new Executive Director is set out in the Policy table.

In addition to the components of remuneration included in the Policy table, the Committee may also make additional cash and/or share-based awards to a new externally appointed Executive Director to 'buy out' incentive arrangements forfeited on leaving a previous employer, when it considers this to be in the best interests of the Group and our Shareholders. The Committee may exercise the discretion available under the relevant Listing Rule to facilitate this, ie in the event that a different structure is required. In doing so, the Committee will ensure that any 'buyout awards' have a fair value no higher than that of the awards forfeited and will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met, and the remaining vesting period of these awards. Where, in the Committee's opinion, awards forfeited are still subject (at date of appointment) to substantive performance conditions, any awards made in compensation will have SIG-specific performance conditions attached.

Where an Executive Director is appointed through internal promotion, and the individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these arrangements.

### SHARE OWNERSHIP GUIDELINES

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 equivalent to a minimum of 200% of base salary. Under normal circumstances it is expected that this should be achieved within five years of appointment. It is anticipated that this guideline will be achieved mainly by the vesting of shares through the Company's share plans.

### EXECUTIVE DIRECTOR SERVICE CONTRACTS

Subject to the considerations set out overleaf, the Company's policy is to limit termination payments to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the Executive Director, as well as the rules of any incentive plans.

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.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee retains discretion to settle any claims by or on behalf of the Executive Director in return for making an appropriate payment and contributing to the legal fees incurred by the Executive Director in connection with the termination

of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

There is no provision in the Executive Directors' service contracts for compensation to be payable on termination of their contract over and above sums due in respect of notice and accrued but untaken holiday, and as outlined below regarding annual bonus and LTIP. Executive Director service contracts are available to view at the Company's registered office.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants

and/or consultancy arrangements. These will be used sparingly and only entered into where the Committee believes that it is in the best interests of the Company and its Shareholders to do so.

Executive Director	Date of service contract
Mr N.W. Maddock	6 October 2016
Mr M. Oldersma	13 March 2017

### LEGACY ARRANGEMENTS

For the avoidance of doubt, it is noted that the Company will honour any commitments entered into that have been disclosed previously to Shareholders.

## LEAVER AND CHANGE OF CONTROL PROVISIONS

When considering termination payments under incentive plans, the Committee reviews all potential incentive outcomes to ensure they are fair to both Shareholders and participants. The table below summarises how the awards under the annual bonus, the DSBP and the LTIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion.

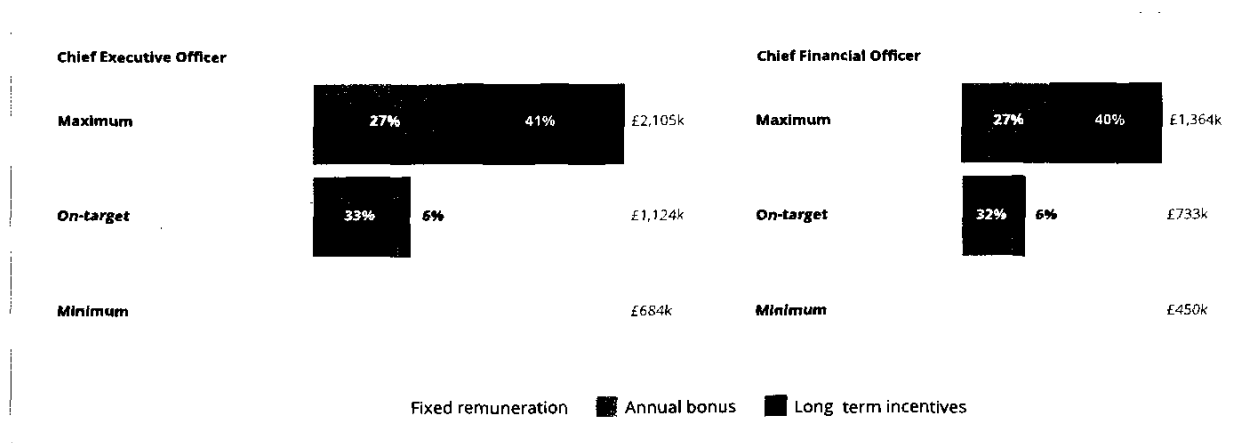
Plan	Scenario	Timing and calculation of vesting/payment
<b>Annual bonus</b>	Death, injury, ill health or disability, retirement, or any other reason the Committee may determine.	The Committee will determine the bonus outcome based on circumstances and the date of leaving. Performance against targets is typically assessed at the end of the year in the normal way and any resulting bonus will be prorated for time served during the year. The cash element of the bonus is normally paid on the normal payment date. The Committee has discretion to disapply performance test and/or time prorating, and to accelerate payment.
	Change of control.	The Committee will assess the most appropriate treatment for the outstanding bonus period according to the circumstances.
	All other reasons.	No bonus is paid.
<b>Deferred Share Bonus Plan ('DSBP')</b>	Death, injury, ill health or disability, retirement, or any reason other than misconduct or circumstances where the Company could have summarily dismissed the Executive Director.	Awards vest on the normal vesting date, although the Committee has discretion to accelerate vesting in certain circumstances as set out in the rules of the DSBP.
	Change of control.	Awards vest immediately.
	Misconduct or circumstances where the Company could have summarily dismissed the Executive Director.	Awards lapse.
<b>Long Term Incentive Plan ('LTIP')</b>	Death, ill health or disability, redundancy, retirement, sale of the employing company or business out of the Group or any other reason as the Committee may determine.	Any outstanding awards will normally vest on the normal vesting date subject to performance, and be prorated for time. The Committee has discretion to disapply performance and/or time prorating in exceptional circumstances, and to accelerate vesting.
	Change of control.	Any outstanding awards will normally vest immediately subject to performance up to the point of the change of control, and be prorated for time. The Committee has discretion to disapply performance and/or time prorating in exceptional circumstances.
	All other reasons.	Awards lapse.

# Directors' remuneration report

## Directors' remuneration policy

### PAY-FOR-PERFORMANCE: SCENARIO ANALYSIS

The following charts provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of pay under three different performance scenarios: "minimum", "on-target" and "maximum". Potential reward opportunities are based on SIG's current Remuneration Policy (unchanged), applied to salaries as at 1 January 2018. Note that the projected values exclude the impact of any share price movements.



#### Assumptions underlying the scenarios:

- The "minimum" scenario includes base salary, pension and benefits only (ie fixed remuneration)
- The "on-target" scenario includes fixed remuneration as above, plus target bonus payout of 65% of maximum and threshold LTIP vesting of up to 25% of maximum award
- The "maximum" scenario includes fixed remuneration, plus full bonus payout (100% of salary) and full LTIP vesting (150% of salary).

### 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	14 May 2020
Ms A. Abt	5 March 2015	12 March 2015	15 May 2021
Ms J.E. Ashdown	3 April 2017	11 July 2011	14 May 2020
Mr I.B. Duncan	9 December 2016	1 January 2017	14 May 2020
Mr M. Ewell	2 May 2017	1 August 2011	11 May 2019
Mr C.V. Geoghegan <sup>1</sup>	4 April 2016	1 July 2009	10 May 2018
Mr L. Van de Walle <sup>2</sup>	11 May 2016	1 October 2010	N/A
Mr J.C. Nicholls <sup>3</sup>	4 April 2016	6 November 2009	N/A

<sup>1</sup> Mr C.V. Geoghegan will retire from the Board on 9 March 2018.

<sup>2</sup> Mr L. Van de Walle retired on 31 October 2017

<sup>3</sup> Mr J.C. Nicholls retired on 31 March 2017

NEDs do not receive benefits from the Company and they are not eligible to join the Company's pension scheme or participate in any bonus or share incentive plan. Any reasonable expenses that they incur in the furtherance of their duties are reimbursed by the Company.



Details of the Remuneration Policy on NED fees are set out in the table below:

Purpose and link to strategy	Operation and process	Opportunity
To attract and retain NEDs of the highest calibre with experience relevant to the Company	<p>Fees are reviewed annually in May with any increase effective from 1 May.</p> <p>The fee paid to the Chairman is determined by the Committee, and fees to NEDs are determined by the Board. Fee levels are benchmarked against comparable companies, and take account of the time commitment and the responsibilities of the NEDs.</p> <p>Other than for the Company Chairman, fees comprise a base fee for acting as an NED of the Company, and additional fees for acting as Senior Independent Director or as Chairman of a Board Committee, as appropriate.</p> <p>Additional fees may also be paid in respect of Company advisory Boards.</p>	<p>It is anticipated that increases to Chairman and NED fee levels will typically be in line with market levels of fee inflation. In exceptional circumstances (including, but not limited to, material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil an NED role) the Board has discretion to make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the Director.</p> <p>The maximum annual aggregate fee, for all Group NEDs, is £500,000 as set out in the Company's Articles of Association.</p>

## EXTERNAL DIRECTORSHIPS

The Committee acknowledges that Executive Directors may be invited to become independent Non-Executive Directors of other quoted companies which have no business relationship with the Company and that these duties can broaden their experience and knowledge to the benefit of the Company.

Executive Directors are permitted to accept such appointments with the prior approval of the Chairman. Approval will be given only where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director.

## CONSIDERATIONS OF CONDITIONS ELSEWHERE IN THE GROUP

The Committee considers the pay and employment conditions elsewhere in the Group when determining remuneration for Executive Directors, and the Company seeks to promote good relationships with employee representative bodies as part of its employee engagement strategy. However, the Committee does not currently consult specifically with employees on the Executive Director Remuneration Policy.

## CONSIDERATION OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account the guidelines of investor bodies and Shareholder views. The Committee is always open to feedback from Shareholders on the Remuneration Policy and arrangements, and commits to undertaking Shareholder consultation in advance of any significant changes to the Remuneration Policy.

# Directors' remuneration report

## Annual Report on remuneration

### 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 2017, and how the Remuneration Committee intends to implement the Remuneration Policy in 2018.

### THE REMUNERATION COMMITTEE

The key responsibilities of the Remuneration Committee are to:

- determine the Remuneration Policy for Executive Directors and such other members of the Executive Management as it is designated to consider;
- design specific remuneration packages which include salaries, bonuses, equity incentives, pension rights and benefits;
- review the Executive Directors' service contracts;
- ensure that failure is not rewarded and that steps are always taken to mitigate loss on termination, within contractual obligations;
- review remuneration trends across the Group; and
- approve the terms of and recommend grants under the Group's incentive plans.

The Committee's Terms of Reference, which are reviewed regularly, are set out on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

As at 31 December 2017, the Committee comprised five independent Non-Executive Directors of the Company, all of whom are considered to be independent within the definition set out in the UK Corporate Governance Code (April 2016) ('the Code').

Chair of the Committee	Members
Ms J.E. Ashdown (from 19 December 2017)	Ms A. Abt
Mr C.V. Geoghegan (until 19 December 2017 and continued as a member)	Mr I.B. Duncan Mr M. Ewell

During the year the Committee met seven times. Attendance by individual members of the Committee is disclosed in the Corporate Governance section of the Directors' Report on page 64.

Only members of the Committee have the right to attend Committee meetings. The Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Group Human Resources Director and Company Secretary attend the Committee's meetings by invitation, but are not present when their own remuneration is discussed. The Committee also takes independent professional advice, on an ad hoc basis, as required. See 'External advisors' for more details.

The Committee reviews its own performance annually and considers where improvements can be made as appropriate.

### KEY ACTIVITIES OF THE COMMITTEE IN 2017

The Committee met seven times in 2017. Its key activities included:

- Review and approval of the 2016 Directors' Remuneration Report.
- Review and approval of incentive outcomes for the annual bonus and LTIP in respect of performance for the year to 31 December 2016.
- Approval of opportunities/award levels and performance targets for 2017 annual bonus.
- Review of Executive Director salaries and total remuneration.
- Review of the Non-Executive Chairman fee.
- Review and approval of remuneration packages and appointment terms for the Chief Executive Officer.
- Consideration and approval of remuneration for leavers.
- Consideration of external market developments and best practice in remuneration.
- Review of the Remuneration Policy, consideration of potential revisions and related Shareholder consultation.
- Preparation for the 2017 AGM.

### EXTERNAL ADVISORS

Mercer Kepler, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board, continued to act as the remuneration advisor to the Committee during the year. Mercer Kepler attends Committee meetings as required and provides advice on remuneration for executives, analysis on all elements of the Remuneration Policy and regular market and best practice updates. Mercer Kepler reports directly to the Committee Chairman and is a signatory to, and abides by the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com)). Mercer Kepler's parent, the MMC Group, does not provide any other non-remuneration-related services to the Company. The Committee is satisfied that the advice it receives from Mercer Kepler is independent. Mercer Kepler's fees for the year were charged on a time and materials basis and totalled £34,525 in respect of 2017 (2016: £22,950).

Deloitte LLP, external Auditor to the Group, has, when requested, performed specific procedures on the LTIP calculations at the end of the respective performance periods. Deloitte LLP were not asked to perform this service in 2017.

## SHAREHOLDER VOTE AT THE 2017 AGM

The following table shows the results of the advisory vote on the Annual Report on Remuneration of the 2016 Directors' Remuneration Report and the results of the binding vote on the current Remuneration Policy at the 11 May 2017 AGM:

		For	Against	Total votes cast	Votes Withheld
Annual Report on Remuneration	Total number of votes	471,280,940	2,847,372	474,128,312	1,860,948
	% of votes cast	99.4%	0.6%	100%	0.0%
Current Remuneration Policy	Total number of votes	472,863,033	3,111,554	475,974,587	14,673
	% of votes cast	99.4%	0.6%	100%	0.00%

## 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 services rendered to the Company as an Executive Director for the year to 31 December 2017 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>	2017	420	18	63	293	–	–	794
	2016	–	–	–	–	–	–	–
Mr N.W. Maddock <sup>8</sup>	2017	330	14	50	232	–	0.13	626
	2016	–	–	–	–	–	–	–
Mr M. Ewell <sup>9</sup>	2017	200	–	–	–	–	–	200
	2016	100	–	–	–	–	–	100
Mr D.G. Robertson <sup>10</sup>	2017	28	3	4	nil	–	–	35
	2016	336	31	50	84	–	–	501

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

- <sup>1</sup> Base salary/fee, amount earned for the year.
- <sup>2</sup> Benefits: include, but are not limited to, company car or car allowance, medical and permanent health insurance.
- <sup>3</sup> Pension: the Company's pension contribution during the year of 15% of salary, an amount of which was paid by salary supplement.
- <sup>4</sup> Annual bonus: payment for performance during the year (including deferred portion). The Bonus is calculated as a percentage of base salary, however, payment generated is pro rata for the year for the Executive Directors.
- <sup>5</sup> LTIP: the value at vesting of awards vesting on performance over the three-year periods ended 31 December 2017 and 31 December 2016. There is no vesting in respect of either 2016 or 2017.
- <sup>6</sup> Other: includes SIP, value based on the face value of matching shares at grant.
- <sup>7</sup> Mr M. Oldersma was appointed as Chief Executive Officer on 3 April 2017.
- <sup>8</sup> Mr N.W. Maddock commenced employment on 23 January 2017 and was appointed as Chief Financial Officer on 1 February 2017. The figures relate to the period he served as an Executive Director ie 1 February 2017 to 31 December 2017. The total bonus payable for his period of employment is £236,811.
- <sup>9</sup> Mr M. Ewell was appointed as Interim Chief Executive with effect from 11 November 2016, and received a fixed salary of £50,000 per month, and did not participate in any incentive scheme or receive pension contributions or benefits. Mr Ewell stepped down as Interim Chief Executive on 31 March 2017 and continued to serve as an Executive Director for a handover to the new Chief Executive Officer, Mr M. Oldersma, until 30 April 2017. His base salary shown in the table reflects time served as an Executive Director. Fees paid to Mr M. Ewell in respect of his service as a Non-Executive Director are shown in Non-Executive Director single total figure table on page 92.
- <sup>10</sup> Mr D.G. Robertson retired as a Executive Director on 31 January 2017 and ceased to be an employee on 28 February 2017. The figures relate to the period he served as an Executive Director ie 1 January 2017 to 31 January 2017. He received £35,195.42 for his employment from 1 February 2017 to 28 February 2017.

# Directors' remuneration report

## Annual Report on remuneration

### INCENTIVE OUTCOMES FOR 2017 (AUDITED)

#### ANNUAL BONUS IN RESPECT OF 2017

In 2017, the maximum bonus opportunity for Executive Directors was 100% of salary. 90% of bonus was based on financial performance (of which 60% was linked to underlying Profit Before Tax ('PBT') and 30% on Group Working Capital) and 10% on Health & Safety.

Further details of the bonuses paid, including the financial and non-financial targets and objectives set and actual performance, are provided in the tables below:

#### FINANCIAL ELEMENT

Measure	Weighting (% of salary)	Performance targets			Actual performance	Payout (% of salary)**
		Threshold	Target	Stretch		
Original underlying PBT*	60%	£77.43m	£81.50m	£85.58m	n/a	n/a
Revised underlying PBT*	60%	£71.10m	£74.90m	£78.60m	£79.20m	60%
Group Working Capital to Sales	30%	8.90%	8.40%	7.90%	9.00%	nil
Total	90%					60%

\* The underlying PBT targets stated above have been adjusted from those originally set at the commencement of the performance year, to reflect that certain of the Group's businesses were closed, divested or placed under review during the performance year. The underlying PBT targets were adjusted proportionately to account for these changes in the Group's businesses. The figures stated in the table above reflect the Group's published underlying PBT for 2017 as stated in the Financial Statements on page 100 of this report, which do not factor in results for business which were closed, divested or under review in 2017.

The Committee is satisfied that the adjusted targets are not materially easier or more difficult to achieve than the targets as originally set. The adjustment has resulted in 60% of the proportion of annual bonuses referable to PBT vesting.

\*\* The Bonus is calculated as a percentage of base salary however payment generated is pro rata for the year for the Executive Directors.

#### NON-FINANCIAL ELEMENT

For 2017, non-financial performance was measured through the Company's Health & Safety performance, focusing on the Group's Accident Incident Rate ('AIR') and Health & Safety initiatives. The Committee reviewed performance and determined that the targets were achieved in full, and 10% of bonus (out of a maximum of 10%) was payable.

#### OVERALL BONUS OUTCOMES

Based on performance in respect of both the financial and non-financial elements, an overall outcome of 70% (out of a maximum of 100%) was warranted.

Mr N.W. Maddock and Mr M. Oldersma received bonuses of 70% of pro-rated salary for 2017. Two-thirds of the bonus will be paid in March 2018 and one-third will be deferred into shares, vesting in March 2021. As in previous years, bonus payments are subject to clawback (ie forfeiture or reduction in exceptional circumstances).

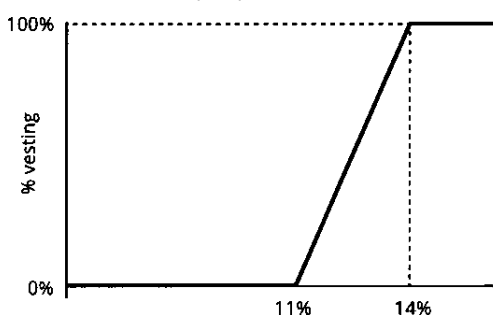
Mr D.G. Robertson retired from the Board on 31 January 2017 and ceased as an employee on 28 February 2017. He was eligible to receive a pro-rated bonus in respect of the period 1 January 2017 to 28 February 2017, subject to performance as determined and approved in the normal manner. The Committee noted that investigations relating to the historical overstatement of profit had concluded that Mr Robertson was not aware of or involved in the irregularities identified but decided that, due to his position of responsibility, no bonus should be payable to Mr Robertson for 2017. The Committee concluded that there was no reason to apply clawback for previous years. Details of the irregularities identified are fully described on page 61 of the Corporate Governance report.

Mr M. Ewell did not participate in any incentive plans during the period he served as Interim Chief Executive.

## LONG TERM INCENTIVE PLAN: 2015 AWARDS

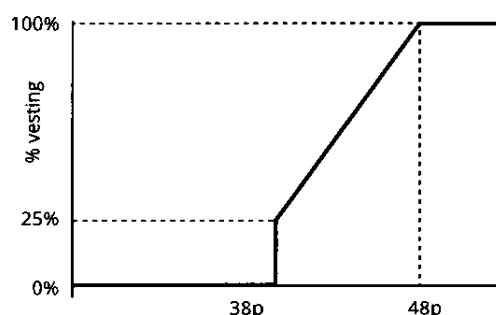
On 17 September 2015, Mr D.G. Robertson received an award of 274,323 nil-cost options, under the 2015 LTIP. Vesting of the award was dependent on three-year average Return on Capital Employed ('ROCE'), defined as underlying operating profit after tax divided by average net assets plus average net debt (two-thirds of the award), and three-year cumulative underlying EPS performance (one-third), in each case for the period ending 31 December 2017. There was no retesting of performance. The performance targets are illustrated below:

ROCE element of the award (2/3rd)



**Average ROCE 2015–2017**  
(operating profit after tax divided by the sum of total equity plus net debt)

EPS element of the award (1/3rd)



**Cumulative underlying EPS 2015–2017**  
(pence)

For the ROCE element, if three-year average ROCE over the three financial years ended 31 December 2017 is less than or equal to 11%, no shares will vest. Awards vest in full for ROCE of 14% or higher and vesting is on a straight-line basis between these two points.

For the EPS element, if cumulative underlying EPS over the three financial years ended 31 December 2017 is less than 38p, no shares will vest. 25% of the award will vest for EPS of 38p, and the award will vest in full for EPS of 48p or higher; vesting is on a straight-line basis between these two points.

Actual average ROCE was 10.3% and cumulative underlying EPS was 9.8p which resulted in zero vesting for both elements. 100% of the total award will therefore lapse.

## LONG TERM INCENTIVE PLAN: 2017 AWARDS

On 24 April 2017, Mr M. Oldersma and Mr N.W. Maddock were granted awards under the LTIP of 954,003 and 459,965 shares respectively; details are provided in the table below. The three-year period over which performance will be measured will be 1 January 2017 to 31 December 2019. The award is eligible to vest in its entirety on the third anniversary of the date of grant (ie 23 April 2020), subject to ROCE and EPS performance. Executive Directors will additionally be required to hold any vested awards for a further two-year period, to encourage long term decision-making and further improve Shareholder alignment.

Executive Director	Date of grant	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	24 April 2017	954,003	117.4p	£1,120,000	200% <sup>1</sup>
Mr N.W. Maddock	24 April 2017	459,965	117.4p	£540,000	150%

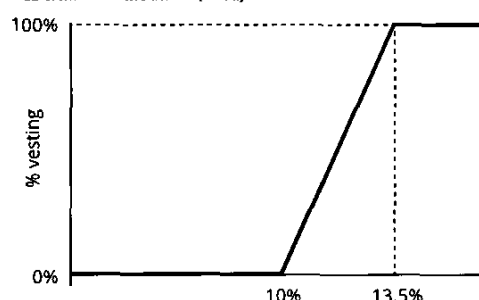
<sup>1</sup> Mr M. Oldersma received an LTIP award of 200% of salary in 2017 pursuant to the terms of his recruitment. It is intended that he will receive annual awards of 150% of salary in future years, in line with the normal maximum under the Remuneration Policy.

These awards will vest based on three-year average ROCE (representing two-thirds of the award) and three-year cumulative underlying EPS (representing one-third of the award). The performance targets are illustrated overleaf:

# Directors' remuneration report

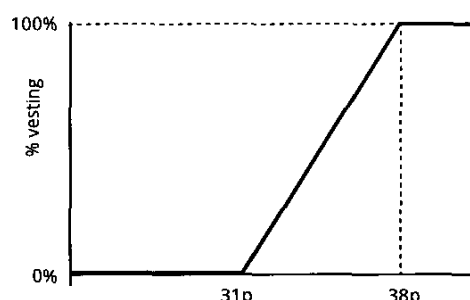
## Annual Report on remuneration

ROCE element of the award (2/3rd)



**Average ROCE 2017-2019**  
(operating profit after tax divided by the sum of total equity plus net debt)

EPS element of the award (1/3rd)



**Cumulative underlying EPS 2017-2019**  
(pence)

For the ROCE element, if three-year average ROCE over the three financial years ending 31 December 2019 is less than or equal to 10%, no shares will vest. Awards vest in full for ROCE of 13.5% or higher and vesting is on a straight-line basis between these two points.

For the EPS element, if cumulative underlying EPS over the three financial years ending 31 December 2019 is less than or equal to 31p, no shares will vest. Awards vest in full for cumulative underlying EPS at 38p or higher and vesting is on a straight-line basis between these two points.

As in previous years, the ROCE and EPS targets have been calibrated with reference to analysis based on internal and external data and the Committee's view of what it believes will provide an appropriate level of stretch.

As in previous years, malus and clawback provisions apply to LTIP awards. A two-year holding period also applies to vested awards, during which time Executive Directors may not sell shares save to cover tax.

### SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The table below sets out the single total figure of remuneration received by each NED for services rendered to the Company as a Non-Executive Director for the year to 31 December 2017 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Mr L. Van de Walle <sup>1</sup>	141	168	–	–	–	–	141	168
Mr A.J. Allner (Chairman) <sup>2</sup>	29	–	–	–	–	–	29	–
Ms A. Abt	49	48	–	–	–	–	49	48
Ms J.E. Ashdown	49	48	–	–	–	–	49	48
Mr M. Ewell <sup>3</sup>	32	40	–	–	–	–	32	40
Mr C.V. Geoghegan <sup>4</sup>	49	48	10	10	25	17	84	75
Mr J.C. Nicholls <sup>5</sup>	12	48	3	10	–	–	15	58
Mr I.B. Duncan <sup>6</sup>	49	–	7	–	–	–	56	–

<sup>1</sup> Mr L. Van de Walle retired as Chairman on 31 October 2017

<sup>2</sup> Mr A.J. Allner was appointed as Chairman on 1 November 2017

<sup>3</sup> Mr M. Ewell received a salary for acting as Interim Chief Executive until 31 March 2017 and as an Executive Director for a further month to 30 April 2017 (see Executive Director single total figure table on page 89). He resumed his Non-Executive Directorship fee from 1 May 2017. The figures shown in the table relate to fees paid to him in his capacity as a Non-Executive Director.

<sup>4</sup> Mr C.V. Geoghegan received a fee of £25,000 in 2017 for his additional services as the Non-Executive Chairman of the SIG Offsite Board.

<sup>5</sup> Mr J.C. Nicholls retired as a Director and Audit Committee Chair on 31 March 2017

<sup>6</sup> Mr I.B. Duncan was appointed a Director on 1 January 2017 and Audit Committee Chair with effect from 1 April 2017.

## BOARD CHANGES

Mr M. Oldersma was appointed as Chief Executive Officer on 3 April 2017, and his remuneration package comprised a salary of £560,000, and incentive opportunities and pension contribution in line with the Policy. Mr N. Maddock was appointed as Chief Financial Officer on 1 February 2017, and his remuneration package comprised a salary of £360,000, and incentive opportunities and pension contribution in line with the Policy.

## PAYMENTS FOR LOSS OF OFFICE

Mr D.G. Robertson retired from the Board as Group Finance Director on 31 January 2017 and remained an employee until 28 February 2017. Details of his termination payments are set out in the 2016 Annual Report on Remuneration.

In April 2017, 32,078 shares from Mr D.G. Robertson's 2014 DSBP award vested. He also received an award of 24,797 shares in 2017 under the DSBP in respect of his annual bonus for the 2016 performance year, which vest on 31 March 2020.

## PAYMENTS TO FORMER DIRECTORS

Following the end of his directorship, Mr D.G. Robertson received payments totalling £556,194 in 2017, which includes £35,195 for his period of employment from 1st February 2017 to 28 February 2017.

Mr S.R. Mitchell received payments in lieu of notice in monthly instalments until November 2017 amounting to £710,212.

## IMPLEMENTATION OF REMUNERATION POLICY IN 2018 BASE SALARY

The Committee agreed that base salaries for the Chief Executive Officer and Chief Financial Officer would increase by 1.5% for 2018. Annual salaries for 2017 and 2018 are shown in the table below. The average salary increase for 2018 across the wider workforce is 1.5%.

	January 2018 salary £	January 2017 salary £	% change
Executive Director			
Mr M. Oldersma	568,400	560,000	1.5
Mr N.W. Maddock	365,400	360,000	1.5

## PENSION AND BENEFITS

The Executive Directors will continue to receive pension contributions of 15% of base salary and receive benefits in line with the policy.

## ANNUAL BONUS

The maximum annual bonus opportunity for Executive Directors in 2018 will remain unchanged at 100% of salary.

The 2018 bonus will be linked 100% to financial performance (50% to Group underlying PBT and 50% to Group ROCE). Any bonus payments will be further subject to a health & safety gateway, ie bonuses may be reduced to nil at the Remuneration Committee's discretion in the event of a considerable health & safety incident.

As in 2017 and in line with the Policy, one-third of the annual bonus will be deferred in SIG shares for a period of three years. Malus and clawback provisions apply in exceptional circumstances.

## LTIP

In the event that the Committee determines not to proceed with an alternative long term incentive plan as referred to in the Remuneration Chair's Annual Statement at pages 80 to 81, the intention would be to grant awards under the existing LTIP to Executive Directors following either of the Remuneration Committee meetings scheduled to take place in April or September 2018. In such a case, the Committee would determine the performance measures and targets for such LTIP awards closer to the time, and disclose them in full in both the 2018 Annual Report on Remuneration and the relevant RNS announcement. Performance measures and targets for any such LTIP awards would be set in line with the prevailing Remuneration Policy and would be no less challenging in the circumstances than those attaching to awards granted to Executive Directors in 2017.

## CHAIRMAN AND NON-EXECUTIVE DIRECTOR FEES

Mr A.J. Allner's fee as Chairman of the Board is £175,000. The basic fee payable to each Non-Executive Director is £49,000 pa. Upon appointment, Additional fees payable for chairing the Audit and Remuneration Committees are £10,000 and £8,000 pa respectively. The additional fee paid for being Senior Independent Director is £2,000 pa. Non-Executive Director fees are reviewed in May each year. Additional fees may also be paid in respect of Company advisory Boards.

## PERCENTAGE CHANGE IN CHIEF EXECUTIVE OFFICER REMUNERATION

The table overleaf shows the percentage change in the Chief Executive Officer's remuneration from the prior year compared to the average percentage change in remuneration for the Senior Leadership Team ('SLT').

Given that the Company operates across a number of diverse economies with pay levels and structures reflecting local market conditions, the Committee believes that using the SLT as a subset for purposes of comparing Chief Executive Officer pay against wider employee pay provides a more meaningful comparison than using pay data for all employees. To provide a meaningful comparison, the analysis includes only salaried employees and is based on a consistent set of employees, ie the same individuals appear in the 2017 and 2016 populations.

# Directors' remuneration report

## Annual Report on remuneration

	Chief Executive Officer £'000			Other employees
	2017 <sup>1</sup>	2016 <sup>2</sup>	% change	% change
Salary	570	584	-2.4%	1.9%
Taxable benefits	18	25	-28.0%	8.1%
Annual performance bonus (including deferred element) <sup>3</sup>	293	–	n/a	120.6%

<sup>1</sup> Based on the sum of remuneration paid to Mr M. Ewell from 1 January 2017 up to and including 31 March 2017 and to Mr M. Oldersma over the period 3 April 2017 to 31 December 2017.

<sup>2</sup> Based on the sum of remuneration paid to Mr S.R. Mitchell from 1 January 2016 up to and including 11 November 2016 and to Mr M. Ewell over the period 11 November 2016 to 31 December 2016.

<sup>3</sup> No comparison possible as a bonus was not paid to the Chief Executive Officer in 2016.

### RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the percentage change in total employee pay expenditure and Shareholder distributions (ie dividends and share buybacks) from the financial year ended 31 December 2016 to the financial year ended 31 December 2017.

	2017 £m	2016 £m	% change
Distribution to Shareholders	18.2	28.0	-35%
Employee remuneration	398.5	373.0	6.9%

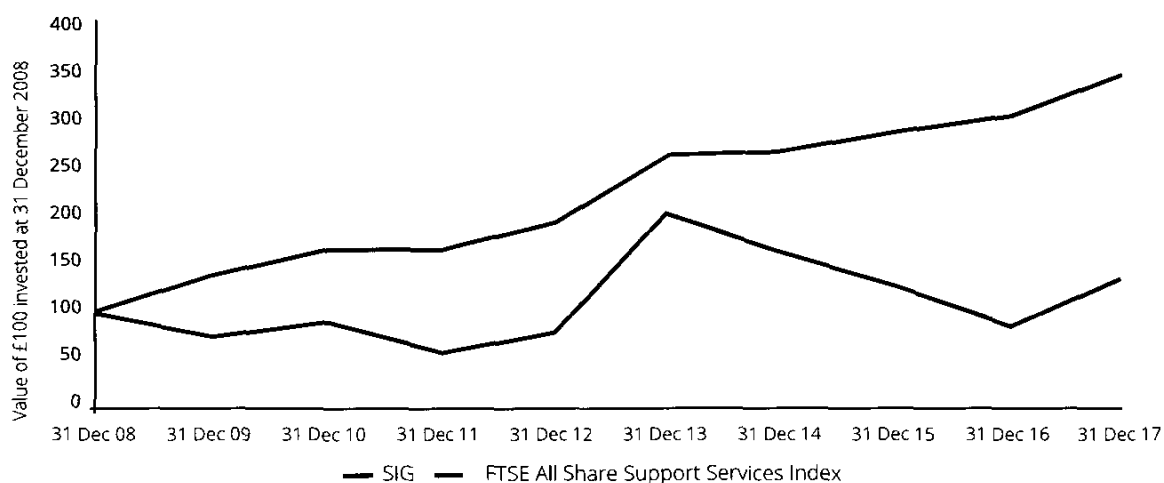
The Directors are proposing a final dividend for the year ended 31 December 2017 of 2.50p per share (2016: 1.83p).

### PAY-FOR-PERFORMANCE

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 2017. This index has been selected because the Company believes that the constituent companies comprising the FTSE All Share Support Services Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors to SIG. The table overleaf details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

### HISTORICAL TSR PERFORMANCE

Growth in value of a hypothetical £100 holding over the nine years to 31 December 2017.





	2009	2010	2011	2012	2013	2013	2014	2015	2016	2016	2017	2017
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>
Chief Executive Officer single figure of remuneration (£'000)	1,354	1,087	1,065	1,024	1,031	987	968	765	581	100	150	794
Annual bonus outcome (% of maximum)	45%	54%	96%	54%	50%	60.5%	57.0%	0% <sup>3</sup>	n/a	n/a	n/a	70%
LTIP vesting outcome (% of maximum)	0%	0%	0%	0%	0%	n/a	n/a	19.5%	n/a	n/a	n/a	n/a

<sup>1</sup> 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)

<sup>2</sup> Mr. S.R. Mitchell was appointed to the Board on 10 December 2012 and became the Chief Executive on 1 March 2013. The 2013 figure pertains to the period 1 January 2013 to 31 December 2013.

<sup>3</sup> Mr S.R. Mitchell took the decision to waive his entitlement to the 2015 annual bonus.

<sup>4</sup> Mr S.R. Mitchell stepped down as Chief Executive 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.

<sup>5</sup> Mr M. Ewell was appointed as Interim Chief Executive with effect from 11 November 2016 and stepped down on 31 March 2017. He continued as an Executive Director until 30 April 2017, and his remuneration relates to the period served as CEO. Mr M. Ewell did not participate in any Group incentive schemes.

<sup>6</sup> 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.

## DIRECTORS' INTERESTS IN SIG SHARES (AUDITED)

The interests of the Directors in office during the year to 31 December 2017, and their families, in the ordinary shares of the Company at the dates below were as follows:

	31 December 2017	1 January 2017
Ms A. Abt	8,500	8,500
Mr A.J. Allner	6,000	-
Ms J.E. Ashdown	44,450	44,450
Mr I.B. Duncan	-	-
Mr M. Ewell	27,450	27,450
Mr C.V. Geoghegan	40,000	40,000
Mr N.W. Maddock*	718	-
Mr M. Oldersma	39,000	-

\* Includes partnership and matching shares acquired under the SIP

There have been no changes to shareholdings between 1 January 2018 and 8 March 2018 save that on 15 January 2018 and 15 February 2018 when Mr N.W. Maddock acquired a further 89 and 106 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 out overleaf.

# Directors' remuneration report

## Annual Report on remuneration

### DIRECTORS' SHAREHOLDING (AUDITED)

The table below shows the shareholding of each Director against their respective shareholding requirement as at 31 December 2017:

	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>
	Owned outright or vested	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to deferral			
Mr M. Oldersma	39,000	–	–	954,003		200	12.08%	No
Mr N.W. Maddock	718	–	–	459,965		200	0.31%	No
Ms A. Abt	8,500							
Mr A.J. Allner	6,000							
Ms J.E. Ashdown	44,450							
Mr I.B. Duncan	0							
Mr M. Ewell	27,450							
Mr C.V. Geoghegan	40,000							

<sup>1</sup> Executive Directors are expected to achieve target shareholding within 5 years of appointment

<sup>2</sup> Based on SIG share price of 176.2p as at 31 December 2017. Note that both the Executive Directors were appointed in 2017, consequently they have not yet built up the required holding

### 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	117.4p	954,003	1,120,000	01/01/2017–31/12/2019	24/04/2020–23/04/2027
Mr N.W. Maddock	24/04/2017	117.4p	459,965	540,000	01/01/2017–31/12/2019	24/04/2020–23/04/2027

<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 2017.

The market price of shares at 31 December 2017 was 176.2p and the range during 2017 was 93.8p to 182p.

There were no options exercised by the Directors in 2017 (2016: 129,167) and the aggregate of the total theoretical gains on options exercised by the Directors during 2017 amounted to £nil (2016: £131,033). This is calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax.

### EXTERNAL DIRECTORSHIPS

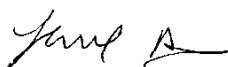
Mr M. Oldersma holds external directorships at Kondor HOLDCO Ltd and KidsFoundation Holdings B.V. During 2017, he received £72,000 for each directorship, which he retained. He is also a Director of Oldersma Management & Consultancy Ltd which is a personal services company used to invoice KidsFoundation Holdings B.V.

### APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report set out on pages 80 to 96 was approved by the Board of Directors on 8 March 2018 and signed on its behalf by Janet Ashdown, Chair of the Remuneration Committee.

### JANET ASHDOWN

CHAIR OF THE REMUNERATION COMMITTEE  
8 March 2018



# 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 state of affairs of the Company and of the 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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;
- 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; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 8 March 2018 and is signed on its behalf by:

**MEINIE OLDERSMA**  
CHIEF EXECUTIVE  
OFFICER

8 March 2018

**NICK MADDOCK**  
CHIEF FINANCIAL  
OFFICER

8 March 2018

*M. Oldersma*

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# FINANCIALS

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## Consolidated Income Statement

for the year ended 31 December 2017

	Note	Underlying* 2017 £m	Other items** 2017 £m	Total 2017 £m	Underlying* 2016 Restated £m	Other items** 2016 Restated £m	Total 2016 Restated £m
<b>Revenue</b>	1	<b>2,778.5</b>	<b>99.9</b>	<b>2,878.4</b>	2,587.4	257.8	2,845.2
Cost of sales	2	(2,042.0)	(83.9)	(2,125.9)	(1,896.3)	(201.0)	(2,097.3)
<b>Gross profit</b>		<b>736.5</b>	<b>16.0</b>	<b>752.5</b>	691.1	56.8	747.9
Other operating expenses	2	(642.2)	(144.2)	(786.4)	(601.4)	(241.2)	(842.6)
<b>Operating (loss)/profit</b>		<b>94.3</b>	<b>(128.2)</b>	<b>(33.9)</b>	89.7	(184.4)	(94.7)
Finance income	3	0.5	0.1	0.6	1.2	0.5	1.7
Finance costs	3	(15.6)	(2.3)	(17.9)	(15.0)	(2.0)	(17.0)
<b>(Loss)/profit before tax</b>	4	<b>79.2</b>	<b>(130.4)</b>	<b>(51.2)</b>	75.9	(185.9)	(110.0)
Income tax (expense)/credit	6	(20.5)	13.1	(7.4)	(18.1)	6.5	(11.6)
<b>(Loss)/profit after tax</b>		<b>58.7</b>	<b>(117.3)</b>	<b>(58.6)</b>	57.8	(179.4)	(121.6)
<b>Attributable to:</b>							
Equity holders of the Company		<b>57.7</b>	<b>(117.3)</b>	<b>(59.6)</b>	57.3	(179.4)	(122.1)
Non-controlling interests		<b>1.0</b>	<b>-</b>	<b>1.0</b>	0.5	-	0.5
<b>Loss per share</b>							
Basic and diluted loss per share	8			<b>(10.1)p</b>			(20.6)p

\* 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, 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, 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. 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 107 and 108.

All results are from continuing operations.

The 2016 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 2017

	Note	2017 £m	2016 Restated £m
<b>Loss after tax</b>		<b>(58.6)</b>	(121.6)
<b>Items that will not subsequently be reclassified to the Consolidated Income Statement:</b>			
Remeasurement of defined benefit pension liability	29c	5.5	(12.5)
Deferred tax movement associated with remeasurement of defined benefit pension liability	23	(0.9)	2.3
Effect of change in rate on deferred tax	23	(0.2)	(0.5)
		<b>4.4</b>	(10.7)
<b>Items that may subsequently be reclassified to the Consolidated Income Statement:</b>			
Exchange difference on retranslation of foreign currency goodwill and intangibles		5.4	33.6
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)		13.6	35.7
Exchange and fair value movements associated with borrowings and derivative financial instruments		(9.2)	(25.3)
Tax credit on exchange and fair value movements arising on borrowings and derivative financial instruments		1.8	6.3
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		0.4	(3.8)
Transfer to profit and loss on cash flow hedges		2.1	2.3
		<b>14.2</b>	48.8
<b>Other comprehensive income</b>		<b>18.6</b>	38.1
<b>Total comprehensive expense</b>		<b>(40.0)</b>	(83.5)
<b>Attributable to:</b>			
Equity holders of the Company		(41.0)	(84.0)
Non-controlling interests		1.0	0.5
		<b>(40.0)</b>	(83.5)

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 2017


	Note	2017 £m	2016 Restated £m
<b>Non-current assets</b>			
Property, plant and equipment	10	102.4	127.3
Goodwill	12	312.2	352.7
Intangible assets	13	57.0	76.9
Deferred tax assets	23	22.6	17.2
Derivative financial instruments	19	0.1	4.4
Deferred consideration	19	1.4	–
		<b>495.7</b>	<b>578.5</b>
<b>Current assets</b>			
Inventories	15	243.5	250.6
Trade and other receivables	16	468.0	512.8
Current tax assets	16	5.2	3.2
Derivative financial instruments	19	1.2	0.1
Deferred consideration	19	0.1	0.7
Other financial assets	19	–	1.1
Cash and cash equivalents	19	121.8	127.0
Assets classified as held for sale	11	0.3	15.6
		<b>840.1</b>	<b>911.1</b>
<b>Total assets</b>		<b>1,335.8</b>	<b>1,489.6</b>
<b>Current liabilities</b>			
Trade and other payables	17	429.0	421.6
Obligations under finance lease contracts	17	3.1	3.1
Bank overdrafts	17	29.6	22.7
Bank loans	17	84.2	171.6
Private placement notes	17	21.1	–
Loan notes and deferred consideration	17	17.0	2.7
Derivative financial instruments	17	0.2	0.2
Current tax liabilities	17	7.2	8.4
Provisions	17	12.0	14.5
Liabilities directly associated with assets classified as held for sale	11	0.1	15.6
		<b>603.5</b>	<b>660.4</b>
<b>Non-current liabilities</b>			
Obligations under finance lease contracts	18	6.8	8.1
Bank loans	18	–	0.3
Private placement notes	18	183.1	200.7
Derivative financial instruments	18	3.3	3.6
Deferred tax liabilities	23	13.4	15.2
Other payables	18	3.8	5.5
Retirement benefit obligations	18	30.4	37.1
Provisions	18	13.8	22.4
		<b>254.6</b>	<b>292.9</b>
<b>Total liabilities</b>		<b>858.1</b>	<b>953.3</b>
<b>Net assets</b>		<b>477.7</b>	<b>536.3</b>
<b>Capital and reserves</b>			
Called up share capital	25	59.2	59.1
Share premium account		447.3	447.3
Capital redemption reserve		0.3	0.3
Share option reserve		1.3	1.1
Hedging and translation reserve		19.6	7.9
Retained (losses)/profits		(50.9)	19.8
<b>Attributable to equity holders of the Company</b>		<b>476.8</b>	<b>535.5</b>
<b>Non-controlling interests</b>		<b>0.9</b>	<b>0.8</b>
<b>Total equity</b>		<b>477.7</b>	<b>536.3</b>

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 8 March 2018 and signed on its behalf by:

**MEINIE OLDERSMA**    **NICK MADDOCK**  
DIRECTOR                      DIRECTOR

Registered in England: 00998314





## Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Share option reserve £m	Hedging and translation reserve £m	Retained (losses)/ profits £m	Total £m	Non-controlling interests £m	Total equity £m
At 31 December 2015 (restated)	59.1	447.3	0.3	1.4	(42.4)	182.7	648.4	0.9	649.3
(Loss)/profit after tax	-	-	-	-	-	(122.1)	(122.1)	0.5	(121.6)
Other comprehensive income/(expense)	-	-	-	-	50.3	(12.2)	38.1	-	38.1
Total comprehensive income/(expense)	-	-	-	-	50.3	(134.3)	(84.0)	0.5	(83.5)
Share capital issued in the year	-	-	-	-	-	-	-	-	-
Debit to share option reserve	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Exercise of share options	-	-	-	-	-	-	-	-	-
Deferred tax on share options	-	-	-	-	-	(0.6)	(0.6)	-	(0.6)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(0.6)	(0.6)
Dividends paid to equity holders of the Company	-	-	-	-	-	(28.0)	(28.0)	-	(28.0)
At 31 December 2016 (restated)	59.1	447.3	0.3	1.1	7.9	19.8	535.5	0.8	536.3
(Loss)/profit after tax	-	-	-	-	-	(59.6)	(59.6)	1.0	(58.6)
Other comprehensive income	-	-	-	-	11.7	6.9	18.6	-	18.6
Total comprehensive income/(expense)	-	-	-	-	11.7	(52.7)	(41.0)	1.0	(40.0)
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	-	-	-	-	-	-	-	-	-
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)
<b>At 31 December 2017</b>	<b>59.2</b>	<b>447.3</b>	<b>0.3</b>	<b>1.3</b>	<b>19.6</b>	<b>(50.9)</b>	<b>476.8</b>	<b>0.9</b>	<b>477.7</b>

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 107.

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 2017

	Note	2017 £m	2016 Restated £m
<b>Net cash flow from operating activities</b>			
Cash generated from operating activities	26	99.7	79.9
Income tax paid		(18.8)	(9.6)
Net cash generated from operating activities		80.9	70.3
<b>Cash flows from investing activities</b>			
Finance income received		0.5	1.2
Purchase of property, plant and equipment and computer software		(19.9)	(37.5)
Proceeds from sale of property, plant and equipment		34.6	39.5
Settlement of amounts payable for purchase of businesses		(6.9)	(25.3)
Net cash flow arising on the sale of businesses		17.6	-
Net cash generated from/(used in) investing activities		25.9	(22.1)
<b>Cash flows from financing activities</b>			
Finance costs paid		(13.1)	(13.7)
Capital element of finance lease rental payments		(3.5)	(2.6)
Issue of share capital	25	-	-
Repayment of loans/settlement of derivative financial instruments		(87.9)	(139.5)
New loans/settlement of derivative financial instruments		0.2	166.1
Dividends paid to equity holders of the Company	7	(18.2)	(28.0)
Dividends paid to non-controlling interest		(0.9)	(0.6)
Net cash used in financing activities		(123.4)	(18.3)
<b>(Decrease)/increase in cash and cash equivalents in the year</b>	27	<b>(16.6)</b>	29.9
Cash and cash equivalents at beginning of the year	28	104.3	62.8
Effect of foreign exchange rate changes	28	4.5	11.6
<b>Cash and cash equivalents at end of the year</b>	28	<b>92.2</b>	104.3

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 2017 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 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 41.

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 35.

The following standards were amended in the current period:

- Annual Improvements to IFRSs 2014-2016 Cycle – various standards (amendments to IFRS 12 "Disclosure of Interests in Other Entities")
- Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12 "Income Taxes")
- Disclosure initiative (amendments to IAS 7 "Statement of Cash Flows")

Adoption of the above standards has not had a material impact on the Financial Statements of the Group.

## PRIOR YEAR RESTATEMENTS

Following a whistleblowing allegation in SIG Distribution, the core insulation and interiors business in the UK, the Group has identified a historical overstatement of profit relating to the years ended 31 December 2016 and 31 December 2015 due to overstatement of balances recognised in relation to rebates receivable from suppliers. This error has been corrected by restating the prior year comparatives, reducing prepayments and accrued income (included with trade and other receivables) by £3.3m and trade payables (included within trade and other payables) by £0.8m at 31 December 2016 and by reducing prepayments and accrued income by £0.4m at 1 January 2016. The impact on the Consolidated Income Statement for the year ended 31 December 2016 is an increase in cost of sales (before Other items) of £3.7m resulting in an increase in operating loss and loss before tax of £3.7m and an increase in loss after tax of £3.0m. Net assets are £3.3m lower than previously reported at 31 December 2016 and £0.3m lower at 1 January 2016. There is no impact on the Consolidated Cash Flow Statement for the year ended 31 December 2016. The restatement increased basic and diluted loss per share from 20.1p per share to 20.6p per share for the year ended 31 December 2016. Notes 1, 2, 6, 8, 16, 23, 26 and 32 have also been restated, where relevant, to incorporate these changes.

During the 2017 year end close procedures the Group also identified a historical overstatement of cash and trade payables in relation to cash cut-off procedures associated with cheques issued around previous period ends. This error has been corrected by restating the prior year comparatives, reducing cash and cash

equivalents (reduction in cash £0.6m and increase in bank overdrafts £19.2m) and trade payables by £19.8m at 31 December 2016. This restatement had no impact on the reported Consolidated Income Statement or net assets. The Consolidated Cash Flow Statement has also been restated, with cash and cash equivalents at 1 January 2016 reduced by £23.9m to £62.8m and at 31 December 2016 by £19.8m to £104.3m, resulting in an increase in net cash generated from operating activities of £4.1m to £29.9m for the year ended 31 December 2016. Notes 1, 17, 19, 20, 21, 26, 27, 28 and 32 have also been restated to incorporate this adjustment.

The effect of the prior year restatement on each financial line item affected is shown in Note 33.

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. Additional interest payable as a result of the restatements has been accrued for in these Financial Statements and has subsequently been paid.

Further details regarding the restatements are provided in the Audit Committee Report on page 73.

## 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 9 "FINANCIAL INSTRUMENTS" – EFFECTIVE FOR ACCOUNTING PERIODS BEGINNING ON OR AFTER 1 JANUARY 2018

The standard is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and derecognition of financial assets and financial liabilities together with introducing new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and does not expect the new guidance to affect their classification and measurement. The key change for SIG is around the documentation of policies, hedging strategy and new hedge documentation.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9 and updated hedge documentation is in place from 1 January 2018.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a very small increase in the loss allowance for trade debtors which is not expected to be material (i.e. no more than 5% of underlying pre-tax profit).

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.

# Statement of Significant Accounting Policies

## IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS" – EFFECTIVE FOR ACCOUNTING PERIODS BEGINNING ON OR AFTER 1 JANUARY 2018

The new standard sets out the requirements for recognising revenue from contracts with customers and replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, with the transaction price receivable from customers allocated to 'distinct' performance obligations, on a relative standalone selling price basis, based on a five-step model. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Management has assessed the effects of applying the new standard on the Financial Statements and has identified the following areas that will be affected:

- Prompt payment discounts given to customers are currently accounted for when paid. Under IFRS 15, revenue is recognised net of discounts expected to be taken, calculated based on either an expected value or most likely amount method, to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Based on the assessments undertaken to date this is not expected to have a material (i.e. no more than 5% of underlying pre-tax profit) impact on transition, and will have minimal impact on an annual basis going forwards.
- For a small number of contracts in the Offsite business, it will need to be explicit in contract terms that the Group is entitled to payment for performance to date in order to be able to *continue to recognise revenue over time*. There is expected to be an adjustment on transition on 1 January 2018 in relation to contracts in progress under existing terms at that date, which will reduce retained earnings at 1 January 2018 but then increase the revenue and profit recognised in the year ending 31 December 2018. The estimated impact of this on retained earnings at 1 January 2018 and profit before tax for the year ending 31 December 2018 is expected to be less than £1.0m. Contract terms have been changed from 1 January 2018 and therefore this is not expected to have an impact after the year of transition.

## IFRS 16 "LEASES" – 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 and introduces a single lessee 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 completed an initial assessment of the potential impact on its Financial Statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the Financial Statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The standard will affect primarily the accounting for the Group's operating leases as the Group will recognise new assets and liabilities for its operating leases of properties and fleet. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to £321.1m on an undiscounted basis (see Note 29b).

In addition, 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. No significant impact (i.e. no more than 5% of underlying pre-tax profit) is expected for the Group's finance leases.

Financial covenants in relation to the debt facilities described in Note 18 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.

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. Losses attributable to the non-controlling interest in excess of their interest in the subsidiary's equity are allocated against the interest of SIG except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Shareholders of the Company.

Profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the previous carrying amount of the net assets (including goodwill and intangible assets) of the businesses.

All results are from continuing operations under IFRS as the businesses identified as non-core 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 in the column of the Consolidated Income Statement entitled 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 values 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 and 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.

### ■ 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 ongoing 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.

# Statement of Significant Accounting Policies

## ■ Net restructuring costs

Costs associated with fundamental changes in the organisational structure and operating model (supply chain review), such as redundancies, property closure costs and consultancy costs are significant in size and do not relate to ongoing operations 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 restructuring and changing the shape and operations of the business as opposed to costs incurred in the normal course of business.

## ■ Defined benefit pension scheme curtailment loss

The UK defined benefit pension scheme was closed to future benefit accrual on 30 June 2016 which led to a curtailment loss being recognised in 2016. This was recorded within Other items as it is not related to the underlying operations of the Group.

## ■ 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. A full breakdown of such items is included in Note 2 to the 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 are expected to cease in 2018 as they become fully recycled. The unwinding of provision discounting is also included within Other items as it is specific in nature and showing this separately enhances the understanding of the underlying financing activities of the Group.

## ■ 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 2016 Financial Statements.

## REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and customer rebates, VAT and other sales-related taxes. The Group principally earns revenue from the distribution of construction products and is able to recognise revenue on receipt of the goods by the customer. Customer rebates are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to customer rebates and recognised in the period as earned. Wherever revenue is generated from a contract to provide services, it is recognised by reference to the stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

## 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.

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

The Group issues both equity-settled and cash-settled share-based payments ('share options'). Share options are measured at fair value at the date of grant based on the Group's estimate of the number

of shares that will eventually vest. The fair value determined is then expensed in the Consolidated Income Statement on a straight-line basis over the vesting period, with a corresponding increase in equity (equity-settled share options) or in liabilities (cash-settled share options). The fair value of the options is measured using the Black-Scholes option pricing model.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. For equity-settled share options, at each balance sheet date the Group revises its estimate of the number of share options expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Consolidated Income Statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

For cash-settled share options, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in the Consolidated Income Statement, with a corresponding adjustment to liabilities.

## INTANGIBLE ASSETS

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. The Group recognises two types of intangible asset: acquired and purchased. Acquired intangible assets arise as a result of applying IFRS 3 "Business Combinations" which requires the separate recognition of intangible assets from goodwill on all business combinations. Purchased intangible assets relate primarily to software that is separable from any associated hardware.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

	Amortisation period	Current estimate of useful life
Customer relationships	Life of the relationship	7.4 years
Non-compete contracts	Life of the contract	3.0 years
Computer software	Useful life of the software	3.0-10.0 years

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

## 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.

## 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.

## CONSTRUCTION CONTRACTS

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Stage of completion is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are recognised only to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised as an expense immediately.

# Statement of Significant Accounting Policies

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from construction contract customers. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to construction contract customers.

## 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

Financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss are initially measured and subsequently stated at fair value, with any resultant gain or loss recognised in the Consolidated Income Statement. When determining the fair value of financial assets, the expected future cash flows are discounted using an appropriate discount rate.

Loans and receivables are measured initially at fair value and then subsequently at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets (including trade receivables) are assessed for indicators of impairment on an ongoing basis. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been negatively impacted. When there is objective evidence of impairment, appropriate allowances are made for estimated irrecoverable amounts based upon expected future cash flows discounted by an appropriate interest rate where applicable. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered to be uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the Consolidated Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Consolidated Income Statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 cashflow.

## FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss are initially measured and subsequently stated at fair value, with any resultant gain or loss recognised in the Consolidated Income Statement. The net gain or loss recognised in the Consolidated Income Statement incorporates any interest paid on the financial liability.

Other financial liabilities (including trade and other payables) are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

When determining the fair value of financial liabilities, the expected future cash flows are discounted using an appropriate interest rate.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts, cross-currency swaps and commodity hedging instruments to hedge its exposure to foreign currency exchange, interest rate and fuel price risks arising from operational and financing activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, 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 the column of the Consolidated Income Statement entitled Other items.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting, or when the Group revokes the hedging relationship. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement in the period.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.



## FAIR VALUE HEDGES

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Consolidated Income Statement within Other items. Fair value gains or losses from remeasuring the derivative financial instruments are recognised immediately in the Consolidated Income Statement within Other items.

## CASH FLOW HEDGES

When a derivative financial instrument is designated as a hedge of the variability in cash flows associated with a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the Consolidated Statement of Comprehensive Income (i.e. equity). When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the Consolidated Statement of Comprehensive Income are reclassified into the Consolidated Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Consolidated Income Statement.

For cash flow hedges, the ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled Other items.

## HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

The portion of any gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in the Consolidated Statement of Comprehensive Income. The ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled Other items. Gains and losses deferred in the hedging and translation reserve are recognised immediately in the Consolidated Income Statement when foreign operations are disposed of.

## 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 finance costs on defined benefit pension schemes are recognised in the Consolidated Income Statement. Discretionary contributions made by employees or third parties reduce service costs upon payment of these contributions into the plan.

Any actuarial gain or loss arising is charged through the Consolidated Statement of Comprehensive Income and is made up of the difference between the expected returns on assets and those actually achieved, any changes in the actuarial assumptions for demographics and any changes in the financial assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within non-current assets in the Consolidated Balance Sheet.

For defined contribution schemes the amount charged to the Consolidated Income Statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within either accruals or prepayments in the Consolidated Balance Sheet.

## 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.

## 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 certain operational and strategic changes undertaken during the year, the Group has concluded that the appropriate reported operating segments are SIG Distribution, SIG Exteriors, Ireland & Other UK, France, Germany and Other Europe, compared to UK & Ireland and Mainland Europe in prior years. The prior year comparatives have been restated to expand UK & Ireland and Mainland Europe into the constituent components consistent with the current year presentation. The constituent operating segments of Other Europe have been aggregated as they have similar products and services, types of customer, methods of distribution and economic characteristics and do not meet the quantitative thresholds for separate disclosure. The economic characteristics that have been assessed include long term growth rates and expected long term average gross margins.

## Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described on pages 105 to 111, 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 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. Operating results from businesses identified as non-core (see Note 32 of 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 of 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 2017 trade payables is presented net of £58.8m (2016: £72.6m restated) 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 £55.2m (2016: £52.8m restated) due in relation to supplier rebates where there is no right to offset against trade payable balances. Of these balances, £19.6m 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 111, 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 £3.4m as disclosed in Note 29c. At 31 December 2017 the Group's retirement benefit obligations were £30.4m (2016: £37.1m).

#### 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%-3.4%) over a further period of four years. Where detailed five-year forecasts for a CGU have been prepared and approved by the Board, which can include higher growth rates or varied results reflecting specific economic factors, these are used in preparing cash flow forecasts for impairment review purposes. After this period, the sales growth rates applied to the cash flow forecasts are no more than 1% and operating profit growth no more than 3.4% in perpetuity. The discount rates applied to all CGUs represent pre-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 2017 is £471.6m (2016: £556.9m). The most recent results of the impairment review process are disclosed in Note 12 and indicated that the carrying value of non-current assets associated with the Group's Building Systems, GRM, IBSL and Metecho CGUs were no longer supportable and the non-current assets have been impaired to reflect the recoverable amount expected from associated sale proceeds or other amounts. Impairment reviews performed during the year indicated that the carrying value of the Group's other non-current assets at 31 December 2017 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 2017 the Group has recognised trade receivables with a carrying value of £362.3m (2016: £417.0m). Using information available at the balance sheet date, the Directors make detailed estimates based on experience regarding the level of provision required to account for potentially uncollectible receivables. 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 2017. The total provision recorded at 31 December 2017 is £41.1m (2016: £33.9m). 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.£6m. Further detail on trade receivables and the allowance for doubtful accounts recognised is disclosed in Note 16.

# Notes to the Financial Statements

## 1. REVENUE AND SEGMENTAL INFORMATION

### REVENUE

An analysis of the Group's revenue is as follows:

	2017 £m	2016 £m
Sale of goods	2,814.1	2,786.8
Revenue from construction contracts	64.3	58.4
<b>Total revenue</b>	<b>2,878.4</b>	<b>2,845.2</b>
Finance income	0.6	1.7
<b>Total income</b>	<b>2,879.0</b>	<b>2,846.9</b>

### SEGMENTAL INFORMATION

#### A) SEGMENTAL ANALYSIS

Segment revenues and results

	UK & Ireland				Mainland Europe				Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m		
<b>2017</b>										
<b>Revenue</b>										
Underlying revenue	797.5	409.5	98.3	1,305.3	660.7	425.9	386.6	1,473.2	-	2,778.5
Revenue attributable to businesses identified as non-core	4.4	34.5	41.4	80.3	-	7.6	12.0	19.6	-	99.9
Inter-segment revenue^	15.3	5.2	-	20.5	12.5	0.2	0.6	13.3	(33.8)	-
<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>399.2</b>	<b>1,506.1</b>	<b>(33.8)</b>	<b>2,878.4</b>
<b>Result</b>										
<b>Segment result before Other items</b>	<b>9.9</b>	<b>32.9</b>	<b>4.8</b>	<b>47.6</b>	<b>26.2</b>	<b>11.5</b>	<b>21.7</b>	<b>59.4</b>	<b>-</b>	<b>107.0</b>
Amortisation of acquired intangibles	(2.0)	(4.9)	(0.1)	(7.0)	(0.8)	-	(1.5)	(2.3)	-	(9.3)
Impairment charges	(6.8)	-	-	(6.8)	-	-	-	-	-	(6.8)
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)	(0.8)	0.9	(13.8)	(13.7)	-	(0.2)	(0.4)	(0.6)	-	(14.3)
Net restructuring costs	(16.8)	(1.3)	(0.8)	(18.9)	(0.2)	(1.0)	(1.0)	(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 (loss)/profit</b>	<b>(25.1)</b>	<b>2.8</b>	<b>(39.9)</b>	<b>(62.2)</b>	<b>25.2</b>	<b>9.1</b>	<b>6.7</b>	<b>41.0</b>	<b>-</b>	<b>(21.2)</b>
Parent Company costs										(12.7)
<b>Operating loss</b>										<b>(33.9)</b>
Net finance costs before Other items										(15.1)
Net fair value losses on derivative financial instruments										(1.7)
Unwinding of provision discounting										(0.5)
<b>Loss before tax</b>										<b>(51.2)</b>
Income tax expense										(7.4)
Non-controlling interests										(1.0)
<b>Loss for the year</b>										<b>(59.6)</b>

^ Inter-segment revenue is charged at the prevailing market rates

	UK & Ireland				Mainland Europe				Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m		
2016										
<b>Revenue</b>										
Underlying revenue	781.2	414.8	85.5	1,281.5	589.2	385.6	331.1	1,305.9	-	2,587.4
Revenue attributable to businesses identified as non-core	4.7	63.0	148.3	216.0	-	27.6	14.2	41.8	-	257.8
Inter-segment revenue^	13.9	2.0	0.3	16.2	12.5	0.2	1.9	14.6	(30.8)	-
Total revenue	799.8	479.8	234.1	1,513.7	601.7	413.4	347.2	1,362.3	(30.8)	2,845.2
<b>Result (restated)*</b>										
<b>Segment result before Other items</b>	18.2	30.5	3.7	52.4	24.4	7.7	16.0	48.1	-	100.5
Amortisation of acquired intangibles	(2.2)	(4.9)	(1.0)	(8.1)	(0.8)	-	(1.4)	(2.2)	-	(10.3)
Impairment charges	-	-	-	-	(100.4)	-	(10.2)	(110.6)	-	(110.6)
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	-	-	(40.1)	(40.1)	-	-	-	-	-	(40.1)
Net operating losses attributable to businesses identified as non-core (Note 11)	(0.4)	2.9	(11.2)	(8.7)	-	0.6	0.2	0.8	-	(7.9)
Net restructuring costs	(8.8)	(0.2)	(1.6)	(10.6)	(1.5)	(0.7)	(0.5)	(2.7)	-	(13.3)
Acquisition expenses and contingent consideration (Note 14)	5.3	(2.0)	1.4	4.7	-	-	(0.1)	(0.1)	-	4.6
Defined benefit pension scheme curtailment loss (Note 29c)	(0.9)	-	-	(0.9)	-	-	-	-	-	(0.9)
Other specific items	(5.5)	-	(0.5)	(6.0)	-	-	0.1	0.1	-	(5.9)
<b>Segment operating (loss)/profit</b>	5.7	26.3	(49.3)	(17.3)	(78.3)	7.6	4.1	(66.6)	-	(83.9)
Parent Company costs										(10.8)
<b>Operating loss</b>										(94.7)
Net finance costs before Other items										(13.8)
Net fair value losses on derivative financial instruments										(1.9)
Unwinding of provision discounting										0.4
<b>Loss before tax</b>										(110.0)
Income tax expense										(11.6)
Non-controlling interests										(0.5)
<b>Loss for the year</b>										(122.1)

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates

\* 2016 has been restated for the historical overstatement of profit, as noted in the Statement of Significant Accounting Policies and Note 33

## Notes to the Financial Statements

	UK & Ireland				Mainland Europe				Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m	
<b>2017</b>									
<b>Balance sheet</b>									
<b>Assets</b>									
Segment assets	360.0	221.0	59.6	640.6	343.4	124.4	204.1	671.9	1,312.5
<i>Unallocated assets:</i>									
Property, plant and equipment									0.1
Derivative financial instruments									1.3
Deferred consideration									-
Other financial assets									-
Cash and cash equivalents									10.2
Deferred tax assets									0.2
Other assets									11.5
Consolidated total assets									1,335.8
<b>Liabilities</b>									
Segment liabilities	190.5	59.0	45.0	294.5	149.2	36.0	61.4	246.6	541.1
<i>Unallocated liabilities:</i>									
Private placement notes									204.2
Bank loans									75.7
Derivative financial instruments									3.5
Other liabilities									33.6
Consolidated total liabilities									858.1
<b>Other segment information</b>									
<i>Capital expenditure on:</i>									
Property, plant and equipment	6.5	2.3	1.1	9.9	5.4	2.1	2.0	9.5	19.4
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	7.7	1.9	1.2	10.8	6.0	3.0	3.1	12.1	22.9
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	1.6	3.4	13.0
Impairment of goodwill and intangibles (excluding computer software)	5.6	-	1.0	6.6	-	-	-	-	6.6

	UK & Ireland				Mainland Europe				Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m	
2016									
<b>Balance sheet</b>									
<b>Assets (restated)*</b>									
Segment assets	391.9	283.0	109.4	784.3	351.3	130.0	201.1	682.4	1,466.7
<i>Unallocated assets:</i>									
Property, plant and equipment									0.9
Derivative financial instruments									4.5
Deferred consideration									0.7
Other financial assets									-
Cash and cash equivalents									14.5
Deferred tax assets									2.3
Other assets									-
Consolidated total assets									1,489.6
<b>Liabilities (restated)*</b>									
Segment liabilities	186.9	85.5	62.2	334.6	143.9	34.5	52.6	231.0	565.6
<i>Unallocated liabilities:</i>									
Private placement notes									200.7
Bank loans									158.8
Derivative financial instruments									3.8
Other liabilities									24.4
Consolidated total liabilities									953.3
<b>Other segment information</b>									
<i>Capital expenditure on:</i>									
Property, plant and equipment	14.2	3.4	4.1	21.7	3.9	5.3	2.8	12.0	33.7
Computer software	4.6	0.1	0.1	4.8	0.6	0.5	0.3	1.4	6.2
Goodwill and intangible assets (excluding computer software)	6.1	4.1	0.4	10.6	1.4	-	6.5	7.9	18.5
<i>Non-cash expenditure:</i>									
Depreciation	10.5	2.4	1.5	14.4	5.1	3.4	3.1	11.6	26.0
Impairment of property, plant and equipment and computer software	8.2	-	3.8	12.0	-	-	-	-	12.0
Amortisation of acquired intangibles and computer software	4.4	5.0	1.5	10.9	1.0	0.3	1.6	2.9	13.8
Impairment of goodwill and intangibles (excluding computer software)	-	-	22.0	22.0	100.4	-	10.2	110.6	132.6

\* 2016 has been restated for the historical overstatements, as noted in the Statement of Significant Accounting Policies and Note 33.

## Notes to the Financial Statements

### B) REVENUE BY PRODUCT GROUP

The Group focuses its activities into three product sectors: insulation and interiors; roofing and exteriors; and air handling, as set out on page 5.

The following table provides an analysis of Group revenue by type of product:

	2017 £m	2016 £m
Insulation and interiors	1,718.9	1,571.1
Roofing and exteriors	814.5	808.9
Air handling	245.1	207.4
<b>Total underlying</b>	<b>2,778.5</b>	<b>2,587.4</b>
Attributable to businesses identified as non-core (Note 11)	99.9	257.8
<b>Total</b>	<b>2,878.4</b>	<b>2,845.2</b>

### C) GEOGRAPHIC INFORMATION

The Group's revenue from external customers and its non-current assets (including property, plant and equipment, goodwill and intangible assets but excluding deferred tax, derivative financial instruments and deferred consideration) by geographical location are as follows:

Country	2017 Revenue £m	2017 Non-current assets £m	2016 Revenue £m	2016 Non-current assets £m
United Kingdom	1,207.0	265.0	1,196.0	298.0
Ireland	98.3	2.8	85.5	2.7
France	660.7	126.0	589.2	124.6
Germany	425.9	18.5	385.6	21.7
Poland	142.8	6.7	115.1	6.9
Benelux*	243.8	52.3	216.0	52.3
<b>Total underlying</b>	<b>2,778.5</b>	<b>471.3</b>	<b>2,587.4</b>	<b>506.2</b>
Attributable to businesses identified as non-core (Note 11)	99.9	0.3	257.8	50.7
<b>Total</b>	<b>2,878.4</b>	<b>471.6</b>	<b>2,845.2</b>	<b>556.9</b>

\* Includes the air handling business managed from The Netherlands.

There is no material difference between the basis of preparation of the information reported above and the accounting policies adopted by the Group.



## 2. COST OF SALES AND OTHER OPERATING EXPENSES

	2017			2016		
	Before Other items £m	Other items £m	Total £m	Before Other items £m	Other items £m	Total £m
<b>Cost of sales (2016 restated)</b>	<b>2,042.0</b>	<b>83.9</b>	<b>2,125.9</b>	1,896.3	201.0	2,097.3
<b>Other operating expenses:</b>						
– distribution costs*	<b>257.3</b>	<b>29.6</b>	<b>286.9</b>	234.1	39.4	273.5
– selling and marketing costs*	<b>213.9</b>	<b>6.4</b>	<b>220.3</b>	205.1	10.5	215.6
– administrative expenses	<b>171.0</b>	<b>108.2</b>	<b>279.2</b>	162.2	191.3	353.5
	<b>642.2</b>	<b>144.2</b>	<b>786.4</b>	601.4	241.2	842.6

\* The prior year figures have been reclassified to present on a consistent basis with the current year, reducing selling and marketing costs (before Other items and Total) by £17.3m and increasing administrative expenses (before Other items and Total) by the same amount

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:

	2017 £m	2016 £m
Amortisation of acquired intangibles (Note 13)	(9.3)	(10.3)
Impairment charges	(6.8)	(110.6)
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	(72.4)	(40.1)
Net operating losses attributable to businesses identified as non-core (Note 11)	(14.3)	(7.9)
Net restructuring costs <sup>^</sup>	(21.1)	(13.3)
Acquisition expenses and contingent consideration (Note 14)	(9.8)	4.6
Defined benefit pension scheme curtailment loss (Note 29c)	–	(0.9)
Other specific items*	5.5	(5.9)
<b>Impact on operating loss</b>	<b>(128.2)</b>	<b>(184.4)</b>
Net fair value losses on derivative financial instruments	(1.7)	(1.9)
Unwinding of provision discounting	(0.5)	0.4
<b>Impact on loss before tax</b>	<b>(130.4)</b>	<b>(185.9)</b>
Income tax credit on Other items	9.9	5.9
Effect of change in rate on deferred tax	(1.0)	0.2
Other tax adjustments in respect of previous years	4.2	0.4
<b>Impact on loss after tax</b>	<b>(117.3)</b>	<b>(179.4)</b>

<sup>^</sup> Included within net restructuring costs are costs associated with supply chain review of £11.7m (2016: £6.7m), property closure costs of £2.8m (2016: £4.4m), redundancy costs of £3.9m (2016: £1.7m) and £2.7m in relation to redundancy consultancy costs. There were no rebranding costs in the current year (2016: £0.5m).

\* Other specific items are split as follows.

	2017 £m	2016 £m
Profit on sale of property	5.8	2.8
Other specific credits	–	0.4
Impairment charge and other costs following the cessation of the UK eCommerce project	(0.3)	(9.7)
Net charge arising as a result of movements in provisions associated with businesses disposed of in previous years	–	(0.5)
Fair value gains on fuel hedging contracts	–	0.4
Reassessment of the provision associated with the closure in 2015 of the Group's operations in the Kingdom of Saudi Arabia	–	0.7
<b>Total other specific items</b>	<b>5.5</b>	<b>(5.9)</b>

# Notes to the Financial Statements

## 3. FINANCE INCOME AND FINANCE COSTS

	2017			2016		
	Underlying £m	Other items £m	Total £m	Underlying £m	Other items £m	Total £m
<b>Finance income</b>						
Interest on bank deposits	0.5	–	0.5	1.2	–	1.2
Unwinding of provision discounting	–	0.1	0.1	–	0.5	0.5
<b>Total finance income</b>	<b>0.5</b>	<b>0.1</b>	<b>0.6</b>	<b>1.2</b>	<b>0.5</b>	<b>1.7</b>
<b>Finance costs</b>						
On bank loans, overdrafts and other associated items <sup>^</sup>	7.0	–	7.0	5.0	–	5.0
On private placement notes	7.0	–	7.0	8.5	–	8.5
On obligations under finance lease contracts	0.5	–	0.5	0.5	–	0.5
<b>Total interest expense</b>	<b>14.5</b>	<b>–</b>	<b>14.5</b>	<b>14.0</b>	<b>–</b>	<b>14.0</b>
Net finance charge on defined benefit pension schemes	0.7	–	0.7	0.5	–	0.5
Unwinding of provision discounting	–	0.6	0.6	0.1	0.1	0.2
Fair value losses on derivative financial instruments <sup>*</sup>	0.4	1.7	2.1	0.4	1.9	2.3
<b>Total finance costs</b>	<b>15.6</b>	<b>2.3</b>	<b>17.9</b>	<b>15.0</b>	<b>2.0</b>	<b>17.0</b>
<b>Net finance costs</b>	<b>15.1</b>	<b>2.2</b>	<b>17.3</b>	<b>13.8</b>	<b>1.5</b>	<b>15.3</b>

<sup>^</sup> Other associated items includes the amortisation of arrangement fees of £0.8m (2016: £0.7m)

<sup>\*</sup> Fair value losses on derivative financial instruments before Other items includes £0.4m (2016: £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 £1.7m (2016: £1.9m) 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 will be the last year these losses are recognised as the amounts become fully recycled

#### 4. LOSS BEFORE TAX

	2017 £m	2016 Restated £m
<b>Loss before tax is stated after crediting:</b>		
Foreign exchange rate gains	–	0.3
Unwinding of provision discounting	0.1	0.5
Gains on disposal of property, plant and equipment	20.2	8.5
Acquisition expenses and contingent consideration (Note 14)	1.9	10.9
Other specific items (Note 2)	5.8	4.3
<b>And after charging:</b>		
Cost of inventories recognised as an expense	2,118.4	2,089.0
Net increase in provision for inventories	3.1	0.1
Depreciation of property, plant and equipment:		
– owned	20.0	22.8
– held under finance leases and hire purchase agreements	2.9	3.2
Amortisation of acquired intangibles	9.3	10.3
Amortisation of computer software	3.7	3.5
Operating lease rentals:		
– land and buildings	53.6	56.4
– plant and machinery	19.2	18.3
Auditor remuneration for audit services	1.6	1.5
Non-audit fees	0.1	0.1
Net increase in provision for receivables (Note 16)	16.8	5.0
Foreign exchange rate losses	0.5	–
Fair value losses on derivative financial instruments	2.1	2.3
Unwinding of provision discounting	0.6	0.2
Impairment charges	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	72.4	40.1
Net operating losses attributable to businesses identified as non-core (Note 11)	14.3	7.9
Net restructuring costs (Note 2)	21.1	13.3
Acquisition expenses and contingent consideration (Note 14)	11.7	6.3
Other specific items (Note 2)	0.3	10.2
Defined benefit pension scheme curtailment loss (Note 29c)	–	0.9
Staff costs excluding contingent consideration treated as remuneration (Note 5)	390.1	373.3

A more detailed analysis of Auditor remuneration is provided below:

	2017 Deloitte LLP £m	2016 Deloitte LLP £m
Fees payable to the Company's Auditor and their associates for the audit of the Company and Group Financial Statements	0.2	0.1
Fees payable to the Company's Auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	1.4	1.4
<b>Total audit fees</b>	<b>1.6</b>	<b>1.5</b>
– Audit-related assurance services (including interim review)^	0.1	0.1
– Other services^	–	–
<b>Total non-audit fees</b>	<b>0.1</b>	<b>0.1</b>
<b>Total fees</b>	<b>1.7</b>	<b>1.6</b>

^ The audit-related assurance services relate to the interim review and grant claim assurance work, it is usual practice for a company's Auditor to perform this work. Other services comprise £29,000 in relation to technical accounting workshops and £20,000 in relation to an accounting opinion on a proposed structure. Accounting workshops and opinions of this nature are typically provided by a company's Auditor.

The Audit Committee Report on pages 76 and 77 provides an explanation of how Auditor objectivity and independence is safeguarded when non-audit services are provided by the Auditor.

# Notes to the Financial Statements

## 5. STAFF COSTS

Particulars of employees (including Directors) are shown below:

	2017 £m	2016 £m
<b>Employee costs during the year amounted to:</b>		
Wages and salaries	323.9	312.8
Social security costs	57.8	52.5
IFRS 2 share option charge/(credit)	0.2	(0.3)
Pension costs (Note 29c)	8.2	8.3
Total staff costs excluding contingent consideration	390.1	373.3
Contingent consideration treated as remuneration (Note 14)	8.1	(0.3)
<b>Total staff costs including contingent consideration</b>	<b>398.2</b>	<b>373.0</b>

In addition to the above, redundancy costs of £3.9m (2016: £1.7m) have been included within Other items (Note 2).

Of the pension costs noted above, a charge of £0.4m (2016: £2.0m) relates to defined benefit schemes and a charge of £7.8m (2016: £6.3m) 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:

	2017 Number	2016 Number
Production	910	887
Distribution	2,811	3,186
Sales	3,944	4,155
Administration	2,009	2,087
<b>Total</b>	<b>9,674</b>	<b>10,315</b>

The average numbers above include 398 staff that were employed in businesses classified as non-core (2016: 944).

## DIRECTORS' EMOLUMENTS

Details of the individual Directors' emoluments are given in the Directors' Remuneration Report on pages 89 to 92.

The employee costs shown above include the following emoluments in respect of Directors of the Company:

	2017 £m	2016 £m
Directors' remuneration (excluding IFRS 2 share option charge)	2.1	1.4
Directors' compensation for loss of office	–	0.8
<b>Total</b>	<b>2.1</b>	<b>2.2</b>

## 6. INCOME TAX

The income tax expense comprises:

	2017 £m	2016 Restated £m
<b>Current tax</b>		
UK & Ireland corporation tax: – charge for the year	0.6	0.1
– adjustments in respect of previous years	0.2	–
	0.8	0.1
France corporation tax: – charge for the year	7.0	6.5
– adjustments in respect of previous years	(0.2)	–
	6.8	6.5
Germany corporation tax: – charge for the year	2.8	1.8
– adjustments in respect of previous years	0.2	–
	3.0	1.8
Other corporation tax: – charge for the year	4.0	3.1
– adjustments in respect of previous years	0.5	(0.6)
	4.5	2.5
<b>Total current tax</b>	<b>15.1</b>	<b>10.9</b>
<b>Deferred tax</b>		
Current year	(2.1)	1.1
Adjustments in respect of previous years	(6.9)	(0.3)
Deferred tax charge in respect of pension schemes*	0.3	0.2
Effect of change in rate	1.0	(0.3)
<b>Total deferred tax</b>	<b>(7.7)</b>	<b>0.7</b>
<b>Total income tax expense</b>	<b>7.4</b>	<b>11.6</b>

\* Includes a charge of Enil (2016: £0.1m) in respect of the change in rate.

# Notes to the Financial Statements

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:

	2017 £m	%	2016 Restated £m	%
Loss on ordinary activities before tax	(51.2)		(110.0)	
Expected tax credit	(2.5)	4.9	(31.1)	28.3
Factors affecting the income tax expense for the year:				
– expenses not deductible for tax purposes <sup>^</sup>	3.9	(7.6)	9.0	(8.1)
– non-taxable income <sup>*</sup>	(1.8)	3.5	(5.5)	5.0
– impairment and disposal charges not deductible for tax purposes <sup>**</sup>	9.1	(17.9)	38.9	(35.4)
– losses arising in the year not recognised for deferred tax purposes	3.3	(6.4)	1.4	(1.3)
– other adjustments in respect of previous years <sup>***</sup>	(6.2)	12.1	(1.1)	1.0
– tax on branch profits	0.6	(1.2)	0.2	(0.2)
– effect of change in rate on deferred tax	1.0	(1.9)	(0.2)	0.2
<b>Total income tax expense</b>	<b>7.4</b>	<b>(14.5)</b>	<b>11.6</b>	<b>(10.5)</b>

<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 and contingent consideration adjustments.

<sup>\*</sup> The majority of the Group's non-taxable income relates to French employment tax credits and to contingent consideration adjustments.

<sup>\*\*</sup> During the year the Group incurred impairment charges of £6.0m and disposal costs of £39.5m in relation to goodwill (2016: £127.9m) as set out in Note 12. These impairment and disposal charges are not deductible for tax purposes.

<sup>\*\*\*</sup> In the prior year the Group was in the process of disposing of a number of businesses and the tax deductibility and utilisation of the write downs was uncertain. Following an investigation of these matters with the Group's tax advisors it was determined that these expenses were tax deductible.

The effective tax rate for the Group on the total loss before tax of £51.2m is negative 14.5% (2016: negative 10.5%). The effective tax charge for the Group on profit before tax before Other items of £79.2m is 25.9% (2016: 23.8%), which comprises a tax charge of 27.9% (2016: 24.5%) in respect of current year profits and a tax credit of 2.0% (2016: 0.7%) in respect of prior years.

The factors that will affect 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 and so if the proportion of profits from these jurisdictions changes, this could result in a higher or lower Group tax charge;
- the impact of non-deductible expenditure and non-taxable income;
- 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.

	2017 £m	2016 Restated £m
Deferred tax movement associated with remeasurement of defined benefit pension liabilities <sup>*</sup>	(0.9)	2.3
Deferred tax on share options	0.2	(0.6)
Tax (charge)/credit on exchange and fair value movements arising on borrowings and derivative financial instruments	(1.8)	6.3
Effect of change in rate on deferred tax <sup>*</sup>	(0.2)	(0.5)
<b>Total</b>	<b>(2.7)</b>	<b>7.5</b>

<sup>\*</sup> These items will not subsequently be reclassified to the Consolidated Income Statement.

## 7. DIVIDENDS

An interim dividend of 1.25p per ordinary share was paid on 3 November 2017 (2016: 1.83p). The Directors have proposed a final dividend for the year ended 31 December 2017 of 2.5p per ordinary share (2016: 1.83p). 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 2016, were £18.2m (2016: £28.0m). No dividends have been paid between 31 December 2017 and the date of signing the Financial Statements.

At 31 December 2017 the Company has c.£53m 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 from appropriate repatriation of funds from subsidiary undertakings. Whilst 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.

## 8. (LOSS)/EARNINGS PER SHARE

The calculations of (loss)/earnings per share are based on the following (losses)/profits and numbers of shares:

	Basic and diluted	
	2017 £m	2016 Restated £m
Loss after tax	(58.6)	(121.6)
Non-controlling interests	(1.0)	(0.5)
	(59.6)	(122.1)
	Basic and diluted before Other items	
	2017 £m	2016 Restated £m
Loss after tax	(58.6)	(121.6)
Non-controlling interests	(1.0)	(0.5)
Other items:		
Amortisation of acquired intangibles (Note 13)	9.3	10.3
Impairment charges	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	72.4	40.1
Net operating losses attributable to businesses identified as non-core (Note 11)	14.3	7.9
Net restructuring costs	21.1	13.3
Acquisition expenses and contingent consideration (Note 14)	9.8	(4.6)
Defined benefit pension scheme curtailment loss (Note 29c)	-	0.9
Other specific items	(5.5)	5.9
Net fair value losses on derivative financial instruments	1.7	1.9
Unwinding of provision discounting	0.5	(0.4)
Tax credit relating to Other items	(9.9)	(5.9)
Effect of change in rate on deferred tax	1.0	(0.2)
Other tax adjustments in respect of previous years	(4.2)	(0.4)
	57.7	57.3
Weighted average number of shares	2017 Number	2016 Number
	591,489,053	591,365,906
Loss per share	2017	2016 Restated
	(10.1)p	(20.6)p
Earnings per share before Other items <sup>^</sup>	2017	2016 Restated
	9.8p	9.7p

<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

## Notes to the Financial Statements

The impact of Other items on the Consolidated Income Statement, along with their associated tax impact, is disclosed in the table below:

	Other items £m	2017 Tax impact £m	Tax impact %	Other items £m	2016 Restated Tax impact £m	Tax impact %
Amortisation of acquired intangibles (Note 13)	9.3	1.9	20.4	10.3	2.1	20.4
Impairment charges	6.8	1.3	19.1	110.6	-	-
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	72.4	2.0	2.8	40.1	0.9	2.2
Net operating losses attributable to businesses identified as non-core (Note 11)	14.3	1.4	9.8	7.9	(0.1)	(1.3)
Net restructuring costs	21.1	4.1	19.4	13.3	2.9	21.8
Acquisition expenses and contingent consideration (Note 14)	9.8	-	-	(4.6)	-	-
Defined benefit pension scheme curtailment loss (Note 29c)	-	-	-	0.9	0.2	22.2
Other specific items	(5.5)	(1.1)	20.0	5.9	(0.5)	(8.5)
<b>Impact on operating loss</b>	<b>128.2</b>	<b>9.6</b>	<b>7.5</b>	<b>184.4</b>	<b>5.5</b>	<b>3.0</b>
Net fair value losses on derivative financial instruments (Note 3)	1.7	0.3	17.6	1.9	0.4	21.1
Unwinding of provision discounting (Note 3)	0.5	-	-	(0.4)	-	-
<b>Impact on loss before tax</b>	<b>130.4</b>	<b>9.9</b>	<b>7.6</b>	<b>185.9</b>	<b>5.9</b>	<b>3.2</b>
Effect of change in rate on deferred tax	-	(1.0)	-	-	0.2	-
Other tax adjustments in respect of previous years	-	4.2	-	-	0.4	-
<b>Impact on loss attributable to equity holders of the Company</b>	<b>130.4</b>	<b>13.1</b>	<b>10.0</b>	<b>185.9</b>	<b>6.5</b>	<b>3.5</b>

### 9. SHARE-BASED PAYMENTS

The Group had two share-based payment schemes in existence during the year ended 31 December 2017 (2016: two). The Group recognised a total charge of £0.2m (2016: credit of £0.3m) 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 106p (2016: n/a). 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		2015 Award	
	EPS	ROCE	EPS	ROCE
Weighting of criteria	33%	67%	33%	67%
Vesting conditions:				
Does not vest	<31p	<10.0%	<38p	<11.0%
Vests proportionately	31p - 38p	10.0% - 13.5%	38p - 48p	11.0% - 14.0%
Vests in full	≥38p	≥13.5%	≥48p	≥14.0%
Proportion that vests at entry level	0%	0%	25%	0%
Exercise period	3-10 years*		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.

Previously awards were made annually since 2011 through a shadow Cash LTIP scheme that requires the Group to pay the intrinsic value of the share appreciation rights to the employee at the date of exercise. There have been no awards made in 2017 or 2016. This scheme has exactly the same conditions and vesting criteria as the LTIP, the difference being that the award is settled at the cash value of the equity in the event of the options being exercised, rather than through the issue of shares. This scheme has been accounted for in the same way as the equity-settled scheme, with the exception that the liability is recognised within accruals as opposed to equity.



## LTIP OPTIONS (ISSUED AFTER 7 NOVEMBER 2002)

	2017		2016	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At 1 January	3,335,562	0.0	5,437,788	0.0
Granted during the year	1,413,968	0.0	–	0.0
Exercised during the year (Note 25)	(87,934)	0.0	(113,153)	0.0
Lapsed during the year (Note 25)	(1,463,347)	0.0	(1,989,073)	0.0
<b>At 31 December</b>	<b>3,198,249</b>	<b>0.0</b>	<b>3,335,562</b>	<b>0.0</b>

Of the above share options outstanding at the end of the year, 8,747 (2016: 96,681) are exercisable at 31 December 2017.

The options outstanding at 31 December 2017 had a weighted average exercise price of nil p (2016: nil p) and a weighted average remaining contractual life of 1.4 years (2016: 1.2 years). In the year, 87,934 options were exercised.

The assumptions used in the Black-Scholes model in relation to the LTIP options are as follows:

	2017 Award		2015 Awards	2014 Award
Share price (on date of official grant)	117p (24 April 2017)	138p (4 December 2015)	184p (17 September 2015)	177p (18 September 2014)
Exercise price	0.0p	0.0p	0.0p	0.0p
Expected volatility	41.8%	25.4%	25.4%	32.3%
Actual life	3 - 5 years	3 - 5 years	3 - 5 years	3 years
Risk free rate	1.1%	1.8%	1.8%	1.8%
Dividend	3.08p	4.67p	4.67p	3.82p
Expected percentage options exercised versus granted at date of grant	50%	12%	50%	50%
Revised expectation of percentage of options to be exercised as at 31 December 2017	66%	0%	0%	0%

The weighted average fair value of LTIP options granted during the year was 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) SHARE INCENTIVE PLAN ('SIP')

The SIP is offered to UK employees. The SIP is an 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 2017, 138,366 (2016: 167,546) 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		Plant and machinery £m	Total £m
	Freehold £m	Short leasehold £m		
<b>Cost</b>				
At 1 January 2016	63.4	41.6	203.3	308.3
Exchange differences	7.9	2.5	19.6	30.0
Additions	1.5	6.8	25.4	33.7
Added on acquisition	0.3	–	1.7	2.0
Disposals	(13.5)	(1.7)	(41.0)	(56.2)
At 31 December 2016	59.6	49.2	209.0	317.8
Exchange differences	2.6	1.3	7.9	11.8
Additions	0.4	3.3	15.9	19.6
Reclassified as held for sale	(0.3)	–	–	(0.3)
Transfers	–	–	2.7	2.7
Disposals	(22.7)	(8.7)	(30.4)	(61.8)
<b>At 31 December 2017</b>	<b>39.6</b>	<b>45.1</b>	<b>205.1</b>	<b>289.8</b>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2016	15.6	22.5	127.5	165.6
Charge for the year	1.7	3.4	20.9	26.0
Impairment charges	–	1.1	3.0	4.1
Exchange differences	3.2	2.2	14.7	20.1
Disposals	(2.9)	(1.5)	(20.9)	(25.3)
At 31 December 2016	17.6	27.7	145.2	190.5
Charge for the year	1.6	3.9	17.4	22.9
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)
<b>At 31 December 2017</b>	<b>14.0</b>	<b>25.3</b>	<b>148.1</b>	<b>187.4</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>25.6</b>	<b>19.8</b>	<b>57.0</b>	<b>102.4</b>
At 31 December 2016	42.0	21.5	63.8	127.3

The net book value of plant and machinery at 31 December 2017 includes an amount of £10.0m (2016: £9.3m) 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 (2016: £0.2m).

Of the £3.8m impairment charges, £2.1m relates to the impairment of the assets of Building Systems and £0.1m relates to the assets of GRM to reflect the recoverable amount indicated by the consideration received in respect of the sale post year end. These charges are included within losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11). Other impairments relate to other assets identified as being surplus to requirements. The impairment charges have been charged to administrative expenses within the respective segments.

### 11. DIVESTMENTS AND EXIT OF NON-CORE BUSINESSES

The Group has recognised a total charge of £72.4m (2016: £40.1m) 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.

#### DIVESTED BUSINESSES

The Group has divested of the following businesses during the year:

##### CARPET & FLOORING

As disclosed in the 2016 Annual Report and Accounts, at 31 December 2016 the Group Board had resolved to dispose of its UK specialist flooring distribution operation, Carpet & Flooring, and because a loss was anticipated the net assets of the business were impaired to reflect the estimated net proceeds. The disposal was completed on 28 February 2017 for consideration of £7.2m and resulted in a further loss on disposal within Other items in the Consolidated Income Statement in 2017 of £2.3m.

#### DRYWALL QATAR

As disclosed in the 2016 Annual Report and Accounts, at 31 December 2016 the Group Board had resolved to exit the Drywall Qatar business, and because a loss was anticipated the goodwill and fixed assets of the business were impaired. The disposal was completed on 27 March 2017. The Group has recognised further costs relating to the sale in the period ended 31 December 2017, and in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" the cumulative exchange differences on the retranslation of the net assets and goodwill and intangibles of the business (£1.2m credit) have been reclassified to the Consolidated Income Statement, resulting in an overall net loss on disposal within Other items in the Consolidated Income Statement of £0.4m.

#### WEGO AUSTRIA

In May and June 2017 the Group sold certain trade and assets of WeGo Systembaustoffe Austria GmbH ('WeGo Austria') for consideration of £1.7m, and the entity has subsequently been liquidated, resulting in an overall loss on disposal within Other items in the Consolidated Income Statement of £1.2m.

#### BUILDING PLASTICS

On 3 August 2017 the Group disposed of its UK building plastics distribution business ('Building Plastics'), part of the UK Exteriors division, for consideration of up to £20.3m, comprising an initial cash payment of £18.0m plus up to £2.3m of future consideration contingent on future performance of the business and payable in July 2019. The loss arising on disposal of £28.6m has been disclosed within Other items in the Consolidated Income Statement.

#### 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'). Consideration for the sale was £3.1m, comprising an initial cash payment of £1.6m and £1.6m converted to a vendor loan repayable over 48 months from October 2018 which is recognised at the present value of future cash payments of £1.5m. The loss arising on disposal of £1.8m has been included within Other items in the Consolidated Income Statement. In addition, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", the cumulative exchange differences on the retranslation of the net assets of the business (£1.3m debit) have been reclassified to the Consolidated Income Statement, resulting in an overall net loss on disposal within Other items in the Consolidated Income Statement of £3.1m.

The net assets of the five businesses at the date of disposal were as follows:

	Building Plastics		Other	
	At date of disposal £m	At 31 December 2016 £m	At date of disposal £m	At 31 December 2016 £m
Attributable goodwill	39.0	39.0	0.8	-
Property, plant and equipment	0.5	1.0	1.3	1.5
Cash	-	-	8.6	0.1
Inventories	5.8	4.4	4.4	13.6
Trade and other receivables	0.7	0.5	13.8	19.7
Trade and other payables	-	-	(9.6)	(22.9)
Provisions	-	-	-	(0.1)
Bank and other loans	-	-	(1.6)	(0.1)
Net assets	46.0	44.9	17.7	11.8
Other costs	1.8		1.2	
Provision release	(1.2)		-	
Reclassification of cumulative exchange differences to Consolidated Income Statement	-		0.1	
Loss on disposal	(28.6)		(7.0)	
Sale proceeds	18.0		12.0	
Satisfied by:				
Cash and cash equivalents	18.0		10.5	
Deferred consideration (vendor loan note)	-		1.5	
	18.0		12.0	

# Notes to the Financial Statements

## OTHER NON-CORE BUSINESSES

The Group has also divested of or agreed to exit/divest from the following businesses:

### BUILDING SYSTEMS

On 28 February 2018 the Group agreed terms to sell the trade and assets of SIG Building Systems Limited ('Building Systems'), the Group's offsite manufacturer of modular housing, to Urban Splash House Limited and the sale completed on 2 March 2018. The assets of the business have been impaired to reflect the recoverable amount indicated by the consideration received in respect of the sale. The write-downs and provisions recognised in anticipation of the sale of the business of £7.9m have been disclosed within Other items in the Consolidated Income Statement. The business did not meet the criteria under IFRS 5 to be classified as held for sale at 31 December 2017.

The associated assets and liabilities of the Building Systems business were as follows:

	At 31 December 2017			At 31 December 2016 £m
	Recoverable value £m	Impairment and asset write-down £m	Original carrying value £m	
Property, plant and equipment	-	(2.1)	2.1	2.5
Inventories	-	(1.1)	1.1	0.2
Trade and other receivables	2.9	(0.9)	3.8	4.0
Trade and other payables	(4.3)	(1.3)	(3.0)	(1.1)
<b>Net (liabilities)/assets</b>	<b>(1.4)</b>	<b>(5.4)</b>	<b>4.0</b>	<b>5.6</b>

In addition to the impairment and asset write-down above, £2.5m of provisions have been recorded in the Consolidated Balance Sheet in relation to ongoing property costs to be incurred by the Group, resulting in a total loss arising in anticipation of the sale of £7.9m.

### GRM

On 2 February 2018 the Group completed the disposal of GRM Insulation Solutions ('GRM'), a division of SIG Trading Limited and part of the UK Distribution Cash Generating Unit ('CGU'). The goodwill, fixed assets and inventories associated with the business of £4.4m have been impaired to reflect the recoverable amount indicated by the sale proceeds and further costs of £1.3m have been accrued in relation to the sale. The loss arising on the agreed sale of £5.7m has been disclosed within Other items in the Consolidated Income Statement. The business did not meet the criteria under IFRS 5 to be classified as held for sale at 31 December 2017. The recoverable value of net assets of GRM at the balance sheet date, after the impairments and write downs noted above, is £0.1m of fixed assets.

### METECHNO

On 27 March 2017 the Directors of Metecho Limited ('Metecho'), a subsidiary of the Group, commenced the orderly wind down of Metecho. The assets of the business and associated goodwill have been impaired to reflect the recoverable amount indicated by the period end impairment review process, resulting in a total loss on wind down of £4.2m included in Other items in the Consolidated Income Statement.

### MIDDLE EAST

The Group has announced the closure of its business in the Middle East. The assets of the business and associated goodwill have been impaired to reflect the recoverable amount indicated by the period end impairment review process, resulting in a total loss on wind down of £17.1m (principally relating to provisions for trade receivables, provisions for inventories and other closure costs) included in Other items in the Consolidated Income Statement. The closing net liabilities in relation to the Middle East business included in the Consolidated Balance Sheet at 31 December 2017 are £5.1m (2016: net assets of £7.6m).

### IBSL

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 UK Distribution CGU. The assets of the business have been impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell of £0.1m, resulting in an impairment of goodwill and intangible assets associated with the business of £1.6m and write down of inventories of £0.2m. The assets and liabilities have been classified as held for sale on the Consolidated Balance Sheet at 31 December 2017 (comprising fixed assets of £0.2m, inventories of £0.1m and liabilities of £0.1m). The total loss arising on the agreed sale of £1.9m has been disclosed within Other items in the Consolidated Income Statement.

### MANUFACTURING IN POLAND

In December 2017 the Group ceased the processing of insulation product at its Sitaco subsidiary in Poland. Costs in relation to the closure of £0.9m have been recognised and included within Other items in the Consolidated Income Statement. It is not possible to separately identify the revenue and operating results in relation to this closure as the business continues to perform some distribution activities. Therefore no amounts have been included in Other items in relation to revenue and operating profit/loss in either of the 2017 or 2016 periods.

## 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 2017 and 31 December 2016 are as follows:

	2017		2016	
	Revenue £m	Net operating profit/(loss) £m	Revenue £m	Net operating profit/(loss) £m
Carpet & Flooring	11.4	(0.7)	97.5	(3.0)
Drywall Qatar	1.2	(1.4)	7.9	(2.8)
Businesses identified as non-core in 2016	12.6	(2.1)	105.4	(5.8)
Building Plastics	34.5	0.9	63.0	2.9
WeGo Austria	7.6	(0.2)	27.6	0.6
ATC Turkey	12.0	(0.4)	14.2	0.2
Building Systems	8.0	(7.6)	9.2	(6.2)
GRM	2.6	(0.8)	2.6	(0.6)
Metecho	1.3	(3.4)	3.3	(0.1)
Middle East	19.5	(0.7)	30.4	0.9
IBSL	1.8	–	2.1	0.2
Businesses identified as non-core in 2017	87.3	(12.2)	152.4	(2.1)
<b>Total attributable to non-core businesses</b>	<b>99.9</b>	<b>(14.3)</b>	<b>257.8</b>	<b>(7.9)</b>

## CASH FLOWS ASSOCIATED WITH DIVESTMENTS AND EXIT OF NON-CORE BUSINESSES

The net cash inflow in the year ended 31 December 2017 in respect of divestments and the exit of non-core businesses is as follows:

	Carpet & Flooring £m	Drywall Qatar £m	WeGo Austria £m	Building Plastics £m	Air Handling Turkey £m	<b>Total £m</b>
Cash consideration received for divestments	7.2	–	1.7	18.0	1.6	<b>28.5</b>
Cash at date of disposal	(6.6)	(0.1)	–	–	(1.9)	<b>(8.6)</b>
Disposal costs paid	(0.6)	(0.1)	(0.5)	(1.1)	–	<b>(2.3)</b>
<b>Net cash (outflow)/inflow</b>	<b>–</b>	<b>(0.2)</b>	<b>1.2</b>	<b>16.9</b>	<b>(0.3)</b>	<b>17.6</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.

## EVENTS AFTER THE BALANCE SHEET DATE

The disposals of the Building Systems, GRM and IBSL businesses completed after the balance sheet date, as disclosed above. There are no other post balance sheet events.

# Notes to the Financial Statements

## 12. GOODWILL

	£m
<b>Cost</b>	
At 1 January 2016	505.5
Acquisitions	10.8
Adjustments in respect of prior period acquisitions	1.3
Exchange differences	36.8
At 31 December 2016	554.4
Acquisitions	0.1
Business disposed	(61.6)
Adjustments in respect of prior period acquisitions	-
Exchange differences	10.9
<b>At 31 December 2017</b>	<b>503.8</b>
<b>Accumulated impairment losses</b>	
At 1 January 2016	68.0
Impairment charges	127.9
Exchange differences	5.8
At 31 December 2016	201.7
Impairment charges	6.0
Business disposed	(22.1)
Exchange differences	6.0
<b>At 31 December 2017</b>	<b>191.6</b>
<b>Net book value</b>	
<b>At 31 December 2017</b>	<b>312.2</b>
At 31 December 2016	352.7

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 15 CGUs (2016: 17).

### 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:

	2017 £m	2016 £m
UK Distribution	97.5	102.5
UK Exteriors	68.2	106.9
Building Solutions	12.7	12.7
Larivière	71.5	68.7
France	10.6	10.2
Germany	3.3	3.0
Poland	1.2	1.2
Air Handling	22.1	22.0
Benelux	14.1	13.5
Other CGUs	11.0	12.0
<b>Total goodwill</b>	<b>312.2</b>	<b>352.7</b>

## 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%-3.4%) over a further period of four years. Where detailed five-year forecasts for a CGU have been prepared and approved by the Board, which can include higher growth rates or varied results reflecting specific economic factors, these are used in preparing cash flow forecasts for impairment review purposes. The forecasts used in the annual impairment reviews have been prepared taking into account current economic conditions. After this period, the sales growth rates applied to the cash flow forecasts are no more than 1% and operating profit growth no more than 3.4% in perpetuity. The discount rates applied to all impairment reviews represent pre-tax rates.

	Long term operating profit growth rate (%)	Pre-tax discount rate (%)
UK	1.8	11.1
France	1.4	11.6
Germany	1.4	11.6
Poland	3.4	13.2
Air Handling	1.6	10.6
Benelux	1.6	10.6

## 2017 IMPAIRMENT REVIEW RESULTS

During the year the Group commenced the wind down of the Metecho business and thus the associated goodwill of £1.0m has been impaired. Subsequent to the year end the Group has completed the disposal of the GRM and IBSL businesses and as a result the goodwill of £5.0m associated with these CGUs has been impaired in full based on the agreed sale proceeds. These impairments have been charged to the UK Distribution segment.

In the prior year, a goodwill impairment charge of £100.4m was recognised in relation to the Larivière CGU and £10.2m in relation to the Poland CGU. These were charged to the France and Other Europe segments respectively.

The results of the 2017 impairment review indicate that the carrying values of all ongoing CGUs remain supportable.

# Notes to the Financial Statements

## SENSITIVITY ANALYSIS

A number of reasonably possible sensitivities have been performed on the Group's significant CGUs to highlight the changes in market conditions that would lead to the value in use equalling the carrying value. 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:

### 2017

	Headroom	Like-for-like market volume (average % per annum)		Discount rate (%)		Gross margin (%)		Long term operating profit growth rate (average % per annum)	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
UK Distribution	£22.8m	0.2	(1.4)	11.1	1.4	24.0	(0.3)	1.8	(1.1)
UK Exteriors	£88.6m	(1.8)	(9.2)	11.1	8.0	29.5	(2.3)	1.8	(6.3)
Building Solutions	£6.3m	(2.6)	(3.2)	11.1	2.7	29.9	(0.8)	1.8	(2.2)
Larivière	€9.3m	0.9	(1.1)	11.6	0.7	23.4	(0.2)	1.4	(0.7)
Germany	€20.3m	0.9	(1.8)	11.6	3.6	26.8	(0.4)	1.4	(2.4)
Poland	PLN 20.3m	-	(1.9)	13.2	5.4	19.4	(0.3)	3.4	(4.2)

### 2016

	Headroom	Like-for-like market volume (average % per annum)		Discount rate (%)		Gross margin (%)		Long term operating profit growth rate (average % per annum)	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
UK Distribution	£35.5m	0.2	(1.9)	9.4	1.8	24.7	(0.4)	1.8	(1.5)
UK Exteriors	£95.2m	(1.8)	(6.8)	9.4	5.1	29.9	(1.8)	1.8	(4.1)
Germany and Austria*	€42.7m	0.1	(3.6)	11.1	7.0	26.9	(1.1)	1.3	(4.6)

\* The recoverable amount of goodwill in respect of Germany and Austria at 31 December 2016 is £3.0m (2015: £2.6m)

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, an impairment would arise in four CGUs, UK Distribution (£21.2m), Larivière (€13.3m or £11.8m), Germany (€4.2m or £3.8m) and Poland (PLN 14.1m or £3.0m). The Board has actively reviewed the forecasts associated with UK Distribution, Larivière, Germany and Poland 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.



### 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 from any associated hardware).

	Customer relationships £m	Non-compete clauses £m	Computer software £m	Total £m
<b>Cost</b>				
At 1 January 2016	219.9	12.1	47.8	279.8
Acquisitions	6.8	0.1	–	6.9
Additions	–	–	6.2	6.2
Adjustment in respect of prior period acquisitions	(0.4)	(0.1)	–	(0.5)
Disposals	–	–	(0.3)	(0.3)
Exchange differences	12.7	–	–	12.7
At 31 December 2016	239.0	12.1	53.7	304.8
Acquisitions	–	–	–	–
Additions	–	–	3.2	3.2
Disposals	(0.4)	–	(0.6)	(1.0)
Transfers	–	–	(2.7)	(2.7)
Exchange differences	3.7	–	–	3.7
<b>At 31 December 2017</b>	<b>242.3</b>	<b>12.1</b>	<b>53.6</b>	<b>308.0</b>
<b>Amortisation</b>				
At 1 January 2016	163.9	11.2	16.5	191.6
Charge for the year	9.8	0.5	3.5	13.8
Impairment charges	4.7	–	7.9	12.6
Disposals	–	–	(0.2)	(0.2)
Exchange differences	10.1	–	–	10.1
At 31 December 2016	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
<b>At 31 December 2017</b>	<b>201.1</b>	<b>12.1</b>	<b>37.8</b>	<b>251.0</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>41.2</b>	<b>–</b>	<b>15.8</b>	<b>57.0</b>
At 31 December 2016	50.5	0.4	26.0	76.9

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 109.

Included within computer software additions are assets in the course of construction of £0.3m (2016: £0.9m).

The £0.6m customer relationships impairment charge in the current year relates to IBSL (see Note 11). The £4.7m customer relationships impairment charge in the prior year related to the Group's Drywall Qatar business.

The computer software impairment charge in the current year relates to the review of the utilisation of the UK ERP system, Kerridge K8, which identified that certain modules were not being used. The prior year charge relates to the cessation of the UK eCommerce project.

# Notes to the Financial Statements

## 14. ACQUISITIONS

The Group has not made any acquisitions during 2017.

In accordance with IFRS 3 "Business Combinations", acquisition expenses of £nil (2016: £0.8m) in relation to recent acquisitions have been recognised within the Consolidated Income Statement and in accordance with the Group's policy, as noted in the Statement of Significant Accounting Policies, these have been presented within the column entitled Other items. In addition, a total charge of £9.8m (2016: credit £5.4m) relating to contingent consideration payable to vendors of businesses previously acquired has been recognised within the Consolidated Income Statement and has been presented within the column entitled Other items.

	2017 £m	2016 £m
Contingent on vendors remaining within the business (below)	8.1	(0.3)
Re-assessment of post-acquisition performance of acquired businesses	1.7	(5.1)
	9.8	(5.4)
Acquisition expenses	-	0.8
<b>Total charge/(credit) to Consolidated Income Statement</b>	<b>9.8</b>	<b>(4.6)</b>

## CONSIDERATION DEPENDENT ON VENDORS REMAINING WITHIN THE BUSINESS

Dependent upon future profits, a further £nil (2016: £15.5m) may be paid to the vendors of recent acquisitions who are employed by the Group. These payments were contingent upon the vendors remaining within the business and, as required by IFRS 3, were treated as remuneration and were charged to the Consolidated Income Statement as earned.

	2017 £m	2016 £m
At 1 January	4.4	11.8
New amounts accrued	10.3	4.2
Interest accrued	-	0.1
Amounts paid	(2.7)	(6.1)
Accruals released	(2.2)	(4.5)
Transferred to deferred consideration	(9.8)	(1.6)
Exchange differences	-	0.5
<b>At 31 December</b>	<b>-</b>	<b>4.4</b>

## 15. INVENTORIES

	2017 £m	2016 £m
Raw materials and consumables	4.8	4.7
Work in progress	0.9	0.7
Finished goods and goods for resale	237.9	245.2
Inventories classified as part of a disposal business held for sale (Note 11)	(0.1)	-
	243.5	250.6

The estimated replacement cost of inventories is not materially different from the balance sheet value stated above.

## 16. TRADE AND OTHER RECEIVABLES

	2017 £m	2016 Restated £m
Trade receivables	362.3	417.0
Amounts due from construction contract customers	6.2	12.9
VAT	5.2	4.7
Other receivables	13.5	2.8
Prepayments and accrued income	80.8	75.4
<b>Trade and other receivables</b>	<b>468.0</b>	<b>512.8</b>
Current tax assets	5.2	3.2
Assets classified as held for sale (Note 11)	0.3	15.6
<b>Total receivables</b>	<b>473.5</b>	<b>531.6</b>

Included within prepayments and accrued income is £55.2m (2016: restated £52.8m) 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.

The average credit period on sale of goods and services for underlying operations on a constant currency basis is 39 days (2016: 45 days). No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £41.1m at 31 December 2017 (2016: £33.9m). This allowance has been determined by reference to past default experience.

Included within the Group's trade receivable balance are debtors with a carrying amount of £123.6m (2016: £114.3m) which are past due at the reporting date for which the Group has not provided, as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 38 days overdue (2016: 35 days).

#### AGEING ANALYSIS OF TRADE RECEIVABLES FOR WHICH NO PROVISION FOR IMPAIRMENT HAS BEEN MADE

	2017 £m	2016 £m
Neither past due nor renegotiated	254.5	288.5
Renegotiated	0.1	2.7
<i>Balances overdue which have no provision for impairment:</i>		
1 – 30 days	80.3	80.0
31 – 60 days	16.8	16.1
61 – 90 days	15.0	6.1
91 – 120 days	5.1	6.5
121 – 180 days	3.4	2.7
180+ days	3.0	2.9
<b>Total trade receivables overdue which have no provision for impairment</b>	<b>123.6</b>	<b>114.3</b>
<b>Total trade receivables for which no provision for impairment has been made</b>	<b>378.2</b>	<b>405.5</b>

#### MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2017 £m	2016* £m
At 1 January	(33.9)	(31.7)
Utilised	9.3	6.8
Unused amounts released to the Consolidated Income Statement	3.0	8.3
Added on acquisition	–	(0.1)
Released on disposal of non-core businesses (Note 11)	0.9	–
Charged to the Consolidated Income Statement	(19.8)	(13.3)
Exchange differences	(0.6)	(3.9)
<b>At 31 December</b>	<b>(41.1)</b>	<b>(33.9)</b>

\* In prior years movements in the provision were presented as a net charge or credit to the Consolidated Income Statement. In addition, certain balances fully provided for were shown on a net basis. In the current year these balances have been shown on a gross basis to show a fairer presentation of the total provision. As a result, movements in the provision have been presented gross to show separately amounts released and amounts charged to the Consolidated Income Statement during the year and the net amount charged to the Consolidated Income Statement of £5.0m presented in the prior year has been represented accordingly. The prior year provision at 1 January 2016 and 31 December 2016 has been increased by £12.8m. There is no impact on the net trade receivables balance disclosed at 31 December 2016.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and makes a provision for impairment accordingly. The concentration of credit risk is limited due to the customer base being large and unrelated. The Directors therefore believe that no further credit provision is required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are trade receivables with a gross balance of £51.1m (2016: £45.4m) and a provision for impairment of £41.1m (2016: £33.9m). The provision for impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The large increase during the year is mainly attributable to the closure of business in the Middle East and has been included within losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11).

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 £48.7m (2016: £nil) have been derecognised from the Consolidated Balance Sheet, because the Group has transferred the risks and rewards.

# Notes to the Financial Statements

## CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade receivable credit exposure is controlled by counterparty limits that are set, reviewed and approved by operational management on a regular basis.

Trade receivables consist of a large number of typically small to medium sized customers, spread across a number of different market sectors and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. The Group does not have any significant credit risk exposure to any single customer.

## 17. CURRENT LIABILITIES

	2017 £m	2016 Restated £m
Trade payables	291.2	301.0
Amounts due to construction contract customers	1.3	2.5
Bills of exchange payable	4.5	0.3
VAT	23.4	23.1
Social security and payroll taxes	18.3	15.2
Accruals and other payables	90.3	79.5
<b>Trade and other payables</b>	<b>429.0</b>	<b>421.6</b>
Obligations under finance lease contracts (Note 24)	3.1	3.1
Bank overdrafts	29.6	22.7
Bank loans	84.2	171.6
Private placement notes	21.1	–
Loan notes and deferred consideration	17.0	2.7
Derivative financial instruments	0.2	0.2
Current tax liabilities	7.2	8.4
Provisions (Note 22)	12.0	14.5
Liabilities directly associated with assets classified as held for sale (Note 11)	0.1	15.6
<b>Current liabilities</b>	<b>603.5</b>	<b>660.4</b>

Trade payables is presented net of £58.8m (2016: restated £72.6m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement.

£0.4m (2016: £0.5m) 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 £83.7m (2016: £170.2m) 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 2017 ranged from 0.0% to 1.9% (2016: between 0.0% and 2.2%).

£38.4m (2016: £122.3m) of the bank loans and deferred consideration due within one year (after taking into account derivative financial instruments) are at variable rates of interest.

£62.8m (2016: £52.0m) 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 3.1% (2016: 3.1%).

£21.1m (2016: £nil) of the private placement notes due within one year (after taking into account derivative financial instruments) were at a fixed interest rate of 5.5%. This debt is denominated in sterling and was swapped from fixed to floating rate debt using an interest rate swap.

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 43 days (2016: 45 days).

The Directors consider that the carrying amount of current liabilities approximates to their fair value.

## 18. NON-CURRENT LIABILITIES

	2017 £m	2016 £m
Obligations under finance lease contracts (Note 24):		
– due after one and within two years	2.6	2.7
– due after two and within five years	3.8	4.8
– due after five years	0.4	0.6
Bank loans	–	0.3
Private placement notes	183.1	200.7
Derivative financial instruments	3.3	3.6
Deferred tax liabilities (Note 23)	13.4	15.2
Other payables	3.8	5.5
Retirement benefit obligations (Note 29c)	30.4	37.1
Provisions (Note 22)	13.8	22.4
<b>Non-current liabilities</b>	<b>254.6</b>	<b>292.9</b>
	<b>2017 £m</b>	<b>2016 £m</b>
The bank loans included above are repayable as follows:		
– due after one and within two years	–	0.3
– due after two and within five years	–	–
<b>Total</b>	<b>–</b>	<b>0.3</b>

Of the above bank loans due after more than one year, £nil (2016: £0.2m) are secured on certain assets of subsidiary undertakings. All of the above private placement notes and derivative financial instruments are guaranteed by certain companies of the Group.

Of the above bank loans due after more than one year, £nil (2016: £0.2m) attract variable rates of interest and £nil (2016: £0.1m) attract an average fixed interest rate of 2.4% (2016: 4.2%).

Details of the private placement notes (before applying associated derivative financial instruments) are as follows:

	2017 £m	Fixed interest rate %	2016 £m	Fixed interest rate %
Repayable in 2018	21.1	5.5	22.0	5.3
Repayable in 2020	26.7	3.7	25.6	3.7
Repayable in 2021	17.8	3.9	17.1	3.9
Repayable in 2023	44.4	4.2	42.7	4.2
Repayable in 2026	94.2	3.3	93.3	3.3
<b>Total</b>	<b>204.2</b>	<b>3.8</b>	<b>200.7</b>	<b>3.8</b>

The private placement debt repayable in 2018 is denominated in Sterling. The debt was swapped from fixed to floating rate debt using an interest rate swap. The £22.2m (2016: £24.3m) 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 2017 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 £203.0m as disclosed in Note 19 Financial Instruments.

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 140.

## Notes to the Financial Statements

### 19. FINANCIAL INSTRUMENTS

The 'Treasury risk management' section of the Financial Review on pages 36 to 40 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 35.

The Group's financial assets consist of trade and other receivables, cash at bank and derivative financial instruments. The following financial assets form part of the net debt of the Group:

	2017 £m	2016 Restated £m
Cash and cash equivalents <sup>^</sup>	121.8	127.0
Other financial assets	–	1.1
Deferred consideration	1.5	0.7
Derivative financial instruments	1.3	4.5
<b>Total</b>	<b>124.6</b>	<b>133.3</b>

<sup>^</sup> Included within cash and cash equivalents for 2017 is cash restricted for use of £6.1m.

The Directors consider the fair value of financial assets to approximate to their book value. The interest received on cash deposits is at variable rates of interest of up to 1.6% (2016: 1.2%).

The Group's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Of the above cash at bank, £40.7m (2016: restated £39.9m) is denominated in Sterling, £56.3m (2016: restated £66.8m) in Euros, £19.9m (2016: £17.4m) in Polish Zloty, and £4.9m (2016: £2.9m) in other currencies. Of the other financial assets, £nil (2016: £1.1m) is denominated in United Arab Emirates Dirhams. Of the deferred consideration, £nil (2016: £0.7m) is denominated in Sterling and £1.5m (2016: £nil) in other currencies.

### 2017 INTEREST RATE AND CURRENCY PROFILE

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	2.9	9.6	–	42.1
Other borrowings	Sterling	116.2	66.9	49.3	2.8	3.0	–	116.2
Finance lease contracts	Sterling	0.1	–	0.1	5.8	2.8	0.1	–
Private placement notes	Euro	160.9	–	160.9	3.5	7.4	–	160.9
Other borrowings	Euro	9.8	0.8	9.0	3.0	2.0	0.1	9.7
Finance lease contracts	Euro	7.6	–	7.6	5.0	5.8	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	5.3	2.2	–
Other borrowings	US Dollar	7.9	–	7.9	4.0	1.1	–	7.9
<b>Total</b>		<b>347.1</b>	<b>88.0</b>	<b>259.1</b>			<b>10.3</b>	<b>336.8</b>

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2017 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 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 £223.8m and, after taking into account the cross-currency derivatives, the Group has net Euro financial liabilities of £145.6m.

All of the above finance lease contracts, £9.9m (2016: £11.2m), 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 2017 is estimated to be c.£240m (2016: c.£241m) and is classified as a Level 2 fair value measurement for disclosure purposes. The remaining fixed rate debt amounts to £76.1m (2016: £67.0m) 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.

## 2016 INTEREST RATE AND CURRENCY PROFILE

The interest rate and currency profile of the Group's financial liabilities at 31 December 2016, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £4.5m 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	41.8	20.0	21.8	3.3	9.6	–	41.8
Other borrowings (restated)	Sterling	154.6	111.2	43.4	3.1	3.1	–	154.6
Finance lease contracts	Sterling	0.3	–	0.3	6.1	2.7	0.3	–
Private placement notes	Euro	154.5	–	154.5	3.5	7.4	–	154.5
Other borrowings	Euro	34.0	33.8	0.2	4.2	–	0.4	33.6
Finance lease contracts	Euro	8.3	–	8.3	5.3	3.8	8.3	–
Other borrowings	Polish Zloty	0.2	0.2	–	n/a	–	0.2	–
Finance lease contracts	Polish Zloty	2.6	–	2.6	3.3	4.5	2.6	–
Other borrowings	US Dollar	11.2	–	11.2	3.0	0.3	0.1	11.1
Other borrowings	Other	1.0	–	1.0	n/a	–	–	1.0
<b>Total</b>		<b>408.5</b>	<b>165.2</b>	<b>243.3</b>			<b>11.9</b>	<b>396.6</b>

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments 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 £2.1m which is included in the Sterling value of other borrowings in the table above.

The Group's net debt at 31 December 2016 was £279.7m (restated) and, after taking into account the cross-currency derivatives, the Group has net Euro financial liabilities of £152.7m (restated).

In both 2017 and 2016, the interest rate on floating rate financial liabilities is based upon appropriate local market rates.

## HEDGING RELATIONSHIPS

Included within financial assets are derivative financial instruments in designated hedge accounting relationships amounting to £1.3m (2016: £4.5m) and loans and receivables (including cash and cash equivalents) of £586.1m (2016: restated £641.0m).

Included within financial liabilities are derivative financial instruments in designated hedge accounting relationships amounting to £3.5m (2016: £3.6m) and liabilities (including trade payables) at amortised cost of £732.2m (2016: restated £792.8m).

The Group does not trade in derivative financial instruments for speculative purposes. Where the Group can demonstrate a hedge relationship under the rules of IAS 32 and 39, movements in the fair values of these derivative financial instruments (for cash flow and net investment hedges) will be recognised in the Consolidated Statement of Comprehensive Income. Where the Group does not meet these rules, movements in the fair value will be recognised as gains and losses on derivative financial instruments in the Consolidated Income Statement in the column entitled Other items.

In order to manage the Group's exposure to interest rate 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.

# Notes to the Financial Statements

## A) NET INVESTMENT HEDGES

As at 31 December 2017 the Group held two (31 December 2016: 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. The hedge relationships were fully effective and the fair value changes on those derivatives were recognised in equity (hedging and translation reserve). As at 31 December 2016 the Group held one cross-currency forward contract that was designated as a net investment hedge.

Hedge of the Group's Euro denominated assets	2017 £m	2016 £m
Liability at 1 January	(2.1)	-
Fair value losses recognised in equity	(0.6)	(2.1)
<b>Liability at 31 December</b>	<b>(2.7)</b>	<b>(2.1)</b>

Additionally, as at 31 December 2017 the Group held €181.0m (2016: €216.0m) of direct Euro-denominated debt through its revolving credit facility and bilateral private placement debt. This is designated and effective as a net investment hedge of the Group's Euro-denominated assets.

## B) CASH FLOW HEDGES

With regard to cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity and is subsequently removed and included in the Consolidated Income Statement within finance costs in the same period 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.

As at 31 December 2017, the Group held two (31 December 2016: 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. All of these derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2017, the weighted average maturity date of these swaps is 8.6 years (2016: 9.6 years).

Hedge of the Group's functional currency cash flows	2017 £m	2016 £m
Asset at 1 January	2.5	33.4
Fair value (losses)/gains recognised in equity	(2.4)	26.0
Cash settlement on maturity of cash flow hedges	-	(56.9)
<b>Asset at 31 December</b>	<b>0.1</b>	<b>2.5</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.

As at 31 December 2017, the Group held two (31 December 2016: two) interest rate derivative financial instruments which swap variable rate debt into fixed rate debt thereby fixing the functional currency cash flows of the Group. Both of these interest rate derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2017, the weighted average maturity date of these swaps is 2.1 years (2016: 3.1 years).

Hedge of the Group's interest cash flows	2017 £m	2016 £m
Liability at 1 January	(1.5)	(0.7)
Fair value gains/(losses) recognised in equity	0.7	(0.8)
<b>Liability at 31 December</b>	<b>(0.8)</b>	<b>(1.5)</b>

The Group purchases diesel fuel on a floating price basis and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. The Group had no fuel price derivative financial instruments at 31 December 2017 and 31 December 2016. During 2016, two fuel price derivative instruments matured, one of which was designated and effective as a cash flow hedge and the fair value movement deferred in equity via the Consolidated Statement of Comprehensive Income. The remaining fuel price derivative financial instrument was not designated as a cash flow hedge and the fair value credit of £0.4m in 2016 was credited through Other items in the Consolidated Income Statement (Note 2).



	2017 £m	2016 £m
<b>Hedge of the Group's fuel costs</b>		
Liability at 1 January	-	(0.9)
Fair value gains recognised in equity	-	0.9
<b>Liability at 31 December</b>	<b>-</b>	<b>-</b>

Included within current assets are derivative financial instruments of £0.1m (2016: £nil) relating to forward foreign exchange contracts.

The following table reconciles the net fair value gain/(loss) recognised in equity on cash flow hedges as noted above of £1.6m loss (2016: £26.1m gain) to the gain/(loss) on cash flow hedges recorded in the Consolidated Statement of Comprehensive Income of £2.5m gain (2016: £1.5m loss).

	2017 £m	2016 £m
Movement in cash flow hedges recognised in equity	<b>(1.6)</b>	26.1
Amounts reclassified to the Consolidated Income Statement	<b>2.0</b>	(29.9)
	<b>0.4</b>	(3.8)
Spreading charge associated with the cancellation of cash flow hedges*	<b>2.1</b>	2.3
<b>Total movement relating to cash flow hedges included in the Consolidated Statement of Comprehensive Income</b>	<b>2.5</b>	<b>(1.5)</b>

\* Of the £2.1m (2016: £2.3m) spreading charge associated with cancellation of cash flow hedges in 2017, £1.7m (2016: £1.9m) is reported in Other items in the Consolidated Income Statement

### C) FAIR VALUE HEDGES

As at 31 December 2017, the Group held one (31 December 2016: one) derivative financial instrument which hedges the fair value of the fixed interest private placement notes drawn down on 1 February 2007. This interest rate derivative financial instrument is designated and effective as a fair value hedge and the fair value movement has therefore been recognised immediately in the Consolidated Income Statement.

	2017 £m	2016 £m
<b>Hedge of the fair value of fixed interest borrowings</b>		
Asset at 1 January	<b>2.0</b>	3.4
Net fair value losses recognised in the Consolidated Income Statement	<b>(0.9)</b>	(1.4)
<b>Asset at 31 December</b>	<b>1.1</b>	<b>2.0</b>

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.

	2017 £m	2016 £m
Fair value net losses on derivative financial instruments recognised in the Consolidated Income Statement	<b>0.9</b>	1.5
Fair value net gains attributable to the hedged item recognised in the Consolidated Income Statement	<b>(0.9)</b>	(1.5)
Hedge ineffectiveness credit recognised in the Consolidated Income Statement	-	-
Spreading charges associated with cancellation of cash flow hedges*	<b>2.1</b>	2.3
<b>Total net losses on derivative financial instruments included in the Consolidated Income Statement</b>	<b>2.1</b>	<b>2.3</b>

\* £0.4m (2016: £0.4m) of the £2.1m (2016: £2.3m) 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 2017 was as follows:

	2017 £m	2016 Restated £m
In one year or less	<b>154.0</b>	200.2
In more than one year but not more than two years	<b>2.6</b>	23.4
In more than two years but not more than five years	<b>48.8</b>	48.6
In more than five years	<b>141.7</b>	136.3
<b>Total</b>	<b>347.1</b>	<b>408.5</b>

The table above excludes trade payables of £291.2m (2016: £301.0m).

# Notes to the Financial Statements

## BORROWING FACILITIES

The Group had undrawn committed borrowing facilities at 31 December 2017 as follows:

	2017 £m	2016 £m
Expiring in more than two years but not more than five years	272.0	188.1
<b>Total</b>	<b>272.0</b>	<b>188.1</b>

At 31 December 2017 the Group had £553.1m of committed facilities, of which £272.0m were undrawn as disclosed above. Since 31 December 2017, a maximum of £175m 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.

### 2017 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	387.3	387.3	-	-	-	387.3
Obligations under finance lease contracts	3.1	3.2	-	-	-	3.2
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>542.5</b>	<b>543.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>543.1</b>
<b>Non-current liabilities</b>						
Obligations under finance lease contracts	6.8	0.3	2.9	4.0	0.4	7.6
Bank loans	-	-	-	-	-	-
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>193.2</b>	<b>7.1</b>	<b>9.5</b>	<b>65.2</b>	<b>155.1</b>	<b>236.9</b>
<b>Total liabilities</b>	<b>735.7</b>	<b>550.2</b>	<b>9.5</b>	<b>65.2</b>	<b>155.1</b>	<b>780.0</b>
<b>Other</b>						
Derivative financial instrument assets	(1.3)	(1.3)	(0.2)	(0.5)	(1.9)	(3.9)
Cash and cash equivalents <sup>^</sup>	(121.8)	(121.8)	-	-	-	(121.8)
Deferred consideration	(1.5)	(0.3)	(0.5)	(1.2)	-	(2.0)
Trade and other receivables	(462.8)	(462.8)	-	-	-	(462.8)
<b>Total</b>	<b>(587.4)</b>	<b>(586.2)</b>	<b>(0.7)</b>	<b>(1.7)</b>	<b>(1.9)</b>	<b>(590.5)</b>
<b>Grand total</b>	<b>148.3</b>	<b>(36.0)</b>	<b>8.8</b>	<b>63.5</b>	<b>153.2</b>	<b>189.5</b>

<sup>^</sup> Included within cash and cash equivalents for 2017 is cash restricted for use of £6.1m

The table above includes: cross-currency interest rate swaps in relation to derivative financial assets with a fair value at 31 December 2017 of £0.1m (2016: £2.5m) and derivative financial liabilities of £2.7m (2016: £2.1m) 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 2017 of £0.1m (2016: £0.1m) and derivative financial liabilities of £nil (2016: £0.2m) that will be settled gross, the final exchange on these derivatives will be total receipts of €28.6m (2016: €16.5m), PLN 14m (2016: PLN 22.7m) and \$4.5m (2016: \$5.4m) and corresponding payments of £31.6m (2016: £19.0m).

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts available to offset through netting agreements £m	Net amount £m
<b>As at 31 December 2017</b>			
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>

#### 2016 Analysis

		Maturity analysis				
	Balance sheet value £m	< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
<b>Current liabilities</b>						
Trade and other payables (restated)	383.6	383.6	-	-	-	383.6
Obligations under finance lease contracts	3.1	3.1	-	-	-	3.1
Bank overdrafts (restated)	22.7	22.7	-	-	-	22.7
Bank loans	171.6	172.2	-	-	-	172.2
Private placement notes	-	-	-	-	-	-
Derivative financial instruments	0.2	0.2	-	-	-	0.2
Loan notes and deferred consideration	2.7	2.7	-	-	-	2.7
<b>Total</b>	<b>583.9</b>	<b>584.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>584.5</b>
<b>Non-current liabilities</b>						
Obligations under finance lease contracts	8.1	0.4	3.1	5.1	0.6	9.2
Bank loans	0.3	-	0.3	0.1	-	0.4
Private placement notes	200.7	7.7	27.7	61.3	155.2	251.9
Derivative financial instruments	3.6	0.4	0.3	(0.2)	0.7	1.2
<b>Total</b>	<b>212.7</b>	<b>8.5</b>	<b>31.4</b>	<b>66.3</b>	<b>156.5</b>	<b>262.7</b>
<b>Total liabilities</b>	<b>796.6</b>	<b>593.0</b>	<b>31.4</b>	<b>66.3</b>	<b>156.5</b>	<b>847.2</b>
<b>Other</b>						
Derivative financial instrument assets	(4.5)	(1.4)	(1.3)	(0.8)	(4.6)	(8.1)
Cash and cash equivalents (restated)	(127.0)	(127.0)	-	-	-	(127.0)
Other financial assets	(1.1)	(1.1)	-	-	-	(1.1)
Deferred consideration	(0.7)	(0.7)	-	-	-	(0.7)
Trade and other receivables (restated)	(512.2)	(512.2)	-	-	-	(512.2)
<b>Total</b>	<b>(645.5)</b>	<b>(642.4)</b>	<b>(1.3)</b>	<b>(0.8)</b>	<b>(4.6)</b>	<b>(649.1)</b>
<b>Grand total</b>	<b>151.1</b>	<b>(49.4)</b>	<b>30.1</b>	<b>65.5</b>	<b>151.9</b>	<b>198.1</b>

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts available to offset through netting agreements £m	Net amount £m
<b>As at 31 December 2016</b>			
Derivative financial assets	4.5	(2.8)	1.7
Derivative financial liabilities	(3.8)	2.8	(1.0)
<b>Total</b>	<b>0.7</b>	<b>-</b>	<b>0.7</b>

## Notes to the Financial Statements

### 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.

##### 2017 analysis

	GBP		EUR		USD		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(0.5)	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>

##### 2016 analysis

	GBP		EUR		USD		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(0.9)	0.9 (i)	(0.1)	0.1 (iii)	–	–	(1.0)	1.0
Other equity	1.3	(1.0) (ii)	2.5	(2.5) (iv)	(2.2)	2.5 (ii)	1.6	(1.0)
<b>Total Shareholders' equity</b>	<b>0.4</b>	<b>(0.1)</b>	<b>2.4</b>	<b>(2.4)</b>	<b>(2.2)</b>	<b>2.5</b>	<b>0.6</b>	<b>–</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

## 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.

### 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)
<b>Total Shareholders' equity</b>	<b>4.0</b>	<b>(5.0)</b>	<b>1.9</b>	<b>(2.2)</b>	<b>(2.0)</b>	<b>2.5</b>	<b>3.9</b>	<b>(4.7)</b>
<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
<b>Total Shareholders' equity</b>	<b>(20.4)</b>	<b>24.9</b>	<b>3.0</b>	<b>(3.5)</b>	<b>(3.1)</b>	<b>3.8</b>	<b>(20.5)</b>	<b>25.2</b>

### 2016 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	(0.6) (i)	-	-	-	-	0.5	(0.6)
Other equity	1.7	(2.3) (ii)	(0.4)	0.7 (ii)	(1.6)	2.0 (ii)	(0.3)	0.4
<b>Total Shareholders' equity</b>	<b>2.2</b>	<b>(2.9)</b>	<b>(0.4)</b>	<b>0.7</b>	<b>(1.6)</b>	<b>2.0</b>	<b>0.2</b>	<b>(0.2)</b>
<b>Total assets and liabilities*</b>								
Profit or loss	(3.3)	4.3 (iii)	1.2	(1.5) (v)	(0.1)	0.1 (vi)	(2.2)	2.9
Other equity	(20.1)	24.5 (iv)	(0.4)	0.7 (iv)	(4.2)	3.4 (iv)	(24.7)	28.6
<b>Total Shareholders' equity</b>	<b>(23.4)</b>	<b>28.8</b>	<b>0.8</b>	<b>(0.8)</b>	<b>(4.3)</b>	<b>3.5</b>	<b>(26.9)</b>	<b>31.5</b>

\* 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

## Notes to the Financial Statements

### 22. PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous leases £m	Leasehold dilapidations £m	Contingent consideration £m	Other amounts £m	Total £m
At 1 January 2017	8.7	13.7	9.7	4.8	36.9
Unused amounts reversed in the period	(0.4)	(2.9)	–	(0.4)	(3.7)
Utilised	(5.3)	(1.9)	(4.1)	(1.7)	(13.0)
New provisions	2.9	4.2	1.5	2.5	11.1
Unwinding of provision discounting	0.1	0.1	0.2	0.1	0.5
Added/(released) on divestment of businesses	1.7	(0.4)	–	–	1.3
Transferred to deferred consideration	–	–	(7.2)	–	(7.2)
Exchange differences	0.1	(0.2)	(0.1)	0.1	(0.1)
<b>At 31 December 2017</b>	<b>7.8</b>	<b>12.6</b>	<b>–</b>	<b>5.4</b>	<b>25.8</b>
				<b>2017 £m</b>	2016 £m
Included in current liabilities				<b>12.0</b>	14.5
Included in non-current liabilities				<b>13.8</b>	22.4
<b>Total</b>				<b>25.8</b>	36.9

#### ONEROUS LEASES

The Group has provided for the rental payments due over the remaining term of existing operating lease contracts where a period of vacancy is ongoing until 2029 (2016: 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 with reference to the expired portion of individual lease agreements where such a clause exists in the lease contract. The transfer of economic benefits will be made at the end of the leases as set out in Note 29b.

#### CONTINGENT CONSIDERATION

Contingent consideration relates to the amounts due to vendors of completed acquisitions providing certain future profit targets are met. The provision is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss. The fair value is measured using level 3 inputs and is sensitive to changes in one or more unobservable inputs. There are no remaining contingent amounts at 31 December 2017.

#### 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:

	2017 £m	2016 Restated £m
Deferred tax assets	22.6	17.2
Deferred tax liabilities	(13.4)	(15.2)
<b>Net deferred tax asset</b>	<b>9.2</b>	<b>2.0</b>

### 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 Restated £m	Other £m	Total £m
At 31 December 2015	(11.3)	(1.2)	5.0	5.2	5.7	(0.5)	2.9
Credit/(charge) to income	2.6	0.4	(2.1)	(0.2)	(1.4)	-	(0.7)
Charge to equity	-	-	-	2.3	-	(0.6)	1.7
Added on acquisition	(1.5)	(0.1)	-	-	0.2	-	(1.4)
Exchange differences	(0.5)	(0.4)	0.7	0.4	0.1	(0.3)	-
Change of rate charged to equity	-	-	-	(0.5)	-	-	(0.5)
At 31 December 2016	(10.7)	(1.3)	3.6	7.2	4.6	(1.4)	2.0
Credit/(charge) to income	2.1	11.4	0.5	(0.3)	(3.1)	(2.9)	7.7
(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)
<b>At 31 December 2017</b>	<b>(8.7)</b>	<b>10.0</b>	<b>4.1</b>	<b>5.9</b>	<b>1.6</b>	<b>(3.7)</b>	<b>9.2</b>

The deferred tax charge within the Consolidated Income Statement for 2017 includes a charge of £1.0m (2016: credit £0.2m) arising from the change in domestic tax rates in the countries in which the Group operates.

Of the deferred tax asset of £9.2m, £1.6m 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 losses incurred 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.

There is an unprovided deferred tax asset of £2.8m to reflect uncertainty associated with the usage of tax attributes in the current period. Additionally, 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 (2016: £2.8m).

At the balance sheet date, no deferred tax liability is recognised on temporary differences relating to 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.

## Notes to the Financial Statements

### 24. OBLIGATIONS UNDER FINANCE LEASE CONTRACTS

	Minimum lease payments 2017 £m	2016 £m	Present value of minimum lease payments 2017 £m	2016 £m
Amounts payable under finance lease contracts:				
– within one year	3.5	3.5	3.1	3.1
– after one year and within five years	6.8	8.2	6.4	7.5
– after five years	0.4	0.6	0.4	0.6
	10.7	12.3	9.9	11.2
Less: future finance charges	(0.8)	(1.1)		
Present value of lease obligations	9.9	11.2		

The Group leases certain motor vehicles, fixtures and equipment under finance lease contracts, which are denominated in Sterling, Euros and Polish Zloty.

The average remaining lease term is 4.7 years (2016: 5.1 years). For the year ended 31 December 2017, the average effective borrowing rate was 4.7% (2016: 4.8%). 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

	2017 £m	2016 £m
Authorised:		
800,000,000 ordinary shares of 10p each (2016: 800,000,000)	80.0	80.0
Allotted, called up and fully paid:		
591,548,235 ordinary shares of 10p each (2016: 591,460,301)	59.2	59.1

There were 87,934 shares allotted during 2017 (2016: 113,153).

The Company has one class of ordinary share which carries no right to fixed income.

At 31 December 2017 the following share options were outstanding:

Scheme and date of grant	Number of shares					Exercise dates		
	At 31 December 2016	Granted	Exercised	Lapsed	At 31 December 2017	Original option price per 10p share	Date from which option may be exercised	Date on which option expires
Long Term Incentive Plan								
03/10/2012	7,057	–	(3,136)	–	3,921	0.00p	03/10/2015	02/10/2022
18/04/2013	89,624	–	(84,798)	–	4,826	0.00p	18/04/2016	17/04/2023
18/09/2014	1,396,741	–	–	(1,396,741)	–	0.00p	18/09/2017	17/09/2024
17/09/2015	1,842,140	–	–	(66,606)	1,775,534	0.00p	17/09/2018	16/09/2025
24/04/2017	–	1,413,968	–	–	1,413,968	0.00p	24/04/2020	24/04/2027
Total	3,335,562	1,413,968	(87,934)	(1,463,347)	3,198,249			



## 26. RECONCILIATION OF OPERATING LOSS TO CASH GENERATED FROM OPERATING ACTIVITIES

	2017 £m	2016 Restated £m
<b>Operating loss</b>	<b>(33.9)</b>	<b>(94.7)</b>
Depreciation (Note 10)	22.9	26.0
Amortisation of computer software (Note 13)	3.7	3.5
Amortisation of acquired intangibles (Note 13)	9.3	10.3
Impairment of computer software (Note 13)	6.8	7.9
Impairment of property, plant and equipment (Note 10)	3.8	0.3
Goodwill and intangible impairment charges (excluding computer software)	6.6	110.6
Losses on agreed sale or closure of non-core businesses^	63.6	40.1
Profit on sale of property, plant and equipment	(20.2)	(8.5)
Share-based payments	0.2	(0.3)
Working capital movements:		
Increase in inventories	(0.3)	(0.5)
Decrease/(increase) in receivables	30.3	(27.6)
Increase in payables	6.9	12.8
<b>Cash generated from operating activities</b>	<b>99.7</b>	<b>79.9</b>

^ 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 £2.5m (2016: £2.5m).

Of the total profit on sale of property, plant and equipment, £5.8m (2016: £2.8m) has been included within Other items of the Consolidated Income Statement (see Note 2).

Included within working capital movements are payments of £2.7m (2016: £6.1m) in settlement of contingent consideration dependent upon the vendors remaining with the business.

Receivables have decreased due to debt factoring of £48.7m (2016: £nil).

## 27. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	2017 £m	2016 Restated £m
(Decrease)/increase in cash and cash equivalents in the year	(16.6)	29.9
Cash flow from decrease/(increase) in debt	93.9	(19.5)
Decrease in net debt resulting from cash flows	77.3	10.4
Debt added on acquisition	-	(1.6)
Debt relating to divested businesses	3.1	-
Recognition of loan notes	(17.0)	(2.7)
Non-cash items^	(3.3)	(14.4)
Exchange differences	(4.2)	(11.6)
Decrease/(increase) in net debt in the year	55.9	(19.9)
Net debt at 1 January	(279.7)	(259.8)
<b>Net debt at 31 December</b>	<b>(223.8)</b>	<b>(279.7)</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

Net debt has decreased by £48.7m (2016: £nil) due to debt factoring.

# Notes to the Financial Statements

Net debt is defined as follows:

	2017 £m	2016 Restated £m
<i>Non-current assets:</i>		
Derivative financial instruments	0.1	4.4
Deferred consideration	1.4	–
<i>Current assets:</i>		
Derivative financial instruments	1.2	0.1
Deferred consideration	0.1	0.7
Other financial assets	–	1.1
Cash and cash equivalents	121.8	127.0
<i>Current liabilities:</i>		
Obligations under finance lease contracts	(3.1)	(3.1)
Bank overdrafts	(29.6)	(22.7)
Bank loans	(84.2)	(171.6)
Private placement notes	(21.1)	–
Loan notes and deferred consideration	(17.0)	(2.7)
Derivative financial instruments	(0.2)	(0.2)
<i>Non-current liabilities:</i>		
Obligations under finance lease contracts	(6.8)	(8.1)
Bank loans	–	(0.3)
Private placement notes	(183.1)	(200.7)
Derivative financial instruments	(3.3)	(3.6)
<b>Net debt</b>	<b>(223.8)</b>	<b>(279.7)</b>

## 28. ANALYSIS OF NET DEBT

	At 31 December 2016 £m	Cash flows £m	Net debt movements attributable to disposals £m	Reclassification of debts £m	Reclassification of contingent to loan notes £m	Non-cash items* £m	Exchange differences £m	At 31 December 2017 £m
Cash and cash equivalents (restated)	127.0	(9.8)	–	–	–	–	4.6	121.8
Bank overdrafts (restated)	(22.7)	(6.8)	–	–	–	–	(0.1)	(29.6)
	104.3	(16.6)	–	–	–	–	4.5	92.2
Other financial assets and deferred consideration	1.8	(0.3)	1.5	–	–	(1.5)	–	1.5
	1.8	(0.3)	1.5	–	–	(1.5)	–	1.5
<b>Liabilities arising from financing activities</b>								
Financial assets – derivative financial instruments	4.5	–	–	–	–	(1.2)	(2.0)	1.3
Debts due within one year	(174.5)	90.7	1.6	(21.3)	(17.0)	(1.1)	(0.8)	(122.4)
Debts due after one year	(204.6)	–	–	21.3	–	2.1	(5.3)	(186.5)
Finance lease contracts	(11.2)	3.5	–	–	–	(1.6)	(0.6)	(9.9)
	(385.8)	94.2	1.6	–	(17.0)	(1.8)	(8.7)	(317.5)
<b>Net debt</b>	<b>(279.7)</b>	<b>77.3</b>	<b>3.1</b>	<b>–</b>	<b>(17.0)</b>	<b>(3.3)</b>	<b>(4.2)</b>	<b>(223.8)</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.

## 29. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

### A) CAPITAL COMMITMENTS

	2017 £m	2016 £m
The purchase of property, plant and equipment contracted but not provided for	2.3	3.4

### B) LEASE COMMITMENTS

The Group leases a number of its premises under operating leases which expire between 2018 and 2049, 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:	2017 £m	2016 £m
– within one year	50.8	53.0
– after one year and within five years	127.9	146.8
– after five years	75.7	88.6
	254.4	288.4

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:	2017 £m	2016 £m
– within one year	19.9	16.2
– after one year and within five years	45.5	31.6
– after five years	1.6	1.8
	67.0	49.6

### C) PENSION SCHEMES

The Group operates a number of pension schemes, six (2016: six) of which provide defined benefits based on final pensionable salary. Of these schemes, one (2016: one) has assets held in a separate Trustee administered fund and five (2016: 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 103.4% as at 31 December 2017 (2016: 97.6%). No change was made to the pension premium percentage of 22.2% (2016: 22.2%). The coverage ratio is calculated by dividing the fund's assets by the total sum of pension liabilities and is based upon market interest rates.

In Belgium, the Company provides pensions for employees through a defined contribution scheme which, following a change in Belgian legislation, has a minimum guaranteed rate of return and is accounted for as a defined benefit scheme under IAS 19. The Company has insured its liabilities. At 31 December 2017 the scheme has gross assets and liabilities of approximately £0.4m (2016: £0.4m).

The Group's total pension charge for the year, including amounts charged to interest, was £8.9m (2016: £8.8m), of which a charge of £1.1m (2016: £2.5m) related to defined benefit pension schemes and £7.8m (2016: £6.3m) related to defined contribution schemes.

#### DEFINED BENEFIT PENSION SCHEME VALUATIONS

In accordance with IAS 19 the Group recognises all actuarial gains and losses in full in the period in which they arise in the Consolidated Statement of Comprehensive Income.

The actuarial valuations of the defined benefit pension schemes are assessed by an independent actuary every three years who recommends the rate of contribution payable each year. The last formal actuarial valuation of the SIG plc Retirement Benefits Plan, the UK scheme, was conducted at 31 December 2013 and showed that the market value of the scheme's assets was £131.4m and their actuarial value covered 90% of the benefits accrued to members after allowing for expected future increases in pensionable salaries. The next triennial actuarial valuation is effective as at 31 December 2016. The Trustees are aiming to conclude the valuation by the end of March 2018. The Board has considered the ongoing discussions in relation to the valuation and recovery plan in determining the final dividend for the year.

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.

## Notes to the Financial Statements

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 £0.7m (2016: £0.5m) relating to the defined benefit pension schemes, was £1.1m (2016: £2.5m, including a curtailment loss of £0.9m). On 30 June 2016 the UK defined benefit pension scheme was closed to future benefit accrual. The change in assumptions associated with the closure resulted in a curtailment loss of £0.9m which was charged within Other items in the Consolidated Income Statement within 2016.

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 2017 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 four 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:

	2017 £m	2016 £m
Pension liability before taxation	(30.4)	(37.1)
Related deferred tax asset	5.9	7.2
<b>Pension liability after taxation</b>	<b>(24.5)</b>	<b>(29.9)</b>

The actuarial gain of £5.5m (2016: loss of £12.5m) for the year, together with the associated deferred tax charge of £0.9m (2016: credit of £2.3m) and deferred tax charge of £0.2m (2016: £0.5m) in respect of the change in the France standard rate of corporation tax from 33.33% to 25.00% from 1 January 2022 (2016: change in the UK standard rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020) has been recognised in the Consolidated Statement of Comprehensive Income. In addition a deferred tax charge of £0.3m (2016: £0.2m) has been recognised in the Consolidated Income Statement.

Of the above pension liability before taxation, £19.1m (2016: £26.8m) relates to wholly or partly funded schemes and £11.3m (2016: £10.3m) relates to the overseas unfunded schemes.

The movement in the pension liability before taxation in the year can be summarised as follows:

	2017 £m	2016 £m
Pension liability at 1 January	(37.1)	(23.8)
Current service cost	(0.4)	(1.1)
Payment of unfunded benefits	0.3	-
Contributions	2.5	3.1
Net finance cost	(0.7)	(0.5)
Curtailment loss	-	(0.9)
Actuarial gain/(loss)	5.5	(12.5)
Effect of changes in exchange rates	(0.5)	(1.4)
<b>Pension liability at 31 December</b>	<b>(30.4)</b>	<b>(37.1)</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 principal assumptions used for the IAS 19 actuarial valuation of the schemes were:

	2017 %	2016 %
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	3.1
Discount rate	2.6	2.8
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 22.1 years (2016: 22.2 years). The life expectancy on retirement at age 65 of a male employee currently aged 45 years is 23.5 years (2016: 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, while 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 £3.4m. If the rate of inflation increased/decreased by 0.1% this would increase/decrease the Group's gross pension scheme deficit by £1.0m. If the life expectancy for employees increased by one year the Group's gross pension scheme deficit would increase by £8.7m. 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 2017 is 19 years (2016: 20 years).

The only assets held are within the SIG plc Retirement Benefits Plan. The fair value of these at each balance sheet date were:

	2017 £m	2016 £m
Equities	73.1	78.1
Corporate and government bonds	63.9	62.9
Investment funds	15.9	15.5
Property	8.1	7.5
Cash and net current assets	0.3	0.3
<b>Total fair value of assets</b>	<b>161.3</b>	<b>164.3</b>

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:

	2017 £m	2016 £m
Fair value of assets	161.3	164.3
Present value of scheme liabilities	(191.7)	(201.4)
<b>Net liability recognised in the Consolidated Balance Sheet</b>	<b>(30.4)</b>	<b>(37.1)</b>

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:

	2017 £m	2016 £m
Current service cost	0.4	1.1
Curtailment loss	–	0.9
Net finance cost	0.7	0.5
<b>Amounts recognised in the Consolidated Income Statement</b>	<b>1.1</b>	<b>2.5</b>

## Notes to the Financial Statements

Analysis of the actuarial gain/(loss) recognised in the Consolidated Statement of Comprehensive Income in respect of the schemes:

	2017 £m	2016 £m
Actual return less expected return on assets	10.0	25.4
Effect of changes in demographic assumptions	0.9	(1.0)
Effect of changes in financial assumptions	(4.7)	(37.6)
Impact of liability experience	(0.7)	0.7
<b>Remeasurement of the defined benefit liability</b>	<b>5.5</b>	<b>(12.5)</b>

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:

	2017 £m	2016 £m
Present value of schemes' liabilities at 1 January	(201.4)	(166.6)
Current service cost	(0.4)	(1.1)
Interest on pension schemes' liabilities	(5.1)	(5.8)
Benefits paid	19.9	12.3
Payment of unfunded benefits	0.3	-
Curtailment loss	-	(0.9)
Effect of changes in exchange rates	(0.5)	(1.4)
Remeasurement gains/(losses):		
Actuarial gain/(loss) arising from changes in demographic assumptions	0.9	(1.0)
Actuarial loss arising from changes in financial assumptions	(4.7)	(37.6)
Actuarial (loss)/gain due to liability experience	(0.7)	0.7
<b>Present value of schemes' liabilities at 31 December</b>	<b>(191.7)</b>	<b>(201.4)</b>

Movements in the fair value of the schemes' assets were as follows:

	2017 £m	2016 £m
Fair value of schemes' assets at 1 January	164.3	142.8
Finance income	4.4	5.3
Actual return less expected return on assets	10.0	25.4
Contributions from sponsoring companies	2.5	3.1
Benefits paid	(19.9)	(12.3)
<b>Fair value of schemes' assets at 31 December</b>	<b>161.3</b>	<b>164.3</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 £12.1m (2016: £17.1m). Of this amount, £9.0m (2016: £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. The liabilities of the subsidiaries at the year end were £8.1m (2016: £4.4m).

As part of the disposal of Building Plastics a guarantee has been 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 has a shareholding of less than 0.1% in a German purchasing co-operative. Net purchases from this co-operative (on commercial terms) totalled £318.5m in 2017 (2016: £283.8m). At the balance sheet date net trade payables in respect of the co-operative amounted to £10.1m (2016: £11.7m).

In 2017, SIG incurred expenses of £0.2m (2016: £0.3m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The total remuneration of key management personnel of the Group, being the Group Executive Committee members and the Non-Executive Directors (see page 65), is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	2017 £m	2016 £m
Short term employee benefits	6.2	3.9
Termination and post-employment benefits	2.4	0.8
IFRS 2 share option charge/(credit)	0.2	(0.1)
	8.8	4.6

### 31. SUBSIDIARIES

Details of the Group's subsidiaries, all of which have been included in the Financial Statements, are shown on pages 191 to 192.

# Notes to the Financial Statements

## 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.

These measures are used by management for performance analysis, planning, reporting and incentive setting purposes and remain consistent year-on-year.

Information regarding covenant calculations (Notes 32A and 32C) 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	2017 £m	2016 Restated £m
Operating loss		(33.9)	(94.7)
Depreciation	10	22.9	26.0
Amortisation of computer software	13	3.7	3.5
Amortisation of acquired intangibles	13	9.3	10.3
Impairment charges	2	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges	11	72.4	40.1
Net operating losses attributable to businesses identified as non-core*	11	14.3	5.8
Depreciation attributable to businesses identified as non-core*		(0.8)	(0.5)
Net restructuring costs	2	21.1	13.3
Acquisition expenses and contingent consideration	14	9.8	(4.6)
Defined benefit pension scheme curtailment loss	2	-	0.9
Other specific items	2	(5.5)	5.9
Annualised EBITDA impact of acquisitions		-	0.3
<b>Covenant EBITDA</b>		<b>120.1</b>	<b>116.9</b>

\* The 2016 covenant calculation has not been restated to reflect the decisions made to exit non-core businesses after the signing of the 2016 Financial Statements (Note 11)

	Note	2017 £m	2016 Restated £m
Reported net debt	27	223.8	279.7
Other covenant financial indebtedness		11.8	3.5
Foreign exchange adjustment*		(1.5)	(6.4)
<b>Covenant net debt</b>		<b>234.1</b>	<b>276.8</b>

\* For the purpose of covenant calculations, leverage is calculated using net debt translated at average rather than period end rates

	2017	2016
Headline financial leverage (covenant net debt to covenant EBITDA - maximum 3.0x)	<b>1.9x</b>	2.4x



## 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	2017 £m	2016 Restated £m
Operating loss		(33.9)	(94.7)
Income tax expense	6	(7.4)	(11.6)
<b>Operating loss after tax</b>		<b>(41.3)</b>	<b>(106.3)</b>

	Note	2017 £m	2016 Restated £m
Operating loss		(33.9)	(94.7)
Amortisation of acquired intangibles	13	9.3	10.3
Impairment charges	2	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges	11	72.4	40.1
Net operating losses attributable to businesses identified as non-core	11	14.3	7.9
Net restructuring costs	2	21.1	13.3
Acquisition expenses and contingent consideration	14	9.8	(4.6)
Defined benefit pension scheme curtailment loss	2	-	0.9
Other specific items	2	(5.5)	5.9
Underlying operating profit		94.3	89.7
Income tax expense	6	(7.4)	(11.6)
Tax credit associated with Other items	2	(13.1)	(6.5)
<b>Underlying operating profit after tax</b>		<b>73.8</b>	<b>71.6</b>

	Note	2017 £m	2016 £m
Opening reported net assets (restated)		536.3	649.3
Opening reported net debt (restated)	27	279.7	259.8
Opening capital employed		816.0	909.1
Computer software impairment charges*	13	(6.8)	(14.7)
Goodwill and intangible impairment charges*	12	-	(110.6)
Losses on agreed sale or closure of non-core businesses and associated impairment charges*	11	(72.4)	(112.5)
Adjusted opening capital employed		736.8	671.3
Closing reported net assets (2016 restated)		477.7	536.3
Closing reported net debt (2016 restated)	27	223.8	279.7
Closing capital employed		701.5	816.0
Computer software impairment charges*	13	-	(6.8)
Losses on agreed sale or closure of non-core businesses and associated impairment charges*	11	-	(72.4)
Adjusted closing capital employed		701.5	736.8

<b>Average capital employed</b>	<b>758.8</b>	862.6
<b>Adjusted average capital employed*</b>	<b>719.2</b>	704.1

\* 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

	2017	2016 Restated
<b>Unadjusted ROCE (operating loss after tax to average capital employed)</b>	<b>(5.4)%</b>	(12.3)%
<b>ROCE (underlying operating profit after tax to adjusted average capital employed)</b>	<b>10.3%</b>	10.2%

# 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	2017 £m	2016 Restated £m
Operating loss		<b>(33.9)</b>	(94.7)
Add back:			
Amortisation of acquired intangibles	13	<b>9.3</b>	10.3
Impairment charges	2	<b>6.8</b>	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges	11	<b>72.4</b>	40.1
Net restructuring costs	2	<b>21.1</b>	13.3
Defined benefit pension scheme curtailment loss	2	-	0.9
Contingent consideration*		<b>1.5</b>	(4.7)
Other specific items^	2	<b>(5.5)</b>	6.3
Consolidated EBITA		<b>71.7</b>	82.1
Finance costs	3	<b>17.9</b>	17.0
Finance income	3	<b>(0.6)</b>	(1.7)
Less:			
Finance costs included within Other items	3	<b>(2.3)</b>	(2.0)
Finance income included within Other items	3	<b>0.1</b>	0.5
Interest costs arising on the defined benefit pension scheme	3	<b>(0.7)</b>	(0.5)
Covenant net interest payable		<b>14.4</b>	13.3
<b>Interest cover ratio (consolidated EBITA to covenant net interest payable)</b>		<b>5.0x</b>	6.2x

\* This relates to the element of contingent consideration that is disallowed in the covenant calculation.

^ Other specific items in 2016 is adjusted for the charge relating to fair value gains and losses on fuel hedging contracts of £0.4m. There were no contracts in 2017 and therefore the charge in 2017 is £nil.

## 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.

	Note	2017 £m	2016 Restated £m
Loss before tax		<b>(51.2)</b>	(110.0)
Amortisation of acquired intangibles	13	<b>9.3</b>	10.3
Impairment charges	2	<b>6.8</b>	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges	11	<b>72.4</b>	40.1
Net operating losses attributable to businesses identified as non-core	11	<b>14.3</b>	7.9
Net restructuring costs	2	<b>21.1</b>	13.3
Acquisition expenses and contingent consideration	14	<b>9.8</b>	(4.6)
Defined benefit pension scheme curtailment loss	2	-	0.9
Other specific items	2	<b>(5.5)</b>	5.9
Net fair value losses and derivative financial instruments	3	<b>1.7</b>	1.9
Unwinding of provision discounting	3	<b>0.5</b>	(0.4)
Underlying profit before tax		<b>79.2</b>	75.9
Underlying property profits		<b>(13.7)</b>	(3.3)
Underlying profit before tax excluding property profits		<b>65.5</b>	72.6

## 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	2017 £m	2016 Restated £m
Loss before tax		<b>(51.2)</b>	(110.0)
Other items	2	<b>130.4</b>	185.9
Underlying profit before tax	(d) above	<b>79.2</b>	75.9
	Note	2017 £m	2016 Restated £m
Income tax expense	6	<b>(7.4)</b>	(11.6)
Tax credit associated with Other items	2	<b>(13.1)</b>	(6.5)
Underlying tax charge		<b>(20.5)</b>	(18.1)
	Note	2017	2016 Restated
Effective tax rate (income tax expense to loss before tax)	6	<b>(14.5)%</b>	(10.5)%
Underlying effective tax rate (underlying tax charge to underlying profit before tax)		<b>25.9%</b>	23.8%

## 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	2017 £m	2016 Restated £m
<i>Current:</i>			
Inventories	15	<b>243.5</b>	250.6
Trade and other receivables	16	<b>468.0</b>	512.8
Trade and other payables	17	<b>(429.0)</b>	(421.6)
Provisions	22	<b>(12.0)</b>	(14.5)
<i>Non-current:</i>			
Other payables	18	<b>(3.8)</b>	(5.5)
Provisions	22	<b>(13.8)</b>	(22.4)
Reported working capital		<b>252.9</b>	299.4
Working capital for non-core businesses	11	<b>1.1</b>	(37.7)
Foreign exchange adjustment*		<b>(2.9)</b>	5.0
Adjusted working capital		<b>251.1</b>	266.7

\* Working capital is translated at average rather than period end rates.

	Note	2017 £m	2016 Restated £m
Reported revenue		<b>2,878.4</b>	2,845.2
Revenue attributable to business identified as non-core	11	<b>(99.9)</b>	(257.8)
Pre-acquisition revenue of the current year acquisitions for the period from 1 January to the acquisition dates		-	4.9
Foreign exchange adjustment		-	96.0
Adjusted revenue		<b>2,778.5</b>	2,688.3
		<b>2017</b>	2016 Restated
Reported working capital to reported revenue		<b>8.8%</b>	10.5%
Like-for-like working capital to sales ratio (adjusted working capital to adjusted revenue)		<b>9.0%</b>	9.9%

## Notes to the Financial Statements

### G) NET CAPITAL EXPENDITURE AND NET CAPITAL EXPENDITURE TO DEPRECIATION RATIO

Net capital expenditure to depreciation ratio is the ratio of capital expenditure to depreciation. The ratio is used to understand how investment in capital compares to the use of existing assets.

	Note	2017 £m	2016 £m
<b>Maintenance capital expenditure</b>			
Property, plant and equipment additions	10	(19.6)	(33.7)
Computer software additions	13	(3.2)	(6.2)
Capital expenditure		(22.8)	(39.9)
Depreciation	10	(22.9)	(26.0)
Amortisation of computer software	13	(3.7)	(3.5)
Depreciation (including amortisation of computer software)		(26.6)	(29.5)
Maintenance capital expenditure*		(22.8)	(29.5)
* Where capital expenditure is equal to or less than depreciation (including amortisation of computer software), all such capital expenditure is assumed to be maintenance capital expenditure. To the extent that capital expenditure exceeds depreciation, the balance is considered to be investment capital expenditure.			
<b>Investment capital expenditure</b>			
Property, plant and equipment additions	10	(19.6)	(33.7)
Computer software additions	13	(3.2)	(6.2)
Capital expenditure		(22.8)	(39.9)
Less:			
Maintenance capital expenditure		22.8	29.5
Investment capital expenditure		-	(10.4)
<b>Net capital expenditure</b>			
Maintenance capital expenditure (above)		(22.8)	(29.5)
Investment capital expenditure (above)		-	(10.4)
Proceeds from sale of property, plant and equipment		34.6	39.5
Net capital expenditure		11.8	(0.4)
		2017	2016
Gross capital expenditure to depreciation ratio		0.86x	1.35x
Net capital expenditure to depreciation ratio		(0.44)x	0.01x

### H) GEARING

Gearing is the ratio of net debt to net assets. It is used to understand the funding structure of the Group and is an important part of the treasury risk management of the Group.

	Note	2017 £m	2016 Restated £m
Net assets		477.7	536.3
Net debt	27	223.8	279.7
<b>Gearing (net debt to net assets ratio)</b>		<b>46.8%</b>	52.2%

## I) CASH INFLOW FROM TRADING

This is used to understand how the Group is generating cash from trading activities.

	Note	2017 £m	2016 Restated £m
Cash generated from operating activities	26	<b>99.7</b>	79.9
Add back:			
Increase in inventories	26	<b>0.3</b>	0.5
(Decrease)/increase in receivables	26	<b>(30.3)</b>	27.6
Increase in payables	26	<b>(6.9)</b>	(12.8)
<b>Cash inflow from trading</b>		<b>62.8</b>	95.2

## J) 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	Benelux £m	Air Handling* £m	Mainland Europe £m	Group £m
Statutory revenue 2017	801.9	444.0	139.7	<b>1,385.6</b>	660.7	433.5	142.8	101.7	154.1	<b>1,492.8</b>	<b>2,878.4</b>
Non-core businesses	(4.4)	(34.5)	(41.4)	<b>(80.3)</b>	-	(7.6)	-	-	(12.0)	<b>(19.6)</b>	<b>(99.9)</b>
Underlying revenue 2017	797.5	409.5	98.3	<b>1,305.3</b>	660.7	425.9	142.8	101.7	142.1	<b>1,473.2</b>	<b>2,778.5</b>
Statutory revenue 2016	785.9	477.8	233.8	<b>1,497.5</b>	589.2	413.2	115.1	99.7	130.5	<b>1,347.7</b>	<b>2,845.2</b>
Non-core businesses	(4.7)	(63.0)	(148.3)	<b>(216.0)</b>	-	(27.6)	-	-	(14.2)	<b>(41.8)</b>	<b>(257.8)</b>
Underlying revenue 2016	781.2	414.8	85.5	<b>1,281.5</b>	589.2	385.6	115.1	99.7	116.3	<b>1,305.9</b>	<b>2,587.4</b>
% change year on year:											
Underlying revenue	2.1%	(1.3)%	15.0%	<b>1.9%</b>	12.1%	10.5%	24.1%	2.0%	22.2%	<b>12.8%</b>	<b>7.4%</b>
Impact of currency	-	-	(7.2)%	<b>(0.5)%</b>	(7.0)%	(7.0)%	(10.8)%	(6.3)%	(7.6)%	<b>(7.3)%</b>	<b>(3.9)%</b>
Impact of acquisitions	(0.2)%	(0.2)%	(0.1)%	<b>(0.2)%</b>	0.4%	-	-	-	(3.7)%	<b>(0.2)%</b>	<b>(0.2)%</b>
Impact of working days	0.4%	0.4%	0.4%	<b>0.4%</b>	0.4%	1.3%	0.4%	-	-	<b>0.6%</b>	<b>0.5%</b>
Like-for-like sales	2.3%	(1.1)%	8.1%	<b>1.6%</b>	5.9%	4.8%	13.7%	(4.3)%	10.9%	<b>5.9%</b>	<b>3.8%</b>

\* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments

## K) 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 %	Benelux %	Air Handling* %	Mainland Europe %	Group %
Statutory gross margin 2017	<b>23.9</b>	<b>28.9</b>	<b>16.8</b>	<b>24.8</b>	<b>27.6</b>	<b>26.3</b>	<b>20.0</b>	<b>25.8</b>	<b>37.7</b>	<b>27.4</b>	<b>26.1</b>
Impact of non-core businesses	-	<b>(0.3)</b>	<b>8.2</b>	<b>0.7</b>	-	<b>0.1</b>	-	-	<b>0.7</b>	-	<b>0.4</b>
Underlying gross margin 2017	<b>23.9</b>	<b>28.6</b>	<b>25.0</b>	<b>25.5</b>	<b>27.6</b>	<b>26.4</b>	<b>20.0</b>	<b>25.8</b>	<b>38.4</b>	<b>27.4</b>	<b>26.5</b>
Statutory gross margin 2016	24.4	29.2	20.2	<b>25.3</b>	27.7	26.6	20.0	25.2	36.4	<b>27.4</b>	<b>26.3</b>
Impact of non-core businesses	0.1	(0.4)	5.5	<b>0.6</b>	-	0.3	-	-	0.9	<b>0.1</b>	<b>0.4</b>
Underlying gross margin 2016	24.5	28.8	25.7	<b>25.9</b>	27.7	26.9	20.0	25.2	37.3	<b>27.5</b>	<b>26.7</b>

\* 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

### L) OPERATING COSTS 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 2017 £m	Six months ended 31 December 2017 £m	Year ended 31 December 2017 £m	Six months ended 30 June 2016 £m	Six months ended 31 December 2016 £m	Year ended 31 December 2016 £m
Statutory revenue	1,439.2	1,439.2	2,878.4	1,375.2	1,470.0	2,845.2
Non-core businesses	(77.2)	(22.7)	(99.9)	(122.6)	(135.2)	(257.8)
Underlying revenue	1,362.0	1,416.5	2,778.5	1,252.6	1,334.8	2,587.4
Operating costs (statutory)	381.9	404.5	786.4	325.4	517.2	842.6
Other items	(64.6)	(79.6)	(144.2)	(39.6)	(201.6)	(241.2)
Underlying operating costs	317.3	324.9	642.2	285.8	315.6	601.4
Property profits	8.2	5.5	13.7	2.5	0.8	3.3
Underlying operating costs excluding property profits	325.5	330.4	655.9	288.3	316.4	604.7
Operating costs as a percentage of statutory revenue	26.5%	28.1%	27.3%	23.7%	35.2%	29.6%
Underlying operating costs excluding property profits as a percentage of underlying revenue	23.9%	23.3%	23.6%	23.0%	23.7%	23.4%

### M) OPERATING PROFIT BEFORE 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 UK £m	Total UK & Ireland £m	France £m	Germany £m	Other Europe £m	Total Mainland Europe £m	Parent Company costs £m	Total Group £m
<b>2017</b>										
Underlying revenue (Note 1)	797.5	409.5	98.3	1,305.3	660.7	425.9	386.6	1,473.2	-	2,778.5
Underlying operating profit (Note 1^)	9.9	32.9	4.8	47.6	26.2	11.5	21.7	59.4	(12.7)	94.3
Property profits	(0.9)	(7.7)	-	(8.6)	(0.5)	(4.5)	(0.1)	(5.1)	-	(13.7)
Underlying operating profit before property profits	9.0	25.2	4.8	39.0	25.7	7.0	21.6	54.3	(12.7)	80.6
^ Underlying operating profit equals segmental result before Other items										
Return on sales*	1.2%	8.0%	4.9%	3.6%	4.0%	2.7%	5.6%	4.0%	n/a	3.4%
Return on sales (excluding property profits)*	1.1%	6.2%	4.9%	3.0%	3.9%	1.6%	5.6%	3.7%	n/a	2.9%
<b>2016</b>										
Underlying revenue (Note 1)	781.2	414.8	85.5	1,281.5	589.2	385.6	331.1	1,305.9	-	2,587.4
Underlying operating profit (Note 1^)	18.2	30.5	3.7	52.4	24.4	7.7	16.0	48.1	(10.8)	89.7
Property profits	(3.3)	-	-	(3.3)	-	-	-	-	-	(3.3)
Underlying operating profit before property profits	14.9	30.5	3.7	49.1	24.4	7.7	16.0	48.1	(10.8)	86.4
^ Underlying operating profit equals segmental result before Other items										
Return on sales*	2.3%	7.4%	4.3%	4.1%	4.1%	2.0%	4.8%	3.7%	n/a	3.5%
Return on sales (excluding property profits)*	1.9%	7.4%	4.3%	3.8%	4.1%	2.0%	4.8%	3.7%	n/a	3.3%

\* Return on sales is also referred to as underlying operating margin

### N) OTHER NON-STATUTORY MEASURES

In addition to the alternative performance measures noted above, the Group also uses underlying EPS (as set out in Note 8) and underlying net finance costs (as set out in Note 3).

### 33. PRIOR YEAR RESTATEMENTS

During 2017, the Group discovered that profit had been overstated in relation to rebates receivable from suppliers and cash had been overstated in relation to cash cut-off procedures. As a consequence, cost of sales and the related assets and liabilities have been overstated. 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

	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
<b>At 1 January 2016</b>			
Deferred tax assets	21.0	0.1	21.1
Trade and other receivables	468.1	(0.4)	467.7
Cash and cash equivalents	146.2	(23.9)	122.3
Other assets	955.2	-	955.2
<b>Total assets</b>	<b>1,590.5</b>	<b>(24.2)</b>	<b>1,566.3</b>
Trade and other payables	417.7	(23.9)	393.8
Bank overdrafts	59.5	-	59.5
Other liabilities	463.7	-	463.7
<b>Total liabilities</b>	<b>940.9</b>	<b>(23.9)</b>	<b>917.0</b>
Retained profits	183.0	(0.3)	182.7
Other capital and reserves	466.6	-	466.6
<b>Total equity</b>	<b>649.6</b>	<b>(0.3)</b>	<b>649.3</b>

	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
<b>At 1 January 2017</b>			
Deferred tax assets	16.4	0.8	17.2
Trade and other receivables	516.1	(3.3)	512.8
Cash and cash equivalents	127.6	(0.6)	127.0
Other assets	832.6	-	832.6
<b>Total assets</b>	<b>1,492.7</b>	<b>(3.1)</b>	<b>1,489.6</b>
Trade and other payables	440.6	(19.0)	421.6
Bank overdrafts	3.5	19.2	22.7
Other liabilities	509.0	-	509.0
<b>Total liabilities</b>	<b>953.1</b>	<b>(0.2)</b>	<b>953.3</b>
Retained profits	23.1	(3.3)	19.8
Other capital and reserves	516.5	-	516.5
<b>Total equity</b>	<b>539.6</b>	<b>(3.3)</b>	<b>536.3</b>

## Notes to the Financial Statements

### B) CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
Cost of sales	(2,093.6)	(3.7)	(2,097.3)
Income tax expense	(12.3)	0.7	(11.6)
Other income/(expense)	1,987.3	–	1,987.3
<b>Loss after tax</b>	<b>(118.6)</b>	<b>(3.0)</b>	<b>(121.6)</b>
<b>Total comprehensive expense</b>	<b>(80.5)</b>	<b>(3.0)</b>	<b>(83.5)</b>
<b>Loss per share</b>	<b>(20.1)p</b>	<b>(0.5)p</b>	<b>(20.6)p</b>

### C) CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
Net cash generated from operating activities	66.2	4.1	70.3
Other cash flows	(40.4)	–	(40.4)
<b>Increase in cash and cash equivalents in the year</b>	<b>25.8</b>	<b>4.1</b>	<b>29.9</b>
Cash and cash equivalents at beginning of the year	86.7	(23.9)	62.8
Effect of foreign exchange rate changes	11.6	–	11.6
<b>Cash and cash equivalents at end of the year</b>	<b>124.1</b>	<b>(19.8)</b>	<b>104.3</b>

### D) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
Total equity at 31 December 2014	664.3	–	664.3
Profit after tax	36.3	(0.3)	36.0
Other movements in equity	(51.0)	–	(51.0)
<b>Total equity at 31 December 2015</b>	<b>649.6</b>	<b>(0.3)</b>	<b>649.3</b>
Loss after tax	(118.6)	(3.0)	(121.6)
Other movements in equity	8.6	–	8.6
<b>Total equity at 31 December 2016</b>	<b>539.6</b>	<b>(3.3)</b>	<b>536.3</b>



# Independent Auditor's Report

*To the members of SIG plc*

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### IN OUR OPINION:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of SIG plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Income Statement;
- the Consolidated and Parent Company Statements of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated Cash Flow Statement;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Statement of Significant Accounting Policies;
- Critical accounting judgements and key sources of estimation uncertainty; and
- the related Group notes 1 to 33 and Parent Company notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

### 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.

We are independent of the Group and the 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 confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditor's Report



To the members of SIG plc

## SUMMARY OF OUR AUDIT APPROACH

### Key audit matters

The key audit matters that we identified in the current year were:

- the valuation of the supplier rebate receivables;
- the valuation of the goodwill and intangible assets of UK Distribution and Larivière;
- the classification of Other items in the Consolidated Income Statement; and
- management override of controls.

Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .

### Materiality

The materiality that we used in the current year was £3.15m which was determined on the basis of 5% of forecast adjusted pre-tax profit. Adjusted pre-tax profit is defined as loss before tax before adding back goodwill and intangible impairment charges, profit and loss on agreed sale of closure of non-core businesses, net operating losses attributable to businesses identified as non-core and restructuring costs.

### Scoping

The Group audit and audit of the consolidation is performed at the Group's head office in Sheffield. The accounting records of the trading businesses within the Group are spread across the countries in which the Group operates. We perform audit work in the UK, France, Germany and Ireland which represent 81% of Group revenues and 82% of loss before tax.

### Significant changes in our approach

We presented our initial audit plan to the Audit Committee in August 2017. This included a planned reduction in full/review scope audits in Ireland, Poland, Benelux and Bulgaria with an increase in focused audit procedures due to our assessment of the reduced risk of material misstatement in these businesses.

Reflecting the increase in the Group's covenant headroom for leverage and interest cover we no longer consider going concern to be a key audit matter.

As a result of the control breakdowns and intentional misstatements noted on page 73, we updated our risk assessment. In doing this we considered the causal factors and the risk of misstatement in each of the Group's locations, and also considered the findings of the Group's own investigations, led by the Investigation Committee. This resulted in us refining our audit approach with an increased level of focus on management override of controls and on the valuation of rebate receivables. We refined the scope of work in those locations that exhibited an enhanced risk as follows:

- Further procedures over the valuation of supplier rebates and cash cut-off; and
- Revisions to the significant risks, key audit matters and procedures in relation to both management override of controls and financial presentation of Other items.

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## CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

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### GOING CONCERN

We have reviewed the Directors' statement contained within the Strategic Report on page 41 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

### PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 42 to 45 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 41 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 41 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

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### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report

To the members of SIG plc

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## VALUATION OF SUPPLIER REBATES RECEIVABLES

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### Key audit matter description



The valuation of supplier rebate receivables is considered to have the potential for fraud, reflecting the complexity of the arrangements and the ability of management to manipulate the reported result. At 31 December 2017 the Group has rebate receivables of £114m (2016: £125m).

As described in Note 1 (accounting policies) to the Financial Statements, the Group has agreements with suppliers whereby volume-related allowances and other discounts (including marketing support) are received in connection with the purchase of goods for resale from those suppliers.

In accordance with IFRS, supplier rebate receivables should only be recognised as a deduction from trade payables, when the performance conditions associated with it have been met.

In some cases, supplier rebate calculations are complex and span non-coterminous trading periods. Judgement is therefore required in determining estimates of future volumes and the related receivables.

As set out on page 112, there is a risk that key clauses in the rebate agreements are not interpreted correctly resulting in errors in the calculation of the rebate receivable. Further, there is a risk that inappropriate assumptions are made over the status of contractual arrangements with the Group's suppliers, and estimates of future purchase volumes. This could result in inappropriate valuation of the Group's supplier rebate receivable.

Following a whistleblowing event in the final quarter of 2017, the Group's Investigation Committee led a forensic review performed by Internal Audit together with independent support from KPMG. This review was to determine the recoverability of supplier rebate amounts specifically recognised by SIG Distribution.

This review led to the identification of adjustments, and in determining the age of them, management established that they may have been reflective of circumstances that existed at 31 December 2016 and therefore merit consideration for a prior year restatement. On 1 February 2018 the Group announced that there has been an error in its recording and accounting for supplier rebates of £4.5m with some of this being intentional.

IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", defines a prior period error as an omission from, and misstatement in, the entity's Financial Statements for one or more prior periods resulting from a failure to use, or misuse of, reliable information that was available when the Financial Statements were authorised for issue and could reasonably have expected to have been obtained and taken into account. IAS 8 defines a material misstatement as one that could, individually, or collectively, influence the economic decisions that users make on the basis of the Financial Statements.

The review concluded that £4.5m of adjustments constituted prior period errors under IAS 8. As a result of this review our audit in 2017 also considered the impact on the prior period financial statements of the issues identified during the year.

Further explanation is given on page 105 in the Statement of Significant Accounting Policies. The consideration made by the Audit Committee is set out on page 75.

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**How the scope of our audit responded to the key audit matter**



We updated our risk assessment and in doing so obtained an understanding of the scope and the results of work led by the Investigation Committee using Internal Audit and KPMG. In performing our risk assessment we considered the risk of contagion across the Group locations.

In responding to the risk we considered the relative size and profile of rebate receivables, together with the relative risk arising from non-coterminous arrangements and consequential level of estimation.

We used our specialist forensic knowledge to help assess the misstatement of rebate income announced by the Group and to identify the portion which related to previous accounting periods. We further used them to assess the reliability of support provided by management.

We performed procedures in those locations that exhibited an enhanced risk on this basis, with our testing designed to ensure we appropriately addressed the risk of material misstatement.

Our audit approach and the results of our work on the valuation of the rebate receivables were discussed on a number of occasions with the Audit Committee, including consideration of bias in management's judgements.

**ASSESSMENT OF CONTROLS**

- We evaluated the design and implementation of key controls related to the valuation of supplier rebate receivables, together with the completeness of the population of rebate suppliers;

**ANALYSIS TO IDENTIFY UNUSUAL BALANCES FOR FURTHER TESTING**

- We discussed rebate arrangements with the commercial managers to understand the complexities and judgements that may exist over valuation of supplier rebate balances;
- We reviewed the year on year movements in rebates recognised in the Consolidated Income Statement and rebate receivables by supplier. Where a significant or unusual variation was identified, we investigated to understand the variance in trends between income statement and balance sheet accounts;

**PROCEDURES TO CONFIRM EXISTENCE AND VALUATION OF REBATE RECEIVABLE**

- We circularised suppliers to confirm a sample of amounts receivable, including all rebate receivables greater than £0.1m;
- Where supplier rebate responses were not returned, we had direct independent correspondence with suppliers to validate rebate contract existence, assumptions and calculations;
- We compared post year end cash receipts to identify any misstatement in the year end receivable;
- We reviewed post year end credit notes to validate subsequent recovery;
- We re-performed a sample of management's calculations of supplier rebate receivables, agreeing purchase volumes for the year through to purchasing records and correspondence from suppliers or to other available documentation;
- We agreed supplier rebate percentages applied through to a signed contract where available or to other supplier correspondence;
- We reviewed correspondence with the supplier and considered the historical accuracy of the rebate income recognised;
- Where management recognised income in respect of back claims we considered the appropriateness of the judgements with reference to signed agreements, correspondence with the supplier and historical recovery of these balances;
- We tested the integrity of management's supplier rebate calculations using our computer assisted analytical tools;

**CONSIDERATION OF ACCOUNTING POLICIES**

- We challenged whether the recognition policies and estimates were appropriate, particularly when there were non-coterminous trading periods and renegotiated rebate agreements; and
- We challenged management's assessment of whether a prior year restatement was required under IAS 8, considering both the quantitative and qualitative factors.

# Independent Auditor's Report

## To the members of SIG plc

### Key observations



We agreed with the Directors' assessment (see page 31) that the misstatements identified were qualitatively material and that the Financial Statements required restatement.

We consider the receivable balances recognised (within both trade payables and receivables) and the related disclosures given, to be appropriate on the Consolidated Balance Sheet at 31 December 2017.

Significant control deficiencies were identified in the rebate process, including the review process followed by each business which requires formalisation and could be strengthened through documentation of the key judgements taken. The report of the Audit Committee on page 61 provides details of the actions that management will take to strengthen the controls in this area.

## THE VALUATION OF GOODWILL AND INTANGIBLE ASSETS OF SIG DISTRIBUTION AND LARIVIÈRE

### Key audit matter description



The goodwill and intangible assets (excluding computer software) of SIG Distribution and Larivière of £177m represent 13% of total assets and 36% of non-current assets.

As set out in the Audit Committee report on page 75 there are significant judgements in relation to the financial forecasts of the business units, discount rates and perpetuity growth rates used to determine the value in use of the cash generating units. These judgements are subjective and are described in the Critical accounting judgements and key sources of estimation uncertainty on page 112 and Note 12 to the Financial Statements.

The valuation of goodwill has been identified as a key audit matter in the light of the continued challenging trading environments in the UK and France that has adversely impacted gross margin and heightens this risk for these CGUs. The intentional misstatement of rebate receivables in UK Distribution heightens this risk further.

### How the scope of our audit responded to the key audit matter



- We evaluated the design and implementation of key controls relating to the assessment of the carrying value of goodwill and intangible assets;
- We assessed the appropriateness of management's assumptions used in the impairment model for goodwill and intangible assets, performing sensitivity analysis against the key assumptions which include cash flow forecasts, discount rates and perpetuity growth rates. We have compared these to industry forecasts, the Group's historical performance, budgeting accuracy, benchmarking against comparator Groups and our understanding of the future prospects of the business;
- We considered whether there was evidence of bias in management's forecasts;
- We utilised specialists in assessing the appropriateness of the methodology applied by management in calculating the discount rate for each cash generating unit;
- We tested the integrity of management's model using our computer assisted analytical tools; and
- We considered whether the Group's disclosures including sensitivity analysis were in line with the requirements of IAS 36.

### Key observations



Management's forecasts reflect appropriate downside risks and, whilst we note further actions are required by the Group to achieve the forecasts over the medium term, we concluded that the assumptions applied in the impairment models are within an acceptable range.

The Group's impairment review process shows limited headroom, where reasonably possible changes in performance could result in impairment as set out in Note 12. We consider that the Group's description of the key factors in determining the carrying value of the CGUs and sensitivity analysis has been appropriately disclosed.

## THE CLASSIFICATION OF OTHER ITEMS IN THE CONSOLIDATED INCOME STATEMENT

**Key audit matter description**

The Group has consistently used a three column approach for the classification of the Consolidated Income Statement to identify separately certain income/costs which are non-underlying in nature. The inappropriate or inconsistent inclusion/exclusion of income/costs within Other items could distort the underlying profit disclosed.

Management's incentives are determined based on the underlying performance of the business which results in a potential risk of fraud and bias in management's judgement to present these items separately.

The Group has incurred and presented separately net restructuring costs of £21.1m. As these have been recurring over a number of years we have focused on these to understand the nature of the restructuring and whether it is significant enough for separate presentation.

The Group sold a number of properties during 2017, generating a profit on disposal of £19.5m of which £13.7m has been recognised in underlying and £5.8m within Other items. We have focused on whether the classification is appropriate and whether the benefit has been clearly disclosed in the Annual Report and Accounts.

The Group's definition for separate presentation within Other items is set out in the Statement of Significant Accounting Policies on pages 107 and 108. The net losses associated with Other items is £117.3m and increases the Group's underlying profit after tax as shown in the Consolidated Income Statement.

**How the scope of our audit responded to the key audit matter**

- We assessed the design and implementation of key controls related to the classification of Other items;
- We assessed other quality of earnings matters to determine whether they should be included/excluded from Other items and challenged whether they met the Group's definition for separate presentation;
- Where income/costs have been presented as Other items, we obtained evidence to assess whether this presentation is appropriate and whether the separate presentation by management is indicative of bias;
- We performed detailed substantive testing for a sample of the costs/income by verifying these against supporting invoices, agreements and other records as appropriate;
- We tested the movement in non-underlying provisions including determining whether releases/ additional charges have been made through Other items and should instead be through the underlying results; and
- We assessed the nature of the costs charged to Other items and whether there are indicators that the costs should have been charged to underlying.

**Key observations**

We consider the items recognised in Other items to meet the Group's definition for separate presentation and the related disclosures are appropriate.

The items drawn out by management have been consistently presented within Other items each year. Amortisation has been included in Other items which is consistent with industry practice and analyst reports.

Consistent with historical treatment, management have not included property profits arising from the sale and leaseback of operating sites within Other items. This has benefited the underlying profit by £13.7m. Profits from non-operating sites of £5.8m have been included within Other items.

**MANAGEMENT OVERRIDE OF CONTROLS****Key audit matter description**

As described on page 170 the misstatements of rebate income (which has been identified as a separate key audit matter above) and cash are considered to be significant breakdowns in the Group's internal control environment.

We considered the impact of the override of controls relating to those matters and the risk of bias in management's judgements. We focused our testing on this area and our testing was designed to ensure we appropriately addressed the risk of material misstatement.

The challenges faced by the Group this year have caused the Directors to examine closely those areas of the Financial Statements where higher levels of management judgement is required, for example accruals and provisions or where there is a risk that controls can be bypassed. There is a risk that other judgements taken by management indicate earnings management in response to the misstatements identified within supplier rebates. We considered this risk when auditing judgemental areas, and in our overall review of whether the Financial Statements presented a true and fair view.

Refer to the Strategic Report on pages 31 and 61 and the Audit Committee Report on page 73.

# Independent Auditor's Report

To the members of SIG plc

## MANAGEMENT OVERRIDE OF CONTROLS

### How the scope of our audit responded to the key audit matter



We assess the overall control environment of the Group with a particular focus on the governance and oversight process of those charged with governance. In response to the risk we made corroborative enquiries of management to understand the use of cheque payments to suppliers and therefore to assess the risk of contagion across the Group. This identified the UK and Ireland as the key locations where cheques were most commonly used and where our specific procedures relating to cash cut off were performed. Our procedures considering bias were performed at all locations in scope for the Group audit, with enhanced procedures in SIG Distribution as described below.

We utilised specialists with forensic expertise to perform walkthroughs of management's process. Our procedures included:

#### PROCEDURES OVER CASH CUT-OFF

- Performing a forensic review of cheques paid to suppliers around the reporting dates assessing whether the cheques have been recognised in the correct accounting period;
- Reviewing bank and cheque stub records to identify where further payments could be recognised in the incorrect period;
- Making enquiries of the arrangements with suppliers and of the existence of further side agreements;
- Assessing the misstatement determined by management and consequential impact on the Group's disclosures;

#### PROCEDURES CONSIDERING BIAS

- Understanding the bonus entry points for the business (senior management and wider business targets) and how the results reported compare to those and consider whether bias has impacted the achievement of the targets; and
- Testing manual journal entries (including focus on those posted by key individuals to key account balances where the risk of manipulation is higher) and incorporating an element of unpredictability in the timing of our work and the selection of our samples in our testing plan.

We examined the significant accounting estimates and judgements related to the Financial Statements for evidence of bias by the Directors that represented a risk of material misstatement. These estimates included the areas of impairment and presentation of Other items in the Consolidated Income Statement as set out in the key audit matters above. Further to this we performed the following procedures in respect of SIG Distribution where the risk of bias was higher:

- Considering reductions in accruals in excess of £0.1m, including changes in assumptions for indicators of bias. Where assumptions have changed, we assessed the appropriateness of the change and whether there was sufficient evidence to support the change;
- Comparing the listing of prepayments to the prior year listing to identify changes to increase the prepayments in excess of £0.1m. Understood the changes and performed detailed testing to validate the balances;
- Performing additional testing of direct sales to determine whether they have been recognised in the correct period; and
- Using computer aided audit techniques we have gained an understanding of the nature of journals posted by key individuals and profiled and tested journals where the level of risk is considered to be higher e.g. postings to rebate codes in the general ledger.

### Key observations



We were satisfied that management's judgements are considered reasonable.

As set out by management on page 77 a number of deficiencies in the Group's internal controls were identified during the period, most notably in respect of the valuation of the rebate receivable and the recognition of cash.



## OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

<b>Group materiality</b>	£3.15m (2016: £3.10m).
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<b>Basis for determining materiality</b>	4.6% of adjusted pre-tax profit.
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<b>Rationale for the benchmark applied</b>	We have used adjusted pre-tax profit (as defined on page 168) as the benchmark for determining materiality as this is a key metric for users of the Financial Statements.
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We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.16m (2016: £0.15m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Parent Company materiality applied was £3.0m (2016: £2.9m), which was determined on the basis of 0.4% of Parent Company net assets. The other component materialities applied ranged from 40% to 60% of Group materiality (£1.3m to £1.9m) (2016: 50% to 61% or £1.5m to £1.9m), dependent on our assessment of risks specific to each location and based on the component's revenue and underlying pre-tax profit contribution.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group Audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at a Group level. The Parent Company audit and audit of the consolidation is performed at the Group's head office in Sheffield. The accounting records of the trading businesses within the Group are spread across the countries in which the Group operates. We perform audit work in each of the eight principal countries of operation.

Full scope audits were performed for the principal business units in the United Kingdom, Germany and France covering 78% of the Group's total revenue (2016: 84%) and 80% of pre-tax loss (2016: 79%). A further 3% of the Group's total revenue (2016: 13%) and 2% of pre-tax loss (2016: 19%) were subject to specified audit procedures where the extent of our audit testing was based on our assessment of the risks of material misstatement. This took into account previous audit findings, our consideration of the control environment in those locations and of the materiality of the Group's operations at those locations. Our specified procedures were performed for the location where we considered that there was a greater risk of fraud and error. The locations were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our full scope audits and the specified audit procedures were executed at levels of materiality applicable to each individual entity which were lower than Group materiality. In the prior year we performed full scope audits in Ireland and Poland. Our assessment of the risk of material misstatement in these businesses led us to revise our scope.

At the Parent entity level we also tested the consolidation process, including testing on the acquisitions which are significant to the Group's result and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Our audit work has included the use of component Auditors, which form part of the Deloitte member firm network. We planned and reviewed the component Auditor's work, issuing referral instructions to them and evaluating the results of the work performed. Senior members of the Group audit team visited each of the significant locations including Germany, France and the United Kingdom. We worked closely with our component teams, increasing the frequency of communication and detail of our review responding to the risks identified above.

We plan to visit all principal components at least on an annual basis.

# Independent Auditor's Report

## To the members of SIG plc

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### OTHER INFORMATION

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The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the Financial Statements and our Auditor's report thereon.

**We have nothing to report in respect of these matters.**

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – 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 position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – 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* – 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.

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### RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, 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's and the 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.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's report.

### 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### 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.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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#### ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

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#### DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

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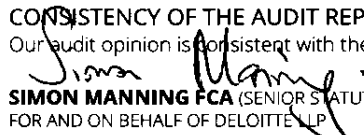
## OTHER MATTERS

### AUDITOR TENURE

Following the recommendation of the Audit Committee, we were appointed by management to audit the Financial Statements for the year ending 31 December 2002 and subsequent financial periods. Our appointment was subsequently ratified at the Annual General Meeting of the Company. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2002 to 31 December 2017.

### CONSISTENCY OF THE AUDIT REPORT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

  
**SIMON MANNING FCA** (SENIOR STATUTORY AUDITOR)

FOR AND ON BEHALF OF DELOITTE LLP  
STATUTORY AUDITOR

Leeds, UK

8 March 2018

## Five-Year Summary

	Total 2013 £m	Total 2014 £m	Total 2015 Restated £m	Total 2016 Restated £m	Total 2017 £m
<b>Statutory basis</b>					
Revenue	2,719.8	2,633.9	2,566.4	2,845.2	<b>2,878.4</b>
Operating (loss)/profit	15.4	53.2	65.5	(94.7)	<b>(33.9)</b>
Finance income	1.6	1.0	1.0	1.7	<b>0.6</b>
Finance costs	(14.8)	(15.2)	(15.6)	(17.0)	<b>(17.9)</b>
(Loss)/profit before tax	2.1	39.0	50.9	(110.0)	<b>(51.2)</b>
(Loss)/profit after tax	(14.3)	34.5	35.9	(121.6)	<b>(58.6)</b>
(Loss)/earnings per share	(2.5)p	5.6p	6.1p	(20.6)p	<b>(10.1)p</b>
Total dividend per share	3.55p	4.40p	4.60p	3.66p	<b>3.75p</b>
	Underlying* 2013 £m	Underlying* 2014 £m	Underlying* 2015 Restated £m	Underlying* 2016 Restated £m	Underlying* 2017 £m
<b>Underlying basis^</b>					
Revenue	2,335.2	2,385.8	2,323.3	2,587.4	<b>2,778.5</b>
Operating profit	95.5	108.1	96.7	89.7	<b>94.3</b>
Finance income	1.4	0.9	1.0	1.2	<b>0.5</b>
Finance costs	(12.7)	(13.0)	(12.3)	(15.0)	<b>(15.6)</b>
Profit before tax	84.2	96.0	85.4	75.9	<b>79.2</b>
Profit after tax	59.2	69.1	64.5	57.8	<b>58.7</b>
Earnings per share	10.0p	11.7p	10.9p	9.7p	<b>9.8p</b>

\* Underlying figures are stated before amortisation of acquired intangibles, goodwill and intangible impairment charges, 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, the defined benefit pension scheme curtailment loss, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, one-off recognition of deferred tax assets, the taxation effect of Other Items and the effect of changes in taxation rates.

^ 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 2017

	2017 £m	2016 £m
<b>(Loss)/profit after tax</b>	<b>(7.2)</b>	16.8
<b>Items that may subsequently be reclassified to the Company Income Statement</b>		
Gains and losses on cash flow hedges	0.4	(3.8)
Transfer to profit and loss on cash flow hedges	2.1	2.3
<b>Other comprehensive income/(expense)</b>	<b>2.5</b>	(1.5)
<b>Total comprehensive (expense)/income</b>	<b>(4.7)</b>	15.3
<b>Attributable to:</b>		
Equity holders of the Company	<b>(4.7)</b>	15.3

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 2017

	Note	2017 £m	2016 £m
<b>Fixed assets</b>			
Investments	5	<b>443.0</b>	443.0
Tangible fixed assets	6	<b>0.1</b>	0.9
		<b>443.1</b>	443.9
<b>Current assets</b>			
Debtors – due within one year	7	<b>938.4</b>	915.1
Debtors – due after more than one year	7	<b>3.3</b>	7.6
Deferred tax assets	11	<b>0.2</b>	2.3
Cash at bank and in hand		<b>10.2</b>	14.5
		<b>952.1</b>	939.5
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	8	<b>437.6</b>	385.5
Provisions: amounts falling due within one year	10	<b>1.6</b>	1.0
		<b>439.2</b>	386.5
<b>Net current assets</b>		<b>512.9</b>	553.0
<b>Total assets less current liabilities</b>		<b>956.0</b>	996.9
Creditors: amounts falling due after one year	9	<b>258.0</b>	275.3
Provisions	10	<b>0.1</b>	1.1
<b>Net assets</b>		<b>697.9</b>	720.5
<b>Capital and reserves</b>			
Called up share capital	12	<b>59.2</b>	59.1
Share premium account	12	<b>447.3</b>	447.3
Merger reserve	12	<b>21.7</b>	21.7
Capital redemption reserve	12	<b>0.3</b>	0.3
Share option reserve	12	<b>1.3</b>	1.1
Exchange reserve	12	<b>(0.2)</b>	(0.2)
Retained profits	12	<b>168.3</b>	191.2
<b>Shareholders' funds</b>		<b>697.9</b>	720.5

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 2017 of £7.2m (2016: profit of £16.8m).

The Financial Statements were approved by the Board of Directors on 8 March 2018 and signed on its behalf by:

**MEINIE OLDERSMA**  
DIRECTOR

**NICK MADDOCK**  
DIRECTOR

Registered in England: 00998314

*M. Oldersma*

*N. Maddock*

## Company Statement of Changes in Equity

for the year ended 31 December 2017

	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share option reserve £m	Exchange reserve £m	Retained profits £m	Total Equity £m
At 1 January 2016	59.1	447.3	21.7	0.3	1.4	(0.2)	203.9	733.5
Profit after tax	-	-	-	-	-	-	16.8	16.8
Other comprehensive expense	-	-	-	-	-	-	(1.5)	(1.5)
Total comprehensive income	-	-	-	-	-	-	15.3	15.3
Exercise of share options	-	-	-	-	-	-	-	-
Debit to share option reserve	-	-	-	-	(0.3)	-	-	(0.3)
Share capital issued in the year	-	-	-	-	-	-	-	-
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(28.0)	(28.0)
At 31 December 2016	59.1	447.3	21.7	0.3	1.1	(0.2)	191.2	720.5
Loss after tax	-	-	-	-	-	-	(7.2)	(7.2)
Other comprehensive income	-	-	-	-	-	-	2.5	2.5
Total comprehensive expense	-	-	-	-	-	-	(4.7)	(4.7)
Exercise of share options	-	-	-	-	-	-	-	-
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)
<b>At 31 December 2017</b>	<b>59.2</b>	<b>447.3</b>	<b>21.7</b>	<b>0.3</b>	<b>1.3</b>	<b>(0.2)</b>	<b>168.3</b>	<b>697.9</b>

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2017 the Company allotted 87,934 shares (2016: 113,153) 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 Financial Statements on page 141.

The separate Financial Statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101) and the Companies Acts 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 following new and revised Standards and Interpretations have been adopted in the current period:

- Annual Improvements to IFRSs 2014-2016 Cycle – various standards (amendments to IFRS 12 "Disclosure of Interests in Other Entities")
- Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12 "Income Taxes")
- Disclosure initiative (amendments to IAS 7 "Statement of Cash Flows")

The application of these specific Standards and Interpretations has not had a material effect on the Company.

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 pages 108 and 109.

## DERIVATIVE FINANCIAL INSTRUMENTS

The accounting policy for derivative financial instruments is consistent with that of the Group as detailed on pages 110 and 111.

## FINANCIAL ASSETS AND LIABILITIES

The accounting policy for financial assets and liabilities is consistent with that of the Group as detailed on page 110.

## 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 109.

## FOREIGN CURRENCY

The accounting policy for foreign currency is consistent with that of the Group as detailed on page 107.

## TAXATION

The accounting policy for taxation is consistent with that of the Group as detailed on page 108.

## 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.

# Company Statement of Significant Accounting Policies

## 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 £443m (2016: £443m) with no impairment loss recognised in 2017 or 2016. Of the £443m net book value, £435m (2016: £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.

## 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)/PROFIT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own Company Income Statement for the year. SIG plc reported a loss after tax for the financial year ended 31 December 2017 of £7.2m (2016: profit £16.8m).

The Auditor's remuneration for audit services to the Company was £0.2m (2016: £0.2m).

## 2. SHARE-BASED PAYMENTS

The Company had two share-based payment schemes in existence during the year ended 31 December 2017. The Company recognised a total charge of £0.2m (2016: credit of £0.3m) in the year relating to share-based payment transactions issued after 7 November 2002. Details of each of the two share-based payment schemes can be found in Note 9 to the Financial Statements on pages 126 and 127.

## 3. DIVIDENDS

An interim dividend of 1.25p per ordinary share was paid on 3 November 2017 (2016: 1.83p). The Directors have proposed a final dividend for the year ended 31 December 2017 of 2.5p per ordinary share (2016: 1.83p). 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 2016, were £18.2m (2016: £28.0m). No dividends have been paid between 31 December 2017 and the date of signing the Financial Statements.

See Note 12 for further details on distributable reserves.

## 4. STAFF COSTS

Particulars of employees (including Directors) are shown below:

	2017 £m	2016 £m
Employee costs during the year amounted to:		
Wages and salaries	7.6	6.4
Social security costs	0.7	0.9
IFRS 2 share option charge/(credit)	0.2	(0.3)
Pension costs	0.2	0.4
<b>Total</b>	<b>8.7</b>	<b>7.4</b>

The average monthly number of persons employed by the Company during the year was as follows:

	2017 Number	2016 Number
Administration	48	60

## 5. FIXED ASSET INVESTMENTS

Fixed asset investments comprise investments in subsidiary undertakings, as follows:

	2017 £m	2016 £m
<b>Cost</b>		
At 1 January and 31 December	650.2	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	443.0	443.0

Details of the Company's subsidiaries are shown on pages 191 and 192.

Of the £443.0m (2016: £443.0m) investment net book value, £435m (2016: £435m) relates to SIG Trading Limited, the largest UK trading subsidiary. At 31 December 2017, 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 £14m exists. For there to be no headroom, sales would have to reduce by 0.5% or gross margin would have to reduce by 10bps. The Group considers that a reasonably possible scenario would be a 50bps reduction in gross margin. If this arose, an impairment of £60m would be required.

A more detailed sensitivity analysis of the Group's significant CGUs is given on page 134, Note 12 of the Financial Statements.

## Notes to the Company Financial Statements

### 6. TANGIBLE FIXED ASSETS

The movement in the year was as follows:

	Land and buildings		Plant and machinery	Total
	Freehold land and buildings £m	Short leasehold £m	£m	£m
<b>Cost</b>				
At 1 January 2016	0.1	0.8	0.7	1.6
Additions	–	–	0.2	0.2
Disposals	–	–	–	–
At 1 January 2017	0.1	0.8	0.9	1.8
Additions	–	–	–	–
Disposals	–	(0.8)	(0.3)	(1.1)
<b>At 31 December 2017</b>	<b>0.1</b>	<b>–</b>	<b>0.6</b>	<b>0.7</b>
<b>Depreciation</b>				
At 1 January 2016	0.1	0.1	0.4	0.6
Charge for the year	–	0.1	0.2	0.3
Disposals	–	–	–	–
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)
<b>At 31 December 2017</b>	<b>0.1</b>	<b>–</b>	<b>0.5</b>	<b>0.6</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>0.1</b>
At 31 December 2016	–	0.6	0.3	0.9

The impairment charge 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 2017 or 2016 as there were no further indications of impairment.

### 7. DEBTORS

	31 December 2017 £m	31 December 2016 £m
Amounts owed by subsidiary undertakings	936.4	913.5
Derivative financial instruments	1.2	0.1
Prepayments and accrued income	0.8	0.8
Deferred consideration	–	0.7
<b>Debtors – due within one year</b>	<b>938.4</b>	<b>915.1</b>
Amounts owed by subsidiary undertakings	3.2	3.2
Derivative financial instruments	0.1	4.4
<b>Debtors – due after more than one year</b>	<b>3.3</b>	<b>7.6</b>
<b>Total</b>	<b>941.7</b>	<b>922.7</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

	31 December 2017 £m	31 December 2016 £m
Private placement notes	21.1	–
Bank loans	75.7	158.8
Bank overdrafts	1.6	3.7
Amounts owed to subsidiary undertakings	325.8	211.1
Derivative financial instruments	0.2	0.2
Accruals and deferred income	12.4	10.2
Corporation tax	0.8	1.5
<b>Total</b>	<b>437.6</b>	<b>385.5</b>

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

	31 December 2017 £m	31 December 2016 £m
Private placement notes	183.1	200.7
Derivative financial instruments	3.3	3.6
Amounts owed to subsidiary undertakings	71.6	71.0
<b>Total</b>	<b>258.0</b>	<b>275.3</b>

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) are as follows:

	31 December 2017		31 December 2016	
	£m	Fixed interest rate %	£m	Fixed interest rate %
Repayable in 2018*	21.1	5.5	22.0	5.3
Repayable in 2020	26.7	3.7	25.6	3.7
Repayable in 2021	17.8	3.9	17.1	3.9
Repayable in 2023	44.4	4.2	42.7	4.2
Repayable in 2026	94.2	3.3	93.3	3.3
<b>Total</b>	<b>204.2</b>	<b>3.8</b>	<b>200.7</b>	<b>3.8</b>

\* The private placement notes repayable in 2018 are included within creditors: amounts falling due within one year at 31 December 2017.

# Notes to the Company Financial Statements

## 10. PROVISIONS

	Warranty Claims £m	Dilapidations £m	Total £m
At 1 January 2016	2.0	–	2.0
New provisions	1.3	–	1.3
Unwinding of provision discounting	–	–	–
Utilised	(1.2)	–	(1.2)
At 31 December 2016	2.1	–	2.1
New provisions	–	0.6	0.6
Unwinding of provision discounting	0.1	–	0.1
Utilised	(1.1)	–	(1.1)
<b>At 31 December 2017</b>	<b>1.1</b>	<b>0.6</b>	<b>1.7</b>
	<b>31 December 2017 £m</b>	31 December 2016 £m	
Amounts falling due within one year		<b>1.6</b>	1.0
Amounts falling due after one year		<b>0.1</b>	1.1
<b>Total</b>		<b>1.7</b>	2.1

The transfer of economic benefit in respect of the warranty provision is expected to be made within two years' time.

## 11. DEFERRED TAX

	<b>31 December 2017 £m</b>	31 December 2016 £m
<b>Deferred tax assets</b>	<b>0.2</b>	2.3

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 2016	3.9	0.1	4.0
Credit/(charge) to income	2.5	(0.1)	2.4
Utilised	(4.1)	–	(4.1)
At 31 December 2016	2.3	–	2.3
Credit to income	–	0.2	0.2
Utilised	(2.3)	–	(2.3)
<b>At 31 December 2017</b>	<b>–</b>	<b>0.2</b>	<b>0.2</b>

Given the future expected profitability of the Company, the Directors consider that the recognition of the deferred tax assets above is appropriate.

## 12. CAPITAL AND RESERVES

	31 December 2017 £m	31 December 2016 £m
Called up share capital	59.2	59.1
Share premium account	447.3	447.3
Merger reserve	21.7	21.7
Capital redemption reserve	0.3	0.3
Share option reserve	1.3	1.1
Exchange reserve	(0.2)	(0.2)
Retained profits	168.3	191.2
<b>Total reserves</b>	<b>697.9</b>	<b>720.5</b>

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 2016	59.1	447.3	1.4	203.9
Exercise of share options	-	-	-	-
Debit to share option reserve	-	-	(0.3)	-
Fair value movement on cash flow hedges	-	-	-	(3.8)
Transfer to profit and loss on cash flow hedges	-	-	-	2.3
Issue of share capital	-	-	-	-
Profit for the period	-	-	-	16.8
Dividends	-	-	-	(28.0)
At 31 December 2016	59.1	447.3	1.1	191.2
Issue of share capital	0.1	-	-	-
Credit to share option reserve	-	-	0.2	-
Exercise of share options	-	-	-	-
Fair value movement on cash flow hedges	-	-	-	0.4
Transfer to profit and loss on cash flow hedges	-	-	-	2.1
Loss for the period	-	-	-	(7.2)
Dividends	-	-	-	(18.2)
<b>At 31 December 2017</b>	<b>59.2</b>	<b>447.3</b>	<b>1.3</b>	<b>168.3</b>

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2017 the Company allotted 87,934 shares (2016: 113,153) following the exercising of share options.

At 31 December 2017 the Company has c.£53m of distributable reserves and when required the Company can further increase these distributable reserves from appropriate repatriation of funds from subsidiary undertakings. Whilst 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 Financial Statements on page 150.

## Notes to the Company Financial Statements

### 13. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

#### A) GUARANTEES

At 31 December 2017 the Company had provided guarantees of £14.4m (2016: £18.2m) on behalf of its subsidiary undertakings.

#### B) CONTINGENT LIABILITIES

As at the balance sheet date, the Company had outstanding obligations under a standby letter of credit of up to £9.0m (2016: £9.0m). This standby letter of credit, issued by HSBC Bank plc, is in respect of the Group's insurance arrangements.

### 14. RELATED PARTY TRANSACTIONS

#### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The total remuneration of the Directors of the Group Board, who the Group considered to be its key management personnel, is provided in the audited part of the Directors' Remuneration Report on pages 89 to 92. In addition, the Company recognised a share-based charge under IFRS 2 of £0.2m (2016: credit of £0.3m).



# Group Companies 2017

## 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) (xi)  
Ainsworth Insulation Supplies Limited (England) (ii) (xiii)  
Air Trade Centre UK Limited (England) (ii)  
AIS Insulation Supplies Limited (England) (ii)  
Altrim Plastics (Stoke) Limited (England) (ii)  
Altrim Plastics Limited (England) (ii)  
Asphaltic Properties Limited (England) (ii)  
Asphaltic Roofing Supplies Limited (England) (ii)  
Auron Limited (England) (ii) (ix)  
BBM (Materials) Limited (England) (ii)  
Blueprint Construction Supplies Limited (England) (ii)  
Bondec Boards Limited (England) (ii)  
Bowler 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) (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 (Leysland) Limited (England) (ii)  
C.M.S. Acoustic Solutions Limited (England) (ii) (x)  
CMS Danskin Acoustics Limited (England) (ii)  
C.M.S. Vibration Solutions Limited (England) (ii) (xv)  
Coleman Group Limited (England) (ii) (xvii)  
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)  
Dyted 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) (ii) (i)  
Freeman Holdings Limited (England) (ii)  
General Fixings Limited (England) (ii)  
The Greenjackets Roofing Services Limited (England) (ii) (xv)  
GRM Distribution Limited (England) (ii)

G.S. Insulation Supplies Limited (England) (ii)  
Gutters & Ladders (1968) Limited (England) (ii)  
Harris Roofing Supplies Gloucester Limited (England) (ii)  
>HHL Building Products Limited (Northern Ireland) (ii)  
Hillsborough Investments Limited (England) (i) (ii) (ii)  
Homewarm Insulation Limited (England) (ii) (ii)  
IBSL Group Limited (England) (ii)  
Impex Avon Limited (England) (ii) (xv)  
Insulation & Buoyancy Services Limited (England) (ii)  
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)  
<JP Fixings Limited (Scotland) (ii)  
K.D. Insulation Supplies Limited (England) (ii)  
Kem Edwards Limited (England) (ii)  
Kent Flooring Supplies Limited (England) (ii)  
Kesteven Roofing Centre Limited (England) (ii)  
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)  
Metetechno Limited (England)  
MP Acoustics Solutions Limited (England) (ii)  
Ockwells Limited (England) (ii) (vii)  
Omni Plastics Limited (England) (ii)  
Omnicore (Developments) Limited (England) (ii)  
Omnicore Plastics Limited (England) (ii)  
One Stop Roofing Centre Limited (England) (ii)  
Orion Trent Holdings Limited (England) (ii) (xvi)  
Orion Trent Limited (England) (ii) (xvi)  
Parking Ventilation Equipment Limited (England) (xv)  
Penkridge Holdings Limited (England) (ii)  
Plastic Pipe Supplies Limited (England) (ii)  
Polytech Systems Limited (England) (ii) (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)  
Roofspace Solutions Limited (England) (ii)  
Roplas (Humburside) Limited (England) (ii)  
Roplas (Lincs) Limited (England) (ii)  
Rubberbond Roofing Systems Limited (England) (ii)  
Ryan Roofing Supplies Limited (England) (ii) (vii)  
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) (ii) (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 Nine Limited (England) (ii) (ii)  
SIG Dormant Company Number Seven Limited (England) (ii) (ii)  
SIG Dormant Company Number Six Limited (England) (ii)  
SIG Dormant Company Number Ten Limited (England) (ii) (ii) (xvii)  
SIG Dormant Company Number Thirteen Limited (England) (ii)  
SIG Dormant Company Number Three Limited (England) (ii) (ii)  
SIG Dormant Company Number Twelve Limited (England) (ii)  
SIG Dormant Company Number Two Limited (England) (ii) (ii) (iv)  
SIG Energy Management Limited (England) (ii) (ii)  
SIG EST Trustees Limited (England) (ii) (ii)  
SIG European Holdings Limited (England) (ii)  
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) (ii) (ii)  
SIG Group Life Assurance Scheme Trustees Limited (England) (ii)  
SIG Hillsborough Limited (England)  
SIG Insulations Limited (England) (ii)  
SIG International Trading Limited (England) (ii)  
SIG Logistics Limited (England) (ii)  
SIG Manufacturing Limited (England)  
SIG Offsite Limited (England) (ii)  
SIG Retirement Benefits Plan Trustee Limited (England) (ii) (ii)  
SIG Roofing Supplies Limited (England) (ii) (ii)  
SIG Specialist Construction Products Limited (England) (ii)  
SIG Sustainable Solutions Limited (England) (ii)  
SIG Trading Limited (England) (ii)  
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) (vii)  
Specialised Fixings (East Anglia) Limited (England) (ii)  
Specialised Fixings Limited (England) (ii)  
Summers PVC (Essex) Limited (England) (ii)  
Summers PVC Limited (England) (ii)  
Support Site Limited (England) (ii) (ii)  
Swindon Roofing Centre Limited (England) (ii) (xv)  
T A Stephens (Roofing) Limited (England) (ii)  
TD 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)  
V.J. Technology Limited (England) (ii)  
W.W. Fixings Limited (England) (ii) (xvi)  
Walkwell Flooring Supplies Limited (England) (ii)  
Warm A Home Limited (England) (ii) (xx)  
Warren Insulation plc (England) (ii)  
Warwickshire Roofing Centre Limited (England) (ii)  
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)  
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) (ii) (ii)

# Group Companies 2017

## CONTROLLING INTERESTS (UNITED KINGDOM)

Passive Fire Protection (PFP) UK Limited (England) (51%) (ii)  
SIG Building Systems Limited (England) (79%)  
SIG Roofspace Limited (England) (80%) (xv)

+ 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 6DA, United Kingdom

# Registered Office Address: 27 Balmoral Road, Balmoral Industrial Estate, Belfast, BT12 6DA, United Kingdom

## FULLY OWNED SUBSIDIARIES (OVERSEAS) (INCLUDING REGISTERED OFFICE ADDRESSES)

Air Trade Centre Netherlands B.V. (The Netherlands) - 1e Tochtweg 11, 2913 LN Nieuwerkerk aan den IJssel, The Netherlands

Asimex Klimaattechniek B.V. (The Netherlands) - Leeghwaterstraat 12, 3316 EC Dordrecht, The Netherlands

Beleggingsmij Interland Techniek B.V. (The Netherlands) - Leeghwaterstraat 12, 3316 EC Dordrecht, 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 Janzé, France

Gate Pizzaras SL (Spain) - Ponferrada, Villamartin Leon, Spain

Hamar B.V. (The Netherlands) - Zijlweg 1, 5145 NR Waalwijk, The Netherlands

Handelmaatschappij Bracol Nederland B.V. (The Netherlands) - Industrieweg 32B, 2382 Zoeterwoude NW, The Netherlands

HC Barcol Air B.V. (The Netherlands) - Cantekoogweg 10-12, 1442 LG Purmerend, The Netherlands

HCKP B.V. (The Netherlands) - Tienenstraat 19, 5145RC Waalwijk, The Netherlands

HCPS B.V. (The Netherlands) - Tienenstraat 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) - Tienenstraat 19, 5145RC Waalwijk, The Netherlands

Houdstermaatschappij Gisama B.V. (The Netherlands) - Leeghwaterstraat 12, 3316 EC Dordrecht, The Netherlands

Isolatex b.v.b.a. (Belgium) - Scheepvaarkaai 5, Hasselt 3500, Belgium

Insulation Products & Systems B.V. (The Netherlands) - Zijlweg 1, 5145 NR Waalwijk, The Netherlands

Interland Techniek B.V. (The Netherlands) - Leeghwaterstraat 12, 3316 EC Dordrecht, The Netherlands

J S McCarthy Limited (Ireland) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland

Larivière S.A.S. (France) - 36 bis rue de la Paille, 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 Plaisie, 73370 Le Bourget-du-Lac, France

Megawand B.V. (The Netherlands) - Lingewei 7, 4004 LK Tiel, The Netherlands

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

M. Van Tol B.V. (The Netherlands) - Harsweg 12, 2461 EZ Ter Aar, The Netherlands

Netherlands Financing B.V. (The Netherlands) - Bedrijfweg 15, 5061 JX Oisterwijk, The Netherlands

Prolant Lufttechnik Handels GmbH (Austria) - Statteggerstrasse 131, 8045 Graz, Austria

Saltair 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 Afbouwspecialist B.V. (The Netherlands) - Parklaan 12a, 5061 JT Oisterwijk, The Netherlands

SIG Air Handling N.V. (Belgium) - Hoogstraat 180, B-1930, Zaventem, Belgium

SIG Air Handling Sp. z.o.o. (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland

SIG Air Handling Hungary Kft (Hungary) - 2040 Budaors, Gyár utca 2, Hungary

SIG Air Handling International B.V. (The Netherlands) - 1e Tochtweg 11, 2913 LN Nieuwerkerk aan den IJssel, The Netherlands

SIG Air Handling Netherlands B.V. (The Netherlands) - Tienenstraat 19, 5145RC Waalwijk, The Netherlands

SIG Air Handling Romania srl (Romania) - 1st Urban district, Sos, Odai No. 307-309, 2nd Floor Right Module Room 1, 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 GBT Machines B.V. (The Netherlands) (ii) - Databankweg 7A, 3821 AL Amersfoort, The Netherlands

SIG Holdings B.V. (The Netherlands) - Bedrijfweg 15, 5061 JX Oisterwijk, The Netherlands

SIG International Trading FZE (Dubai) - Jabel Ali, Dubai

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. IJssel, 2913 LV, The Netherlands

SIG Trading (Ireland) Limited (Ireland) (vii) - 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

SML System und Metallbau GmbH (Germany) - Juri-Gagarin-Ring 11, 19370 Parchim, Germany

Société Industrielle de l'Ouest des Produits Isolants S.A.S. (France) - Chemin de Rouville, 27460 Alizay, France

Technische Handelmaatschappij "Inatherm" B.V. (The Netherlands) - Vijzelweg 10, 5145NK Waalwijk, The Netherlands

U.M.B. Amersfoort B.V. (The Netherlands) - Databankweg 7, 3821 AL Amersfoort, The Netherlands

U.M.B. Tiel B.V. (The Netherlands) - Lingewei 7, 4004 LK Tiel, The Netherlands

WeGo Systembaustoffe GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany

WeGo Systembaustoffe Austria GmbH (Austria) - Ruthnergasse 28, 1210 Wien, Austria

## CONTROLLING INTERESTS (OVERSEAS) (INCLUDING REGISTERED OFFICE ADDRESSES)

SIG Air Handling Bulgaria Limited (Bulgaria) (60%) - 301, Tzarigradsko chaussee Blvr, Sofia 1582, Bulgaria

SIG Middle East LLC (Dubai) (49%) - P.O. Box 215851, Dubai

## NOTES

- (i) Directly owned by SIG plc
- (ii) Dormant company
- (iii) Ownership held in cumulative preference shares
- (iv) Ownership held in ordinary shares and 12% cumulative redeemable preference shares
- (v) Ownership held in ordinary shares and preference shares
- (vi) Ownership held in ordinary shares and deferred ordinary shares
- (vii) Ownership held in ordinary shares and class A ordinary shares
- (viii) Ownership held in ordinary shares and class B ordinary shares
- (ix) Ownership held in ordinary shares, class A ordinary shares and class B ordinary shares
- (x) Ownership held in ordinary shares, class B ordinary shares and class C ordinary shares
- (xi) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares and class C ordinary shares
- (xii) Ownership held in ordinary shares and class E ordinary shares
- (xiii) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares, class C ordinary shares, class E ordinary shares, class F ordinary shares and class G ordinary shares
- (xiv) Ownership held in class A ordinary shares
- (xv) Ownership held in class A ordinary shares and class B ordinary shares
- (xvi) Ownership held in class A ordinary shares, class B ordinary shares and class C ordinary shares
- (xvii) Ownership held in class A ordinary shares, class B ordinary shares and preference shares
- (xviii) Ownership held in class A ordinary shares, class B ordinary shares and cumulative redeemable preference shares
- (xix) Ownership held in class B ordinary shares and preference shares
- (xx) Ownership held in class AA ordinary shares, class AB ordinary shares, class AC ordinary shares, class AD ordinary shares, class AE ordinary shares, class AF ordinary shares, class AG ordinary shares, class B ordinary shares and class C ordinary shares

## Company information

### **PRESIDENT**

Sir Norman Adsetts OBE, MA

### **SECRETARY**

Richard Monro FCIS

### **REGISTERED NUMBER**

Registered in England  
998314

### **REGISTERED OFFICE**

Hillsborough Works  
Langsett Road Sheffield S6 2LW  
United Kingdom

Tel: 0114 285 6300

Fax: 0114 285 6349

Email: [info@sigplc.com](mailto:info@sigplc.com)

### **CORPORATE OFFICE**

Signet House  
17 Europa View Sheffield  
Business Park  
Sheffield S9 1XH  
United Kingdom

Tel: 0114 285 6300

Fax: 0114 285 6349

### **COMPANY WEBSITE**

[www.sigplc.com](http://www.sigplc.com)

### **LISTING DETAILS**

Market UK Listed

Reference SHI.L

Sector Support Services

### **REGISTRARS AND TRANSFER OFFICE**

#### **COMPUTERSHARE INVESTOR SERVICES PLC**

The Pavilions  
Bridgwater Road  
Bristol BS13 8AE

### **AUDITOR**

#### **DELOITTE LLP**

1 City Square  
Leeds LS1 2AL

### **SOLICITORS**

#### **PINSENT MASONS LLP**

1 Park Row  
Leeds LS1 5AB

### **PRINCIPAL BANKERS**

#### **THE ROYAL BANK OF SCOTLAND PLC**

Corporate Banking  
3rd Floor  
2 Whitehall Quay  
Leeds LS1 4HR

#### **BARCLAYS BANK PLC**

PO Box 190  
1 Park Row  
Leeds LS1 5WU

#### **COMMERZBANK AKTIENGESELLSCHAFT AG**

London Branch  
PO Box 52715  
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

## Company information

### 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 2016 dividend tax credits were replaced by an annual £5,000 tax-free allowance on dividend income across an individual's entire share portfolio. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. As per Part 1, Section 8 of Finance (No. 2) Act 2017, the dividend allowance is due to be cut from £5,000 to £2,000 from April 2018. Shareholders should seek independent financial advice as to how these changes 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.

### FINANCIAL CALENDAR

Annual General Meeting	– to be held on 10 May 2018	Final Dividend payment	– 6 July 2018
Interim Results 2018	– announcement August 2018	Interim Dividend payment	– November 2018
Full Year Results 2018	– announcement March 2019		
Annual Report and Financial Statements 2018	– posted to Shareholders April 2019		

### SHAREHOLDER ANALYSIS AT 31 DECEMBER 2017

Size of Shareholding	Number of Shareholders	%	Number of Ordinary Shares	%
0 - 999	686	33.03	281,450	0.05
1,000 - 4,999	759	36.54	1,691,188	0.28
5,000 - 9,999	194	9.34	1,292,802	0.22
10,000 - 99,999	246	11.84	8,026,746	1.36
100,000 - 249,999	55	2.65	8,978,215	1.52
250,000 - 499,999	34	1.64	11,601,762	1.96
500,000 - 999,999	27	1.30	19,589,499	3.31
1,000,000+	76	3.66	540,086,573	91.30
Total	<b>2,077</b>	<b>100.00</b>	<b>591,548,235</b>	<b>100.00</b>

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**CORPORATE OFFICE**

Signet House  
17 Europa View  
Sheffield Business Park  
Sheffield S9 1XH  
tel: +44 (0) 114 285 6300  
fax: +44 (0) 114 285 6349  
email: [info@sigplc.com](mailto:info@sigplc.com)  
web: [www.sigplc.com](http://www.sigplc.com)

**REGISTERED OFFICE**

Hillsborough Works  
Langsett Road  
Sheffield S6 2LW

**REGISTERED NUMBER**

Registered in England  
998314