29 May 2020

**SIG plc**

**Full Year 2019 Results, New Growth Strategy and Strengthening of Capital Structure**

**Proposed Equity Raise of £150m with Clayton, Dubilier & Rice Investment**

SIG plc ("SIG", "the Group" or "Company"), a leading supplier of specialist building products and solutions to trade customers across the UK, Ireland and Mainland Europe, with strong positions in its core markets as a specialist distributor of insulation and interiors products and as a merchant of roofing and exteriors products, announces its full year 2019 results ("FY 2019"); unveils its new growth strategy; and announces the strengthening of its capital structure including a proposed equity raise of approximately £150m. Funds managed by Clayton, Dubilier & Rice LLC ("CD&R") will invest up to £85m in the Company as part of the equity raise.

**Key Points**

- Consistent with previous guidance, underlying profit before tax (including businesses held for sale), pre IFRS 16, of £41.9m (2018: £74.5m)
- Underlying profit before tax, post IFRS 16, of £15.6m (2018: £52.2m, pre IFRS 16)
- Statutory loss before tax from continuing operations of £112.7m (2018: profit before tax of £10.3m), reflecting £128.3m of Other items, including £90.9m of impairment of goodwill and other intangibles
- The Board has taken decisive actions to address 2019 performance – appointed a new leadership team and developed a new customer-centric strategy that reprioritises sales
- COVID-19:
  - Focus on keeping our employees, suppliers and customers safe
  - Strong management response and robust trading in Germany, Benelux and Poland
  - Liquidity preserved
- Strengthening the capital structure for the long term:
  - Constructive discussions ongoing with lenders to reset covenants and agree other amendments to the Group's financing facilities
  - Intention to raise approximately £150m in new equity in the coming weeks
  - CD&R has agreed to invest up to £85m, with a guaranteed minimum of £72.5m, conditional on c.£150m of equity being raised and satisfactory amendments to the Group's financing facilities being agreed
  - IKO, the Company's largest shareholder, has confirmed that it is fully supportive of the Company's new strategy and the equity raise

**Steve Francis, Chief Executive Officer ("CEO"), commented:**

*"Since my appointment as CEO on 25 February, we have been developing a new strategy and organisational model which focuses on people, growth and active industry leadership. The essence of our new strategy is re-connection with our people – employees, customers, suppliers and the communities in which we do business – we are a local, sales and service-driven business. We have also been navigating the effects of COVID-19. I am encouraged by how robustly we have operated in the most testing of circumstances and would like to thank all our people for their resilience and fortitude in the face of this pandemic.*

*"After nearly a decade of contraction, which has included disposals, rationalisation, debt and cost reduction, it is now time to focus on how to grow SIG and rebuild our core USPs of customer proximity, service and expertise. We play an important role in the construction industry, providing a channel through which suppliers can bring their products to a fragmented customer base conveniently and efficiently. I firmly believe that our new strategy for growth will provide the basis, not only for the*

*restoration of profit and cash conversion, but also serve as a foundation to play a leading role in our industry in the years to come.*

*"The new management team will empower our customer-facing people and promote an entrepreneurial spirit throughout the Group, thereby re-connecting with our customers and suppliers, re-energising our highly talented employees, and re-setting the growth ambition of SIG.*

*"I am pleased to welcome Clayton, Dubilier & Rice, an experienced business builder in our industry, as an investor, and we look forward to working with the CD&R team."*

**Investor and Analyst presentation (9am today)**

A webcast of the Group's briefing for analysts and investors will take place today at 9am, a recording of which will also be available later in the day on the investor page of the company's website, www.sigplc.com.

To access the webcast please click this URL to join: https://us02web.zoom.us/j/81007415970

**Full Year 2019 Overview**

- Underlying revenue decline of 9.0%, impacted by market share losses in UK and Germany due to poor execution of transformation initiatives which the Board believes disconnected the business from its customers, suppliers and its front-line colleagues
- The Group's other operating companies recorded continued steady performance, with like-for-like revenues up 1.4%
- Good operating progress made through the further development of new technologies, ecommerce and increased functionalisation
- Underlying gross margin up 60bps
- Implementation of IFRS 16 from 1 January 2019 has had no economic impact on the Group but has materially changed some of the Group's reported financial information. In order to allow clearer comparisons with 2018, the Group has presented key financial information for 2019 on both a pre and post IFRS 16 basis
- Operating costs, pre IFRS 16, lower by £6.0m (1.2%), reflecting the adoption of functional operating models, reduction in footprint and continued cost discipline
- Underlying profit before tax (including businesses held for sale), pre IFRS 16, of £41.9m (2018: £74.5m), consistent with previous guidance. Underlying profit before tax, post IFRS 16, of £15.6m (2018: £52.2m)
- Statutory loss before tax from continuing operations of £112.7m (2018: profit before tax of £10.3m), reflecting £128.3m of Other items, including £90.9m of impairments
- Net debt, pre IFRS 16, at year end of £162.8m (2018: £189.4m) and covenant leverage of 2.1x

| | Full year 2019<br>£m |
|---|---|
| Underlying profit before tax (including businesses held for sale)[1] | 41.9 |
| Less: Air Handling underlying profit before tax, pre IFRS 16[2] | (19.1) |
| Less: Building Solutions underlying profit before tax, pre IFRS 16[3] | (2.2) |
| Underlying profit before tax, pre IFRS 16 | 20.6 |
| Underlying profit before tax, post IFRS 16 | 15.6 |

*1: Underlying profit before tax stated before IFRS 16 adjustments, including profit before tax for the Air Handling division and Building Solutions (National) Limited and excluding impairment and other non-underlying profits and losses.*
*2: Included within Discontinued operations in the Consolidated Income Statement*
*3: Included within Other items in the Consolidated Income Statement*

**New Growth Strategy**

- In order to return to profitable growth and win back market share, the Board has developed a new, customer-centric strategy that reprioritises sales
- Fundamental management changes to re-establish SIG's traditional strengths of being an experienced, technically strong and service-focused local sales business:
    - Steve Francis appointed as CEO in February 2020
    - New strategy designed to grow the business after nearly a decade of contraction
    - A different approach to leadership and management; many changes already made:
        - Phil Johns re-joins SIG as UK MD, leading a merger of the leadership teams of our UK businesses, to resume his 28 year SIG career and restore the UK businesses to growth
        - Ronald Hoozemans, Benelux MD, appointed as the MD of both our German and Benelux businesses as they too are combined under one leadership team
        - Ian Ashton, a widely experienced plc CFO, appointed as Group CFO and will join on 1 July 2020
        - Board adds additional and current industry experience by the appointment of Simon King as a non-executive Director, who will also join on 1 July 2020
- The new strategy gives priority to re-connecting and refreshing relationships with suppliers, customers, the local communities in which the Company operates, and its talented and passionate colleagues
- There will be an immediate and more pronounced focus on:
    - Growth through the lens of a more expansive and industry-relevant vision
    - Playing a leading, active and forward-thinking role in the construction industries in which we operate
- In the medium term, the Group is targeting the following key financial metrics:
    - An operating margin of c.5% within the Group's operating companies
    - A Group operating margin of c.3%, trending towards c.5% in the longer term
    - Headline financial leverage of <1.5x
    - Dividend cover of 2.0-3.0x, once appropriate leverage has been achieved

**Strengthening the Capital Structure**

- As previously indicated, and alongside the Group's proposed equity raise, the Board continues to have constructive discussions with its banks and private placement noteholders with a view to resetting covenants (including those applicable in respect of the 30 June 2020 testing date, which the Group anticipates that it would otherwise breach) and agreeing other amendments to its financing facilities. Further details will be provided in due course. As part of this process the Group has already sought and obtained a waiver of the Consolidated Net Worth ("CNW") covenant contained in the Group's private placement notes in respect of any testing thereof in the period from 28 May 2020 until 1 August 2020 (subject to certain events not occurring in that period). Such waiver includes, without limitation, CNW testing as at 31 December 2019 on the basis of the Group's audited financial statements in respect of the period ending 31 December 2019
- In addition, the Board has explored its wider funding options and is intending to raise approximately £150m in new equity in the coming weeks to strengthen the Group's capital structure and enable the management team to deliver its new growth strategy
- As part of the new equity raise, Clayton, Dubilier & Rice LLC ("CD&R"), a leading global investment manager, has agreed to invest up to £85m, with a guaranteed minimum of £72.5m, conditional on c.£150m of equity being raised and satisfactory amendments to the Group's financing facilities being agreed
- The equity offer, to be launched in the coming weeks, will be structured in two, inter-conditional tranches: a tranche of £60m being placed firm to CD&R (at 25p per share) and a second tranche of £90m, offered to a broader range of investors and incorporating a pre-emptive offer, in which CD&R will invest up to £25m

- While the exact percentage holding will be determined in due course, CD&R is expected to hold approximately 25% of the total enlarged issued share capital
- Through a relationship agreement with the Group, CD&R will take two seats on the Board of SIG. The Board welcomes CD&R, recognised for its business-building capabilities, as a long-term supportive shareholder with significant operational and financial expertise
- IKO, the Company's largest shareholder who currently owns approximately 15% of the issued ordinary share capital of the Company, has confirmed that it is fully supportive of the Company's new strategy and equity raise

**COVID-19 Response and Trading Update**

- Rapid development of a coordinated and decisive response to COVID-19, with the Group's key priority being to ensure the safety of our employees, suppliers and customers in all areas of operation. Liquidity preserved since lockdown in March, despite significant declines in revenues:
  - Group revenues fell £138.9m during March and April from the prior year, a decline of 37%
  - Trading now returning to pre COVID-19 levels in most of our operating companies as the Group adapted swiftly to new social distancing protocols. This would not have been possible without the dedication and professionalism of our front-line colleagues working in extremely challenging conditions
  - As at 26 March 2020, the Group reported that it had cash resources of approximately £135m, following receipt of the sale proceeds of its Air Handling division. In a further market update on 30 April 2020, the Group announced that, as a result of strengthened cash control measures, it had been able to preserve its liquidity position and held cash of £142m as at 24 April 2020
  - By the end of the month, cash at bank as at 30 April was £155.3m, with a net debt of £114.1m, achieved through cost control, utilisation of governmental programmes and intensive, but careful, management of working capital
  - In light of the current challenges, the Board has taken the decision to not declare a full year dividend
- The ability to respond effectively to the pandemic through these measures demonstrates the Group's resilience and capacity for organisational change, and points towards the successful adoption of the new strategy as the Group emerges from this period of business disruption
- We would like to thank our suppliers and customers for their partnership during this testing period and our employees, many of whom forewent pay and have had to make sacrifices to support the Group. It would not have been possible to achieve this liquidity position today without these partnerships

**Commenting on today's announcement, Andrew Allner, Chairman, said:**

*"The 2019 results, albeit in line with January guidance, are disappointing. However, the Board has taken decisive action to address this performance. A new CEO has been appointed and, this morning, we announced the appointment of a new CFO. In addition, we have new Managing Directors of the UK and German businesses. Furthermore, under the leadership of Steve Francis, we have developed a new strategy which has been well received by customers, suppliers and colleagues.*

*"We recognise the need to raise new equity, of approximately £150m, to provide a solid capital structure for the future and we are pleased to announce that CD&R has conditionally agreed to invest up to £85m in the company and take two Board seats. We welcome CD&R as a long-term, supportive shareholder and believe they will bring considerable value to SIG through their contribution on strategy, operational performance, culture and value creation, which will benefit all stakeholders. We are pleased to note the backing of IKO, our largest shareholder. We remain in constructive discussions with our lenders and we are confident that we will get to a satisfactory financing position.*

*"I am determined to restore value to shareholders and am confident that we now have the right management team and strategy to achieve this."*

**Full Year 2019 results**

| *Underlying operations*[1] | **2019 (pre IFRS 16)** | *2018 (Restated, pre IFRS 16)* | *Change* | **2019 (post IFRS 16)** |
|---|---|---|---|---|
| Revenue | **£2,084.7m** | £2,290.4m | (9.0)% | £2,084.7m |
| Like-for-like sales[2] growth | **(7.6)%** | (2.1)% | (550)bps | (7.6)% |
| Gross margin | **25.9%** | 25.3% | 60bps | 25.9% |
| Underlying[3] operating profit | **£33.5m** | £66.9m | (50.0)% | £39.6m |
| Underlying[3] profit before tax | **£20.6m** | £52.2m | (60.5)% | £15.6m |
| Underlying[3] profit before tax (including businesses held for sale)[4] | **£41.9m** | £74.5m | (43.8)% | £36.3m |
| Underlying[3] basic earnings per share | **0.6p** | 6.3p | (90)% | (0.1)p |
| Return on sales (excluding property profits) | **1.6%** | 2.8% | (120)bps | 1.9% |
| Post-tax return on capital employed (ROCE) | **6.1%** | 10.3% | (420)bps | n/a |
| Net debt | **£162.8m** | £189.4m | 14.0% | £455.4m |
| **Covenant leverage (covenant net debt/covenant EBITDA)** | **2.1x** | 1.7x | (0.4)x | n/a |

| **Statutory results** | **2019 (post IFRS 16)** | *2018 (Restated, pre IFRS 16)* |
|---|---|---|
| Revenue[5] | £2,160.6m | £2,431.8m |
| Operating (loss)/profit[5] | £(87.9)m | £26.2m |
| (Loss)/profit before tax[5] | £(112.7)m | £10.3m |
| Basic (loss)/earnings per share | (21.0)p | 3.0p |
| Dividend per share | 1.25p | 3.75p |

*1: Underlying operations excludes businesses divested or closed, or which the Board has resolved to divest or close by 31 December 2019.*
*2: Like-for-like (LFL) is defined as sales per working day in constant currency excluding acquisitions and disposals completed or agreed in the prior year, or before announcement of the Group's results for the relevant period. Sales are not adjusted for branch openings or closures. LFL sales differ from the January trading statement primarily as a result of the reclassification of non-core businesses.*
*3: Underlying results are stated before the revenue and cost items of businesses that have been disposed of, the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating profits/(losses) attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of other items and the effect of changes in taxation rates.*
*4: Per note 3 above, together with the underlying profit before tax for the Air Handling division (Discontinued operations) and Building Solutions (National) Limited (non-core business).*
*5: Statutory results of Continuing operations only.*

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## NEW GROWTH STRATEGY

### New Senior Leadership

In the context of the deterioration of the Group's financial performance towards the end of 2019 and the substantial completion of the Group's operational restructuring and simplification, the Board determined that it was appropriate to appoint new senior leadership, focused on returning the business back to profitable growth and recapturing lost market share, particularly in the UK Distribution and German businesses.

Steve Francis was appointed as a Director and the interim Chief Executive Officer of the Group on 25 February 2020 and was appointed on a permanent basis on 24 April 2020. Steve is a widely experienced CEO with a proven track record of driving rapid performance improvement through establishing strong customer relationships, excellence in customer service and the creation of highly engaged teams.

Kath Kearney-Croft joined the Group in January 2020 initially to provide support to the executive team during the leave of absence of Meinie Oldersma and was appointed as a Director and the interim Chief Financial Officer of the Group on 25 February 2020. Kath has extensive experience from a number of financial leadership roles and was most recently Group Finance Director of The Vitec Group plc.

As announced this morning, Ian Ashton will be taking on the permanent CFO role with effect from 1 July 2020. Ian has operated in a wide variety of senior financial roles around the globe. His breadth of financial and operational experience, in differing public company environments, will be of great value to SIG as we improve and transform the business.

A number of significant appointments have also been made to strengthen leadership of the Group's operating companies, including merging the leadership of the Group's UK businesses under a new, highly experienced Managing Director, Phil Johns, who joins the Group having over 30 years experience in the construction sector, including 28 years previously with SIG. Additionally, the Group's German and Benelux businesses will also be managed under a single management team by our current Benelux MD, Ronald Hoozemans. These changes have been made to help focus these teams on re-gaining market share and returning the businesses to winning ways.

### New Growth Strategy

In order to return SIG to profitable growth and win back market share, the Board has developed a new, customer-centric strategy that reprioritises sales.

Fundamental to the new strategy is the recognition that SIG is a sales-led organisation, where the ability to win and retain customers is critical. The establishment of strong customer relationships, by empowering and energising key account and branch teams, and promoting an entrepreneurial spirit throughout the organisation is key to this objective.

In France, Benelux, Poland and Ireland, where the Group's operational and financial performance has been more stable, the new strategy seeks to empower the Group's operating companies to move onto a growth footing.

In the UK and Germany, where the Group's operational and financial performance has seen greater deterioration, the new strategy focuses on first repairing the foundations of these businesses, creating the appropriate platform from which market share can be recaptured and profitable growth restored.

The Group's new strategy comprises seven key tenets:

i. Local P&Ls within a "franchise-style" operating model, supported by best in class operations and systems;
ii. Rebalance the strategic focus between growth and cost reduction;
iii. Strengthen sales-led culture by accelerating salesforce rebuild and augmenting commercial leadership throughout the organisation…"everyone sells";
iv. Gain market share through enhanced customer proximity and service, including strengthening the branch network and augmenting the digital offering;
v. Generate economies of scale and of skill, including re-establishing more strategic and Board-led supplier partnerships;
vi. Re-establish specialist focus and expertise; and
vii. Leaner, smarter corporate functions; improve governance and financial discipline.

These will be supported by new strategic key performance indicators tracking progress on each of the seven elements listed above.

Through the implementation of these strategic initiatives and select additions to the management team, alongside the proposed capital raise, the Board is confident that SIG will return to profitable growth and achieve its vision to be the leading B2B distributor of specialist construction products in its key markets.

**The Group's Medium Term Vision**

The Group has a robust plan in place to deliver a return to profitable growth and achieve the Board's vision of establishing SIG as the leading B2B distributor of specialist construction products in its key markets.

In the medium term, the Group is targeting the following key financial metrics:

- Margin: An operating margin of approximately 5% within the Group's operating companies and a Group operating margin of approximately 3%, trending towards approximately 5% in the longer term
- Leverage: Covenant leverage of <1.5x
- Dividend: Dividend cover of 2.0-3.0x, once appropriate leverage has been achieved

In summary, SIG remains a leading specialist supplier for the building materials and construction industries in its key markets. It is primed for growth under a strong, new management team, with a robust plan in place and positive indications across all the Group's operating companies. SIG remains engaged in a number of high growth end-markets, with strong positions across its European footprint. The traditional USPs that supported SIG in its markets previously, provide opportunities for SIG to grow even further and capitalise on the economic recovery following COVID-19.

**People**

The Board would like to thank all employees of SIG for their continued commitment and resilience in what was a particularly challenging year in 2019, both due to external market conditions and the rapid pace of transformational change, and into 2020 with the challenges faced resulting from COVID-19. Whilst the trading results of the Group in 2019 have been disappointing, their efforts have laid a strong foundation for the next phase of SIG's evolution as we focus on building a stronger business with a high performing workforce that is rewarded for making a positive difference.

The Board recognises that safety must always be its number one priority; for its employees, its suppliers, customers, and within the communities where we operate. A key focus for the Group since the outbreak of the COVID-19 pandemic has been to ensure that within those operations that

remained open for business, all necessary measures were taken in line with government safety guidelines to protect the health and safety of employees, suppliers and customers.

In 2019, a Board workforce engagement programme was developed, designed to provide a direct communication channel between the Board and employees. To further strengthen engagement with colleagues, the Board also appointed Kate Allum as the designated Non-Executive Director for workforce engagement with effect from 1 January 2020. In addition, in early 2020, a new culture programme was launched to develop a culture aligned to shared behaviours and encourage openness and transparency. Whilst the impact of COVID-19 temporarily hindered the progression of these programmes, they remain a priority for the Group.

**COVID-19**

The sudden rise of the COVID-19 pandemic in early 2020 quickly redirected focus from the implementation of the new strategy to more immediate measures designed to mitigate the effects of the pandemic. This required the rapid development of a coordinated and decisive response and the operational agility of local managers to implement the measures. Collective actions across the Group's finance, treasury, human resource, sales, procurement and operations functions at branch, regional and Group management levels were implemented in a coordinated and decisive manner to mitigate the operational and financial impact.

The ability of the organisation to respond effectively to the pandemic through these measures demonstrates the Group's resilience and capacity for organisational change, and points towards the successful adoption of the new strategy as the Group emerges from this period of business disruption.

As a result of government restrictions that were implemented to mitigate the spread of COVID-19, large sections of SIG's end-markets experienced a severe reduction in sales. During April, the fourteen-day rolling average daily sales in the UK and Ireland reduced to approximately 12% of their average daily sales between January and mid-March (i.e. pre COVID-19 levels), reflecting the closure of the majority of SIG's trading sites in response to government advice. By mid-May, the fourteen-day average daily sales had recovered to over 50% of pre COVID -19 levels as the Group's sites and customers began to re-open. The Group had re-opened over 80% of the UK and Ireland sites by the middle of May.

In France, although trading continued from all sites, the fourteen-day rolling average daily sales had reduced to approximately 32% of pre COVID-19 levels by early April, recovering to pre COVID-19 levels by the middle of May. The impact was less severe in Germany, Poland and Benelux, where trading continued from all sites and revenue fell to approximately 82% of pre COVID-19 levels. By the end of April, these countries saw activity back to pre COVID-19 levels.

In response to the challenges posed by the COVID-19 pandemic, the Group has implemented a comprehensive set of actions to reduce costs and manage liquidity. These actions include, but are not limited, to:

i. Employees: Over 2,000 employees were furloughed under the UK government's scheme and the majority of trading sites across the UK and Ireland were temporarily closed. Remaining staff agreed to take up to 20% temporary pay reductions, with the salaries of all members of the Board temporarily reduced by 50% from 1 April to 30 June 2020. In mid-May, the Company re-instated the executive Directors' pay to 80% at the same time as other Group employees were returning to work on full pay. The furloughing of employees, combined with other wage saving initiatives, has enabled the Group to retain an incremental c.£8m of cash in the period to May 2020.

ii. Government support: Relevant government support is being accessed in all countries of operation, across employment support, tax and social security deferrals and the business is assessing whether to apply for government loans (which are currently being considered in France and Germany, in coordination with the Group's existing financial arrangements). Tax and social security deferrals have been implemented where available in the UK (PAYE/NIC, VAT), in France (social charges, pension contributions), Germany (VAT), Poland (corporation tax), Belgium (VAT, payroll tax) and the Netherlands (VAT, payroll tax). In the aggregate, use of government support schemes has enabled the Group to defer approximately £15 million of cash payments in the period through May 2020.

iii. Capital expenditure: Programmes that require significant cash investment or do not provide near-term business benefits have been paused, including major IT projects.

iv. Customers: The Group has maintained a sharp focus on proactively managing collections and monitoring overdue payments.

v. Trade suppliers: The Group has conducted active discussions with large trade suppliers, in order to maintain continuity of supply while netting rebates and agreeing slower payment plans where possible.

vi. Non-trade suppliers: Deferral and terms extension requests are being managed across non-trade suppliers, with a significant focus on IT, services and property, with property rates being deferred on UK properties and 'empty' or 'retail' relief claims submitted.

vii. Landlords: A number of UK landlords have been approached to request that the June rent quarter payment is spread across the subsequent two quarters. In other cases, lease extensions are being offered in return for rent-free periods. The Group's business in Poland has also approached landlords for rent reductions.

viii. Fleet leases: Payment holidays have been requested from fleet lease providers.

ix. Dividend: The Board took the decision not to declare a full year 2019 dividend, nor to consider any return to shareholders of the proceeds of recent disposals.

The Group's ability to maintain its liquidity position during this period of extreme uncertainty reflects the effectiveness of the mitigating actions initiated by the Board, the agility of the organisation and the experience of the managers who enacted these measures throughout the Group.

Notwithstanding the effectiveness of these actions, the prolonged impact of COVID-19 is anticipated to have significant consequences on the Group's financial performance in 2020, both in terms of profitability and cash.

## CURRENT TRADING AND OUTLOOK

### Pre COVID-19 (January 2020 to February 2020)

Group revenue for the two months ended 29 February 2020 was £296.0m, down £36.8m from the prior year (two months ended 28 February 2019: £332.8m), a like-for-like decline of c.11%. Trading in the UK and Germany saw a continuation of the challenging trends seen in the last quarter of 2019, whilst trading activity in the rest of Europe was relatively stable.

Due to reduced sales volumes in key markets, gross profit margin fell compared to the prior year period (two months ended 28 February 2019).

As reported in the Group's trading update on 26 March 2020, the Group posted an underlying operating loss of c.£9m, pre IFRS 16, in the first two months of the year.

**COVID-19 period (March 2020 to April 2020)**

Group revenue for the two months ended 30 April 2020 was £235.0m, down £138.9m from the prior year (two months ended 30 April 2019: £373.9m). Revenues in the period were significantly impacted by the COVID-19 outbreak, particularly in the UK, Ireland and France.

On 30 March 2020, the Group announced that large parts of its UK market had seen sales fall away rapidly, in common with the broader construction industry. It was concluded that it was necessary and appropriate to temporarily close UK operations. Trading sites in Ireland were also temporarily closed due to restrictions implemented by the Irish Government.

The UK and Ireland businesses remained open to service critical and emergency projects only, such as for the NHS, energy and food sectors. Revenue, during the closure period in April, reduced to c.£0.4m per day on average, a reduction of c.86% compared to February. By mid-May, the fourteen-day average daily sales had recovered to over 50% as the Group's sites and customers began to re-open. The Group had re-opened over 80% of the UK and Ireland sites by the middle of May.

Trading activity suffered a temporary setback in France following the short-term closure of all branches for three days in mid-March, with the fourteen-day rolling average daily sales reduced to approximately 32% of pre COVID-19 levels by early April. A staged reopening throughout April and into early May saw, on average, France trading at c.56% of pre COVID-19 revenue levels in April, recovering to pre COVID-19 levels by the middle of May.

The Group's operating companies in Germany, Poland and Benelux were impacted by government measures to a lesser extent, where trading continued from all sites and revenue fell to approximately 82% of pre COVID-19 levels. By the end of April, these countries saw activity back to pre COVID-19 levels.

Similar to the first two months, the Group's gross profit margin in March and April was negatively impacted by the decline in overall sales, combined with a shift in mix away from the more profitable roofing merchanting businesses in the UK and France.

During the period, the Group has taken decisive cost actions in response to COVID-19 as well as accessing the government-supported job retention schemes, resulting in a reduction in its operating costs year-on-year.

**Outlook**

As a result of the impacts of declining revenues under the previous strategy and COVID-19 on the construction industry across Europe generally, management expects revenues for 2020 to be approximately £500m lower than 2019 as reported, post the disposal of the Air Handling division. Management is targeting a return to around 2019 levels of Group revenues (as reported, post the disposal of the Air Handling division) in 2022.

While those geographies that were less severely impacted by COVID-19 are expected to recover faster, those which need strategic improvements may take longer to see the impact of management actions. The focus of the UK business through the second half of 2020 will be to continue to put the correct leadership structures and people in place, and restructuring the organisation to better position it to recapture market share. The planned combination of the leadership teams in UK Distribution and UK Exteriors is expected to reduce and simplify the central functions, resulting in a potential reduction in operating costs within the UK businesses of up to £4m, after investments in front line sales to drive

growth. In Germany and Benelux, the consolidation of the management structure is also intended to return Germany to growth after recent underperformance. In France, where the Group has shown resilience over the last few years, the business is expected to recover to targeted levels of revenue faster given its strong existing platform in the region.

Management remains focused on the overall levels of operating cost in the business which, if properly controlled, can result in significant operational gearing. The Group aims to grow its market share over time to leverage its cost base, which the Group seeks to supplement with improved processes and systems which the Board believes will improve Group productivity. The new strategy will be focused on growth with limited cost reductions outside the merging of senior management and central support functions in the UK and Germany and Benelux. Management's medium term target is to restore an operating margin of approximately 5% within the Group's operating companies and a Group operating margin of approximately 3%, trending towards approximately 5% in the longer term.

Depreciation and amortisation as a percentage of sales is expected to remain in line with historical levels going forward, capital expenditure is expected to run slightly ahead of depreciation and as a percentage of sales return to historic levels given management's strategic plan focusing on operational improvements rather than requiring large capex investment.

The loss of revenues in 2020 is expected to impact profitability, cash generation and therefore debt levels. The Group's cash conservation measures have resulted in estimated cash savings of approximately £23m through to May 2020, comprising approximately £8m of wage savings under the furlough schemes and other wage saving initiatives and a further approximately £15m of tax and other deferrals. As at 30 April 2020, the Group had £155m of cash and a net debt position, pre IFRS 16, of £114m. The unwind of these cash conservation measures, as well as the expected growth in sales, is expected to lead to a higher working capital position by the year end. As the Group returns to growth it will also require more working capital in the business, compared to its average historic levels, both to improve the service to customers and to support the Group's sales growth.

## PERFORMANCE REVIEW

### Overall performance

The Group's strategy of centralising certain functions to gain consistency and economies of scale continued at a rapid pace during 2019, on the back of a strong close to the previous year and continued to demonstrate an improvement in profit margins during the first half of 2019 as less profitable products were discontinued and branches were closed or merged. However, this growth in profitability masked underlying loss of market share and damage to our sales capacity, particularly in Distribution and Exteriors in the UK and in Germany, resulting from rapid change and centralisation, leading to an erosion of key USPs for a fundamentally sales-led organisation, namely customer proximity, service and expertise. This contrasted with other European markets which were relatively more stable, where implementation of the Group's strategy had been better adapted to local dynamics.

Whilst the first half performance delivered significant operational and financial progress, despite a ransomware attack affecting both of the French businesses, LiTT and Lariviere, the decline in sales accelerated during the second half of 2019 in Germany (5.1% like-for-like decline relative to H2 2018) and in the Distribution and Exteriors businesses in the UK (26.1% and 12.5% decline respectively relative to H2 2018), the latter two exacerbated by increasing political and macro-economic uncertainty leading up to the UK General Election.

The improvements in margins and reductions to the cost base in H1 were insufficient to stop a deterioration in bottom line profits, resulting in full year underlying profit before tax, post IFRS 16, of

£15.6m, down 70.1% on prior year (2018: £52.2m). Underlying profit before tax (including businesses held for sale), pre IFRS 16, was £41.9m (43.8% down on prior year). Statutory loss before tax from continuing operations was £112.7m (2018: profit before tax of £10.3m), reflecting £128.3m of Other items, including £90.9m of impairment of goodwill and other intangibles.

Further reductions in the level of working capital have helped the Group to reduce its net debt, pre IFRS 16, at 31 December 2019 to £162.8m (2018: £189.4m). The value of the Group's debt factoring facilities were also reduced at the year end to £35.0m (2018: £49.7m). Despite delivering a significant reduction in net debt, the closing 2019 figure being approximately 54% of the level that it was at the end of 2016, the year-on-year reduction in revenues and profits in 2019 resulted in the Group taking a backward step in its progress towards its previously stated medium term financial targets.

| **Medium term targets** | **Target** | **2019** | 2018 |
|---|---|---|---|
| LFL sales growth | Market growth Maintain market share | **(7.6)%** | (2.1)% |
| Return on sales (excl. property profits) | c.5% | **1.6%** | 2.8% |
| Return on capital employed | c.15% | **6.1%** | 10.3% |
| Covenant leverage | Under 1.0x | **2.1x** | 1.7x |

*Note: data represents underlying performance, pre IFRS 16*

**Marked deterioration in second half performance**

In early October, the Group first became aware that a number of its businesses had missed their revenue and profit forecasts for September. The UK and German businesses were suffering from a loss of market share due to rapid change related to a new centralised operating model with the situation in the other European operating companies (LiTT and Lariviere in France, Ireland, Poland and Benelux) being more positive as their implementation of the Group's strategy had been more selective in the operational changes adopted, and were introduced gradually and better adapted to local dynamics. A trading performance update was announced in October to realign investor expectations for the Group's underlying profit before tax result for the year ending 31 December 2019.

Over the final trading quarter of 2019, a number of short-term profit protection measures instigated by the businesses did not deliver sufficiently to offset the continued deterioration in sales. December, in particular, produced a very disappointing result leading to the Group issuing a further trading update on 9 January 2020, advising that the Board anticipated underlying profit before tax, pre IFRS 16, for the year ended 31 December 2019 of c.£42.0m (including the trading results of Air Handling and Business Solutions, and excluding any impairment and other non-underlying profits and losses).

**PwC investigation**

Following the Company's full year trading update published on 9 January 2020 ("January Trading Update"), the Chairman commissioned PricewaterhouseCoopers LLP ("PwC") to undertake an independent review of the communication and level of explanation of the Group's underlying financial forecasts and the associated risks and opportunities in light of the disparity between the forecast level of underlying profit before tax for 2019 set out in the January Trading Update and market consensus of forecast profit prior to that announcement.

Following a thorough and detailed review of internal documents and interviews with relevant employees, PwC delivered its confidential written report to the Company on 21 April 2020 ("PwC Report").

The evidence as presented in the PwC Report indicates a number of issues with the 2019 forecasting process, with a principal shortcoming being in the reporting to the Board of information received by Group from the Operating Companies. Further, the evidence indicates that in the latter part of H2 2019 in particular, underlying forecasts from certain operating companies were the subject of material positive overlays at Group level and, in addition, the attendant risks to those underlying forecasts were both poorly classified and poorly reported at Group level, with the result that the Board was unsighted as to the overall picture. The PwC Report makes clear that the issues identified were not adequately communicated to the Board in the reports presented to it by the CFO.

The Board takes the findings of the PwC Report very seriously. The Company voluntarily notified the FCA of the progress of the PwC review and has shared the PwC Report with the FCA. Since SIG's receipt of the PwC Report, in order to strengthen the Group's financial forecasting and internal reporting, KPMG has been appointed to assist the Audit Committee in ensuring appropriate improvements are implemented to the Company's forecasting systems, procedures and controls, including those recommended in the PwC Report.

Further details on the actions taken in response to the findings in the PwC Report will be contained in the Company's report and accounts for 2019.

**Further organisational changes**

The Group continued to take measures throughout 2019 to reduce its operating cost base following structural changes made in 2018, particularly in its two UK businesses, where UK Distribution transformed its organisational structure from a branch-centric model to a centralised functional model, and UK Roofing to a centrally governed but locally adaptive model. During 2019, UK Distribution reduced its branch network from 53 branches to 44, after combining a number of existing sites (small to medium sized) into large 'hub' branches, emulating its Trafford Park, Manchester Distribution Centre. UK Exteriors (including Building Solutions) also reduced its branch network during 2019, from 122 to 117 branches.

Germany (WeGo/VTi) witnessed a rapid pace of change in 2019, moving to a more integrated, functional operating model, more closely akin to the 'hub and spoke' model of the Exteriors business in the UK. Cost efficiencies from a lower branch volume, regionalised inventory procurement and sales team structures have already commenced.

The process of closing branches, revising branch network footprints and the disposal (or closure) of nineteen businesses has seen the number of trading sites across the Group fall from 661 at the beginning of 2017 to 425 (excluding Air Handling) at 31 December 2019. In parallel, headcount has fallen c.38% from 10,328 in January 2017 to 6,452 (excluding Air Handling) at 31 December 2019. It has become apparent that the loss of senior sales people directly resulted in the loss of much of the associated customer volumes.

In October 2019, the Group announced the disposal of Building Solutions (National) Limited ("Building Solutions") to Kingspan Group for a consideration of £37.5m on a cash free, debt free basis. The disposal was conditional upon the approval of the CMA. In April 2020, the CMA referred the disposal for a Phase 2 investigation. In order to carry out the Phase 2 investigation, the long stop date of July 2020 in the sale and purchase agreement would have required being extended. As a result of the prevailing market conditions, it was not possible for the Company and Kingspan Group to agree commercial terms for this extension and accordingly the parties agreed to terminate the disposal in May 2020. The Company is currently reviewing a number of options regarding the Building Solutions business.

**Continued investment in customer service**

In 2019, SIG focused on investing in market-leading software tools and associated processes to enhance the service levels that we offer our customer base in pursuit of our desire to be 'best in class'.

Having the inventory that our customers require at the right place and at the right time, for collection at a branch or delivered to a site, is critically important for the business. Software platforms such as a Warehouse Management System, which has been successfully introduced in SIG Ireland and is to be rolled out into UK Distribution and Germany in 2020, and new Inventory Management Systems implemented in UK Distribution, France and Poland during 2019, provide our businesses with much greater stock management capability and also allow for greater accuracy on availability timelines for our customers.

The introduction in the UK businesses and Germany of a Transport Management System has also enhanced our customers' trading experience, as well as helping the Group to deliver logistical efficiencies. The enhanced electronic point-of-delivery capability of these systems allows the business to keep customers informed of delivery details, along with providing electronic proof of delivery, improving our service offering and customer experience.

These supporting systems are providing SIG with further opportunities of competitive advantage and it intends to continue to selectively invest in further software tools, where appropriate, providing a solid platform upon which the business can build its customer base and grow future profits.

## FINANCIAL REVIEW

**Overview and trading update comparison**

The Group has been negatively impacted by the poor execution of transformation initiatives, which the Board believes disconnected the business from its customers, suppliers and its front-line colleagues, particularly in Germany and the UK's Distribution and Exterior businesses; the latter two also being impacted by increased political and macro-economic uncertainty leading up to Brexit and the General Election.

2019 underlying profit before tax (including businesses held for sale), pre IFRS 16, was £41.9m (2018: £74.5m). This compares to the guidance of c.£42.0m referenced in the Trading Updates issued in January and March 2020 and can be analysed as follows:

| | Full year 2019 £m |
|---|---|
| Underlying profit before tax (including businesses held for sale)[1] | 41.9 |
| Less: Air Handling underlying profit before tax, pre IFRS 16[2] | (19.1) |
| Less: Building Solutions underlying profit before tax, pre IFRS 16[3] | (2.2) |
| Underlying profit before tax, pre IFRS 16 | 20.6 |
| Underlying profit before tax, post IFRS 16 | 15.6 |

*1: Underlying profit before tax stated before IFRS 16 adjustments, including profit before tax for the Air Handling division and Building Solutions (National) Limited and excluding impairment and other non-underlying profits and losses.*
*2: Included within Discontinued operations in the Consolidated Income Statement*
*3: Included within Other items in the Consolidated Income Statement*

During the year, the Group announced the disposal of its Air Handling division. The results from this business have been excluded from the reported underlying results and are shown as a discontinued

operation in order to provide a better understanding of the Group's underlying performance in the continuing business.

Underlying profit before tax from continuing operations, post IFRS 16, was £15.6m. At a statutory level, the Group saw a loss before tax from continuing operations of £112.7m (2018: £10.3m profit), principally as a result of impairment charges of £90.9m, restructuring costs of £27.1m, and other costs of £9.5m, including amortisation of acquired intangibles and the investment in omnichannel retailing. The restructuring costs, including headcount reductions and exiting a number of trading sites, were incurred in connection with the Group's implementation of a new target operating model in the UK and Germany.

Improved cash flows from trading and reductions in working capital helped reduce net debt, pre IFRS 16, to £162.8m (2018: £189.4m). Net debt, post IFRS 16, was £455.4m. Debt factoring facilities were reduced by approximately 30% to £35.0m (2018: £49.7m) at year end.

**Revenue and gross margin**

The Group saw lower revenues in the year ended 31 December 2019, partly due to the loss of market share following the decision to increase prices in the UK against a tough economic backdrop but also poor execution of transformation initiatives resulting in a loss of sales focus in both the UK and Germany. Group revenue from underlying operations fell 9.0% to £2,084.7m (2018: £2,290.4m). Revenue generated in the year by non-core businesses was £75.9m (2018: £141.4m) which primarily relates Building Solutions (National) Limited and WeGo FloorTec GmbH. On a statutory basis including the revenue from these non-core businesses, Group revenue was down 11.2% to £2,160.6m (2018: £2,431.8m).

LFL sales growth was one of the Group's key performance metrics and the Group targeted over the medium term to grow its LFL sales and recapture market share. The decline in LFL sales over the year was 7.6%, with the Group continuing to reduce exposure to low margin business.

Offset against the decline in revenue is an increase in underlying gross margin, which increased 60bps to 25.9% (2018: 25.3%). The actions around improving gross margin levels that were introduced across the Group during 2018 continued through into 2019. Focus remained on adopting a range of initiatives to optimise pricing and margins, supported by software systems in UK Distribution and Germany that provide management with greater degrees of control around such areas as quantity breaks, spot pricing, end-to-end margin visibility and centralised discount management. Further margin uplift was achieved by the continual review of the levels of profitability by customer, updating historical terms and conditions at current levels wherever possible, along with the introduction of new charging structures for ancillary services across a number of the businesses. Underlying gross margin increased in Specialist Distribution to 25.9% (2018: 25.1%) but dropped slightly in Roofing Merchanting to 25.7% (2018: 25.8%).

The new pricing framework adopted by Germany (WeGo/VTi) at the start of the year is now fully embedded across all of its network and enabled the business to grow its gross margin by 80bps in 2019 but at the cost of market share. The ransomware attack in France delayed the rollout of a new pricing framework until the second half of the year when both businesses were seeing growth in margins.

On a statutory basis, the Group's gross margin increased by 50bps to 25.9% (2018: 25.4%). Statutory gross profit fell from £618.6m to £559.1m, partly as a result of the disposal of businesses.

**Operating costs and profit**

At a Group level, underlying operating profit, pre IFRS 16, dropped by 50% year-on-year and decreased to £33.5m (2018: £66.9m). The Group continued to reduce its operating cost base following on from structural changes made in 2018, particularly in its two UK businesses, where UK Distribution transformed their organisational structure from a branch-centric model to a centralised functional

model, and UK Roofing to a centrally governed but locally adaptive model. These actions throughout the year resulted in underlying operating costs, pre IFRS 16, reducing by 1.2% to £505.8m (2018: £511.8m).

Non-core businesses, reported a combined operating profit (excluding exceptional items) of £2.0m in the year (2018: £5.5m). The underlying operating profit for discontinued operations, which included the Air Handling division, was £19.1m (2018: £20.1m). For further detail on Divestments and Discontinued operations, refer to notes 9 and 10.

At a statutory level, the operating loss was £87.9m (2018: £26.2m profit), as a result of impairment charges and lost sales whilst delivering transformation initiatives together with a challenging market. The Group reported £128.3m of Other items in the year, principally relating to impairment charges (£90.9m), restructuring costs (£27.1m) and amortisation of acquired intangibles (£6.2m).

Underlying profit before tax, pre IFRS 16, was down 61% to £20.6m (2018: £52.2m) and reported a statutory loss before tax for the year of £112.7m (2018: £10.3m profit) after a loss from non-underlying items of £128.3m (2018: £41.9m loss).

**Specialist Distribution**

As previously reported, the negative impacts from rapid transformation changes together with macro-uncertainties during 2019 resulted in a significant fall in sales, notably in the second half of the year. These changes led to an underlying loss of market share and damage to the sales performance primarily in the UK and Germany being key factors behind the lower LFL revenues in Specialist Distribution (8.8%).

| | **Full year 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Underlying revenue (£m)** | **Change** | **LFL change** | **Reported revenue (£m)[2]** | **Gross margin** | **Change** |
| UK Distribution[1] | 534.3 | (21.4%) | (21.1%) | 535.5 | 26.2% | 150bps |
| France Distribution (LiTT) | 184.5 | 5.2% | 7.1% | 184.5 | 27.5% | (0)bps |
| Germany (WeGo/VTi) | 381.5 | (5.4%) | (2.5%) | 396.0 | 27.7% | 80bps |
| Poland | 156.1 | (0.3%) | 2.1% | 156.1 | 20.3% | 30bps |
| Benelux | 103.0 | (5.0%) | (3.3%) | 103.0 | 24.7% | 100bps |
| Ireland | 94.9 | (5.0%) | (3.3%) | 94.9 | 25.0% | (30)bps |
| **Distribution before non-core** | **1,454.3** | **(10.4%)** | **(8.8%)** | **1,470.0** | **25.9%** | **80bps** |
| Non-core businesses | 15.7 | n/a | n/a | n/a | n/a | n/a |
| **Distribution** | **1,470.0** | **(13.6%)** | **n/a** | **1,470.0** | **25.9%** | **70bps** |

*1: Excludes SK Sales, which is now reported within the Air Handling division.*
*2: Reported revenue is shown on a segmental basis, including the operating result of the non-core businesses.*

| | **Full year 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Pre IFRS 16** | | | **As reported, post IFRS 16** | | **Statutory, post IFRS 16** |
| | **Underlying operating profit (£m)** | **Underlying operating margin** | **Change** | **Underlying operating profit (£m)** | **Underlying operating margin** | **Reported operating Profit/ (loss) (£m)[2]** |
| UK Distribution[1] | 5.8 | 1.1% | (230)bps | 7.9 | 1.5% | (62.9) |
| France Distribution (LiTT) | 10.8 | 5.9% | 100bps | 11.2 | 6.1% | 11.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Germany (WeGo/VTi) | 3.4 | 0.9% | (100)bps | 4.4 | 1.2% | 4.5 |
| Poland | 4.2 | 2.7% | 60bps | 4.3 | 2.8% | 4.3 |
| Benelux | 5.1 | 5.0% | 80bps | 5.2 | 5.0% | 4.8 |
| Ireland | 6.2 | 6.5% | 40bps | 6.8 | 7.2% | 4.7 |
| **Distribution before non-core** | **35.5** | **2.4%** | **(90)bps** | **39.8** | **2.7%** | **(33.4)** |
| Non-core businesses | 0.1 | n/a | n/a | n/a | n/a | n/a |
| **Distribution** | **35.6** | **2.4%** | **(60)bps** | **39.8** | **2.7%** | **(33.4)** |

*1: Excludes SK Sales, which is now reported within the Air Handling division.*
*2: Reported operating profit is shown on a segmental basis, including the operating result of the non-core businesses and after taking into account Other items.*

UK Distribution, the core insulation and interiors business in the UK, saw a deterioration in profitability in 2019 with underlying operating profit, pre IFRS 16, decreasing to £5.8m (2018: £23.0m). Underlying revenue fell by 21.1% on a LFL basis, however by maintaining the pricing and profitability disciplines as reported previously, gross margin increased to 26.2% (2018: 24.7%). On a statutory basis, after taking into account Other items, including £58.2m of impairment charges and £10.2m of restructuring costs, and adjusting for first time adoption of IFRS 16, UK Distribution reported an operating loss of £62.9m (2018: £9.8m profit).

France Distribution (LiTT), the structural insulation and interior business, suffered from the impact of a ransomware attack in the period. No ransom was paid in relation to the attack. Despite this, France Distribution (LiTT) saw an increase of 7.1% LFL sales in the year, and delivered a gross margin of 27.5%. Underlying operating profit was £10.8m, pre IFRS 16, and statutory operating profit after adjusting for first time adoption of IFRS 16, in the year was £11.2m (2018: £8.6m).

Germany (WeGo/VTi), a leading specialist insulation and interiors distribution business in Germany, saw LFL sales decline by 2.5%, however gross margins increased to 27.7% (2018: 26.9%). Germany (WeGo/VTi) started a step change in its organisational structure during the year with further work ongoing into 2020. However, cost efficiencies did not all materialise, resulting in a lower underlying operating profit, pre IFRS 16, of £3.4m in the year (2018: £7.6m). On a statutory basis, after taking into account Other items, including £6.6m of restructuring costs, and adjusting for first time adoption of IFRS 16, Germany (WeGo/VTi) reported an operating profit of £4.5m (2018: £2.6m).

Poland, a market leading distributor of insulation and interiors, had a strong year with LFL sales up 2.1%, benefiting from economic stability and growth in the construction markets. In this environment, Poland slightly improved its gross margin to 20.3% (2018: 20.0%) and effectively managed its operating costs to deliver an improved operating margin of 2.7% (2018: 2.1%) and an underlying operating profit, pre IFRS 16, of £4.2m (2018: £3.3m). On a statutory basis, after adjusting for first time adoption of IFRS 16, Poland reported an operating profit of £4.3m (2018: £3.3m).

In the Benelux region, LFL sales decreased by 3.3% in the year reflecting a challenging market due to macro-economic trends and a reduction in the construction output. However, tight management of operating costs resulted in gross margins of 24.7% (2018: 23.7%) and increased underlying operating profit, pre IFRS 16, of £5.1m (2018: £4.5m). On a statutory basis, after taking into account Other items and adjusting for first time adoption of IFRS 16, Benelux reported an operating profit of £4.8m (2018: £3.0m).

In Ireland, where the Group's operations predominantly comprise specialist distribution of insulation, interiors and other building products, saw LFL revenue for the year decline by 3.3%. However, good cost control saw underlying operating profits, pre IFRS 16, marginally up at £6.2m (2018: £6.1m). On a statutory basis, after taking into account other items and adjusting for first time adoption of IFRS 16, Ireland reported an operating profit of £4.7m (2018: £3.7m).

Overall, Distribution delivered underlying revenue of £1,454.3m (2018: £1,623.8m) and underlying operating profit, pre IFRS 16, of £35.5m (2018: £53.1m), at an operating margin of 2.4% (2018: 3.1%).

On a statutory basis, after taking into account Other items and adjusting for first time adoption of IFRS 16, Distribution reported an operating loss of £33.4m (£31.0m profit).

**Roofing Merchanting**

Similar to that reported in the Distribution business, trading conditions slowed in the construction markets in the second half of the year and together with rapid transformation changes in UK Exteriors, this made trading difficult across the year. Revenues in France were affected by the impact of the ransomware attack, as reported in the interim results. Overall, Roofing Merchanting delivered an underlying operating profit, pre IFRS 16, of £15.7m (2018: £27.0m).

| | **Full year 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Underlying revenue (£m)** | **Change** | **LFL change** | **Reported revenue (£m)[1]** | **Gross margin** | **Change** |
| UK Exteriors | 288.2 | (10.5%) | (10.1%) | 346.5 | 28.4% | 0bps |
| France Exteriors (Lariviere) | 342.2 | (0.7%) | 1.1% | 344.1 | 23.4% | 10bps |
| **Roofing before non-core** | **630.4** | **(5.4%)** | **(4.3%)** | **690.6** | **25.7%** | **10bps** |
| Non-core businesses | 60.2 | n/a | n/a | n/a | n/a | n/a |
| **Roofing** | **690.6** | **(5.3%)** | **n/a** | **690.6** | **25.9%** | **0bps** |

*1: Reported revenue is shown on a segmental basis, including the operating result of the non-core businesses.*

| | **Full year 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Pre IFRS 16** | | | **As reported, post IFRS 16** | | **Statutory, post IFRS 16** |
| | **Underlying operating profit (£m)** | **Underlying operating margin** | **Change** | **Underlying operating profit (£m)** | **Underlying operating margin** | **Reported operating profit/ (loss) (£m)[1]** |
| UK Exteriors | 7.7 | 2.7% | (160)bps | 8.9 | 3.1% | (2.7) |
| France Exteriors (Lariviere) | 8.0 | 2.3% | (150)bps | 8.6 | 2.5% | (29.1) |
| **Roofing before non-core** | **15.7** | **2.5%** | **(160)bps** | **17.5** | **2.8%** | **(31.8)** |
| Non-core businesses | 1.9 | n/a | n/a | n/a | n/a | n/a |
| **Roofing** | **17.6** | **2.5%** | **(160)bps** | **17.5** | **2.8%** | **(31.8)** |

*1: Reported operating profit is shown on a segmental basis, including the operating result of the non-core businesses and after taking into account Other items.*

UK Exteriors, a leading roofing merchant and specialist UK roofing business, saw LFL sales reduce by 10.1% in the year. Although pricing disciplines were introduced in the prior year gross margins remained flat at 28.4% (2018: 28.4%). Underlying operating profit, pre IFRS 16, at UK Exteriors ended the year at £7.7m (2018: £13.8m). On a statutory basis, after taking into account Other items, including £8.0m of restructuring costs, and adjusting for first time adoption of IFRS 16 in the period, UK Exteriors reported an operating loss of £2.7m (2018: £0.5m loss).

As previously reported, the business in France Exteriors (Lariviere), a market leading specialist roofing business suffered from the impact of a ransomware attack in the period. No ransom was paid in relation to the attack. Despite this, France Exteriors (Lariviere) saw LFL sales increase by 1.1% and delivered an improved gross margin of 23.4% and underlying operating profit, pre IFRS 16, of £8.0m (2018: £13.2m). On a statutory basis, after taking into account Other items, including £2.1m of restructuring costs, and adjusting for first time adoption of IFRS 16 in the period, France Exteriors (Lariviere) reported an operating loss of £29.1m (2018: £8.9m profit) due to impairment charges (£32.2m) in the year.

**Discontinued operations - Air Handling**

The Group announced in October 2019 that an agreement had been reached to dispose of its Air Handling division. The Air Handling division includes Ouest Isol & Ventil, a leading supplier of technical insulation and air handling products in France, and SK Sales, a specialist supplier of heating, ventilation and air conditioning in the UK. The disposal completed on 31 January for an enterprise value of €222.7m (c.£187.0m) on a cash free, debt free basis, which, prior to transaction costs, yielded a net cash inflow for the Group of c.£163m.

| | **Full year 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Underlying revenue (£m)** | **Change** | **LFL change** | **Reported revenue (£m)** | **Gross margin** | **Change** |
| **Air Handling[1]** | 323.1 | 4.2% | n/a | 323.1 | 37.5% | 0bps |

*1: Includes SK Sales, which was previously reported within SIG Distribution, and Ouest Isol & Ventil, which was previously reported within France.*

| | **Full year 2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Pre IFRS 16** | | | **As reported, post IFRS 16** | | **Statutory, post IFRS 16** |
| | **Underlying operating profit (£m)** | **Underlying operating margin** | **Change** | **Underlying operating profit (£m)** | **Underlying operating margin** | **Reported operating profit (£m)[2]** |
| **Air Handling[1]** | 19.1 | 5.9% | 60bps | 19.8 | 6.1% | 5.0 |

*1: Includes SK Sales, which was previously reported within SIG Distribution, and Ouest Isol & Ventil, which was previously reported within France.*
*2: Reported operating profit is stated after taking into account Other items.*

The Air Handling division in France was also affected at an operating profit level by the ransomware attack described above, and in the UK by losses in the early part of the year at SK Sales. As a result, Air Handling delivered a reduced underlying operating profit performance, pre IFRS 16, of £19.1m (2018: £19.4m). For further detail on Discontinued operations, refer to note 9.

**Dividend**

In 2019, the Group delivered underlying loss per share of 0.1p (2018: earnings per share of 6.3p). As announced on 26 March 2020, the Board has taken the decision not to declare a final dividend for the year (2018: 2.5p), in the interest of preserving the Group's liquidity position. With an interim dividend of 1.25p (2018: 1.25p) per share having been paid in November 2019, this gives a total dividend for the year of 1.25p (2018: 3.75p) per share.

**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. ROCE (excluding the impact of IFRS 16) was 6.1% at 31 December 2019 (2018: 10.3%), with the reduction in underlying operating profit more than offsetting lower average net assets and debt (refer to note 12c).

**Cash flow and leverage**

Management continued to pursue the reduction of the Group's debt during 2019, prioritising reductions in the level of its working capital. As a result, the Group generated £166.0m of net cash from operating activities (2018: £103.6m) during the year, together with £8.4m net cash flow arising on the sale of businesses (2018: £35.8m), offset by lower proceeds of £7.6m from the sale of property, plant and equipment (2018: £5.1m). After taking into account dividends paid and other cash flow from financing activities, net debt, pre IFRS 16, fell to £162.8m at the year-end (2018: £189.4m). Net debt, post IFRS 16, is £455.4m.

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| **Opening net debt** | **(189.4)** | **(258.7)** |
| Cash inflow from trading | 92.1 | 73.5 |
| Decrease in working capital | 73.9 | 29.1 |
| Cash inflow from factoring arrangement | 0.0 | 1.0 |
| Cash inflow from operating activities | **166.0** | **103.6** |
| Interest and tax | (35.3) | (27.1) |
| Dividends paid to equity holders of the Company | (22.2) | (22.2) |
| Capital expenditure | (34.5) | (25.3) |
| Proceeds from sale of property, plant and equipment | 7.6 | 5.1 |
| Cashflow from divested businesses | 8.4 | 35.8 |
| Acquisitions/contingent consideration | (0.9) | 2.6 |
| Movement of lease liabilities | (55.2) | - |
| Other (including fair value movements) | 0.5 | (3.2) |
| **Movement in net debt** | **34.4** | **69.3** |
| IFRS 16 on adoption at 1 January 2019 | (300.4) | - |
| **Movement in net debt** | **(266.0)** | **69.3** |
| Closing net debt | (455.4) | (189.4) |
| **Covenant leverage** | **2.1x** | **1.7x** |

The Group's covenant net debt as at 31 December 2019 was £168.5m, compared with covenant EBITDA for 2019 of £78.4m. Covenant leverage is one of the Group's primary performance metrics and is calculated on the same basis as one of the primary covenants to the Group's revolving credit facility and private placement notes. The monitoring of this covenant is an important element of treasury risk management. The Group's covenant leverage (the ratio of covenant net debt to covenant EBITDA) was 2.1x as at the same date, and increased year-on-year as a result of lower EBITDA more than offsetting the benefit of lower net debt (refer to note 12b).

**IFRS 16**

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

The Group elected to adopt the standard using the modified retrospective approach, which means that 2019 is the first year impacted by the accounting standard. 2018 has not been restated. On 1 January 2019, £306.2m of leases were recognised as liabilities on adoption of the standard and

£312.8m capitalised as right of use assets, including £18.0m previously included in property, plant and equipment in relation to assets held under finance leases under the old standard.

The financial impacts of IFRS 16 on the underlying results for 2019 are set out in the table below.

| | 2019, pre IFRS 16 (£m) | Impact of IFRS 16 (£m) | 2019, post IFRS 16 (£m) |
|---|---|---|---|
| Underlying operating profit | 33.5 | 6.1 | 39.6 |
| Net finance costs | (12.9) | (11.1) | (24.0) |
| Underlying profit before tax | 20.6 | (5.0) | 15.6 |
| Right-of-use assets | - | 255.2 | 255.2 |
| Property, plant & equipment | 68.0 | (9.4) | 58.6 |
| Other assets | 995.5 | 38.5 | 1,034.0 |
| Lease liabilities | (15.2) | (260.4) | (275.6) |
| Other liabilities | (748.0) | (30.0) | (778.0) |
| Net assets | 300.3 | (6.1) | 294.2 |
| Net debt | (162.8) | (292.6) | (455.4) |

The changes in accounting resulting from the implementation of IFRS 16 will not affect the way liquidity is assessed against the Group's banking covenants, which will continue to be assessed as though the accounting rules had not changed (i.e. on a 'frozen' GAAP basis). As such, covenant leverage will continue to be measured on a consistent basis in 2019 and the Group's medium term vision is targeting covenant leverage below 1.5x.

**Reconciliation of statutory result to underlying result**

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

| | **2019 £m** | 2018 £m |
|---|---|---|
| Underlying profit before tax | 15.6 | 52.2 |
| Other items – impact operating profit: | | |
| Amortisation of acquired intangibles | (6.2) | (6.9) |
| Impairment charges of goodwill and other intangibles | (90.9) | (4.0) |
| Profit/(losses) on agreed sale or closure of non-core businesses and associated impairment charges | 0.1 | (6.3) |
| Net operating profits attributable to businesses identified as non-core | 2.0 | 5.5 |
| Net restructuring costs | (27.1) | (27.7) |
| Other specific items | (5.4) | (1.3) |
| Other items – impact net finance costs: | | |
| Net fair value losses on derivative financial instruments and unwinding of provision discounting | (0.8) | (1.2) |
| Total Other items | (128.3) | (41.9) |
| **Statutory (loss)/profit before tax** | **(112.7)** | **10.3** |

Amounts reported in the Other items column of the Consolidated Income Statement which in total amounted to a loss before tax of £128.3m (2018: £41.9m) are as follows:

- Amortisation of acquired intangibles of £6.2m (2018: £6.9m);
- Impairment charges of £90.9m (2018: £4.0m) principally relating to impairment of goodwill in relation to UK Distribution (£57.4m) and France Exteriors (Lariviere) (£32.2m);
- Profit on agreed sale or closure of non-core businesses and associated impairment charges of £0.1m (2018: £6.3m loss);
- Net operating profits of £2.0m (2018: £5.5m) attributable to businesses identified as non-core;
- Net restructuring costs of £27.1m (2018: £27.7m), including property closure costs of £6.0m (2018: £5.5m), redundancy and related staff costs of £9.5m (2018: £11.5m), impairment of non-current assets due to restructuring of £nil (2018: £0.6m) and £9.6m (2018: £10.1m) in relation to restructuring consultancy costs and £2.0m other costs (2018: £nil), all mainly incurred in connection with the fundamental restructuring of the target operating model of the major operating companies in the UK, Germany and France;
- A net cost of £5.4m (2018: £1.3m cost) in relation to other specific items including £5.7m (2018: £nil) investment in omni-channel retailing; and
- Non-underlying finance costs, net fair value losses on derivative financial instruments and unwinding of provision discounting of £0.8m (2018: £1.2m).

**Impact of divestments and closure of non-core businesses**

During the year, the Group has continued to exit a number of businesses which are deemed to be non-core to allow us to focus on our two core markets. The revenue, profits and net debt of businesses that had been divested or closed, and which are therefore now being treated as non-underlying, are set out in the table below.

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Revenue** | **Underlying profit/(loss) before tax** | **Revenue** | **Underlying profit/ (loss) before tax** |
| | **£m** | **£m** | **£m** | **£m** |
| **Underlying Group as reported at 2018 full year results** | **2,482.5** | **38.2** | **2,683.2** | **75.3** |
| FloorTec | (14.5) | (0.8) | (23.2) | (1.5) |
| **Underlying Group as reported at 2019 half year results** | **2,468.0** | **37.4** | **2,660.0** | **73.8** |
| Air Handling | (323.1) | (19.8) | (310.1) | (19.5) |
| Building Solutions | (58.3) | (2.9) | (56.8) | (2.8) |
| Maury | (1.9) | 0.9 | (2.7) | 0.7 |
| **Underlying Group as included at 2019 full year results** | **2,084.7** | **15.6** | **2,290.4** | **52.2** |

**Directors' responsibility statement on the Annual Report**

The responsibility statement below has been prepared in connection with the Company's full Annual Report for the year ended 31 December 2019. Certain parts solely thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the 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 29 May 2020 and signed on its behalf by:

| | |
|---|---|
| Steve Francis<br>Director<br>29 May 2020 | Kath Kearney-Croft<br>Director<br>29 May 2020 |

**Cautionary statement**

The securities of the Group have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, pledged or transferred , directly or indirectly, in, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any relevant state or other jurisdiction of the United States. There has been and will be no public offering of the securities of the Group in the United States.

This announcement 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 announcement contains 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. Forward-looking statements in this Announcement include, but are not limited to, statements about the Group's future financial and operational performance, the new management's ability to successfully execute the new strategy, and the ability of the Group and the construction industry generally to respond to the effects and aftermath of the COVID-19 pandemic. No assurance can be given that the forward-looking statements in this announcement 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 Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. This announcement has not been audited or otherwise independently verified. The information contained in this announcement 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 announcement during the financial year ahead.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

**Consolidated Income Statement**
for the year ended 31 December 2019

| | Note | **Underlying* 2019 £m** | **Other items** 2019 £m** | **Total 2019 £m** | Underlying* 2018^ Restated^^ £m | Other items** 2018^ Restated^^ £m | Total 2018^ Restated^^ £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Revenue** | 2 | **2,084.7** | **75.9** | **2,160.6** | 2,290.4 | 141.4 | 2,431.8 |
| Cost of sales | | **(1,545.5)** | **(56.0)** | **(1,601.5)** | (1,711.8) | (101.4) | (1,813.2) |
| **Gross profit** | | **539.2** | **19.9** | **559.1** | 578.6 | 40.0 | 618.6 |
| Other operating expenses | 3 | **(499.6)** | **(147.4)** | **(647.0)** | (511.7) | (80.7) | (592.4) |
| **Operating profit/(loss)** | | **39.6** | **(127.5)** | **(87.9)** | 66.9 | (40.7) | 26.2 |
| Finance income | | **0.5** | **-** | **0.5** | 0.5 | - | 0.5 |
| Finance costs | | **(24.5)** | **(0.8)** | **(25.3)** | (15.2) | (1.2) | (16.4) |
| **Profit/(loss) before tax from continuing operations** | | **15.6** | **(128.3)** | **(112.7)** | 52.2 | (41.9) | 10.3 |
| Income tax (expense)/credit | 4 | **(15.9)** | **4.5** | **(11.4)** | (14.4) | 8.2 | (6.2) |
| **Profit/(loss) after tax from continuing operations** | | **(0.3)** | **(123.8)** | **(124.1)** | 37.8 | (33.7) | 4.1 |
| **Discontinued operations** | | | | | | | |
| Profit/(loss) after tax from discontinued operations | 10 | - | **(0.4)** | **(0.4)** | - | 13.8 | 13.8 |
| **Profit/(loss) after tax for the year** | | **(0.3)** | **(124.2)** | **(124.5)** | **37.8** | **(19.9)** | **17.9** |
| **Attributable to:** | | | | | | | |
| Equity holders of the Company | | **(0.3)** | **(124.2)** | **(124.5)** | 37.4 | (19.9) | 17.5 |
| Non-controlling interests | | **-** | **-** | **-** | 0.4 | - | 0.4 |
| **Earnings/(loss) per share** | | | | | | | |
| Basic and diluted earnings/(loss) per share | 5 | | | **(21.0)p** | | | 3.0p |
| Basic and diluted earnings/(loss) per share from continuing operations | 5 | | | **(21.0)p** | | | 0.6p |

^ The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See Note 1 Basis of preparation for further details.

^^ The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 10 for further details.

* Underlying represents the results before Other items.

** Other items relate to the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, investment in omnichannel retailing, 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 3.

**Consolidated Statement of Comprehensive Income**

for the year ended 31 December 2019

| | 2019 £m | 2018^ £m |
|---|---|---|
| **Profit after tax** | **(124.5)** | 17.9 |
| **Items that will not subsequently be reclassified to the Consolidated Income Statement:** | | |
| Remeasurement of defined benefit pension liability | **(1.8)** | 0.1 |
| Deferred tax movement associated with remeasurement of defined benefit pension liability | **(6.6)** | 0.1 |
| Current tax movement associated with remeasurement of defined benefit pension liability | **0.4** | - |
| | **(8.0)** | 0.2 |
| **Items that may subsequently be reclassified to the Consolidated Income Statement:** | | |
| Exchange difference on retranslation of foreign currency goodwill and intangibles | **(7.4)** | 1.3 |
| Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles) | **(16.1)** | (0.6) |
| Exchange and fair value movements associated with borrowings and derivative financial instruments | **10.9** | 1.8 |
| Tax credit on exchange and fair value movements arising on borrowings and derivative financial instruments | **(2.1)** | (0.4) |
| 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** | 2.0 |
| Transfer to profit and loss on cash flow hedges | **0.9** | (0.7) |
| | **(13.5)** | 3.4 |
| **Other comprehensive (expense)/income** | **(21.5)** | 3.6 |
| **Total comprehensive (expense)/ income** | **(146.0)** | 21.5 |
| **Attributable to:** | | |
| Equity holders of the Company | **(146.0)** | 21.1 |
| Non-controlling interests | **-** | 0.4 |
| | **(146.0)** | 21.5 |

^ The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See Note 1 Basis of preparation for further details.

## Consolidated Balance Sheet

as at 31 December 2019

| | 2019 | 2018^ |
|---|---|---|
| | **£m** | £m |
| **Non-current assets** | | |
| Property, plant and equipment | **58.6** | 105.4 |
| Right-of-use assets | **255.2** | - |
| Goodwill | **159.0** | 293.9 |
| Intangible assets | **42.3** | 46.2 |
| Lease receivables | **4.4** | - |
| Deferred tax assets | **4.4** | 14.6 |
| Derivative financial instruments | **1.7** | 1.9 |
| Deferred consideration | **-** | 0.7 |
| | **525.6** | 462.7 |
| **Current assets** | | |
| Inventories | **156.5** | 207.2 |
| Lease receivables | **0.8** | - |
| Trade and other receivables | **294.7** | 477.7 |
| Contract assets | **-** | 1.8 |
| Current tax assets | **0.9** | 5.5 |
| Derivative financial instruments | **0.9** | - |
| Deferred consideration | **-** | 0.8 |
| Cash at bank and on hand | **110.0** | 83.3 |
| Assets classified as held for sale | **258.4** | 1.9 |
| | **822.2** | 778.2 |
| **Total assets** | **1,347.8** | 1,240.9 |
| **Current liabilities** | | |
| Trade and other payables | **327.4** | 428.3 |
| Contract liabilities | **-** | 1.6 |
| Lease liabilities | **51.5** | 3.2 |
| Bank overdrafts | **-** | 4.5 |
| Bank loans | **99.6** | 56.5 |
| Private placement notes | **175.5** | - |
| Loan notes and deferred consideration | **-** | 0.9 |
| Other financial liabilities | **1.5** | 1.1 |
| Derivative financial instruments | **0.2** | 0.3 |
| Current tax liabilities | **3.7** | 4.9 |
| Provisions | **6.7** | 11.0 |
| Liabilities directly associated with assets classified as held for sale | **115.7** | - |
| | **781.8** | 512.3 |
| **Non-current liabilities** | | |
| Lease liabilities | **224.1** | 20.2 |
| Private placement notes | **-** | 185.6 |
| Derivative financial instruments | **1.9** | 3.8 |
| Other financial liabilities | **1.4** | - |
| Deferred tax liabilities | **-** | 1.4 |
| Other payables | **1.0** | 5.6 |
| Retirement benefit obligations | **24.8** | 28.7 |
| Provisions | **18.6** | 20.4 |
| | **271.8** | 265.7 |
| **Total liabilities** | **1,053.6** | 778.0 |
| **Net assets** | **294.2** | 462.9 |
| | | |
| **Capital and reserves** | | |
| Called up share capital | **59.2** | 59.2 |
| Share premium account | **447.3** | 447.3 |
| Capital redemption reserve | **0.3** | 0.3 |
| Share option reserve | **1.8** | 1.7 |
| Hedging and translation reserves | **10.2** | 21.7 |
| Cost of hedging reserve | **0.3** | 1.0 |
| Retained losses | **(224.9)** | (68.3) |
| **Attributable to equity holders of the Company** | **294.2** | 462.9 |
| **Non-controlling interests** | **-** | - |
| **Total equity** | **294.2** | 462.9 |

^ The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See Note 1 Basis of preparation for further details.

**Consolidated Statement of Changes in Equity**

for the year ended 31 December 2019

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Share option reserve £m | Hedging and translation reserves £m | Cost of hedging reserve £m | Retained (losses)/ profits £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018^ | 59.2 | 447.3 | 0.3 | 1.3 | 19.6 | - | (58.1) | 469.6 | 0.9 | 470.5 |
| Impact of adoption of IFRS 15 | - | - | - | - | - | - | (0.7) | (0.7) | - | (0.7) |
| Impact of adoption of IFRS 9 | - | - | - | - | - | 0.9 | (0.7) | 0.2 | - | 0.2 |
| Adjusted balance at 1 January 2018 | 59.2 | 447.3 | 0.3 | 1.3 | 19.6 | 0.9 | (59.5) | 469.1 | 0.9 | 470.0 |
| Loss after tax | - | - | - | - | - | - | 17.5 | 17.5 | 0.4 | 17.9 |
| Other comprehensive income | - | - | - | - | 2.1 | 0.1 | 1.4 | 3.6 | - | 3.6 |
| Total comprehensive income/(expense) | - | - | - | - | 2.1 | 0.1 | 18.9 | 21.1 | 0.4 | 21.5 |
| Share capital issued in the year | - | - | - | - | - | - | - | - | - | - |
| Credit to share option reserve | - | - | - | 0.4 | - | - | - | 0.4 | - | 0.4 |
| Exercise of share options | - | - | - | - | - | - | - | - | - | - |
| Current and deferred tax on share options | - | - | - | - | - | - | (0.2) | (0.2) | - | (0.2) |
| Movement in reserves | - | - | - | - | - | - | (1.7) | (1.7) | 1.7 | - |
| Dividends paid to non-controlling interest | - | - | - | - | - | - | - | - | (0.3) | (0.3) |
| Transaction between equity holders | - | - | - | - | - | - | (3.6) | (3.6) | (2.7) | (6.3) |
| Dividends paid to equity holders of the Company | - | - | - | - | - | - | (22.2) | (22.2) | - | (22.2) |
| At 31 December 2018^ | 59.2 | 447.3 | 0.3 | 1.7 | 21.7 | 1.0 | (68.3) | 462.9 | - | 462.9 |
| Impact of adoption of IFRS 16 | - | - | - | - | - | - | (0.6) | (0.6) | - | (0.6) |
| Adjusted balance at 1 January 2019 | 59.2 | 447.3 | 0.3 | 1.7 | 21.7 | 1.0 | (68.9) | 462.3 | - | 462.3 |
| Profit after tax | - | - | - | - | - | - | (124.5) | (124.5) | - | (124.5) |
| Other comprehensive income | - | - | - | - | (12.8) | (0.7) | (8.0) | (21.5) | - | (21.5) |
| Total comprehensive income | - | - | - | - | (12.8) | (0.7) | (132.5) | (146.0) | - | (146.0) |
| Transfer of reserves | - | - | - | - | 1.3 | | (1.3) | - | | - |
| Credit to share option reserve | - | - | - | 0.1 | - | - | - | 0.1 | - | 0.1 |
| Current and deferred tax on share options | - | - | - | - | - | - | - | - | - | - |
| Dividends paid to equity holders of the Company | - | - | - | - | - | - | (22.2) | (22.2) | - | (22.2) |
| **At 31 December 2019** | **59.2** | **447.3** | **0.3** | **1.8** | **10.2** | **0.3** | **(224.9)** | **294.2** | **-** | **294.2** |

^ The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See Note 1 Basis of preparation for further details.

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 reserves represents movements in the Consolidated Balance Sheet as a result of movements in exchange rates and movements in the fair value of cash flow hedges which are taken directly to reserves. Amounts have been reclassified during the year to clarify the effects of hedging between retained (losses)/profits and the cash flow hedging reserve.

## Consolidated Cash Flow Statement

for the year ended 31 December 2019

| | Note | 2019 £m | 2018^ Restated^^ £m |
|---|---|---|---|
| **Net cash flow from operating activities** | | | |
| Cash generated from operating activities | 6 | **166.0** | 103.6 |
| Income tax paid | | **(10.8)** | (14.0) |
| Net cash generated from operating activities | | **155.2** | 89.6 |
| **Cash flows from investing activities** | | | |
| Finance income received | | **0.6** | 1.0 |
| Purchase of property, plant and equipment and computer software | | **(34.5)** | (22.7) |
| Proceeds from sale of property, plant and equipment | | **7.6** | 5.1 |
| Settlement of amounts payable for previous purchases of businesses not dependent on vendors remaining within the business | | **-** | (11.2) |
| Net cash flow arising on the sale of businesses | 9 | **8.4** | 35.8 |
| Net cash generated from investing activities | | **(17.9)** | 8.0 |
| **Cash flows from financing activities** | | | |
| Finance costs paid | | **(25.1)** | (14.1) |
| Capital element of finance lease rental payments | | **(59.9)** | (1.5) |
| Acquisition of non-controlling interests | | **(0.9)** | (2.5) |
| Repayment of loans/settlement of derivative financial instruments | | **-** | (57.1) |
| Loans drawn down | | **42.4** | - |
| Dividends paid to equity holders of the Company | 8 | **(22.2)** | (22.2) |
| Dividends paid to non-controlling interest | | **-** | (0.3) |
| Net cash used in financing activities | | **(65.7)** | (97.7) |
| **Increase/(decrease) in cash and cash equivalents in the year** | | **71.6** | (0.1) |
| Cash and cash equivalents at beginning of the year | | **78.8** | 78.6 |
| Effect of foreign exchange rate changes | | **(5.3)** | 0.3 |
| **Cash and cash equivalents at end of the year*** | | **145.1** | 78.8 |

^ The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See Note 1 Basis of preparation for further details.

* Cash and cash equivalents comprise cash at bank and on hand of £145.1m (31 December 2018: £83.3m) less bank overdrafts of £nil (31 December 2018: £4.5m)

The 2018 Consolidated Cash Flow Statement has been restated following a review of the 2018 Annual Report and Accounts by the Financial Reporting Council. The restatement relates to the classification of cash flows in relation to the settlement of amounts payable for previous purchases of businesses, with £6.0m reclassified between the net cash flow from operating activities and cash flows from investing activities. Further details are included in Note 1 Basis of preparation.

## 1. Basis of preparation

The Group's financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and on a basis consistent with that adopted in the previous year.

The financial information has been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value.

Whilst the financial information included in this Preliminary Results Announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The Preliminary Results Announcement does not constitute the Company's statutory accounts for the years ended 31 December 2019 and 31 December 2018 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory accounts.

The Group's statutory accounts for the year ended 31 December 2018 have been filed with the Registrar of Companies, and those for 2019 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2019 and 2018. Their report for 2019 was (i) unqualified, (ii) contains a number of material uncertainties in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements. Their report for 2018 included no matters to which the Auditor drew attention by way of emphasis, was unqualified and did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements.

**Going concern**

The Group closely monitors its funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations.

During 2019, the Directors announced the proposed sale of the Group's Air Handling division to France Air for an enterprise value of €222.7m (£187.0m[1]) to strengthen the balance sheet and reduce working capital facilities. The sale completed on 31 January 2020 with net cash proceeds of €180.9m (£151.9m[1]) being partly used to manage the Group's working capital, including providing liquidity over the short term to support the Group's business through the COVID-19 uncertainty.

Following a challenging trading period in 2019 and a change in its Executive Directors in February 2020, the Group undertook an extensive review of its business and operating strategy together with potential growth opportunities. During these reviews, it became clear that revised lower forecasts for future earnings for 2020 to 2022, based on an analytical review of recent sales trends, were likely to leave the Group with higher than anticipated leverage levels during this period. In turn, these highlighted that the Group's capital structure needs to be addressed and, as a result, the Group needs to raise new equity in order to enable the successful delivery of the Group's new strategy while at the same time managing liquidity.

With this in mind the Group is proposing to raise up to £150m of equity through a firm placing and placing and open offer in order to reduce net debt and strengthen the Group's balance sheet. Alongside the proposed equity raising the Group is currently engaged in discussions with its Revolving Credit Facility (RCF) lenders and private placement noteholders with a view to agreeing amended terms in respect of the Group's RCF and private placement debt.

Detailed discussions with the Group's RCF lenders and private placement noteholders are ongoing and we expect to reach agreement on amended terms in respect of the RCF and private placement debt, which may include the following key conditions:

- An equity issuance timetable including receipt of proceeds in an amount of at least £100m by no later than 29th July 2020;
- An extension of the maturity of the RCF in order to meet the Group's on-going working capital requirements;
- A new covenant package which will support an equity raise;
- Dividend restrictions until leverage reaches certain levels;
- An event of default if the Group's equity raising fails and/or related key milestones are not reached, triggering a requirement for the Group to present an alternative deleveraging plan for consideration by the RCF lenders and private placement noteholders. A deleveraging plan could result in, without limitation and if the consent of the RCF lenders and private placement noteholders is obtained, potential disposals or a merger or acquisition transaction to ensure an acceptable deleveraging of the Group's Balance Sheet; and
- Opportunity to explore additional Government funding facilities both in the UK and in Europe to further support the Group.

We have assumed that terms for the revised financing structure will be agreed and that the Group and its RCF lenders and private placement noteholders are able to successfully document such terms in substantive and binding documentation.

Pending the entry into such documentation, the Group has sought and obtained a waiver of the Consolidated Net Worth (CNW) covenant contained in the private placement notes in respect of any testing thereof in the period from 28 May 2020 until 1 August 2020 (subject to certain events not occurring in that period). Such waiver includes, without limitation, CNW as at 31 December 2019 on the basis of the Group's audited financial statements in respect of the period ending 31 December 2019.

As outlined above, the Group is seeking to raise up to £150m of equity through a firm placing and placing and open offer in order to reduce net debt and strengthen the Group's balance sheet. The equity raising process is expected to complete by 8 July 2020 however will require prior approval by shareholders. The additional funds raised will seek to create an appropriate balance sheet structure and prevent investment being constrained and business decisions being influenced by a focus on leverage and covenant management, which could otherwise lead to managing the business in a manner that may cause detriment to the longer term prospects and the interests of the Group's shareholders.

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[1] Based on GBP: EUR foreign exchange rate of 1.191, as at 31 January 2020

In parallel to the discussions with the RCF lenders and private placement noteholders, as outlined above, the Group has been in discussions with, and received confirmation from IKO, the Company's largest shareholder of their support for the equity raise, and a conditional commitment from CD&R, a new cornerstone investor to participate in the equity issuance.

- IKO, which currently owns approximately 15 per cent of the issued ordinary share capital of the Company, has confirmed that it is fully supportive of the Company's new strategy and equity raise and are intending to take up their pro-rata entitlements in full as part of the open offer.
- CD&R, a leading global private equity manager has agreed to invest up to £85m as part of the equity raise, with a guaranteed minimum of £72.5m, provided that an acceptable deal with the Group's RCF lenders and private placement noteholders is agreed. While the exact percentage holding will be determined in due course, CD&R will hold approximately 25% of the total enlarged issue share capital. The initial tranche of its participation will be placed at 25p per share. The residual quantum of its equity investment will be placed as part of the second tranche, a portion of which will be firm placed and the outcome of the remainder will be dependent on the take up of the pre-emptive offer by existing shareholders.

Whilst the Group has reason to believe that the equity raise will be successful based on the above confirmation of support from IKO and conditional commitment from CD&R to participate in the equity raise, at the time of publication of this report the outcome of the equity raising is uncertain.

If an equity raise in line with the above-mentioned timing is not successful, then the Group will have to take mitigating actions, including further discussions with the RCF lenders and the private placement noteholders regarding the basis upon which they may be willing to continue to support the Group (including the need for covenant waivers and access to further liquidity). Alternatives could include the option to conduct a post-summer equity raise (if available) or further disposals of assets (such as the disposal of one or more of the Group's operating businesses to facilitate a reduction of the Group's outstanding indebtedness) or a merger or acquisition transaction involving the Company (in each case if the consent of the RCF lenders and private placement noteholders is obtained). There remains the possibility of other investors interested in buying the company's shares outright should an alternative funding scenario be required.

In addition to the matters set out above, the COVID-19 virus has added additional uncertainty to the Group's liquidity position as Government restrictions in the UK and Ireland, applied from late March 2020, resulted in swathes of construction activity stopping and impacting the Group's sales. To protect the health, safety and wellbeing of staff, the majority of the Group's UK and Irish sites were substantially closed in April although a phased return to work has since begun. In March, the Group's French operating company was briefly closed following government guidance although sites were permitted to be reopened shortly afterwards, and trading in France continues to build to pre-COVID-19 levels. However, the Directors believe the Group will be able to continue to manage through the current COVID-19 uncertainty, particularly given the experience of the Group's operating companies in Benelux, Germany and Poland which have continued to trade well despite government lockdown guidance.

Comprehensive actions have been taken across the Group to reduce costs and manage liquidity, including the furloughing, for April and much of May, of approximately 2000 employees across the UK and Ireland during the shutdown period, short-time working in France, maximising opportunities to defer VAT, PAYE and other tax payments, temporary Board and employee salary reductions, stopping or postponing capex investment and cancellation of the 2019 final dividend. Government loan support both in the UK and Europe remains a route potentially available if required. These actions to reduce costs and manage liquidity during the COVID-19 crisis have resulted in the Group managing its liquidity position with cashflow forecast projections improved from initial expectations. Despite the benefits of these actions, ongoing significant revenue reductions beyond the scenarios which have been modelled could lead to the Group's liquidity falling below the minimum required levels such that alternative deleveraging plans which have been considered would need to be implemented.

Accordingly, at the time of signing these financial statements, there remain several material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In forming an assessment of the Group's ability to continue as a going concern, the Board has identified the following material uncertainties and made significant judgements about:

- The Group successfully agreeing outline terms with its RCF lenders and private placement noteholders (and the RCF lenders and private placement noteholders obtaining credit approval of the same).
- The Group, together with its RCF lenders and private placement noteholders, successfully documenting such terms in substantive and binding documentation.
- Achieving a successful equity raise of up to £150m in line with the above-mentioned timing, which entails the approval of a prospectus by the FCA, approval by shareholders at a General Meeting and securing appetite for the necessary investment.
- Whether, in the event the Group does not achieve a successful equity raise, the RCF lenders and the private placement noteholders will continue to support the Group in the short term in order to allow the Group to complete the execution of alternative plans (a secondary equity window or alternative deleveraging plans including further disposals or a merger or acquisition transaction).
- The forecast cashflow of the Group over the next 12 months upon signing the financial statements depends on the Group's ability to continue to successfully manage through the current uncertain trading environment related to COVID-19.
- The Group's ability to implement the new strategy and deliver a stronger business which is more sales led in a relatively short period and do so in a period of economic uncertainty.

After careful consideration of these, and an assessment of the likelihood of a positive outcome, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not reflect any adjustments that would be required to be made if they were prepared on a basis other than the going concern basis.

**Prior year restatements**

Following a review of the 2018 Annual Report and Accounts by the Financial Reporting Council the Group has identified an error in the 2018 Consolidated cash flow statement. This is corrected by a prior year restatement to previously reported numbers in these Financial Statements. The error relates to the classification of cash flows in relation to the settlement of amounts payable for previous purchases of business. £6.0m of the £17.2m cash outflow in 2018 related to consideration dependent on vendors remaining within the business and should have been classified as an operating cash flow rather than an investing cash flow. The restatement results in a reduction in cash generated from operating activities from £109.6m to £103.6m and a reduction in settlement of amounts payable for previous purchases of businesses within cash flows from investing activities from £17.2m to £11.2m, resulting in a reduction in net cash generated from operating activities from £95.6m to £89.6m and a corresponding increase in net cash generated from investing activities from £2.0m to £8.0m. There is no impact on profit before tax, net assets or net cash flow.

**New standards, interpretations and amendments adopted by the Group**

The Group has applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

<u>IFRS 16 "Leases"</u>

IFRS 16 removes the distinction between finance and operating leases and brings virtually all leases onto the balance sheet. The standard has no effect on cash flows for the Group but does have a significant impact on the way the assets, liabilities and the income statement of the Group are presented, as well as the classification of cash flows relating to lease contracts.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information for the 2018 reporting period has not been restated, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

As permitted by the standard, the Group has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

**a) The Group's leasing activities**

The group leases various offices, warehouses, branches, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 10 years but may have extension or early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

**b) How leases are accounted for**

Prior to the transition of IFRS 16 the Group classified leases as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for lessees and introduces a single lease accounting model where leases are recognised as a right of use asset and corresponding liability at the commencement date of a lease. IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities.

A lease liability is recognised based on the discounted present value of total future lease payments, with a corresponding right-of-use asset recognised and depreciated over the lease term. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be determined, the lessee's incremental borrowing rate.

## 1. Basis of preparation (continued)

Where a lease liability relates to an onerous lease contract the right-of-use asset is assessed for impairment. Payments due under the lease continue to be included in the lease liability, therefore a separate provision is no longer required. The lease liability is also remeasured upon the occurrence of certain events, which is generally also recognised as an adjustment to the right of-use asset. Provisions for short-term onerous lease contracts continue to be recognised.

*i) Definition of a lease*

A lease is a contract (i.e. an agreement between two or more parties that creates enforceable rights and obligations), or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. It is determined whether a contract is a lease or contains a lease at the inception of the contract.

Under IFRS 16, an identified asset can be either implicitly or explicitly specified in a contract.

*ii) Lease term*

In accordance with IFRS 16, the lease term is defined as the non-cancellable period of the lease, together with:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

*iii) Variable lease payments*

Variable lease payments based on an index or a rate are part of the lease liability. Variable lease payments are initially measured using the index or the rate at the commencement date, or at 1 January 2019 on initial adoption. Forecast future changes in rates are not included; these are only taken into account at the point in time at which lease payments change.

The Group has a few property leases where rentals are based on an index but with a cap and collar, and for such leases the minimum future increase is included in the initial recognition of the lease liability where relevant.

Other variable payments, for example additional costs based on usage or vehicle mileage, are not included in the lease liability.

*iv) Asset restoration costs*

Where there is an obligation under a lease contract to dismantle and/or restore the asset to its original condition, provision is made for this in accordance with IAS 37, and the initial carrying amount of this provision is added to the right-of-use asset on inception of the lease. The liability continues to be recorded as a separate provision on the balance sheet (i.e. it is not included in the IFRS 16 lease liability).

*v) Finance leases*

The accounting for finance leases is consistent under IFRS 16 and the previous accounting standard, and under the transition rules of IFRS 16, the lease liability and asset for leases previously classified as finance lease is the carrying value of the lease liability and asset immediately before the date of transition.

*vi) Exemptions*

The Group has certain assets with lease terms of 12 months or less and leases of equipment with low value. The Group applies the ‘short-term lease’ and ‘lease of low-value assets’ recognition exemptions for these leases.

### c) Practical expedients applied

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting for lease contracts with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The option to not reassess whether a contract is, or contains, a lease at 1 January 2019 Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

### d) Adjustments recognised on adoption

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January was 3.2%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

**1. Basis of preparation (continued)**

| | 2019<br>£m |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 295.5 |
| Less: short-term leases recognised on a straight-line basis as an expense | (2.2) |
| Add: adjustments as a result of different treatment of extension and termination options | 74.8 |
| Effect from discounting using the lessee's incremental borrowing rate at the date of initial application | (61.9) |
| **Liabilities additionally recognised based on the initial application of IFRS 16 as at 1 January 2019** | **306.2** |
| Lease liabilities as at 31 December 2018 | 23.4 |
| **Lease liabilities recognised as at 1 January 2019** | **329.6** |
| Of which are: | |
| Current lease liabilities | 57.1 |
| Non-current lease liabilities | 272.5 |

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Right-of use-assets were then tested for impairment at the date of initial application, in accordance with IAS 36 Impairment of Assets.

| | 2019<br>£m |
|---|---|
| Amount of the initial measurement of lease liabilities recognised at 1 January 2019 | 306.2 |
| Less: any rental prepayments/(accruals) made at or before the commencement date | (1.1) |
| Less: right-of-use assets derecognised due to subleases | (5.8) |
| Less: impairment of right-of-use assets on initial recognition | (4.5) |
| **Right of use asset additionally recognised based on the initial application of IFRS 16 as of 1 January 2019** | **294.8** |
| Add: assets from finance leases as at 31 December 2018 | 18.0 |
| **Right of use asset recognised as at 1 January 2019** | **312.8** |

## 1. Basis of preparation (continued)

The change in the accounting policy affected the following items on the balance sheet at 1 January 2019:

| | 1 January 2019 Prior to IFRS 16 £m | IFRS 16 impact £m | 1 January 2019 Adjusted £m |
|---|---|---|---|
| Right-of-use assets | - | 312.8 | **312.8** |
| Property, plant and equipment | 105.4 | (18.0) | **87.4** |
| Lease receivables | - | 5.8 | **5.8** |
| Deferred tax assets | 14.6 | - | **14.6** |
| Trade and other receivables | 477.7 | (3.7) | **474.0** |
| Other assets | 643.2 | - | **643.2** |
| **Total assets** | 1,240.9 | 296.9 | **1,537.8** |
| Trade and other payables | 428.3 | (4.8) | **423.5** |
| Lease liabilities | 23.4 | 306.2 | **329.6** |
| Provisions | 31.4 | (3.9) | **27.5** |
| Deferred tax liabilities | 1.4 | - | **1.4** |
| Other liabilities | 293.5 | - | **293.5** |
| **Total liabilities** | 778.0 | 297.5 | **1,075.5** |
| **Net assets** | 462.9 | (0.6) | **462.3** |
| **Capital and reserves** | | | |
| Retained losses | (68.3) | (0.6) | **(68.9)** |
| Other capital and reserves | 531.2 | - | **531.2** |
| **Total equity** | 462.9 | (0.6) | **462.3** |

- Right-of-use assets were recognised and presented separately in the statement of financial position. Lease assets recognised previously under finance leases, which were included in Property, plant and equipment, were reclassified to right-of-use assets, with the exception of a finance lease classified as an investment property which remains within Property, plant and equipment.
- Additional lease liabilities were recognised and presented in the statement of financial position, in addition to lease liabilities previously recognised in relation to obligations under finance lease contracts.
- Lease receivables were recognised in relation to subleases previously classified as operating leases
- Trade and other receivables and trade and other payables related to previous operating leases were derecognised
- Retained earnings decreased due to the net impact of these adjustments

**1. Basis of preparation (continued)**

**e) Impact for the period**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £244.4m of right-of-use assets and £260.5m of lease liabilities as at 31 December 2019 (excluding disposal groups held for sale at 31 December 2019), resulting in total right-of-use assets of £255.2m and lease liabilities of £275.6m including leases that were previously classified as finance leases.

In addition, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised £50.3m of depreciation charges and £11.1m of interest cost from these leases.

The impact on profit before tax for the year ended 31 December 2019 is as follows:

| Continuing operations | As reported £m | IFRS 16 Impact £m | Excluding IFRS 16 Impact £m |
|---|---|---|---|
| Underling operating profit | 39.6 | (6.1) | 33.5 |
| Net finance costs | (24.0) | 11.1 | (12.9) |
| **Underlying profit before tax** | 15.6 | 5.0 | 20.6 |
| **Other items** | (128.3) | 1.6 | (126.7) |
| **Profit before tax** | **(112.7)** | **6.6** | **(106.1)** |

Statutory loss per share increased by 0.9p per share and underlying earnings per share decreased by 0.7p per share for the year to 31 December 2019 as a result of the adoption of IFRS 16.

Cash flow from operating activities increased by £67.9m and cash outflows from financing activities increased by the same amount, relating to the decrease in operating lease payments and increases in principal and interest payments of lease liabilities. The interest element of lease payments is included within finance costs paid.

Other amendments

The following other potentially relevant amendments and interpretations apply for the first time in 2019, but do not have an impact on the Financial Statements of the Group:

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"
- Annual Improvements 2015-2017 Cycle

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

**New standards, amendments and interpretations not yet adopted**

At the date of authorisation of these Financial Statements, there are no significant standards and interpretations, which are in issue but not yet effective which are expected to have a material impact on the Group.

## 2. Revenue and segmental information

### Revenue

| 2019 | Specialist Distribution | | | | | | | Roofing Merchanting | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UK Distribution | Ireland | France Distribution (LiTT) | Germany (WeGo/VTi) | Poland | Benelux | Total | UK Exteriors | France Exteriors (Larivière) | Total | Eliminations | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Type of product** | | | | | | | | | | | | |
| Interiors | **515.4** | **56.4** | **184.5** | **381.5** | **149.6** | **103.0** | **1,390.4** | **-** | **-** | **-** | **-** | **1,390.4** |
| Exteriors | **-** | **38.5** | **-** | **-** | **-** | **-** | **38.5** | **288.2** | **342.2** | **630.4** | **-** | **668.9** |
| Heating, ventilation and air conditioning | **18.9** | **-** | **-** | **-** | **6.5** | **-** | **25.4** | **-** | **-** | **-** | **-** | **25.4** |
| Inter-segment revenue^ | **11.9** | **-** | **0.1** | **1.0** | **-** | **0.1** | **13.1** | **9.1** | **0.2** | **9.3** | **(22.4)** | **-** |
| **Total underlying revenue** | **546.2** | **94.9** | **184.6** | **382.5** | **156.1** | **103.1** | **1,467.4** | **297.3** | **342.4** | **639.7** | **(22.4)** | **2,084.7** |
| Revenue attributable to businesses identified as non-core* | **1.2** | **-** | **-** | **14.5** | **-** | **-** | **15.7** | **58.3** | **1.9** | **60.2** | **-** | **75.9** |
| **Total** | **547.4** | **94.9** | **184.6** | **397.0** | **156.1** | **103.1** | **1,483.1** | **355.6** | **344.3** | **699.9** | **(22.4)** | **2,160.6** |
| **Nature of revenue** | | | | | | | | | | | | |
| Goods for resale | **547.4** | **88.7** | **184.6** | **397.0** | **156.1** | **103.1** | **1,476.9** | **355.6** | **344.3** | **699.9** | **(22.4)** | **2,154.4** |
| Construction contracts | **-** | **6.2** | **-** | **-** | **-** | **-** | **6.2** | **-** | **-** | **-** | **-** | **6.2** |
| **Total** | **547.4** | **94.9** | **184.6** | **397.0** | **156.1** | **103.1** | **1,483.1** | **355.6** | **344.3** | **699.9** | **(22.4)** | **2,160.6** |
| **Timing of revenue recognition** | | | | | | | | | | | | |
| Goods transferred at a point in time | **547.4** | **88.7** | **184.6** | **397.0** | **156.1** | **103.1** | **1,476.9** | **355.6** | **344.3** | **699.9** | **(22.4)** | **2,154.4** |
| Goods and services transferred over time | **-** | **6.2** | **-** | **-** | **-** | **-** | **6.2** | **-** | **-** | **-** | **-** | **6.2** |
| **Total** | **547.4** | **94.9** | **184.6** | **397.0** | **156.1** | **103.1** | **1,483.1** | **355.6** | **344.3** | **699.9** | **(22.4)** | **2,160.6** |

^ Inter-segment revenue is charged at the prevailing market rates.
* Revenue attributable to businesses identified as non-core: £15.7m relates to interiors and £60.2m to exteriors product types.

## 2. Revenue and segmental information (continued)

### Revenue

| 2018 (Restated)^^ | Specialist Distribution | | | | | | | Roofing Merchanting | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UK Distribution | Ireland | France Distribution (LiTT) | Germany (WeGo/VTi) | Poland | Benelux | Total | UK Exteriors | France Exteriors (Larivière) | Total | Eliminations | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Type of product** | | | | | | | | | | | | |
| Interiors | 680.1 | 60.6 | 175.4 | 403.4 | 151.0 | 108.4 | 1,578.9 | - | - | - | - | 1,578.9 |
| Exteriors | - | 39.2 | - | - | - | - | 39.2 | 321.9 | 344.7 | 666.6 | - | 705.8 |
| Heating, ventilation and air conditioning | - | 0.1 | - | - | 5.6 | - | 5.7 | - | - | - | - | 5.7 |
| Inter-segment revenue^ | 10.2 | 0.6 | - | 0.2 | - | 0.3 | 11.3 | 3.7 | 9.5 | 13.2 | (24.5) | - |
| **Total underlying revenue** | 690.3 | 100.5 | 175.4 | 403.6 | 156.6 | 108.7 | 1,635.1 | 325.6 | 354.2 | 679.8 | (24.5) | 2,290.4 |
| Revenue attributable to businesses identified as non-core* | 51.5 | 3.5 | - | 23.5 | - | - | 78.5 | 60.2 | 2.7 | 62.9 | - | 141.4 |
| **Total** | **741.8** | **104.0** | **175.4** | **427.1** | **156.6** | **108.7** | **1,713.6** | **385.8** | **356.9** | **742.7** | **(24.5)** | **2,431.8** |
| **Nature of revenue** | | | | | | | | | | | | |
| Goods for resale | 717.8 | 96.0 | 175.4 | 427.1 | 156.6 | 108.7 | 1,681.6 | 385.8 | 356.9 | 742.7 | (24.5) | 2,399.8 |
| Construction contracts | 24.0 | 8.0 | - | - | - | - | 32.0 | - | - | - | - | 32.0 |
| **Total** | 741.8 | 104.0 | 175.4 | 427.1 | 156.6 | 108.7 | 1,713.6 | 385.8 | 356.9 | 742.7 | (24.5) | 2,431.8 |
| **Timing of revenue recognition** | | | | | | | | | | | | |
| Goods transferred at a point in time | 717.8 | 96.0 | 175.4 | 427.1 | 156.6 | 108.7 | 1,681.6 | 385.8 | 356.9 | 742.7 | (24.5) | 2,399.8 |
| Goods and services transferred over time | 24.0 | 8.0 | - | - | - | - | 32.0 | - | - | - | - | 32.0 |
| **Total** | 741.8 | 104.0 | 175.4 | 427.1 | 156.6 | 108.7 | 1,713.6 | 385.8 | 356.9 | 742.7 | (24.5) | 2,431.8 |

^ Inter-segment revenue is charged at the prevailing market rates.
^^ The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 10 for further details.
* Revenue attributable to businesses identified as non-core: £78.5m to interiors and £62.9m relates to exteriors product types.

## 2. Revenue and segmental information (continued)

### Segment revenues and results

| 2019 | UK Distribution | Ireland | France Distribution (LiTT) | Germany (WeGo/VTi) | Poland | Benelux | Specialist Distribution Total | UK Exteriors | France Exteriors (Larivière) | Roofing Merchanting Total | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Revenue** | | | | | | | | | | | | |
| Underlying revenue | **534.3** | **94.9** | **184.5** | **381.5** | **156.1** | **103.0** | **1,454.3** | **288.2** | **342.2** | **630.4** | **-** | **2,084.7** |
| Revenue attributable to businesses identified as non-core | **1.2** | **-** | **-** | **14.5** | **-** | **-** | **15.7** | **58.3** | **1.9** | **60.2** | **-** | **75.9** |
| Inter-segment revenue^ | **11.9** | **-** | **0.1** | **1.0** | **-** | **0.1** | **13.1** | **9.1** | **0.2** | **9.3** | **(22.4)** | **-** |
| Total revenue | **547.4** | **94.9** | **184.6** | **397.0** | **156.1** | **103.1** | **1,483.1** | **355.6** | **344.3** | **699.9** | **(22.4)** | **2,160.6** |
| **Result** | | | | | | | | | | | | |
| **Segment result before Other items** | **7.9** | **6.8** | **11.2** | **4.4** | **4.3** | **5.2** | **39.8** | **8.9** | **8.6** | **17.5** | - | **57.3** |
| Amortisation of acquired intangibles | **(0.9)** | **-** | **-** | **-** | **-** | **(0.2)** | **(1.1)** | **(4.4)** | **(0.7)** | **(5.1)** | - | **(6.2)** |
| Impairment charges | **(58.2)** | **-** | **-** | **-** | **-** | **-** | **(58.2)** | **(0.5)** | **(32.2)** | **(32.7)** | - | **(90.9)** |
| Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges | **(0.9)** | **(1.8)** | **-** | **6.0** | **-** | **-** | **3.3** | **(1.6)** | **(1.6)** | **(3.2)** | - | **0.1** |
| Net operating losses attributable to businesses identified as non-core | **(0.8)** | **-** | **-** | **0.8** | **-** | **-** | **-** | **2.9** | **(0.9)** | **2.0** | - | **2.0** |
| Net restructuring costs | **(10.2)** | **-** | **-** | **(6.6)** | **-** | **(0.2)** | **(17.0)** | **(8.0)** | **(2.1)** | **(10.1)** | - | **(27.1)** |
| Other specific items | **0.2** | **(0.3)** | **-** | **(0.1)** | **-** | **-** | **(0.2)** | **-** | **(0.2)** | **(0.2)** | - | **(0.4)** |
| **Segment operating profit/(loss)** | **(62.9)** | **4.7** | **11.2** | **4.5** | **4.3** | **4.8** | **(33.4)** | **(2.7)** | **(29.1)** | **(31.8)** | **-** | **(65.2)** |
| Parent Company costs | | | | | | | | | | | | **(17.7)** |
| Investment in omnichannel retailing | | | | | | | | | | | | **(5.7)** |
| Movement in fair value of forward currency option | | | | | | | | | | | | **0.7** |
| **Operating profit/(loss)** | | | | | | | | | | | | **(87.9)** |
| Net finance costs before Other items | | | | | | | | | | | | **(24.0)** |
| Non-underlying finance costs | | | | | | | | | | | | **(0.8)** |
| Net fair value losses on derivative financial instruments | | | | | | | | | | | | **-** |
| Unwinding of provision discounting | | | | | | | | | | | | **-** |
| **Loss before tax and discontinued operations** | | | | | | | | | | | | **(112.7)** |
| Income tax expense | | | | | | | | | | | | **(11.4)** |
| Profit from discontinued operations | | | | | | | | | | | | **(0.4)** |
| Non-controlling interests | | | | | | | | | | | | **-** |
| **Loss for the year** | | | | | | | | | | | | **(124.5)** |

^ Inter-segment revenue is charged at the prevailing market rates.

## 2. Revenue and segmental information (continued)

### Segment revenues and results

| | UK & Ireland | | | | | | | Mainland Europe | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UK Distribution | Ireland | France Distribution (LiTT) | Germany (WeGo/VTi) | Poland | Benelux | Total | UK Exteriors | France Exteriors (Larivière) | Total | Eliminations | Total |
| 2018 (Restated) | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Revenue** | | | | | | | | | | | | |
| Underlying revenue | 680.1 | 99.9 | 175.4 | 403.4 | 156.6 | 108.4 | 1,623.8 | 321.9 | 344.7 | 666.6 | - | 2,290.4 |
| Revenue attributable to businesses identified as non-core | 51.5 | 3.5 | - | 23.5 | - | - | 78.5 | 60.2 | 2.7 | 62.9 | - | 141.4 |
| Inter-segment revenue^ | 10.2 | 0.6 | - | 0.2 | - | 0.3 | 11.3 | 3.7 | 9.5 | 13.2 | (24.5) | - |
| **Total revenue** | 741.8 | 104.0 | 175.4 | 427.1 | 156.6 | 108.7 | 1,713.6 | 385.8 | 356.9 | 742.7 | (24.5) | 2,431.8 |
| Result | | | | | | | | | | | | |
| Segment result before Other items | 23.0 | 6.1 | 8.6 | 7.6 | 3.3 | 4.5 | 53.1 | 13.8 | 13.2 | 27.0 | - | 80.1 |
| Amortisation of acquired intangibles | (0.9) | (0.4) | - | - | - | (0.2) | (1.5) | (4.8) | (0.6) | (5.4) | - | (6.9) |
| Impairment charges | (3.9) | - | - | (0.1) | - | - | (4.0) | - | - | - | - | (4.0) |
| Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges | (1.8) | 0.4 | - | (0.1) | - | - | (1.5) | (4.8) | - | (4.8) | - | (6.3) |
| Net operating losses attributable to businesses identified as non-core | 4.0 | (2.0) | - | 1.2 | - | - | 3.2 | 3.0 | (0.7) | 2.3 | - | 5.5 |
| Net restructuring costs | (10.1) | (0.4) | - | (6.0) | - | (1.2) | (17.7) | (7.7) | (2.3) | (10.0) | - | (27.7) |
| Acquisition expenses and contingent consideration | - | - | - | - | - | - | - | - | - | - | - | - |
| Other specific items | (0.5) | - | - | - | - | (0.1) | (0.6) | - | (0.7) | (0.7) | - | (1.3) |
| Segment operating profit/(loss) | 9.8 | 3.7 | 8.6 | 2.6 | 3.3 | 3.0 | 31.0 | (0.5) | 8.9 | 8.4 | - | 39.4 |
| Parent Company costs | | | | | | | | | | | | (13.2) |
| Operating profit | | | | | | | | | | | | 26.2 |
| Net finance costs before Other items | | | | | | | | | | | | (14.7) |
| Non-underlying finance costs | | | | | | | | | | | | (0.7) |
| Net fair value losses on derivative financial instruments | | | | | | | | | | | | (0.3) |
| Unwinding of provision discounting | | | | | | | | | | | | (0.2) |
| Profit before tax and discontinued operations | | | | | | | | | | | | 10.3 |
| Income tax expense | | | | | | | | | | | | (6.2) |
| Profit from discontinued operations | | | | | | | | | | | | 13.8 |
| Non-controlling interests | | | | | | | | | | | | (0.4) |
| Profit for the year | | | | | | | | | | | | 17.5 |

^ Inter-segment revenue is charged at the prevailing market rates.

^^ The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 10 for further details.

## 2. Revenue and segmental information (continued)

### Balance sheet

| 2019 | Specialist Distribution UK Distribution £m | Ireland £m | France Distribution (LiTT) £m | Germany (WeGo/VTi) £m | Poland £m | Benelux £m | Total £m | Roofing Merchanting UK Exteriors £m | France Exteriors (Larivière) £m | Total £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| Segment assets | **268.3** | **56.0** | **57.5** | **154.0** | **66.5** | **51.6** | **653.9** | **204.1** | **211.1** | **415.2** | **1,069.1** |
| *Unallocated assets:* | | | | | | | | | | | |
| Right-of-use assets | | | | | | | | | | | **2.9** |
| Property, plant and equipment | | | | | | | | | | | **0.4** |
| Derivative financial instruments | | | | | | | | | | | **2.6** |
| Cash and cash equivalents | | | | | | | | | | | **(3.6)** |
| Deferred tax assets | | | | | | | | | | | **4.4** |
| Assets held for sale | | | | | | | | | | | **258.4** |
| Other assets | | | | | | | | | | | **13.6** |
| Consolidated total assets | | | | | | | | | | | **1,347.8** |
| **Liabilities** | | | | | | | | | | | |
| Segment liabilities | **196.9** | **36.1** | **54.8** | **96.4** | **35.7** | **16.4** | **436.3** | **83.5** | **97.4** | **180.9** | **617.2** |
| *Unallocated liabilities:* | | | | | | | | | | | |
| Private placement notes | | | | | | | | | | | **175.5** |
| Bank loans | | | | | | | | | | | **99.6** |
| Derivative financial instruments | | | | | | | | | | | **2.1** |
| Liabilities held for sale | | | | | | | | | | | **115.7** |
| Other liabilities | | | | | | | | | | | **43.5** |
| Consolidated total liabilities | | | | | | | | | | | **1,053.6** |
| **Other segment information** | | | | | | | | | | | |
| *Capital expenditure on:* | | | | | | | | | | | |
| Property, plant and equipment | **2.4** | **0.7** | **0.8** | **1.3** | **2.2** | **0.3** | **7.7** | **6.5** | **0.9** | **7.4** | **15.1** |
| Computer software | **5.1** | **0.4** | **-** | **0.1** | **-** | **-** | **5.6** | **1.2** | **-** | **1.2** | **6.8** |
| Goodwill and intangible assets (excluding computer software) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *Non-cash expenditure:* | | | | | | | | | | | |
| Depreciation | **19.1** | **2.8** | **5.2** | **13.8** | **3.5** | **2.4** | **46.8** | **10.6** | **10.0** | **20.6** | **67.4** |
| Impairment of right-of-use assets | **0.5** | **-** | **-** | **-** | **-** | **-** | **0.5** | **0.5** | **0.5** | **1.0** | **1.5** |
| Impairment of property, plant and equipment and computer software | **0.9** | **-** | **-** | **-** | **-** | **-** | **0.9** | **-** | **-** | **-** | **0.9** |
| Amortisation of acquired intangibles and computer software | **3.5** | **-** | **-** | **0.1** | **0.1** | **0.2** | **3.9** | **4.5** | **0.7** | **5.2** | **9.1** |
| Impairment of goodwill and intangibles (excluding computer software) | **57.4** | **-** | **-** | **-** | **-** | **-** | **57.4** | **-** | **33.3** | **33.3** | **90.7** |

## 2. Revenue and segmental information (continued)

### Balance sheet

| | Specialist Distribution | | | | | | | Roofing Merchanting | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | UK Distribution | Ireland | France Distribution (LiTT) | Germany (WeGo/VTi) | Poland | Benelux | Total | UK Exteriors | France Exteriors (Larivière) | Total | Air Handling | Total |
| 2018 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Balance sheet | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Segment assets | 329.4 | 37.0 | 65.6 | 103.2 | 58.3 | 50.8 | 644.3 | 218.1 | 190.4 | 408.5 | 159.9 | 1,212.7 |
| *Unallocated assets:* | | | | | | | | | | | | |
| Property, plant and equipment | | | | | | | | | | | | 2.7 |
| Derivative financial instruments | | | | | | | | | | | | 1.9 |
| Cash and cash equivalents | | | | | | | | | | | | 14.9 |
| Deferred tax assets | | | | | | | | | | | | 3.8 |
| Other assets | | | | | | | | | | | | 4.9 |
| Consolidated total assets | | | | | | | | | | | | 1,240.9 |
| Liabilities | | | | | | | | | | | | |
| Segment liabilities | 160.2 | 17.1 | 37.7 | 35.2 | 29.3 | 10.8 | 290.3 | 77.9 | 87.1 | 165.0 | 51.7 | 507.0 |
| *Unallocated liabilities:* | | | | | | | | | | | | |
| Private placement notes | | | | | | | | | | | | 185.6 |
| Bank loans | | | | | | | | | | | | 56.5 |
| Derivative financial instruments | | | | | | | | | | | | 4.1 |
| Other liabilities | | | | | | | | | | | | 24.8 |
| Consolidated total liabilities | | | | | | | | | | | | 778.0 |
| Other segment information | | | | | | | | | | | | |
| *Capital expenditure on:* | | | | | | | | | | | | |
| Property, plant and equipment | 4.7 | 1.1 | 2.4 | 2.2 | 1.1 | 0.7 | 12.2 | 3.8 | 3.1 | 6.9 | 0.9 | 20.0 |
| Computer software | 2.0 | 2.5 | - | 0.3 | - | - | 4.8 | - | 0.2 | 0.2 | 0.3 | 5.3 |
| Goodwill and intangible assets (excluding computer software) | - | - | - | - | - | - | - | - | - | - | - | - |
| *Non-cash expenditure:* | | | | | | | | | | | | |
| Depreciation | 5.3 | 0.9 | 1.0 | 2.5 | 1.1 | 0.6 | 11.4 | 2.4 | 4.6 | 7.0 | 1.3 | 19.7 |
| Impairment of property, plant and equipment and computer software | 4.4 | - | - | - | - | - | 4.4 | - | - | - | 0.1 | 4.5 |
| Amortisation of acquired intangibles and computer software | 4.4 | 0.5 | - | 0.3 | 0.1 | 0.2 | 5.5 | 4.8 | 1.5 | 6.3 | 1.5 | 13.3 |

## 2. Revenue and segmental information (continued)

### Geographic information

The Group's non-current operating assets (including property, plant and equipment, right-of-use assets, goodwill and intangible assets but excluding deferred tax, derivative financial instruments and deferred consideration) by geographical location are as follows:

| Country | 2019<br>Non-current assets<br>£m | 2018<br>Non-current assets<br>£m |
|---|---|---|
| United Kingdom | **283.4** | 248.6 |
| Ireland | **15.7** | 2.8 |
| France | **112.0** | 124.3 |
| Germany | **66.2** | 14.4 |
| Poland | **14.2** | 6.3 |
| Benelux | **23.4** | 49.1 |
| **Total underlying** | **514.9** | 445.5 |
| Attributable to businesses identified as non-core | **0.2** | - |
| Attributable to businesses held for sale | **112.9** | - |
| **Total** | **628.0** | 445.5 |

There is no material difference between the basis of preparation of the information reported above and the accounting policies adopted by the Group.

## 3. Other operating expenses

### 3a. Analysis of other operating expenses

| | 2019 | | | 2018 (Restated) | | |
|---|---|---|---|---|---|---|
| | **Before Other items £m** | **Other items £m** | **Total £m** | Before Other items £m | Other items £m | Total £m |
| **Other operating expenses:** | | | | | | |
| - distribution costs | **200.9** | **34.2** | **235.1** | 217.1 | 14.6 | 231.7 |
| - selling and marketing costs | **175.4** | **7.2** | **182.6** | 161.6 | 6.5 | 168.1 |
| - management, administrative and central costs | **123.6** | **106.0** | **229.6** | 135.6 | 59.6 | 195.2 |
| - property profits | **(0.3)** | **-** | **(0.3)** | (2.6) | - | (2.6) |
| | **499.6** | **147.4** | **647.0** | 511.7 | 80.7 | 592.4 |

### 3b. Other items

Profit/(loss) after tax includes the following Other items which have been disclosed in a separate column within the Consolidated Income Statement in order to provide a better indication of the underlying earnings of the Group (as explained in the Statement of Accounting Policies):

| | 2019 | | | 2018 (Restated) | | |
|---|---|---|---|---|---|---|
| | **Other items £m** | **Tax impact £m** | Tax impact % | Other items £m | Tax impact £m | Tax impact % |
| Amortisation of acquired intangibles | **(6.2)** | **1.4** | **(22.6)** | (6.9) | 1.4 | (20.3) |
| Impairment charges^ | **(90.9)** | **0.2** | **(0.2)** | (4.0) | - | - |
| Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges | **0.1** | **(0.8)** | **(800.0)** | (6.3) | 1.3 | (20.6) |
| Net operating profits/(losses) attributable to businesses identified as non-core | **2.0** | **(0.4)** | **(20.0)** | 5.5 | (1.0) | (18.2) |
| Net restructuring costs^^ | **(27.1)** | **4.4** | **(16.2)** | (27.7) | 6.3 | (22.7) |
| Investment in omnichannel retailing | **(5.7)** | **-** | **-** | - | - | - |
| Other specific items* | **0.3** | **-** | **-** | (1.3) | (0.2) | 15.4 |
| **Impact on operating profit/(loss)** | **(127.5)** | **4.8** | **(3.8)** | (40.7) | 7.8 | (19.2) |
| Non-underlying finance costs | **(0.8)** | **0.1** | **(12.5)** | (0.7) | 0.1 | (14.3) |
| Net fair value losses on derivative financial instruments | **-** | **-** | **-** | (0.3) | 0.1 | (33.3) |
| Unwinding of provision discounting | **-** | **-** | **-** | (0.2) | - | - |
| **Impact on profit/(loss) before tax** | **(128.3)** | **4.9** | **(3.8)** | (41.9) | 8.0 | (19.1) |
| Effect of change in rate on deferred tax | **-** | **-** | **-** | - | 0.3 | - |
| Other tax adjustments in respect of previous years | **-** | **(0.4)** | **-** | - | (0.1) | - |
| **Impact on profit/(loss) after tax** | **(128.3)** | **4.5** | **(3.5)** | (41.9) | 8.2 | (19.6) |

^ Impairment charges comprises £89.6m related to goodwill, £0.3m software and £1.0m right of use assets.

^^ Included within net restructuring costs are property closure costs of £6.0m (2018: £5.5m), redundancy and related staff costs of £9.5m (2018: £11.5m), impairment of non-current assets due to restructuring of £nil (2018: £0.6m) and £9.6m (2018: £10.1m) in relation to restructuring consultancy costs and £2.0m (2018: £nil) other costs, all mainly incurred in connection with the fundamental restructuring of the target operating model of the major operating companies in the UK, Germany and France.

*Other specific items comprises the following:

| | **2019 £m** | 2018 Restated £m |
|---|---|---|
| Movement in fair value of forward currency option not hedged | **0.7** | - |
| Costs in relation to the cyber attack in France | **(0.6)** | - |
| GMP equalisation | **-** | (1.0) |
| Other specific items | **0.2** | (0.3) |
| **Total other specific items** | **0.3** | (1.3) |

The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 10 for further details.

## 4. Income tax

The income tax expense comprises:

| | | 2019 £m | 2018 Restated £m |
|---|---|---|---|
| **Current tax** | | | |
| UK & Ireland corporation tax: | - charge for the year | **0.8** | 1.3 |
| | - adjustments in respect of previous years | **(0.1)** | (0.2) |
| | | **0.7** | 1.1 |
| Mainland Europe | - charge for the year | **6.8** | 6.3 |
| | - adjustments in respect of previous years | **2.7** | (0.7) |
| | | **9.5** | 5.6 |
| Total current tax | | **10.2** | 6.7 |
| **Deferred tax** | | | |
| Current year | | **5.3** | (1.5) |
| Adjustments in respect of previous years | | **0.8** | 0.8 |
| Deferred tax charge in respect of pension schemes | | **(3.9)** | 0.5 |
| Effect of change in rate | | **(1.0)** | (0.3) |
| Total deferred tax | | **1.2** | (0.5) |
| **Total income tax expense** | | **11.4** | 6.2 |

## 4. Income tax (continued)

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:

| | **2019** | | 2018 (Restated) | |
|---|---|---|---|---|
| | **£m** | **%** | £m | % |
| Profit/(loss) before tax from continuing operations | **(112.7)** | | 10.3 | |
| Profit/(loss) before tax from discontinued operations | **3.8** | | 18.2 | |
| Profit/(loss) before tax | **(108.9)** | | 28.5 | |
| Expected tax charge/(credit) | **(23.2)** | **21.3** | 8.8 | 30.9 |
| Factors affecting the income tax expense for the year: | | | | |
| - expenses not deductible for tax purposes^ | **7.5** | **(6.9)** | 3.5 | 12.3 |
| - non-taxable income* | **(4.5)** | **4.1** | (3.7) | (13.0) |
| - impairment and disposal charges not deductible for tax purposes** | **22.4** | **(20.6)** | 2.7 | 9.5 |
| - deductible temporary differences not recognised for deferred tax purposes | **10.5** | **(9.6)** | 0.3 | 1.1 |
| - losses utilised not previously recognised for deferred tax purposes | **-** | **-** | (0.6) | (2.1) |
| - other adjustments in respect of previous years | **3.7** | **(3.4)** | (0.2) | (0.7) |
| - tax on branch profits | **0.1** | **(0.1)** | 0.1 | 0.4 |
| - effect of change in rate on deferred tax | **(0.9)** | **0.8** | (0.3) | (1.1) |
| **Total income tax expense** | **15.6** | **(14.3)** | 10.6 | 37.2 |
| Income tax expense reported in the statement of profit or loss | **11.4** | | 6.2 | |
| Income tax attributable to a discontinued operation | **4.2** | | 4.4 | |
| | **15.6** | | 10.6 | |

^ The majority of the Group's expenses that are not deductible for tax purposes are in relation to the divestments of businesses, internal restructuring and impairments of property.
* The majority of the Group's non-taxable income relates to the divestments of businesses.
** During the year the Group incurred impairment charges of £90.3m in relation to goodwill which are not deductible for tax purposes.

The effective tax rate for the Group on the total loss before tax of £108.9m is negative 14.3% (2018: 37.2%). The effective tax charge for the Group on profit before tax excluding 'other items' of £19.4m is 103.3% (2018: 26.3%) which comprises a tax charge of 95.8% (2018: 26.6%) in respect of current year profits and a tax charge of 7.5% (2018: credit of 0.3%) in respect of prior years. The increased current year rate is predominantly due to unrecognised deferred tax assets and expenses not deductible for tax purposes.

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 UK and so a higher proportion of profits in these jurisdictions could result in a higher 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.

On 25 April 2019, the European Commission ('EC') concluded its investigation into the UK's controlled foreign company ('CFC') tax rules. The EC concluded that the UK's CFC rules, which provide an exemption for 75% of the CFC charge where the CFC is carrying out financing activities, were in breach of EU State Aid. The UK Government disagrees with this conclusion and has applied to have this judgement annulled. In the meantime, the Group is continuing to review the specific facts and circumstances of its position in conjunction with professional advisors (having claimed the exemption in historic periods). Based on the initial assessment undertaken to date, a provision is not deemed to be required. However, should the UK Government be unsuccessful in appeal and all CFC profits deemed taxable in the UK, this would give rise to additional UK tax payable of up to a maximum of £5m (before interest and penalties).

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:

| | 2019 | 2018 Restated |
|---|---|---|
| | £m | £m |
| Deferred tax movement associated with re-measurement of defined benefit pension liabilities* | **(6.6)** | 0.1 |
| Deferred tax on share options | **-** | (0.2) |
| Tax (charge)/credit associated with re-measurement of defined benefit pension liabilities* | **0.4** | - |
| Tax (charge)/credit on exchange and fair value movements arising on borrowings and derivative financial instruments | **(2.1)** | 0.4 |
| Effect of change in rate on deferred tax | **-** | - |
| **Total** | **(8.3)** | 0.3 |

*These items will not subsequently be reclassified to the Consolidated Income Statement.

### 5. Earnings/(loss) per share

The calculations of earnings/(loss) per share are based on the following profits/(losses) and numbers of shares:

| | Basic and diluted | |
|---|---|---|
| | **2019** | 2018 |
| | | Restated |
| | **£m** | £m |
| Profit/(loss) after tax from continuing operations | **(124.1)** | 4.1 |
| Non-controlling interests | **-** | (0.4) |
| Profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations | **(124.1)** | 3.7 |
| Profit attributable to ordinary equity holders of the parent from discontinued operations | **(0.4)** | 13.8 |
| Profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share | **(124.5)** | 17.5 |

| | Basic and diluted before Other items | |
|---|---|---|
| | **2019** | 2018 |
| | | Restated |
| | **£m** | £m |
| Profit/(loss) after tax from continuing operations | **(124.1)** | 4.1 |
| Non-controlling interests | **-** | (0.4) |
| *Add back:* | | |
| Other items | **123.8** | 33.7 |
| | **(0.3)** | 37.4 |

| | **2019** | 2018 |
|---|---|---|
| **Weighted average number of shares** | **Number** | Number |
| For basic and diluted earnings/(loss) per share | **591,556,982** | 591,548,834 |

| | **2019** | 2018 |
|---|---|---|
| | | Restated |
| **Profit/(loss) per share** | | |
| Basic and diluted earnings/(loss) per share | (21.0)p | 3.0p |
| Basic and diluted earnings/(loss) per share from continuing operations | (21.0)p | 0.6p |
| **Earnings per share before Other items^** | | |
| Basic and diluted earnings per share from continuing operations | (0.1)p | 6.3p |

^ 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.

## 6. Reconciliation of operating profit/(loss) to cash generated from operating activities

| | **2019**<br>**£m** | 2018<br>Restated<br>£m |
|---|---|---|
| **Profit/(loss) before tax from continuing operations** | **(112.7)** | 10.3 |
| **Profit/(loss) before tax from discontinued operations** | **3.8** | 18.2 |
| **Profit/(loss) before tax** | **(108.9)** | 28.5 |
| Depreciation of property, plant and equipment | **15.2** | 19.7 |
| Depreciation of right-of-use assets | **61.0** | - |
| Net finance costs | **26.3** | 15.8 |
| Amortisation of computer software | **4.5** | 4.4 |
| Amortisation of acquired intangibles | **8.1** | 8.9 |
| Impairment of computer software | **0.3** | 1.1 |
| Impairment of property, plant and equipment | **0.6** | 3.4 |
| Impairment of goodwill | **89.6** | - |
| Impairment of right-of-use asset | **1.0** | - |
| Profit on agreed sale or closure of non-core businesses (Note 9) | **(0.1)** | 6.7 |
| Profit on sale of property, plant and equipment | **(1.4)** | (7.5) |
| Settlement of amounts payable for previous purchases of business dependent on vendors remaining within the business | **-** | (6.0) |
| Share-based payments | **0.1** | 0.4 |
| Net foreign exchange differences | **(1.3)** | **-** |
| Decrease in provisions | **(2.9)** | (1.9) |
| Working capital movements: | | |
| - Decrease in inventories | **1.7** | 30.1 |
| - (Increase)/decrease in receivables | **95.6** | (6.5) |
| - Increase/(decrease) in payables | **(23.4)** | 6.5 |
| **Cash generated from operating activities** | **166.0** | 103.6 |

Included within the cash generated from operating activities is a defined benefit pension scheme employer's contribution of £2.5m (2018: £3.1m).

Of the total profit on sale of property, plant and equipment, £nil (2018: £1.1m) has been included within Other items of the Consolidated Income Statement.

Net finance costs were included within working capital movements in the prior year but have been shown separately in the current year and the 2018 numbers above have been reclassified to present on a consistent basis.

## 7. Reconciliation of net cash flow to movements in net debt

| | **2019** | 2018 |
|---|---|---|
| | **£m** | £m |
| Increase/(decrease) in cash and cash equivalents in the year | **71.6** | (0.1) |
| Cash flow from decrease in debt | **(37.6)** | 75.5 |
| Decrease in net debt resulting from cash flows | **34.0** | 75.4 |
| Debt relating to divested businesses | **-** | 0.1 |
| Recognition of loan notes and deferred consideration | **-** | (0.9) |
| Non-cash items^ | **(6.4)** | (3.3) |
| Exchange differences | **6.8** | (2.0) |
| Decrease in net debt in the year | **34.4** | 69.3 |
| Net debt at 1 January | **(189.4)** | (258.7) |
| Impact of adoption of IFRS 16 at 1 January 2019 | **(300.4)** | - |
| Net debt at 31 December | **(455.4)** | (189.4) |

^ Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow.

Net debt is defined as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£m** | £m |
| *Non-current assets:* | | |
| Derivative financial instruments | **1.7** | 1.9 |
| Deferred consideration | **-** | 0.7 |
| Lease receivables | **4.4** | **-** |
| *Current assets:* | | |
| Derivative financial instruments | **0.9** | - |
| Lease receivables | **0.8** | **-** |
| Deferred consideration | **-** | 0.8 |
| Cash at bank and on hand | **110.0** | 83.3 |
| Less IFC Restricted Cash | **(8.1)** | - |
| Financial assets held for sale | **35.9** | - |
| *Current liabilities:* | | |
| Lease liabilities | **(51.5)** | (3.2) |
| Bank overdrafts | **-** | (4.5) |
| Bank loans | **(99.6)** | (56.5) |
| Private placement notes | **(175.5)** | - |
| Loan notes and deferred consideration | **-** | (0.9) |
| Other financial liabilities | **(1.5)** | (1.1) |
| Derivative financial instruments | **(0.2)** | (0.3) |
| Lease liabilities directly associated with liabilities classified as held for sale | **(45.3)** | - |
| *Non-current liabilities:* | | |
| Lease liabilities | **(224.1)** | (20.2) |
| Private placement notes | **-** | (185.6) |
| Derivative financial instruments | **(1.9)** | (3.8) |
| Other financial liabilities | **(1.4)** | - |
| **Net debt** | **(455.4)** | (189.4) |

## 8. Dividends

An interim dividend of 1.25p per ordinary share was paid on 8 November 2019 (2018: 1.25p), amounting to £7.4m (2018: £7.4m). There is no final dividend proposed for the year ended 31 December 2019 (2018: 2.5p per share amounting to £14.8m). Total dividends paid during the year were £22.2m (2018: £22.2m), comprising the 2019 interim dividend of £7.4m and the final dividend for 2018 of £14.8m. No dividends have been paid between 31 December 2019 and the date of signing the Financial Statements.

At 31 December 2019 the Company has negative distributable reserves of £158.4m. Before the Group seeks to recommence its dividend payments it will be required to review its medium term plan and distributable reserves position. The Directors intend to carry out a review of the structure of the Group during the coming year in order to remedy this and optimise existing reserves.

## 9. Divestments and exit of non-core businesses

The Group has recognised a total gain of £0.1m (31 December 2018: charge of £6.3m) in respect of profits and losses on agreed sale or closure of non-core businesses and associated impairment charges within Other items of the Consolidated Income Statement. This consists of £6.0m gain on disposal of WeGo FloorTec during the year, £1.6m of costs in relation to the sale of Building Solutions (held for sale at 31 December 2019), £0.9m costs in relation to the Commercial Drainage business which was closed during the year, £1.6m impairment of goodwill and right of use assets in relation to the Maury business in France, which is being sold or closed, and £1.8m in relation to prior year divestments, all of which are explained further below.

### Businesses disposed during the year

***WeGo FloorTec***

On 13 August 2019 the Group completed the sale of WeGo Floortec GmbH, the German raised access flooring division, for proceeds of €13.5m plus settlement of intercompany balances. An overall gain on sale of £6.0m has been recognised within Other items, including the reclassification of the cumulative exchange differences on the retranslation of the net assets from equity to the consolidated income statement, in accordance with IAS 21 "The effects of changes in foreign exchange rates".

The net assets at the date of disposal were as follows:

| | **At date of disposal £m** | At 31 December 2018 £m |
|---|---|---|
| Attributable goodwill and intangible assets | **0.4** | 0.4 |
| Property, plant and equipment | **0.8** | 1.0 |
| Cash | **0.4** | - |
| Inventories | **3.3** | 3.4 |
| Trade and other receivables | **2.4** | 2.5 |
| Trade and other payables | **(2.4)** | (0.6) |
| Net assets | **4.9** | 6.7 |
| Other costs | **0.9** | |
| Reclassification of cumulative exchange differences to consolidated income statement | **-** | |
| Gain on disposal | **6.0** | |
| Sale proceeds | **11.8** | |
| Satisfied by: | | |
| Cash and cash equivalents | **11.8** | |

**9. Divestments and exit of non-core businesses (continued)**

**Disposal groups held for sale**

***Building Solutions***

On 7 October 2019, the Group announced the sale of Building Solutions (National) Limited ("Building Solutions"), a subsidiary of SIG Trading Limited, for proceeds of £37.5m. At 31 December 2019 the assets and liabilities are classified as held for sale on the Consolidated Balance Sheet, as shown below. Costs of £1.6m in relation to the disposal are included in Other items in the Consolidated Income Statement.

***Air Handling***

On 7 October 2019, the Group announced that it had agreed a sale of the Air Handling business and the sale completed on 31 January 2020. This business is a major line of business of the Group and is therefore classified as a discontinued operation. See Note 10 for further details.

| | Air Handling | Building Solutions | Other | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Goodwill and intangible assets | 33.2 | 12.5 | | 45.7 |
| Property, plant and equipment | 15.1 | 6.2 | 1.9 | 23.2 |
| Right-of-use assets | 31.5 | 12.5 | | 44.0 |
| Inventories | 33.9 | 3.8 | | 37.7 |
| Trade and other receivables | 58.9 | 8.5 | | 67.4 |
| Contract assets | 1.5 | - | | 1.5 |
| Deferred tax asset | 1.3 | 1.7 | | 3.0 |
| Deferred consideration | 0.8 | - | | 0.8 |
| Cash at bank and on hand | 28.8 | 6.3 | | 35.1 |
| **Assets held for sale** | 205.0 | 51.5 | 1.9 | 258.4 |
| Trade and other payables | (46.0) | (15.3) | | (61.3) |
| Contract liabilities | (1.5) | - | | (1.5) |
| Lease liabilities | (31.9) | (13.4) | | (45.3) |
| Deferred tax liability | (1.0) | - | | (1.0) |
| Corporation tax liability | (1.2) | - | | (1.2) |
| Retirement benefit obligations | (3.4) | - | | (3.4) |
| Provisions | (1.5) | (0.5) | | (2.0) |
| **Liabilities directly associated with assets held for sale** | (86.5) | (29.2) | - | (115.7) |
| **Net assets directly associated with disposal groups** | 118.5 | 22.3 | 1.9 | 142.7 |

**Prior year divestments**

*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 segment. In 2017 the goodwill, fixed assets and inventories were impaired to reflect the recoverable amount indicated by the sale proceeds and the expected costs of the sale were accrued, resulting in a loss on sale of £5.7m being recognised in 2017. During the period to 31 December 2018 inventory previously impaired has been sold and, therefore, £0.2m of this provision was released as a credit to Other items in 2018.

*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 segment. In 2017 the assets of the business were impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell and a loss on sale of £1.9m recognised within Other items of the 2017 Consolidated Income Statement. The assets and liabilities were classified as held for sale at 31 December 2017 (comprising fixed assets of £0.2m, inventories of £0.1m and liabilities of £0.1m). During the period to 31 December 2018, further costs of £0.1m were recognised.

*Building Systems*

On 2 March 2018 the Group completed the disposal of the trade and assets of SIG Building Systems Limited (Building Systems), a subsidiary of the Group. In 2017 the assets of the business were impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell, resulting in a loss on sale of £7.9m. An additional credit of £1.2m was recognised during the period to 31 December 2018, largely due to the release of an onerous lease provision due to properties being sublet. Additional property costs of £0.9m have been recognised in 2019.

*VJ Technology*

On 29 June 2018 the Group completed the disposal of the trade and assets of VJ Technology, a division of SIG Trading Limited UK and part of the UK Distribution segment. Consideration for the sale less costs to sell was £29.3m resulting in a profit on disposal of £5.2m included within Other items in the Consolidated Income Statement in 2018.

**9. Divestments and exit of non-core businesses (continued)**

**Prior year divestments (continued)**

*Roofspace*

On 14 December 2018 the Group completed the disposal of 100% of the share capital of SIG Roofspace Limited (Roofspace), a subsidiary of SIG Trading Limited and included within the UK Distribution segment. Consideration for the sale was £14.6m, resulting in a loss on sale of £7.1m which was included within Other items in the Consolidated Income Statement in 2018. Additional costs of £0.4m have been recognised in 2019.

*Proteus*

On 18 December 2018 the Group completed the disposal of the trade and assets of Proteus Engineered Facades (Proteus), a division of SIG Trading Limited included within the UK Exteriors segment, for consideration of £0.5m. The consideration was included within deferred consideration at 31 December 2018 and was received in May 2019. The loss arising on the sale of £4.8m was included within Other items in the Consolidated Income Statement in 2018.

*Other*

Additional expenses of £0.3m have also been recognised and included within Other items in relation to the divestments in previous years. This largely relates to write offs for debts that are no longer deemed recoverable.

**Other business closures**

The Group has also exited or agreed to exit the following businesses:

*Maury*

In November 2019 the Group has approved the sale or closure of Maury NZ SAS "Maury", the Group's high-end façade fabrication business in France and part of the France Exteriors (Larivière) segment. The operating losses for the year have been included in Other items in the Consolidated Income Statement and the associated goodwill and intangibles of £1.1m and right-of-use assets of £0.5m have been impaired.

*SIG Cut Solutions*

As disclosed in the 2018 Annual Report and Accounts, in June 2018 the Group closed SIG Cut Solutions, the Group's German insulation conversion business. The stock and fixed assets of the business was sold and the associated goodwill written off leading to an expense of £0.1m recognised within Other items in the Consolidated Income Statement in 2018.

*Commercial Drainage*

As disclosed in the 2018 Annual Report and Accounts, the Group announced the closure of its Commercial Drainage business, part of the UK Distribution segment. All assets are held at recoverable value and the operating losses for the year have been included in Other items in the Consolidated Income Statement.

*Middle East*

As disclosed in the 2018 Annual Report and Accounts, the Group continues with the closure of its business in the Middle East. The assets of the business were impaired at 31 December 2017 to reflect the recoverable amount indicated by the period end impairment review process and there have been various expenses incurred since associated with the costs of closure. During the year to 31 December 2019 a net expense of £1.0m (2018: £0.9m) has been recognised in Other items, comprising additional costs associated with the closure and further write-off of debtor balances no longer considered recoverable. On 22 January 2020 the business has been sold for AED1.

**9. Divestments and exit of non-core businesses (continued)**

**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 2019 and 31 December 2018 are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Revenue** | **Net operating profit/(loss)** | Revenue | Net operating profit/(loss) |
| | **£m** | **£m** | £m | £m |
| Building Systems | **-** | **-** | 1.4 | (1.2) |
| GRM | **-** | **-** | 0.3 | (0.2) |
| Middle East | **-** | **-** | 2.1 | (0.8) |
| IBSL | **-** | **-** | 0.2 | (0.2) |
| VJ Technology | **-** | **-** | 17.0 | 3.1 |
| Roofspace | **-** | **-** | 24.0 | 2.1 |
| Proteus | **-** | **-** | 3.4 | (0.5) |
| Commercial Drainage | **1.2** | **(0.8)** | 10.0 | (0.8) |
| SIG Cut Solutions | **-** | **-** | 0.3 | (0.3) |
| Businesses identified as non-core in 2018 | **1.2** | **(0.8)** | 58.7 | 1.2 |
| WeGo Floortec | **14.5** | **0.8** | 23.2 | 1.5 |
| Building Solutions | **58.3** | **2.9** | 56.8 | 3.5 |
| Maury | **1.9** | **(0.9)** | 2.7 | (0.7) |
| Businesses identified as non-core in 2019 | **74.7** | **2.8** | 82.7 | 4.3 |
| **Total attributable to non-core businesses** | **75.9** | **2.0** | 141.4 | 5.5 |

**Cash flows associated with divestments and exit of non-core businesses**

The net cash inflow in the year ended 31 December 2019 in respect of divestments and the exit of non-core businesses is as follows:

| | Proteus | WeGo FloorTec | Other non-core businesses | **Total** |
|---|---|---|---|---|
| | £m | £m | £m | **£m** |
| Cash consideration received for divestments | 0.5 | 11.8 | 0.3 | **12.6** |
| Cash at date of disposal | - | (0.5) | - | **(0.5)** |
| Other income received/(disposal costs paid) | - | (0.9) | (2.8) | **(3.7)** |
| **Net cash inflow/(outflow)** | 0.5 | 10.4 | (2.5) | **8.4** |

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.

**10. Discontinued operations**

On 7 October 2019, the Group announced that it had agreed a sale of the Air Handling business for consideration of €222.7m. The sale was approved by shareholders at a general meeting on 23 December 2019 and completed on 31 January 2020. At 31 December 2019, Air Handling is classified as a disposal group held for sale and as a discontinued operation as it represented a major line of business of the Group. With Air Handling being classified as a discontinued operation, the Air Handling segment is no longer presented in the segment note. The carrying amount of the disposal group is lower than its fair value less cost to sell and therefore no impairment loss is recognised.

The results of the Air Handling business for the year are presented below:

| | **2019**<br>**£m** | 2018<br>£m |
|---|---|---|
| **Revenue** | **323.1** | 310.1 |
| Cost of sales | **(202.0)** | (193.8) |
| **Gross profit** | **121.1** | 116.3 |
| Other operating expenses | **(101.3)** | (96.9) |
| **Underlying operating profit** | **19.8** | 19.4 |
| Other items | **(0.7)** | 0.7 |
| **Operating profit** | **19.1** | 20.1 |
| Finance income | **0.1** | 0.1 |
| Finance costs | **(1.3)** | - |
| **Profit before tax from discontinued operations before group costs** | **17.9** | 20.2 |
| Costs incurred in connection with the agreed disposal of the Air Handling business | **(12.2)** | - |
| Amortisation of acquired intangibles | **(1.9)** | (2.0) |
| **Profit before tax from discontinued operations** | **3.8** | 18.2 |
| Income tax expense | **(4.2)** | (4.4) |
| **Profit after tax from discontinued operations** | **(0.4)** | 13.8 |

The major classes of assets and liabilities of the Air Handling classified as held for sale as at 31 December 2019 are as follows:

| | **2019**<br>**£m** |
|---|---|
| Goodwill and intangible assets | 33.2 |
| Property, plant and equipment | 15.1 |
| Right-of-use assets | 31.5 |
| Inventories | 33.9 |
| Trade and other receivables | 58.9 |
| Contract assets | 1.5 |
| Deferred tax asset | 1.3 |
| Deferred consideration | 0.8 |
| Cash at bank and on hand | 28.8 |
| **Assets held for sale** | **205.0** |
| Trade and other payables | (46.0) |
| Contract liabilities | (1.5) |
| Lease liabilities | (31.9) |
| Deferred tax liability | (1.0) |
| Corporation tax liability | (1.2) |
| Retirement benefit obligations | (3.4) |
| Provisions | (1.5) |
| **Liabilities directly associated with assets held for sale** | (86.5) |
| **Net assets directly associated with disposal group** | **118.5** |

Amounts included in accumulated OCI are as follows:

| | **2019**<br>**£m** | 2018<br>£m |
|---|---|---|
| Remeasurement of defined benefit pension liability | **(0.5)** | 0.1 |
| Deferred tax movement associated with remeasurement of defined benefit pension liability | **0.1** | - |
| Reserve of disposal group classified as held for sale | **(0.4)** | 0.1 |

The net cash flows incurred by Air Handling are as follows:

| | **2019**<br>**£m** | 2018<br>£m |
|---|---|---|
| Operating | **26.5** | 10.5 |
| Investing | **(5.1)** | (1.1) |
| Financing | **(9.4)** | (15.4) |
| Net cash (outflow)/inflow | **12.0** | **(6.0)** |

Earnings per share:

| | **2019** | 2018 |
|---|---|---|
| Basic and diluted, earnings/(loss) per share from discontinued operations | (0.00)p | 0.02p |

## 11. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

SIG had a shareholding of less than 0.1% in a German purchasing co-operative up until termination of the contract on 31 December 2018. Net purchases from this co-operative (on commercial terms) totalled £266.1m in 2018 and net trade payables in respect of the co-operative amounted to £8.0m at 31 December 2018. This is not a related party for 2019.

In 2019, SIG incurred expenses of £0.4m (2018: £0.2m) 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, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

| | **2019**<br>**£m** | 2018<br>£m |
|---|---|---|
| Short term employee benefits | 4.3 | 4.8 |
| Termination and post-employment benefits | 0.4 | 0.5 |
| IFRS 2 share option charge | 0.1 | 0.4 |
| | **4.8** | 5.7 |

## 12. 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 by 31 December 2019.

Information regarding covenant calculations is provided to show the financial measures used to calculate financial covenants as defined by the banking agreements.

In 2019 a number of these measures also reconcile the reported numbers to what would have been reported prior to the adoption of IFRS 16, in order to allow comparison between periods and to reconcile to numbers used in covenant calculations which are prepared on a frozen GAAP basis.

a) Underlying operating profit and profit before tax excluding impact of IFRS 16

A number of the alternative performance measures use underlying operating profit and underlying profit before tax excluding the impact of IFRS 16, in order to allow comparison with the previous year and to reconcile to numbers used in covenant calculations.

| **Continuing operations** | **2019**<br>**£m** | 2018<br>Restated<br>£m |
|---|---|---|
| Operating profit from continuing operations | **(87.9)** | 26.2 |
| Operating lease rentals | **(57.5)** | - |
| Additional depreciation from adoption of IFRS 16 | **50.9** | - |
| Impairment of right-of-use assets and onerous lease adjustment | **1.6** | - |
| Adjustment due to treatment of sale and leaseback transaction | **0.4** | - |
| Operating profit excluding impact of IFRS 16 | **(92.5)** | 26.2 |
| *Add back:* | | |
| Other items | **127.5** | 40.7 |
| Less right-of-use asset impairment and onerous lease costs included in Other items | **(1.5)** | - |
| Underlying operating profit excluding impact of IFRS 16 | **33.5** | 66.9 |
| Net finance costs | **(24.8)** | (15.9) |
| *Add back:* | | |
| Additional net finance costs from adoption of IFRS 16 | **11.1** | - |
| Non-underlying finance costs | **0.8** | 0.7 |
| Net fair value losses on derivative financial instruments | **-** | 0.3 |
| Unwinding of provision discounting | **-** | 0.2 |
| Underlying profit before tax excluding impact of IFRS 16 | **20.6** | 52.2 |
| Income tax expense | **(11.4)** | (6.2) |
| Reduction in tax expense from adoption of IFRS 16 | **(1.5)** | - |
| *Add back:* | | |
| Tax credit associated with Other items, excluding items on adoption of IFRS 16 | **(4.1)** | (8.2) |
| **Underlying profit after tax excluding impact of IFRS 16** | **3.6** | 37.8 |

**Discontinued operations**

| | **2019** **£m** | 2018 Restated £m |
|---|---|---|
| Operating profit from discontinued operations | **19.1** | 20.1 |
| Operating lease rentals | **(7.4)** | - |
| Additional depreciation from adoption of IFRS 16 | **6.7** | - |
| Operating profit from discontinued operations excluding impact of IFRS 16 | **18.4** | 20.1 |
| *Add back:* | | |
| Other items | **0.7** | (0.7) |
| **Underlying operating profit from discontinued operations excluding impact of IFRS 16** | **19.1** | 19.4 |
| Net finance costs | **(1.2)** | 0.1 |
| *Add back:* | | |
| Additional net finance costs from adoption of IFRS 16 | **1.2** | - |
| **Underlying profit before tax from discontinued operations excluding impact of IFRS 16** | **19.1** | 19.5 |
| Income tax expense | **(4.2)** | (4.4) |
| Reduction in tax expense from adoption of IFRS 16 | **(0.1)** | - |
| *Add back:* | | |
| Tax credit associated with Other items | **0.7** | 0.3 |
| **Underlying profit after tax from discontinued operations excluding impact of IFRS 16** | **15.5** | 15.4 |

**Other business held for sale**

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Operating profit from business held for sale | **2.9** | 3.5 |
| Operating lease rentals | **(0.8)** | - |
| Additional depreciation from adoption of IFRS 16 | **0.7** | - |
| Operating profit from business held for sale excluding impact of IFRS 16 | **2.8** | 3.5 |
| Net finance costs | **(0.8)** | (0.7) |
| Add back: | | |
| Additional net finance costs from adoption of IFRS 16 | **0.2** | - |
| **Underlying profit before tax from business held for sale excluding impact of IFRS 16** | **2.2** | 2.8 |

**Underlying profit before tax excluding IFRS 16 including businesses held for sale**

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Underlying profit before tax from continuing operations excluding impact of IFRS 16 | **20.6** | 52.2 |
| Underlying profit before tax from discontinued operations excluding impact of IFRS 16 | **19.1** | 19.5 |
| Underlying profit before tax from other business held for sale excluding impact of IFRS 16 | **2.2** | 2.8 |
| | **41.9** | 74.5 |

**Underlying profit before tax including businesses held for sale (post IFRS 16)**

| | **2019** | 2018 |
|---|---|---|
| | **£m** | £m |
| Underlying profit before tax from continuing operations | **15.6** | 52.2 |
| Underlying profit before tax from discontinued operations | **18.6** | 19.5 |
| Underlying profit before tax from other business held for sale | **2.1** | 2.8 |
| | **36.3** | 74.5 |

**b) Covenant leverage**

Covenant leverage 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.

| | **2019** | 2018 |
|---|---|---|
| | | Restated |
| | **£m** | £m |
| Underlying operating profit from continuing operations excluding impact of IFRS 16 | **33.5** | 66.9 |
| Underlying operating profit from discontinued operations held for sale excluding impact of IFRS 16 | **19.1** | 19.4 |
| Underlying operating profit from other disposal group held for sale excluding impact of IFRS 16 | **2.8** | 3.5 |
| *Add back:* | | |
| Depreciation prior to adoption of IFRS 16 | **18.7** | 19.7 |
| Amortisation of computer software | **4.5** | 4.4 |
| Reversal of restatement on net operating losses attributable to businesses identified as non-core* | **-** | 0.8 |
| Depreciation attributable to businesses identified as non-core* | **(0.2)** | (0.3) |
| **Covenant EBITDA** | **78.4** | 114.4 |

*The 2018 covenant calculation has not been restated to reflect the decisions made to exit non-core businesses after the signing of the 2018 Financial Statements (Note 9).

| | **2019** | 2018 |
|---|---|---|
| | **£m** | £m |
| Reported net debt | **455.4** | 189.4 |
| Lease liabilities recognised in accordance with IFRS 16 | **(296.0)** | - |
| Lease receivables recognised in accordance with IFRS 16 | **5.2** | - |
| Other financial liabilities recognised in accordance with IFRS 16 | **(1.8)** | - |
| | **162.8** | **189.4** |
| Other covenant financial indebtedness | **5.4** | 10.9 |
| Foreign exchange adjustment* | **0.3** | (1.8) |
| Covenant net debt | **168.5** | **198.5** |

* For the purpose of covenant calculations, leverage is calculated using net debt translated at average rather than period end rates.

| | **2019** | 2018 |
|---|---|---|
| Covenant leverage (covenant net debt to covenant EBITDA - maximum 3.0x) | **2.1x** | 1.7x |

**c) 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.

| | **2019** | 2018 |
|---|---|---|
| | | Restated |
| | **£m** | £m |
| Operating profit from continuing operations excluding the impact of IFRS 16 | **(92.5)** | 26.2 |
| Income tax expense excluding the impact of IFRS 16 | **(12.9)** | (6.2) |
| Operating (loss)/profit after tax from continuing operations excluding impact of IFRS 16 | **(105.4)** | 20.0 |
| Operating profit from discontinued operations excluding impact of IFRS 16 | **18.4** | 20.1 |
| Income tax expense from discontinued operations excluding the impact of IFRS | **(4.3)** | (4.4) |
| Operating (loss)/profit after tax from discontinued operations excluding impact of IFRS 16 | **14.1** | 15.7 |
| **Total operating profit after tax excluding impact of IFRS 16** | **(91.3)** | 35.7 |

**c) Post-tax Return on Capital Employed ('ROCE') (continued**

| | 2019 £m | 2018 Restated £m |
|---|---|---|
| Underlying operating profit from continuing operations excluding impact of IFRS 16 | **33.5** | 66.9 |
| Income tax expense excluding impact of IFRS 16 | **(12.9)** | (6.2) |
| Tax credit associated with Other items | **(4.1)** | (8.2) |
| Underlying operating profit after tax from continuing operations excluding impact of IFRS 16 | **16.5** | 52.5 |
| Underlying operating profit after tax from discontinued operations excluding impact of IFRS 16 | **15.5** | 15.4 |
| Underlying operating profit after tax from other disposal group held for sale excluding impact of IFRS 16 | **2.3** | 3.0 |
| **Total underlying operating profit after tax excluding impact of IFRS 16** | **34.3** | 70.9 |

| | 2019 £m | 2018 £m |
|---|---|---|
| Opening reported net assets | **462.9** | 470.5 |
| Opening reported net debt | **189.4** | 258.7 |
| Opening capital employed | **652.3** | 729.2 |
| Computer software impairment charges* | **(0.3)** | (1.4) |
| Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges* | **0.1** | (6.2) |
| Adjusted opening capital employed | **652.1** | 721.6 |
| Closing reported net assets | **294.2** | 462.9 |
| Closing reported net debt | **455.4** | 189.4 |
| Lease liabilities recognised in accordance with IFRS 16 | **(296.0)** | - |
| Lease receivables recognised in accordance with IFRS 16 | **5.2** | - |
| Other financial liabilities recognised in accordance with IFRS 16 | **(1.8)** | |
| Other net asset adjustments recognised in accordance with IFRS 16 | **9.9** | - |
| Closing capital employed excluding impact of IFRS 16 | **466.9** | 652.3 |
| Computer software impairment charges* | **-** | (0.3) |
| Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges* | **-** | 0.1 |
| Adjusted closing capital employed excluding impact of IFRS 16 | **466.9** | 652.1 |
| **Average capital employed excluding impact of IFRS 16** | **559.6** | 690.8 |
| **Adjusted average capital employed excluding impact of IFRS 16*** | **559.5** | 686.9 |

* 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.

| | 2019 | 2018 Restated |
|---|---|---|
| **Unadjusted ROCE excluding impact of IFRS 16 (operating profit after tax to average capital employed)** | **(16.3)%** | 5.2% |
| **ROCE excluding impact of IFRS 16 (underlying operating profit after tax to adjusted average capital employed)** | **6.1%** | 10.3% |

**d) 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.

| | 2019 £m | 2018 Restated £m |
|---|---|---|
| Underlying operating profit excluding impact of IFRS 16 | **33.5** | 66.9 |
| *Add back:* | | |
| Net operating losses attributable to businesses identified as non-core | **1.9** | 5.5 |
| Underlying operating profit from discontinued operations excluding impact of IFRS 16 | **19.1** | 19.4 |
| Consolidated EBITA | **54.5** | 91.8 |
| Underlying net finance costs excluding impact of IFRS 16 | **12.9** | 14.7 |
| Net finance cost of disposal groups held for sale, excluding impact of IFRS 16 | **0.6** | 0.6 |
| *Less:* | | |
| Interest costs arising on the defined benefit pension scheme | **(0.5)** | (0.5) |
| Acceptance commission | **(0.8)** | (0.9) |
| Covenant net interest payable | **12.2** | 13.9 |
| **Interest cover ratio (consolidated EBITA to covenant net interest payable)** | **4.5x** | 6.6x |

**e) Underlying profit before tax excluding impact of IFRS 16 and property profits**

This is used to enhance understanding of the underlying financial performance of the Group and to provide further comparability between reporting periods.

| | **2019** **£m** | 2018 Restated £m |
|---|---|---|
| Underlying profit before tax from continuing operations | **15.6** | 52.2 |
| Underlying profit before tax impact of IFRS 16 for the period | **(4.9)** | - |
| Underlying property profits | **(0.3)** | (2.6) |
| Underlying profit before tax from continuing operations excluding impact of IFRS 16 and property profits | **10.4** | 49.6 |

**f) 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.

| | **2019** **£m** | 2018 Restated £m |
|---|---|---|
| (Loss)/profit before tax from continuing operations | **(112.7)** | 10.3 |
| Other items | **128.3** | 41.9 |
| Underlying profit before tax from continuing operations | **15.6** | 52.2 |
| Income tax expense on continuing operations | **(11.4)** | (6.2) |
| Tax credit associated with Other items | **(4.5)** | (8.2) |
| Underlying tax charge on continuing operations | **(15.9)** | (14.4) |
| Effective tax rate (income tax expense to (loss)/profit before tax) on continuing operations | **(10.1)%** | 60.2% |
| Underlying effective tax rate (underlying tax charge to underlying profit before tax) on continuing operations | **101.9%** | 27.6% |

g) **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.

| | **2019** **£m** | 2018 Restated £m |
|---|---|---|
| *Current:* | | |
| Inventories | **156.5** | 207.2 |
| Trade and other receivables | **294.7** | 477.7 |
| Contract assets | **-** | 1.8 |
| Trade and other payables | **(327.4)** | (428.3) |
| Contract liabilities | **-** | (1.6) |
| Provisions | **(6.7)** | (11.0) |
| *Non-current:* | | |
| Other payables | **(1.0)** | (5.6) |
| Provisions | **(18.6)** | (20.4) |
| Reported working capital | **97.5** | **219.8** |
| Working capital for non-core businesses* | **0.8** | (25.7) |
| Foreign exchange adjustment* | **2.8** | (1.6) |
| Adjusted working capital | **101.1** | **192.5** |

* Working capital is translated at average rather than period end rates. 2018 has been adjusted to include working capital for businesses held for sale at 31 December 2019 to be consistent with the revenue from continuing operations below.

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Reported revenue from continuing operations | **2,160.6** | 2,431.8 |
| Revenue attributable to business identified as non-core | **(75.9)** | (141.4) |
| Adjusted revenue | **2,084.7** | 2,290.4 |

| | **2019** | 2018 Restated |
|---|---|---|
| **Reported working capital to reported revenue** | **4.5%** | 9.0% |
| **Like-for-like working capital to sales ratio (adjusted working capital to adjusted revenue)** | **4.8%** | 8.4% |

**h) Consolidated net worth**

Consolidated net worth is one of the primary covenants applicable to the Revolving Credit Facility and the private placement notes. The monitoring of this covenant is therefore an important element of treasury risk management for the Group.

| | **2019**<br>**£m** | 2018<br>£m |
|---|---|---|
| Net assets | **294.2** | 462.9 |
| Lease liabilities recognised in accordance with IFRS 16 | **296.0** | - |
| Right-of-use assets recognised in accordance with IFRS 16 | **(279.8)** | - |
| Lease receivables recognised in accordance with IFRS 16 | **(5.2)** | - |
| Other financial liabilities recognised in accordance with IFRS 16 | **1.8** | - |
| Other net asset adjustments recognised in accordance with IFRS 16 | **(6.7)** | - |
| Less: non-controlling interests | **-** | - |
| Consolidated net worth excluding impact of IFRS 16 | **300.3** | 462.9 |

### i) Cash inflow from trading

This is used to understand how the Group is generating cash from trading activities.

| | **2019**<br><br>**£m** | 2018<br>Restated<br>£m |
|---|---|---|
| Cash generated from operating activities | **166.0** | 103.6 |
| *Add back:* | | |
| Working capital movements: | | |
| - Decrease in inventories | **(1.7)** | (30.1) |
| - (Increase)/decrease in receivables | **(95.6)** | 6.5 |
| - Increase/(decrease) in payables | **23.4** | (6.5) |
| Cash inflow from trading | **92.1** | 73.5 |

### 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.

| | UK Distribution £m | Ireland £m | France Distribution (LiTT) £m | Germany (WeGo/VTi) £m | Poland £m | Benelux £m | **Total Specialist Distribution £m** | UK Exteriors £m | France Exteriors (Larivière) £m | **Total Roofing Merchanting £m** | **Group £m** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Statutory revenue 2019 | 535.5 | 94.9 | 184.5 | 396.0 | 156.1 | 103.0 | **1,470.0** | 346.5 | 344.1 | **690.6** | **2,160.6** |
| Non-core businesses | (1.2) | - | - | (14.5) | - | - | **(15.7)** | (58.3) | (1.9) | **(60.2)** | **(75.9)** |
| Underlying revenue 2019 | 534.3 | 94.9 | 184.5 | 381.5 | 156.1 | 103.0 | **1,454.3** | 288.2 | 342.2 | **630.4** | **2,084.7** |
| Statutory revenue 2018 | 731.6 | 103.4 | 175.4 | 426.9 | 156.6 | 108.4 | **1,702.3** | 382.1 | 347.4 | **729.5** | **2,431.8** |
| Non-core businesses | (51.5) | (3.5) | - | (23.5) | - | - | **(78.5)** | (60.2) | (2.7) | **(62.9)** | **(141.4)** |
| Underlying revenue 2018 | 680.1 | 99.9 | 175.4 | 403.4 | 156.6 | 108.4 | **1,623.8** | 321.9 | 344.7 | **666.6** | **2,290.4** |
| *% change year on year:* | | | | | | | | | | | |
| Underlying revenue | (21.4)% | (5.0)% | 5.2% | (5.4)% | (0.3)% | (5.0)% | **(10.4)%** | (10.5)% | (0.7)% | **(5.4)%** | **(9.0)%** |
| Impact of currency | - | 1.3% | 1.5% | 1.3% | 2.0% | 1.3% | **0.9%** | - | 1.4% | **0.7%** | **0.8%** |
| Impact of acquisitions | - | - | - | - | - | - | **-** | - | - | **-** | **-** |
| Impact of working days | 0.3% | 0.4% | 0.4% | 1.6% | 0.4% | 0.4% | **0.7%** | 0.4% | 0.4% | **0.4%** | **0.6%** |
| Like-for-like sales | (21.1)% | (3.3)% | 7.1% | (2.5)% | 2.1% | (3.3)% | **(8.8)%** | (10.1)% | 1.1% | **(4.3)%** | **(7.6)%** |

### 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.

| | UK Distribution % | Ireland % | France Distribution (LiTT) % | Germany (WeGo/VTi) % | Poland % | Benelux % | **Total Specialist Distribution %** | UK Exteriors % | France Exteriors (Larivière) % | **Total Roofing Merchanting %** | **Group %** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Statutory gross margin 2019 | 26.2% | 25.0% | 27.5% | 27.6% | 20.3% | 24.7% | **25.9%** | 28.3% | 23.3% | **25.9%** | **25.9%** |
| Impact of non-core businesses | - | - | - | 0.1% | - | - | **-** | 0.1% | 0.1% | **(0.2)%** | **-** |
| Underlying gross margin 2019 | 26.2% | 25.0% | 27.5% | 27.7% | 20.3% | 24.7% | **25.9%** | 28.4% | 23.4% | **25.7%** | **25.9%** |
| Statutory gross margin 2018 | 25.3% | 23.8% | 27.5% | 26.8% | 20.0% | 23.7% | **25.2%** | 28.3% | 23.3% | **25.9%** | **25.4%** |
| Impact of non-core businesses | (0.6)% | 1.5% | - | 0.1% | - | - | **(0.1)%** | 0.1% | - | **(0.1)%** | **(0.1)%** |
| Underlying gross margin 2018 | 24.7% | 25.3% | 27.5% | 26.9% | 20.0% | 23.7% | **25.1%** | 28.4% | 23.3% | **25.8%** | **25.3%** |

## l) Operating cost as a percentage of sales

This is a measure of how effectively the Group's operating cost base is being used to generate revenue.

| | **Six months ended 30 June 2019 £m** | **Six months ended 31 December 2019 £m** | **Year ended 31 December 2019 £m** | Six months ended 30 June 2018 £m | Six months ended 31 December 2018 £m | Year ended 31 December 2018 £m |
|---|---|---|---|---|---|---|
| Statutory revenue | **1,272.6** | **888.0** | **2,160.6** | 1,381.7 | 1,050.1 | 2,431.8 |
| Non-core businesses | **(41.8)** | **(34.1)** | **(75.9)** | (89.0) | (52.4) | (141.4) |
| Underlying revenue | **1,230.8** | **853.9** | **2,084.7** | 1,292.7 | 997.7 | 2,290.4 |
| Operating costs (statutory) | **326.1** | **320.9** | **647.0** | 338.6 | 253.8 | 592.4 |
| Other items | **(32.3)** | **(115.1)** | **(147.4)** | (27.0) | (53.7) | (80.7) |
| Underlying operating costs | **293.8** | **205.8** | **499.6** | 311.6 | 200.1 | 511.7 |
| Property profits | **-** | **0.3** | **0.3** | 0.3 | 2.3 | 2.6 |
| Underlying operating costs excluding property profits | **293.8** | **206.1** | **499.9** | 311.9 | 202.4 | 514.3 |
| Operating costs as a percentage of statutory revenue | **25.6%** | **36.1%** | **29.9%** | 24.5% | 24.2% | 24.4% |
| Underlying operating costs excluding property profits as a percentage of underlying revenue | **23.9%** | **24.1%** | **24.0%** | 24.1% | 20.3% | 22.5% |

### Operating costs excluding impact of IFRS 16

| | **2019 £m** | 2018 £m |
|---|---|---|
| Underlying operating costs | **499.9** | 511.7 |
| Operating lease rentals | **57.5** | - |
| Additional depreciation from adoption of IFRS 16 | **(50.9)** | - |
| Adjustment due to treatment of sale and leaseback transaction | **(0.4)** | - |
| **Underlying operating costs excluding impact of IFRS 16** | **505.8** | 511.7 |

**m) Return on sales**

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.

| | UK Distribution | Ireland | France Distribution (LiTT) | Germany (WeGo/VTi) | Poland | Benelux | **Total Specialist Distribution** | UK Exteriors | France Exteriors (Larivière) | **Total Roofing Merchanting** | Parent company costs | Group |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | **£m** | £m | £m | **£m** | £m | **£m** |
| **2019** | | | | | | | | | | | | |
| Underlying revenue | 534.3 | 94.9 | 184.5 | 381.5 | 156.1 | 103.0 | **1,454.3** | 288.2 | 342.2 | **630.4** | - | **2,084.7** |
| Underlying operating profit^ | 7.9 | 6.8 | 11.2 | 4.4 | 4.3 | 5.2 | **39.8** | 8.9 | 8.6 | **17.5** | (17.7) | **39.6** |
| IFRS 16 adjustment to operating profit | (2.1) | (0.6) | (0.4) | (1.0) | (0.1) | (0.1) | **(4.3)** | (1.2) | (0.6) | **(1.8)** | 0.0 | **(6.1)** |
| Underlying operating profit excluding impact of IFRS 16 | 5.8 | 6.2 | 10.8 | 3.4 | 4.2 | 5.1 | **35.5** | 7.7 | 8.0 | **15.7** | (17.7) | **33.5** |
| Property profits | - | - | - | - | (0.3) | - | **(0.3)** | - | - | **-** | - | **(0.3)** |
| Underlying operating profit excluding property profits and impact of IFRS 16 | 5.8 | 6.2 | 10.8 | 3.4 | 3.9 | 5.1 | **35.2** | 7.7 | 8.0 | **15.7** | (17.7) | 33.2 |
| Operating margin | 1.5% | 7.2% | 6.1% | 1.2% | 2.8% | 5.0% | **2.7%** | 3.1% | 2.5% | **2.8%** | n/a | **1.9%** |
| Underlying operating margin excluding impact of IFRS 16 | 1.1% | 6.5% | 5.9% | 0.9% | 2.7% | 5.0% | **2.4%** | 2.7% | 2.3% | **2.5%** | n/a | **1.6%** |
| Return on sales (excluding IFRS 16 and property profits) | 1.1% | 6.5% | 5.9% | 0.9% | 2.5% | 5.0% | **2.4%** | 2.7% | 2.3% | **2.5%** | n/a | **1.6%** |
| **2018** | | | | | | | | | | | | |
| Underlying revenue | 680.1 | 99.9 | 175.4 | 403.4 | 156.6 | 108.4 | **1,623.8** | 321.9 | 344.7 | **666.6** | - | **2,290.4** |
| Underlying operating profit^ | 23.0 | 6.1 | 8.6 | 7.6 | 3.3 | 4.5 | **53.1** | 13.8 | 13.2 | **27.0** | (13.2) | **66.9** |
| Property profits | - | - | (1.0) | (1.6) | - | - | **(2.6)** | - | - | **-** | - | **(2.6)** |
| Underlying operating profit excluding property profits | 23.0 | 6.1 | 7.6 | 6.0 | 3.3 | 4.5 | **50.5** | 13.8 | 13.2 | **27.0** | (13.2) | **64.3** |
| Operating margin | 3.4% | 6.1% | 4.9% | 1.9% | 2.1% | 4.2% | **3.3%** | 4.3% | 3.8% | **4.1%** | n/a | **2.9%** |
| Return on sales (excluding property profits) | 3.4% | 6.1% | 4.3% | 1.5% | 2.1% | 4.2% | **3.1%** | 4.3% | 3.8% | **4.1%** | n/a | **2.8%** |

^ Underlying operating profit equals segmental result before Other items.

### n) Underlying EPS excluding impact of IFRS 16

| | **2019** | 2018 |
|---|---|---|
| Weighted average number of shares (number) | **591,556,982** | 591,548,834 |
| Underlying profit after tax from continuing operations excluding impact of IFRS 16 (£m) | **3.6** | 37.8 |
| Underlying earnings per share from continuing operations excluding impact of IFRS 16 (p) | **0.6p** | 6.4p |

### o) Other non-statutory measures

In addition to the alternative performance measures noted above, the Group also uses underlying EPS and underlying net finance cost.

## 13. Viability Statement

In accordance with the requirements of the 2018 UK Corporate Governance Code ("the Code"), the directors confirm that they have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of the risk identification and management process and a description of the principal risks and uncertainties facing the Group are included in this Strategic report on pages 46 to 47. As such, the key factors affecting the Group's prospects are:

- Market positions: SIG retains strong market positions in its two core businesses, which the Board believes 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; and
- Capital structure: ability of the Group to raise up to £150m in new equity and, alongside the proposed equity raise, to agree amended facilities in respect of the Group's RCF and private placement debt, including a reset of financial covenants.

The Board has determined that a three-year period to 31 December 2022 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 the Group's financing, to make a realistic viability assessment. This also aligns with the new growth plan for the business.

**The assessment process and key assumptions**
As part of the Group's strategic and financial planning process a medium term business plan including detailed financial forecasts for the first three years was produced covering the period to 31 December 2022. 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

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

- Turnaround for the business: a new strategy is in place based on growing the stronger EU businesses whilst maintaining margin and costs, and delivering a market share recapture plan in the UK. Turnaround in the UK is focussed on back to basics and re-establishing valuable customer and supplier relationships.
- Return to profitable growth: a new strategy is in place to return the Group to profitable growth through focussing on:
  - Leading market positions: maintaining and growing our leading share in chosen specialist markets and obtaining economies of scale and skill through a modernised supply chain and opportunities to digitise our business;
  - Modernised operating model: driving an omni-channel customer and sales-led organisation built around strong, local relationships supported by specialists and national supply chain network; and
  - Effective partnerships: strengthening customer relationships with superior service and expertise and developing supplier relationships through scale, coverage and knowledge of their business and markets.
- Impact of COVID-19: financial forecasts include the impact of COVID-19 in FY20, in particular in the UK, French and Irish businesses, with two main scenarios considered and updated for trading performances during March and April and time required to return to normal trading.
- Dividends: no final dividend for 2019 as previously announced.
- Availability of financing: €50m of private placement debt matures within the viability assessment period and the Group's £233m Revolving Credit Facility ('RCF') is due to expire in May 2021. However, alongside the proposed equity raising and having regard to the 3 year viability period, the Group is currently engaged in discussions with its RCF lenders and private placement noteholders with a view to agreeing amended facilities in respect of the RCF and private placement debt, including a reset of financial covenants and an extension of the availability of the RCF. Pending the entry into such documentation, the Group has already sought and obtained a waiver of the Consolidated Net Worth (**CNW**) covenant contained in the private placement notes in respect of any testing thereof in the period from 28 May 2020 until 1 August 2020 (subject to certain events not occurring in that period) including the testing of the CNW covenant as at 31 December 2019 on the basis of these financial statements.
- Strengthening of balance sheet: a £150m equity raise is in progress to strengthen the Group's balance sheet and enable reductions in net debt and leverage.

In order to assess the resilience of the Group to threats to its viability posed by those risks in severe but plausible scenarios, the Group's financial forecasts were 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 |
|---|---|
| Sensitivity analysis has been modelled on the basis that the return to profitability may take longer than expected, with downside scenarios modelled for 2021 and 2022. | Delivering business change<br>Market downturn |
| The implications of a challenging economic environment, in particular the continued uncertainty in relation to COVID-19, have been modelled by assuming a severe but plausible reduction in sales in FY20 due to temporary closures and reduced operations, in particular in the UK, France and Ireland. | Delivering business change<br>Market downturn<br>Access to finances and cash management |
| The impact of the competitive environment within which the Group's business operates and the interaction with the Group's gross margin has been modelled by assuming a severe but plausible reduction in revenue and gross margin throughout the period. | Delivering business change<br>Market downturn |
| The impact of the equity raise not being successful has been considered. | Access to finances and cash management |

The resulting impact (of the first three factors set out above) on key metrics was considered with particular focus on solvency measures including debt headroom and covenants. The impact of a severe or extreme COVID-19 scenario may affect the carrying value of the Group's assets and impact the current and (following documentation being agreed with the Group's RCF lenders and private placement noteholders) future financial covenants associated with the RCF and private placement notes.

If the equity raise is not successful then this would trigger an end to the CNW waiver referred to above or, following documentation being agreed with the Group's RCF lenders and private placement noteholders (and based on the Group's current expectations), an event of default under such amended documentation. In either case the Group will have to take mitigating actions, including further discussions with the RCF lenders and the private placement noteholders regarding any basis upon which they may be willing to continue to support the Group (including the need for covenant waivers and access to further liquidity).

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, seeking support from the RCF lenders and the private placement noteholders, seeking alternative sources of finance, making further business disposals and/or a merger or acquisition transaction.

The financial statements for 2019 are prepared on a going concern basis but noting a number of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. These uncertainties relate to the success of the equity raise, the need to agree amended terms in respect of the RCF and private placement debt, the impact on the Group's debt facilities if the equity raise does not go ahead and the uncertainty regarding the impact of COVID-19.

After conducting their viability review, and taking into account the Group's current position and principal risks, and noting the material uncertainties disclosed in relation to going concern, 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 2022.

**14. Principal risks and uncertainties**

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

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

The SIG risk management framework is based on the identification of Group risks through regular discussion at local operating company leadership, Executive Committee and Transformation Committee meetings. New and emerging risks are identified through the use of horizon scanning, attendance at risk forums and risk workshops held with management teams. Emerging risks identified and monitored throughout 2018 include Brexit.

**14. Principal risks and uncertainties (continued)**

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

| Risk | Controls: |
|---|---|
| **Access to finance and liquidity**<br>Failure to secure ongoing access to finance and/or maximise working capital and cash to support ongoing business and growth strategies. | • Cash forecasting undertaken to manage short-term liquidity.<br>• Budgets set for all areas of the business with accountability for performance established.<br>• Key metrics reviewed regularly in management accounts and at management meetings.<br>• Borrowing requirements regularly reforecast.<br>• Relationship maintained with banks and PP holders through regular communications and presentations.<br>• Monitoring conducted over compliance with covenants. |
| **Retention of talent**<br>Failure to attract, retain people with the right skills, drive and capability to re-shape and grow the business. | • Improved induction process.<br>• Engagement survey completed with associated action plan developed.<br>• Improved remuneration packages and retention plans for critical roles. |
| **Cyber security**<br>Internal or external cyber-attack could result in system disruption of loss of sensitive data. | • Training, communications and schedule to ensure employee awareness of risks.<br>• Disaster recovery plans in place and secure backups conducted to ensure continuity of service.<br>• End point encryption installation. |
| **Delivering the customer experience**<br>Failure to deliver consistent, superior service to customers and / or strengthen relationships with customers. | • Customer-centric training and development programmes.<br>• Customer segmentation analysis.<br>• Investment in digitising order-to-delivery processes.<br>• Development of loyalty programmes.<br>• Customer metrics are reported and monitored regularly in management accounts and at management meetings. |

| Risk | Controls: |
|---|---|
| **Business growth**<br><br>SIG is unable to grow sales and/ or land new market opportunities to grow market share in line with strategy. | • Growth targets included in budgets for all business areas.<br>• Budgets set for all areas of the business with accountability for performance established.<br>• Business performance is reported and monitored regularly in management accounts and at management meetings.<br>• Bespoke technical offerings and diverse specialist product ranges give access to specialist markets.<br>• Operational marketing (e.g. promotions, incentives)<br>• Salesforce innovation and diversification activities.<br>• Regular MD and FD meetings to refresh and implement growth strategies. |
| **Market downturn**<br><br>Volatility in the market impact the Group's ability to accurately forecast and to meet budget and City expectations. | • The Group's geographical diversity across Europe reduces the impact of changes in market conditions in any one country.<br>• Cost reduction plans across the Group to reduce cost base.<br>• Industry-based KPIs and KRIs monitored monthly at a Group and operating company level.<br>• Regular and ongoing business performance reviews are conducted. |
| **Systems failure**<br><br>Systems become heavily customised and outdated and are unable to support critical business activity and decision making. | • New IT strategy approved.<br>• Support from specialised third party experts. |
| **Supplier rebates**<br><br>The Group may not be accessing and/or maximising all available rebate income. | • Reducing the reliance on rebate income through off-invoice discounting.<br>• Rebate debtors and income regularly reviewed by commercial and finance teams.<br>• Changes to rebate assumptions approved by the rebates committee. |
| **Health and safety**<br><br>Danger of incident or accident, resulting in injury or loss of life to employees, customers or the general public. | • Health and safety policies and procedures in place and available to all employees.<br>• Well established training programme during induction and on an ongoing basis.<br>• Monitoring and reporting on incidents and investigations into root cause carried out to continually improve processes.<br>• Health and safety inspections completed by independent teams. |
| **Delivering business change**<br><br>Failure to deliver the change and growth agenda in an effective manner, resulting in management stretch, compromised quality and inability to meet growth targets. | • Project Delivery Framework in place for IT enabled projects<br>• Governance process in place for delivery of major projects<br>• Appointment of transformation directors at each operating company level. |