14 March 2017

SIG plc: Results for the year ended 31 December 2016

SIG plc ("SIG") is a leading distributor of specialist building products in Europe, with strong positions in its core markets of insulation & energy management, interior fit out and roofing.

Continuing operations*	2016	2015	*Change*	*Constant currency change*
Revenue	£2,739.8m	£2,463.1m	*11.2%*	*4.4%*
Underlying** operating profit	£91.3m	£99.9m	*(8.6)%*	*(14.9)%*
Underlying** profit before tax	£77.5m	£88.6m	*(12.5)%*	*(19.0)%*
Underlying** basic earnings per share	9.7p	11.3p	*(1.6)p*	
Cash inflow from trading	£98.9m	£99.8m	*(0.9)%*	
ROCE (post-tax)	9.4%	11.5%	*(2.1)%*	

** Continuing operations excludes businesses sold or agreed to be sold (Carpet & Flooring, Drywall Qatar).*
*** Underlying results are stated before the amortisation of acquired intangibles, goodwill and intangible impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core in 2016, net restructuring costs, acquisition expenses and contingent consideration, the defined benefit pension scheme curtailment loss, other one-off items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, one-off recognition of deferred tax assets, the taxation effect of Other items and the effect of changes in taxation rates.*
**** Like-for-like (LFL) is defined as sales per day in constant currency excluding acquisitions and disposals.*

Highlights

- Underlying PBT of £77.5m in line with previously stated £75-80m range
- LFL*** sales increased 0.4%; UK & Ireland up 1.2% and Mainland Europe down 0.4%
- Refocusing on customers and sales growth to generate cash and improve ROCE
- Net debt of £259.9m with leverage of 2.1x as at 31 December 2016
- Actions already identified to reduce leverage; key short-term priority for the Group
- Meinie Oldersma appointed as Group Chief Executive
- Trading in first two months of 2017 in line with Board's expectations

Statutory

- Statutory loss before tax of £106.3m after £183.8m of non-underlying items
- £100.4m non-cash impairment charge on French roofing business, Larivière
- Rebased final dividend of 1.83p per share in line with 2-3x cover policy

Total operations	2016	2015
Revenue	£2,845.2m	£2,566.4m
Operating (loss)/profit	£(91.0)m	£65.9m
(Loss)/profit before tax	£(106.3)m	£51.3m
Basic (loss)/earnings per share	(20.1)p	6.1p
Dividend per share	3.66p	4.60p

Commenting, Mel Ewell, Chief Executive, said:

"We have delivered underlying PBT in line with our previously stated range, but we are disappointed with the overall financial performance of the Group in 2016.

"Although the Board believes that the Group's strategic direction is correct, implementation has proved challenging. Accordingly, since November we have slowed or stopped a number of internal initiatives, which will allow our team to refocus on customers and sales growth in order to generate cash and improve ROCE. This will ensure that we build on SIG's significant potential in 2017.

"One consequence of our 2016 profit is that leverage is now higher than our targeted 1.0 – 1.5x range. Leverage reduction is a key short-term priority and we have already identified a number of actions to strengthen the balance sheet, including the rebasing of our dividend. Going forward, we will take all necessary steps to ensure the Group's balance sheet is able to withstand any near-term fluctuations in market demand.

"We have also announced today the appointment of Meinie Oldersma as our new Group Chief Executive. Meinie brings over 30 years of distribution experience and a strong customer focus to SIG. Together with the recent arrival of Nick Maddock as Chief Financial Officer this completes the recruitment of the executive team to take the business forward. In the meantime I remain fully committed to the business until Meinie is on board.

"Trading in the first two months of 2017 has been in line with the Board's expectations, although markets remain competitive and we are experiencing some supplier price inflation. The longer term outlook in our core markets continues to offer considerable opportunity and SIG remains a good business with strong market positions which is capable of delivering much more."

Enquiries

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Analyst presentation

A briefing to analysts will take place today at 9.00am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. A live webcast of the presentation will be on www.sigplc.com, a replay of which will also be available later in the day.

Building on our potential

The Group delivered an underlying PBT of £77.5m in 2016, in line with its previously stated £75-80m range. However, SIG recognises that its transformational change programme, while taking the Group in the right strategic direction, distracted the business during 2016. This resulted in a loss of customer focus and impacted performance. Leverage has risen above an acceptable level and specific performance challenges were seen in SIG Distribution ("SIGD"), the UK insulation and interiors business, and in the Offsite Construction business in the UK.

SIG has identified that it needs to balance better its change programme with the day-to-day operations of the Group. Since November, therefore, SIG has reassessed its internal initiatives in order to free time so that branches can refocus on customers and drive sales growth. As a result, SIG has slowed or stopped a number of initiatives. SIG has reviewed its UK eCommerce programme, suspended its Regional Distribution Centre ("RDC") programme, and is targeting to complete substantially the roll-out of its new UK ERP system in April. SIG has also reviewed its cost base to eliminate duplication and reduce discretionary expenditure.

With some supplier price inflation being seen, particularly in SIGD, the Group will continue to drive its procurement programme in order to help mitigate margin pressures. SIG's supply chain initiative is being embedded fully into business as usual and will continue to support ongoing improvement in the Group's cost to serve.

Driving improved performance in SIGD

During 2016 the market for specialist insulation and interiors products remained competitive, with other market participants investing in an attempt to grow market share. While SIGD achieved like-for-like sales growth of 1.1%, this was at the expense of margin, with operating profit declining by £6.8m to £19.2m (2015: £26.0m) on revenue of £769.5m (2015: £736.5m).

Since November the Group has targeted improved business performance by refocusing on its customers and improving its service proposition, upgrading its sales and pricing capabilities, and by better exploiting logistics and warehouse efficiencies using data now available from its newly implemented UK ERP system.

There are some positive early signs that this strategy is beginning to make a difference and sales momentum is improving, with the business delivering positive LFL sales growth since November.

Expanding capacity in Offsite Construction

Offsite Construction increased revenue by 20.7% to £27.4m in 2016 (2015: £22.7m), but the business made an operating loss of £4.2m (2015: profit of £0.3m), reflecting production challenges in the modular housing part of its Building Systems division.

SIG has already doubled daily production of modular housing compared to 2016 and is expecting Offsite Construction to return to profitability by the end of this year. In order to achieve this SIG is re-engineering and streamlining its production line and has recently appointed a new Managing Director with significant offsite manufacturing experience.

Offsite Construction continues to have a strong order book and is benefiting from high levels of demand due to the UK housing shortage and as traditional construction methods are displaced.

Reducing leverage

Largely as a result of the Group's profit out-turn, year-end leverage (net debt to EBITDA) increased to 2.1x (31 December 2015: 1.8x) with net debt as at 31 December 2016 of £259.9m (31 December 2015: £235.9m). In response, management has made leverage reduction a key short-term priority, particularly given that leverage is likely to increase to June 2017 due to the seasonality of the Group, and has identified a number of actions to strengthen its balance sheet. These include:

- Targeting significant asset disposals, and in this context SIG has disposed of Carpet & Flooring and has agreed to sell, subject to contract, Drywall Qatar;
- More tightly focusing on cash generation and working capital management;
- Moderating capital expenditure;
- Suspending its infill acquisition programme; and
- Rebasing the dividend.

While SIG's medium-term target remains to return leverage to a 1.0 - 1.5x range, the Group recognises that this may take until 2018 to achieve. In taking actions to reduce leverage the Group will therefore ensure that its balance sheet is able to withstand any near-term fluctuations in market demand.

Notwithstanding the current higher leverage, SIG retains significant funding headroom, having successfully refinanced £131m of private placement notes in June 2016, on attractive terms with existing debt providers. This refinancing was achieved through the issuance of £89m of new private placement notes on a bilateral basis, with a ten year maturity, and by increasing the Group's existing revolving credit facility ("RCF") by £100m to £350m, with a five year term.

As a result, the Group increased its total debt facilities by £75m to £549m as at 31 December 2016 (31 December 2015: £474m), and only £162m was drawn from the Group's £350m RCF at the year-end.

Non-underlying items

Non-underlying items during the period totalled £183.8m (2015: £37.3m) and were:

- A non-cash goodwill and intangible impairment charge of £100.4m (2015: nil) in relation to the Group's French specialist roofing business, Larivière (acquired by SIG in May 2007 for €297m), reflecting more cautious market forecasts and broader market uncertainty. However, Larivière retains a strong market leading position and good long-term prospects. The remaining carrying value of the goodwill associated with this business is €80.5m;
- Losses on sale or agreed sale of businesses and associated impairment charges of £40.1m (2015: nil) and 2016 operating losses of £5.8m (2015: £1.2m) relating to the disposal of Carpet & Flooring and the agreed sale, subject to contract, of Drywall Qatar;
- Non-cash impairment charges of £10.2m (2015: nil) relating to goodwill associated with the Group's Polish business;
- Net restructuring charges of £13.3m (2015: £8.3m) mainly relating to the Group's supply chain programme;

- Amortisation of acquired intangibles of £10.3m (2015: £10.3m); and

- Other one-off items of £3.7m (2015: £17.5m).

Current trading and outlook

Trading in the first two months of 2017 has been in line with the Board's expectations, although markets remain competitive and we are experiencing some supplier price inflation. The longer term outlook in our core markets continues to offer considerable opportunity and SIG remains a good business with strong market positions which is capable of delivering much more.

For 2017 SIG continues to expect the new build residential market to be the best performing sector in the UK construction market, with the commercial sector more uncertain. In Mainland Europe economic indicators have strengthened and we have seen improving quarterly LFL sales performance.

Our major markets face increased political uncertainty, with Article 50 expected to be triggered in the UK this week and forthcoming elections in France and Germany. Notwithstanding this uncertainty, the Board sees significant opportunity within the business to drive improved operational performance.

The Group will provide a further update on trading and outlook on the day of its Annual General Meeting on 11 May 2017.

Dividend

The Board has proposed that the final dividend be rebased to 1.83p per ordinary share in line with its dividend policy of 2 – 3x earnings cover.

Together with the interim dividend of 1.83p, this provides a total dividend of 3.66p for the year (2015: 4.60p). Subject to approval at the Group's AGM, the final dividend is expected to be paid on 7 July 2017 to shareholders on the register at close of business on 9 June 2017. The ex-dividend date will be 8 June 2017.

Financial performance

Revenue and gross margin

Group revenue from continuing operations increased 11.2% to £2,739.8m (2015: £2,463.1m), benefiting from foreign exchange translation (+6.8%), acquisitions (+3.7%) and working days (+0.3%). As a result LFL sales were ahead by 0.4%. On a statutory basis Group revenue was up 10.9% to £2,845.2m (2015: £2,566.4m).

In the UK & Ireland, revenue from continuing operations increased 6.3% to £1,392.1m (2015: £1,309.6m), benefiting from acquisitions (+4.0%), and currency (+1.1%), LFL sales increased 1.2%. In Mainland Europe revenue increased 16.8% to £1,347.7m (2015: £1,153.5m), benefiting from foreign exchange translation (+13.4%), acquisitions (+3.2%) and working days (+0.6%). Sales on a LFL basis were broadly flat, down 0.4%.

Continuing operations excludes the results from Carpet & Flooring and Drywall Qatar, which were previously reported in the UK & Ireland segment. These businesses incurred a combined operating loss of £5.8m in 2016 (2015: £1.2m) on sales of £105.4m (2015: £103.3m).

The Group's underlying gross margin declined by 30bps to 26.7% (2015: 27.0%) due to an 80bps decrease in the UK & Ireland to 26.0% (2015: 26.8%), offset slightly by a 20bps improvement in Mainland Europe to 27.4% (2015: 27.2%). The decrease in gross margin in the UK & Ireland is largely attributable to the market and operational challenges at SIGD and Offsite Construction. On a statutory basis the Group's gross margin decreased by 40bps to 26.4% (2015: 26.8%).

Operating costs and profit

SIG's underlying operating cost base increased by £74.6m to £639.5m in 2016 (2015: £564.9m) due to a currency impact of £39.9m, additional costs from acquisitions of £23.6m, and net cost inflation of £11.1m.

The combination of lower gross margin and higher costs meant that the Group's underlying operating profit declined 8.6% to £91.3m (2015: £99.9m) with underlying operating margin declining 80bps to 3.3% (2015: 4.1%). In the UK & Ireland, underlying operating profit fell 14.5% to £53.2m (2015: £62.2m) and underlying operating margin declined 90bps to 3.8% (2015: 4.7%). In Mainland Europe, underlying operating profit increased 8.4% to £48.9m (2015: £45.1m), including £5.8m foreign exchange benefit, with underlying operating margin decreasing slightly, down 30bps to 3.6% (2015: 3.9%). The Group made a statutory operating loss of £91.0m (2015: profit of £65.9m) in 2016.

SIG's underlying net finance costs increased by £2.5m to £13.8m (2015: £11.3m), mainly due to higher borrowings which, together with the decline in operating profit, resulted in underlying profit before tax decreasing 12.5% to £77.5m (2015: £88.6m). Underlying basic earnings per share from continuing operations declined 14.2% to 9.7p (2015: 11.3p).

Return on Capital Employed

Post-tax Return on Capital Employed ("ROCE") is one of the Group's primary performance metrics and is calculated on a rolling 12 month basis as underlying operating profit less tax, divided by average net assets plus average net debt. As at 31 December 2016 SIG's ROCE was 9.4% (2015: 11.5%). Going forward, SIG is focusing on sales growth and cash generation in order to improve its ROCE.

Acquisitions

In 2016 SIG acquired six infill businesses for a gross cash consideration of £21.1m (2015: £78.1m), together with a contingent consideration of up to £10.8m dependent on future performance. Three of the acquisitions were in the UK and three were in Mainland Europe. SIG has since suspended its infill acquisition programme as part of its actions to manage leverage.

UK & Ireland

Continuing operations	Revenue (£m)	Change	LFL change	Gross margin	Change
SIG Distribution	769.5	4.5%	1.1%	24.6%	(70)bps
SIG Exteriors	477.8	4.7%	(0.9)%	29.2%	(70)bps
Ireland	85.5	18.6%	3.8%	25.7%	(30)bps
Offsite Construction	27.4	20.7%	6.3%	17.9%	(460)bps
Other	31.9	45.7%	28.6%	19.2%	(260)bps
UK & Ireland*	**1,392.1**	**6.3%**	**1.2%**	**26.0%**	**(80)bps**

** On a statutory basis (including Carpet & Flooring and Drywall Qatar) 2016 revenue was £1,497.5m.*

2016 revenue in SIG Distribution ("SIGD"), the Group's market leading specialist UK insulation and interiors distribution business, was up 4.5% to £769.5m (2015: £736.5m), having benefited from the acquisition of SAS Direct, a leading specialist supplier of partitioning and suspended ceiling products.

The specialist insulation and interiors market in the UK, however, remained competitive, with other market participants investing in new branches and price in an attempt to grow market share. In this environment SIGD continued to grow LFL sales (up 1.1% in the year), but this growth was at the expense of gross margin.

The Group's response has been to slow or stop a number of its internal initiatives so that its branches can refocus on customers and drive sales growth. In addition it has upgraded its sales and pricing capabilities and is improving its warehouse and logistics efficiency using improved management information from its newly implemented ERP system.

In December SIGD opened its first RDC in Manchester. This new facility provides customers with a wide range of SIG's product range including structural and technical insulation, interiors, construction accessories and fixings. Having suspended the roll-out of other RDCs, at least temporarily, SIG will now monitor progress on this new site, along with its other recently opened RDC in Dublin, before deciding on the next appropriate steps for this programme.

In 2016 revenue in SIG Exteriors ("SIGE"), the market leading and only national specialist UK roofing business, benefited from acquisitions and was up 4.7% to £477.8m (2015: £456.4m).

SIGE's LFL sales declined by 0.9% due to ongoing challenging trading conditions in the UK Repairs, Maintenance and Improvement sector, to which the business has a relatively high degree of exposure, accounting for 64% of revenue, and due to weaker demand for building products in the public sector. Notwithstanding these market dynamics, SIGE continues to be one of the highest margin businesses in the Group, reflecting its strong position as the largest and only national player in the UK market.

In Ireland SIG grew revenue by 18.6%, benefiting from foreign exchange movements, and by 3.8% on a LFL basis. The construction market in Ireland continues to recover and, having begun in the residential sector, this recovery is now spreading into the commercial market. The Group's Irish business is also benefiting from efficiencies gained from the new Dublin RDC, which opened in April 2016.

Although revenue in Offsite Construction increased by 20.7% to £27.4m, the business made an operating loss of £4.2m (2015: profit of £0.3m) due to a significant production shortfall in its volumetric housing business. The Group is addressing its production challenges in this business and expects Offsite Construction to return to profitability by the end of 2017.

Other revenue, which largely relates to the Group's business in the Middle East, increased by 45.7% to £31.9m (2015: £21.9m).

Mainland Europe

	Revenue (£m)	Change	LFL change	Gross margin	Change
France	589.2	13.9%	(1.9)%	27.7%	No change
Germany	413.2	12.2%	(1.2)%	26.6%	(30)bps
Poland	115.1	11.1%	2.1%	20.0%	(110)bps
Benelux	99.7	16.3%	2.5%	25.2%	40bps
Air Handling*	130.5	66.0%	8.5%	36.4%	80bps
Mainland Europe	**1,347.7**	**16.8%**	**(0.4)%**	**27.4%**	**20bps**

** previously reported as Air Trade Centre in the Benelux.*

In France SIG operates three businesses: Larivière, its market leading specialist roofing business; LiTT, its leading structural insulation and interior business; and Ouest Isol / Ouest Ventil, which is the leading supplier of technical insulation in the country and a leading air handling distributor.

Market conditions in France were challenging, with the LFL sales decreasing by 1.9% in the year. This decline, along with more cautious market forecasts, has resulted in an £100.4m impairment of Larivière. However, SIG recorded an improved second half performance, with LFL sales flat compared to a decline in H1 2016 of 3.6%. Reported revenue however benefited from foreign exchange and acquisitions, growing by 13.9%. SIG also maintained gross margin in France compared to prior year.

The Group anticipates that the improving market conditions in France, particularly in the residential sector, which accounts for 53% of its revenue in the country, may benefit SIG in 2017, particularly as many of the products it sells are used in the later stages of the building cycle.

SIG operates two businesses in Germany: WeGo, a leading insulation and interiors business; and vti, which is the largest supplier of technical insulation in the country.

SIG grew revenue in Germany by 12.2% in 2016 as it benefited from movements in foreign exchange. While LFL sales declined by 1.2%, similar to France, the German business recorded an improved second half performance, with LFLs only down 0.6%. During 2016 the Group appointed a new management team to improve its performance and reposition the business towards the higher growth segments of the German market.

In Poland SIG grew LFL sales by 2.1% and reported revenues by 11.1%. Construction markets were subdued due to political and economic uncertainty, which led to lower public expenditure as well as in the private sector. This resulted in weak demand in the non-residential and industrial markets, which account for 75% of the Group’s revenue in Poland, and impacted gross margin. Although there is some evidence that construction markets stabilised and begun to improve in the first two months of 2017, the reduction in profitability and slower than originally anticipated recovery resulted in an impairment of £10.2m.

In the Benelux the Group delivered revenue growth of 16.3%, with LFL sales increasing by 2.5% and gross margin improving. The construction market in The Netherlands has continued to recover, led by the residential sector, and the non-residential sector has also improved compared to prior year. Market conditions in Belgium also stabilised during 2016, both in the residential and non-residential sectors.

Revenue in Air Handling, which is the largest pure-play specialist air handling distributor in Europe, grew by 66.0% as it benefited from good LFL growth of 8.5%, acquisitions and foreign exchange movements. The air handling market continues to grow at a faster rate than the wider construction sector due to strong demand drivers including higher energy efficiency and air quality standards. Gross margin also improved as the business grew its higher value whole system solution, which encompasses design to supply.

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 2016. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the Accounts, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

- the Strategic Report, which is incorporated into the Company's full Annual 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 Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and signed on its behalf by:

Mel Ewell
Director
13 March 2017

Nick Maddock
Director
13 March 2017

Cautionary Statement

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. 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.

Inside Information

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 2016

	Note	**Before Other items* 2016 £m**	**Other items* 2016 £m**	**Total 2016 £m**	Before Other items* 2015 £m	Other items* 2015 £m	Total 2015 £m
Revenue	2	**2,739.8**	**105.4**	**2,845.2**	2,463.1	103.3	2,566.4
Cost of sales		**(2,009.0)**	**(84.6)**	**(2,093.6)**	(1,798.3)	(79.7)	(1,878.0)
Gross profit		**730.8**	**20.8**	**751.6**	664.8	23.6	688.4
Other operating expenses		**(639.5)**	**(203.1)**	**(842.6)**	(564.9)	(57.6)	(622.5)
Operating (loss)/profit		**91.3**	**(182.3)**	**(91.0)**	99.9	(34.0)	65.9
Finance income		**1.2**	**0.5**	**1.7**	1.0	-	1.0
Finance costs		**(15.0)**	**(2.0)**	**(17.0)**	(12.3)	(3.3)	(15.6)
(Loss)/profit before tax		**77.5**	**(183.8)**	**(106.3)**	88.6	(37.3)	51.3
Income tax expense	3	**(19.5)**	**7.2**	**(12.3)**	(21.4)	6.4	(15.0)
(Loss)/profit after tax		**58.0**	**(176.6)**	**(118.6)**	67.2	(30.9)	36.3
Attributable to:							
Equity holders of the Company		**57.5**	**(176.6)**	**(119.1)**	66.9	(30.9)	36.0
Non-controlling interests		**0.5**	**-**	**0.5**	0.3	-	0.3
Earnings per share							
Basic and diluted (loss)/earnings per share	4	**9.7p**	**(29.8)p**	**(20.1)p**	11.3p	(5.2)p	6.1p

* Other items relate to the amortisation of acquired intangibles, goodwill and intangible impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core in 2016, net restructuring costs, acquisition expenses and contingent consideration, the defined benefit pension scheme curtailment loss, other one-off items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, one-off recognition of deferred tax assets, the taxation effect of Other items and the effect of changes in taxation rates. Other items have been disclosed separately in order to give an indication of the underlying earnings of the Group (see Note 4).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	2016	2015
	£m	£m
(Loss)/profit after tax	**(118.6)**	36.3
Items that will not subsequently be reclassified to the Consolidated Income Statement:		
Remeasurement of defined benefit pension liability	**(12.5)**	1.9
Deferred tax movement associated with remeasurement of defined benefit pension liability	**2.3**	(0.2)
Effect of change in rate on deferred tax	**(0.5)**	(0.7)
	(10.7)	1.0
Items that may subsequently be reclassified to the Consolidated Income Statement:		
Exchange difference on retranslation of foreign currency goodwill and intangibles	**33.6**	(11.7)
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)	**35.7**	(16.2)
Exchange and fair value movements associated with borrowings and derivative financial instruments	**(25.3)**	7.3
Tax credit/(charge) on exchange and fair value movements arising on borrowings and derivative financial instruments	**6.3**	(1.5)
Gains and losses on cash flow hedges	**(3.8)**	(4.2)
Transfer to profit and loss on cash flow hedges	**2.3**	2.3
	48.8	(24.0)
Other comprehensive income/(expense)	**38.1**	(23.0)
Total comprehensive (expense)/income	**(80.5)**	13.3
Attributable to:		
Equity holders of the Company	**(81.0)**	13.0
Non-controlling interests	**0.5**	0.3
	(80.5)	13.3

Consolidated Balance Sheet

as at 31 December 2016

	Note	**2016** **£m**	2015 Restated £m
Non-current assets			
Property, plant and equipment		**127.3**	142.7
Goodwill		**352.7**	437.5
Intangible assets		**76.9**	88.2
Deferred tax assets		**16.4**	21.0
Derivative financial instruments		**4.4**	2.4
		577.7	691.8
Current assets			
Inventories		**250.6**	242.9
Trade and other receivables		**516.1**	468.1
Current tax assets		**3.2**	4.3
Derivative financial instruments		**0.1**	34.4
Deferred consideration		**0.7**	1.5
Other financial assets		**1.1**	1.3
Cash and cash equivalents		**127.6**	146.2
Assets classified as held for sale	8	**15.6**	-
		915.0	898.7
Total assets		**1,492.7**	1,590.5
Current liabilities			
Trade and other payables		**440.6**	417.7
Obligations under finance lease contracts		**3.1**	2.5
Bank overdrafts		**3.5**	59.5
Bank loans		**171.6**	90.9
Private placement notes		**-**	160.1
Loan notes and deferred consideration		**2.7**	3.0
Derivative financial instruments		**0.2**	1.3
Current tax liabilities		**8.4**	8.4
Provisions		**14.5**	9.7
Liabilities directly associated with assets classified as held for sale	8	**15.6**	-
		660.2	753.1
Non-current liabilities			
Obligations under finance lease contracts		**8.1**	7.5
Bank loans		**0.3**	0.4
Private placement notes		**200.7**	95.8
Derivative financial instruments		**3.6**	0.7
Deferred tax liabilities		**15.2**	18.2
Other payables		**5.5**	3.8
Retirement benefit obligations		**37.1**	23.8
Provisions		**22.4**	37.6
		292.9	187.8
Total liabilities		**953.1**	940.9
Net assets		**539.6**	649.6
Capital and reserves			
Called up share capital		**59.1**	59.1
Share premium account		**447.3**	447.3
Capital redemption reserve		**0.3**	0.3
Share option reserve		**1.1**	1.4
Hedging and translation reserve		**7.9**	(42.4)
Retained profits		**23.1**	183.0
Attributable to equity holders of the Company		**538.8**	648.7
Non-controlling interests		**0.8**	0.9
Total equity		**539.6**	649.6

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	**2016 £m**	2015 £m
Net cash flow from operating activities			
Cash generated from operating activities	5	**75.8**	61.6
Income tax paid		**(9.6)**	(11.1)
Net cash generated from operating activities		**66.2**	50.5
Cash flows from investing activities			
Finance income received		**1.2**	1.2
Purchase of property, plant and equipment and computer software		**(37.5)**	(49.0)
Proceeds from sale of property, plant and equipment		**39.5**	4.9
Settlement of amounts payable for purchase of businesses	9	**(25.3)**	(70.1)
Net cash used in investing activities		**(22.1)**	(113.0)
Cash flows from financing activities			
Finance cost paid		**(13.7)**	(10.7)
Capital element of finance lease rental payments		**(2.6)**	(2.4)
Issue of share capital		**-**	0.1
Repayment of loans/settlement of derivative financial instruments		**(139.5)**	(2.5)
New loans/settlement of derivative financial instruments		**166.1**	91.5
Dividends paid to equity holders of the Company	7	**(28.0)**	(27.6)
Dividends paid to non-controlling interest		**(0.6)**	-
Net cash (used in)/generated from financing activities		**(18.3)**	48.4
Increase/(decrease) in cash and cash equivalents in the year		**25.8**	(14.1)
Cash and cash equivalents at beginning of the year		**86.7**	105.9
Effect of foreign exchange rate changes		**11.6**	(5.1)
Cash and cash equivalents at end of the year		**124.1**	86.7

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Share option reserve £m	Hedging and translation reserve £m	Retained profits £m	Total £m	Non-controlling interests £m	Total equity £m
At 31 December 2014	59.1	447.2	0.3	1.8	(20.3)	175.6	663.7	0.6	664.3
Profit after tax	-	-	-	-	-	36.0	36.0	0.3	36.3
Other comprehensive income/(expense)	-	-	-	-	(22.1)	(0.9)	(23.0)	-	(23.0)
Total comprehensive income/(expense)	-	-	-	-	(22.1)	35.1	13.0	0.3	13.3
Share capital issued in the year	-	0.1	-	-	-	-	0.1	-	0.1
Debit to share option reserve	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Exercise of share options	-	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Deferred tax on share options	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Dividends paid to equity holders of the Company	-	-	-	-	-	(27.6)	(27.6)	-	(27.6)
At 31 December 2015	59.1	447.3	0.3	1.4	(42.4)	183.0	648.7	0.9	649.6
(Loss)/profit after tax	-	-	-	-	-	(119.1)	(119.1)	0.5	(118.6)
Other comprehensive income/(expense)	-	-	-	-	50.3	(12.2)	38.1	-	38.1
Total comprehensive income/(expense)	-	-	-	-	50.3	(131.3)	(81.0)	0.5	(80.5)
Share capital issued in the year	-	-	-	-	-	-	-	-	-
Debit to share option reserve	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Exercise of share options	-	-	-	-	-	-	-	-	-
Deferred tax on share options	-	-	-	-	-	(0.6)	(0.6)	-	(0.6)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(0.6)	(0.6)
Dividends paid to equity holders of the Company	-	-	-	-	-	(28.0)	(28.0)	-	(28.0)
At 31 December 2016	**59.1**	**447.3**	**0.3**	**1.1**	**7.9**	**23.1**	**538.8**	**0.8**	**539.6**

The share option reserve represents the cumulative equity-settled share option charge under IFRS 2 “share-based payment” less the value of any share options that have been exercised.

The hedging and translation reserve represents movements in the Consolidated Balance Sheet as a result of movements in exchange rates which are taken directly to reserves.

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 2016 and 31 December 2015 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 2015 have been filed with the Registrar of Companies, and those for 2016 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2016 and 2015, and their reports, which included no matters to which the Auditor drew attention by way of emphasis, were unqualified and did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements.

The following standards were amended in the current period:

- Defined Benefit Plans: Employee Contributions (amendments to IAS 19 "Employee Benefits")
- Annual improvements – 2010-2012 cycle
- Annual improvements – 2012-2014 cycle
- Disclosure Initiative (amendments to IAS 1 "Presentation of Financial Statements")

Adoption of the above standards has not had a material impact on the Accounts of the Group.

In March 2016, the IFRS Interpretations Committee issued an agenda decision which clarified the circumstances in which certain Balance Sheet items can be offset in accordance with IAS 32 "Financial Instruments: Presentation". It was determined that where a Group does not expect to settle subsidiaries' bank balances on a net basis, these balances cannot be offset. In response to this, the Group has reviewed its cash pooling arrangements which has resulted in changes to the amounts that can be offset. Comparative information for the year ended 31 December 2015 has been restated. The impact of this change on 2015 is to increase both cash and cash equivalents and bank overdrafts in the Consolidated Balance Sheet by £57.2m. In addition, the Group has also reviewed the presentation of its supplier rebates receivable; in particular supplier rebates where there is no right to offset against trade payable balances. As a result comparative information for the year ended 31 December 2015 has been restated. The impact of this change is an increase in respect of both prepayments and accrued income and trade payables of £53.2m. There was no overall impact on net debt or net assets from either restatement.

At the date of authorisation of this financial information, there are a number of new standards and interpretations issued but not yet effective (some of which are pending endorsement by the EU), which the Group has not applied in this financial information. These are detailed in the Group's Annual Report and Accounts for the year ended 31 December 2016.

2. Revenue and segmental information

Revenue

An analysis of the Group's revenue is as follows:

	2016 **£m**	2015 £m
Sale of goods	**2,786.8**	2,533.4
Revenue from construction contracts	**58.4**	33.0
Total revenue	**2,845.2**	2,566.4
Finance income	**1.7**	1.0
Total income	**2,846.9**	2,567.4

2. **Revenue and segmental information (continued)**

a) ***Segmental results***

Following the adoption of IFRS 8 "Operating Segments", the Group identifies its reportable segments as those upon which the Group Board regularly bases its opinion and assesses performance. The Group has deemed it appropriate to aggregate its operating segments into two reported segments: UK & Ireland, and Mainland Europe. The constituent operating segments have been aggregated as they have similar: products and services; production processes; types of customer; methods of distribution; regulatory environments; and economic characteristics.

	2016 UK & Ireland £m	**2016 Mainland Europe £m**	**2016 Eliminations £m**	**2016 Total £m**	2015 UK & Ireland £m	2015 Mainland Europe £m	2015 Eliminations £m	2015 Total £m
Revenue								
Continuing sales	**1,392.1**	**1,347.7**	**-**	**2,739.8**	1,309.6	1,153.5	-	2,463.1
Sales attributable to businesses identified as non-core in 2016	**105.4**	**-**	**-**	**105.4**	103.3	-	-	103.3
Inter-segment sales*	**3.3**	**13.9**	**(17.2)**	**-**	2.3	11.4	(13.7)	-
Total revenue	**1,500.8**	**1,361.6**	**(17.2)**	**2,845.2**	1,415.2	1,164.9	(13.7)	2,566.4
Result								
Segment result before Other items	**53.2**	**48.9**	**-**	**102.1**	62.2	45.1	-	107.3
Amortisation of acquired intangibles	**(8.0)**	**(2.3)**	**-**	**(10.3)**	(8.3)	(2.0)	-	(10.3)
Goodwill and intangible impairment charges	**-**	**(110.6)**	**-**	**(110.6)**	-	-	-	-
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	**(40.1)**	**-**	**-**	**(40.1)**	-	-	-	-
Net operating losses attributable to businesses identified as non-core in 2016	**(5.8)**	**-**	**-**	**(5.8)**	(1.2)	-	-	(1.2)
Net restructuring costs	**(10.6)**	**(2.7)**	**-**	**(13.3)**	(5.2)	(3.1)	-	(8.3)
Acquisition expenses and contingent consideration (Note 9)	**4.7**	**(0.1)**	**-**	**4.6**	(8.6)	(5.7)	-	(14.3)
Defined benefit pension scheme curtailment loss	**(0.9)**	**-**	**-**	**(0.9)**	-	-	-	-
Other one-off items	**(6.0)**	**0.1**	**-**	**(5.9)**	(0.3)	0.4	-	0.1
Segment operating (loss)/profit	**(13.5)**	**(66.7)**	**-**	**(80.2)**	38.6	34.7	-	73.3
Parent Company costs				**(10.8)**				(7.4)
Operating (loss)/profit				**(91.0)**				65.9
Net finance costs before Other items				**(13.8)**				(11.3)
Net fair value losses on derivative financial instruments				**(1.9)**				(1.9)
Unwinding of provision discounting				**0.4**				(1.4)
(Loss)/profit before tax				**(106.3)**				51.3
Income tax expense				**(12.3)**				(15.0)
Non-controlling interests				**(0.5)**				(0.3)
(Loss)/profit for the year				**(119.1)**				36.0

* Inter-segment sales are charged at the prevailing market rates.

2. Revenue and segmental information (continued)

a) *Segmental results (continued)*

Balance sheet

	2016 UK & Ireland £m	**2016 Mainland Europe £m**	**2016 Total £m**	2015 UK & Ireland £m	2015 Mainland Europe £m	2015 Total £m
Assets						
Segment assets (restated)	**783.9**	**682.4**	**1,466.3**	850.7	680.2	1,530.9
Unallocated assets:						
Property, plant and equipment			**0.9**			1.0
Derivative financial instruments			**4.5**			36.8
Deferred consideration			**0.7**			1.5
Other financial assets			**-**			0.3
Cash and cash equivalents			**14.5**			12.8
Deferred tax assets			**2.3**			4.0
Other assets			**3.5**			3.2
Consolidated total assets			**1,492.7**			1,590.5
Liabilities						
Segment liabilities (restated)	**342.8**	**231.7**	**574.5**	384.6	196.0	580.6
Unallocated liabilities:						
Private placement notes			**200.7**			255.9
Bank loans			**158.8**			88.1
Derivative financial instruments			**3.8**			2.0
Other liabilities			**15.3**			14.3
Consolidated total liabilities			**953.1**			940.9
Other segment information						
Capital expenditure on:						
Property, plant and equipment	**21.7**	**12.0**	**33.7**	30.6	10.3	40.9
Computer software	**4.8**	**1.4**	**6.2**	8.4	0.8	9.2
Goodwill and intangible assets (excluding computer software)	**11.2**	**7.3**	**18.5**	60.0	12.7	72.7
Non-cash expenditure:						
Depreciation	**14.4**	**11.6**	**26.0**	13.5	9.5	23.0
Impairment of property, plant and equipment and computer software	**12.0**	**-**	**12.0**	-	-	-
Amortisation of acquired intangibles and computer software	**10.9**	**2.9**	**13.8**	10.8	2.5	13.3
Impairment of goodwill and intangibles (excluding computer software)	**22.0**	**110.6**	**132.6**	-	-	-

2. **Revenue and segmental information (continued)**

b) ***Revenue by product group***

The Group focuses its activities into three product sectors: Insulation and Energy Management; Exteriors; and Interiors.

The following table provides an analysis of Group sales by type of product:

	2016 £m	2015 £m
Insulation and Energy Management	**1,274.8**	1,144.5
Exteriors	**871.8**	792.5
Interiors	**593.2**	526.1
Total continuing	**2,739.8**	2,463.1
Attributable to businesses identified as non-core in 2016 (Interiors)	**105.4**	103.3
Total	**2,845.2**	2,566.4

c) ***Geographic information***

The Group's revenue from external customers and its non-current assets (including property, plant and equipment, goodwill and intangible assets but excluding deferred tax and derivative financial instruments) by geographical location are as follows:

	2016		2015	
Country	**Revenue £m**	**Non-current assets £m**	Revenue £m	Non-current assets £m
United Kingdom	**1,306.6**	**346.4**	1,237.5	373.1
Ireland	**85.5**	**2.7**	72.1	1.1
France	**589.2**	**124.6**	517.3	194.5
Germany & Austria	**413.2**	**22.9**	368.3	19.0
Poland	**115.1**	**6.9**	103.6	15.4
Benelux*	**230.2**	**53.4**	164.3	40.9
Total continuing	**2,739.8**	**556.9**	2,463.1	644.0
Attributable to UK businesses identified as non-core in 2016	**105.4**	**-**	103.3	24.4
Total	**2,845.2**	**556.9**	2,566.4	668.4

*Includes SIG Air Handling.

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

3. **Income tax**

The income tax expense comprises:		**2016 £m**	2015 £m
Current tax			
UK corporation tax:	- on (losses)/profits for the year	**0.1**	-
	- adjustments in respect of previous years	**-**	-
		0.1	-
Overseas tax:	- on (losses)/profits for the year	**11.4**	10.8
	- adjustments in respect of previous years	**(0.6)**	(0.4)
Total current tax		**10.9**	10.4
Deferred tax			
Current year		**1.8**	5.7
Adjustments in respect of previous years		**(0.3)**	(1.0)
Deferred tax charge in respect of pension schemes*		**0.2**	0.2
Effect of change in rate		**(0.3)**	(0.3)
Total deferred tax		**1.4**	4.6
Total income tax expense		**12.3**	15.0

* Includes a charge of £0.1m (2015: credit of £0.5m) in respect of the change in rate.

3. Income tax (continued)

The total tax charge for the year differs from that resulting from applying the standard rate of corporate tax in the UK at 31 December 2016 of 20.0% (31 December 2015: 20.0%). Due to the effect of Other items presented of the Consolidated Income Statement and their impact on a Group blend rate of tax, the reconciliation of total income tax expenses has been presented against the UK standard rate of tax, reflecting the tax residency of SIG plc. The differences are explained in the following reconciliation:

	2016		2015	
	£m	**%**	£m	%
(Loss)/profit on ordinary activities before tax	**(106.3)**		51.3	
Tax at 20.0% (2015: 20.0%) thereon	**(21.3)**	**20.0**	10.3	20.0
Factors affecting the income tax expense for the year:				
– non-deductible and non-taxable items	**3.4**	**(3.2)**	4.8	9.4
– impairment charges	**25.6**	**(24.1)**	-	-
– losses arising in the year not recognised for deferred tax purposes	**1.4**	**(1.3)**	-	-
– losses utilised not previously recognised	**-**	**-**	(0.3)	(0.6)
– other adjustments in respect of previous years	**(1.1)**	**1.0**	(1.4)	(2.7)
– effect of overseas tax rates	**4.5**	**(4.2)**	2.4	4.7
– effect of change in rate on deferred tax	**(0.2)**	**0.2**	(0.8)	(1.6)
Total income tax expense	**12.3**	**(11.6)**	15.0	29.2

The effective tax rate for the Group on the total loss before tax of £106.3m is negative 11.6% (2015: positive 29.2%). The effective tax charge for the Group on profit before tax before Other items of £77.5m is 25.2% (2015: 24.2%), which comprises a tax charge of 25.9% (2015: 25.0%) in respect of current year profits and a tax credit of 0.7% (2015: 0.8%) in respect of prior years.

The current tax charge in the UK is minimal due to the use of £20.4m of brought forward non-trade tax losses. There is a corresponding tax charge within the current year deferred tax movement relating to the utilisation of these losses.

The factors that will affect the Group's future total tax charge as a percentage of underlying profits are:

- the mix of profits between the UK and overseas; in particular, France/Germany/Belgium/the Netherlands (corporate tax rates greater than the rate in the UK) and Ireland/Poland (corporate tax rates less than the rate in the UK). If the proportion of profits from these jurisdictions changes, this could result in a higher or lower Group tax charge;
- the impact of non-deductible expenditure and non-taxable income;
- the agreement of open tax computations with the respective tax authorities; and
- the recognition or utilisation (with a corresponding reduction in cash tax payments) of unrecognised deferred tax assets.

In addition to the amounts charged to the Consolidated Income Statement, the following amounts in relation to taxes have been recognised in the Consolidated Statement of Comprehensive Income with the exception of deferred tax on share options which has been recognised in the Consolidated Statement of Changes in Equity.

	2016	2015
	£m	£m
Deferred tax movement associated with remeasurement of defined benefit pension liabilities*	**2.3**	(0.2)
Deferred tax on share options	**(0.6)**	(0.1)
Tax credit/(charge) on exchange and fair value movements arising on borrowings and derivative financial instruments	**6.3**	(1.5)
Effect of change in rate on deferred tax*	**(0.5)**	(0.7)
Total	**7.5**	(2.5)

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

4. Earnings per share

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

	Basic and diluted	
	2016	2015
	£m	£m
(Loss)/profit after tax	**(118.6)**	36.3
Non-controlling interests	**(0.5)**	(0.3)
	(119.1)	36.0

	Basic and diluted before Other items	
	2016	2015
	£m	£m
(Loss)/profit after tax	**(118.6)**	36.3
Non-controlling interests	**(0.5)**	(0.3)
Other items:		
Amortisation of acquired intangibles	**10.3**	10.3
Goodwill and intangible impairment charges	**110.6**	-
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	**40.1**	-
Net operating losses attributable to businesses identified as non-core in 2016	**5.8**	1.2
Net restructuring costs	**13.3**	8.3
Acquisition expenses and contingent consideration	**(4.6)**	14.3
Defined benefit pension scheme curtailment loss	**0.9**	-
Other one-off items	**5.9**	(0.1)
Net fair value losses on derivative financial instruments	**1.9**	1.9
Unwinding of provision discounting	**(0.4)**	1.4
Tax credit relating to Other items	**(6.6)**	(4.6)
One-off recognition of deferred tax assets	**-**	(0.7)
Utilisation of losses not previously recognised	**-**	(0.3)
Effect of change in rate on deferred tax	**(0.2)**	(0.8)
Other tax adjustments in respect of previous years	**(0.4)**	-
	57.5	66.9

Weighted average number of shares

	2016 Number	2015 Number
For basic and diluted earnings per share	**591,365,906**	591,183,300
Earnings per share		
Basic and diluted (loss)/earnings per share	**(20.1)p**	6.1p
Earnings per share before Other items^		
Basic and diluted earnings per share	**9.7p**	11.3p

^ Earnings per share before Other items has been disclosed in order to present the underlying performance of the Group.

The impact of Other items on the Consolidated Income Statement, along with their associated tax impact, is disclosed in the table below:

	2016			2015		
	Other items £m	**Tax impact £m**	**Tax impact %**	Other items £m	Tax impact £m	Tax impact %
Amortisation of acquired intangibles	**10.3**	**2.1**	**20.4**	10.3	2.2	21.4
Goodwill and intangible impairment charges	**110.6**	**-**	**-**	-	-	-
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	**40.1**	**0.9**	**2.2**	-	-	-
Net operating losses attributable to businesses identified as non-core in 2016	**5.8**	**0.6**	**10.3**	1.2	0.4	33.3
Net restructuring costs	**13.3**	**2.9**	**21.8**	8.3	1.7	20.5
Acquisition expenses and contingent consideration	**(4.6)**	**-**	**-**	14.3	-	-
Defined benefit pension scheme curtailment loss	**0.9**	**0.2**	**22.2**	-	-	-
Other one-off items	**5.9**	**(0.5)**	**(8.5)**	(0.1)	(0.1)	-
Impact on operating profit	**182.3**	**6.2**	**3.4**	34.0	4.2	12.4
Net fair value losses on derivative financial instruments	**1.9**	**0.4**	**21.1**	1.9	0.4	21.1
Unwinding of provision discounting	**(0.4)**	**-**	**-**	1.4	-	-
Impact on profit before tax	**183.8**	**6.6**	**3.6**	37.3	4.6	12.3
One-off recognition of deferred tax assets	**-**	**-**	**-**	-	0.7	-
Utilisation of losses not previously recognised	**-**	**-**	**-**	-	0.3	-
Effect of change in rate on deferred tax	**-**	**0.2**	**-**	-	0.8	-
Other tax adjustments in respect of previous years	**-**	**0.4**	**-**	-	-	-
Impact on profit attributable to equity holders of the Company	**183.8**	**7.2**	**3.9**	37.3	6.4	17.2

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

	2016 £m	2015 £m
Operating (loss)/profit	**(91.0)**	65.9
Depreciation	**26.0**	23.0
Amortisation of computer software	**3.5**	3.0
Amortisation of acquired intangibles	**10.3**	10.3
Impairment of computer software	**7.9**	-
Impairment of property, plant and equipment	**0.3**	-
Goodwill and intangible impairment charges	**110.6**	-
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	**40.1**	-
Profit on sale of property, plant and equipment	**(8.5)**	(2.4)
Share-based payments	**(0.3)**	-
Working capital movements:		
Increase in inventories	**(0.5)**	(15.8)
Increase in receivables	**(30.5)**	(9.0)
Increase/(decrease) in payables	**7.9**	(13.4)
Cash generated from operating activities	**75.8**	61.6

Included within the cash generated from operating activities is a defined benefit pension scheme employer's special contribution of £2.5m (2015: £2.5m).

Of the total profit on sale of property, plant and equipment, £2.8m has been included within Other items of the Consolidated Income Statement.

Included within working capital movements are payments of £6.1m (2015: £2.1m) in settlement of contingent consideration dependent upon the vendors remaining with the business.

6. Reconciliation of net cash flow to movements in net debt

	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents in the year	**25.8**	(14.1)
Cash flow from increase in debt	**(19.5)**	(86.6)
Decrease/(increase) in net debt resulting from cash flows	**6.3**	(100.7)
Debt added on acquisition	**(1.6)**	(2.5)
Recognition of loan notes	**(2.7)**	(2.7)
Non-cash items^	**(14.4)**	(3.9)
Exchange differences	**(11.6)**	0.8
Increase in net debt in the year	**(24.0)**	(109.0)
Net debt at 1 January	**(235.9)**	(126.9)
Net debt at 31 December	**(259.9)**	(235.9)

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

Net debt is defined as follows:

	2016 £m	2015 Restated £m
Non-current assets:		
Derivative financial instruments	**4.4**	2.4
Current assets:		
Derivative financial instruments	**0.1**	34.4
Deferred consideration	**0.7**	1.5
Other financial assets	**1.1**	1.3
Cash and cash equivalents (restated)	**127.6**	146.2
Current liabilities:		
Obligations under finance lease contracts	**(3.1)**	(2.5)
Bank overdrafts (restated)	**(3.5)**	(59.5)
Bank loans	**(171.6)**	(90.9)
Private placement notes	**-**	(160.1)
Loan notes and deferred consideration	**(2.7)**	(3.0)
Derivative financial instruments	**(0.2)**	(1.3)
Non-current liabilities:		
Obligations under finance lease contracts	**(8.1)**	(7.5)
Bank loans	**(0.3)**	(0.4)
Private placement notes	**(200.7)**	(95.8)
Derivative financial instruments	**(3.6)**	(0.7)
Net debt	**(259.9)**	(235.9)

7. Dividends

An interim dividend of 1.83p per ordinary share was paid on 4 November 2016 (2015: 1.69p). The Directors have proposed a final dividend for the year ended 31 December 2016 of 1.83p per ordinary share (2015: 2.91p). The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. No dividends have been paid between 31 December 2016 and the date of signing the Accounts.

8. Divestments and exit of non-core businesses (events after the balance sheet date)

The Group has recognised a total charge of £40.1m 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.

Divestment of Carpet & Flooring

At 31 December 2016 the Group Board resolved to dispose of its UK specialist flooring distribution operation, Carpet & Flooring. On 17 February 2017 the disposal was agreed with Endless LLP, a UK based private equity investor, and it completed on 28 February 2017. The assets and liabilities sold were as follows:

	At 31 December 2016			
	Recoverable value	**Impairment and asset write down**	**Original carrying value**	At 31 December 2015
	£m	**£m**	**£m**	£m
Goodwill and intangible assets	**-**	**(17.3)**	**17.3**	17.3
Property, plant and equipment	**-**	**(3.6)**	**3.6**	3.5
Inventories	**8.5**	**(7.7)**	**16.2**	18.8
Trade and other receivables	**7.1**	**(6.6)**	**13.7**	14.9
Total assets	**15.6**	**(35.2)**	**50.8**	54.5
Trade and other payables	**(15.6)**	**-**	**(15.6)**	(15.9)
Total liabilities	**(15.6)**	**-**	**(15.6)**	(15.9)
Net Assets	**-**	**(35.2)**	**35.2**	38.6

Classification on the Consolidated Balance Sheet	**£m**
Assets held for sale	**15.6**
Liabilities held for sale	**(15.6)**
Net assets held for sale	**-**

The assets of the business have been impaired to reflect the recoverable amount indicated by the consideration received in respect of the sale, and the assets and liabilities presented as held for sale within the Consolidated Balance Sheet. The loss arising on the agreed sale of Carpet & Flooring of £35.2m and the results for the current and prior year have been disclosed within Other items in the Consolidated Income Statement.

Exit of the Drywall Qatar business

The Group Board resolved to exit the Drywall Qatar business and in March 2017 agreed, subject to contract, to dispose of its controlling interest. The associated assets and liabilities were as follows:

	At 31 December 2016			
	Recoverable value	**Impairment and asset write down**	**Original carrying value**	At 31 December 2015
	£m	**£m**	**£m**	£m
Goodwill and intangible assets	**-**	**(4.7)**	**4.7**	5.2
Property, plant and equipment	**-**	**(0.2)**	**0.2**	0.1
Inventories	**0.7**	**-**	**0.7**	0.6
Trade and other receivables	**6.1**	**-**	**6.1**	4.4
Total assets	**6.8**	**(4.9)**	**11.7**	10.3
Trade and other payables	**(3.0)**	**-**	**(3.0)**	(2.4)
Total liabilities	**(3.0)**	**-**	**(3.0)**	(2.4)
Net Assets	**3.8**	**(4.9)**	**8.7**	7.9

The fixed assets of the business have been impaired to reflect the recoverable amount indicated by the year end impairment review process. The loss arising on the agreed exit of Drywall Qatar of £4.9m and the results for the current and prior year have been disclosed within Other items in the Consolidated Income Statement.

9. Acquisitions

During the period the Group acquired the following:

Acquisition name	% of ordinary share capital acquired	Acquisition date	Country of incorporation	Principal activity
Metall Architektur Limited*	100%	5 January 2016	United Kingdom	Manufacturer and supplier of facade panel systems
Profant Lufttechnik HandelsgmbH	100%	11 January 2016	Austria	Developer and fabricator of specialist air handling systems
Maury SAS	100%	20 January 2016	France	Manufacturer and supplier of metal roofing and facades
Metechno Limited	100%	1 March 2016	United Kingdom	Designer and manufacturer of offsite products
SAS Direct & Partitioning Limited	100%	5 March 2016	United Kingdom	Distributor of partitioning systems and associated products
BLH - Bauelemente für Lüftungstechnik Hennen GmbH	100%	4 July 2016	Germany	Fabricator and distributor of specialist air handling systems

* Includes acquisition of the trade and certain assets of KME Yorkshire Limited.

The provisional fair value of the net assets of these businesses at acquisition (in aggregation) were as follows:

	£m
Property, plant and equipment	**2.0**
Inventories	**3.2**
Trade and other receivables	**6.4**
Cash acquired	**1.1**
Debt acquired	**(1.6)**
Trade and other payables	**(5.5)**
Net corporation tax and deferred tax liability	**(0.3)**
Net assets acquired	**5.3**
Intangible assets – customer relationships	**6.8**
Intangible assets – non-compete clauses	**0.1**
Deferred tax liability on acquired intangible assets	**(1.5)**
Goodwill	**10.8**
Total consideration	**21.5**
Consideration is represented by:	
Cash	**21.1**
Contingent consideration	**0.4**
Total consideration	**21.5**
Cash (per above)	**21.1**
Cash acquired	**(1.1)**
Settlement of loan notes and contingent consideration in respect of acquisitions	**5.3**
Settlement of amounts payable for purchase of businesses	**25.3**

In accordance with IFRS 3 "Business Combinations", acquisition expenses of £0.8m in relation to the above acquisitions have been recognised within the Consolidated Income Statement and have been presented within Other items.

Dependent upon future profits, a further £15.5m may be paid to the vendors of recent acquisitions who are employed by the Group. These payments are contingent upon the vendors remaining within the business and, as required by IFRS 3, this will be treated as remuneration and will be charged to the Consolidated Income Statement as earned. The related accrual of potential consideration in the year to 31 December 2016 is a credit of £0.3m (31 December 2015: charge of £10.2m). Added to the £0.8m acquisition expenses is a £5.1m net decrease in contingent consideration based solely on a reassessment of post-acquisition performance of the acquired businesses; this has led to a net credit within Other items in the Consolidated Income Statement of £4.6m in respect of acquisitions.

In addition, £0.5m of deferred and contingent consideration (not subject to the vendors remaining within the business) has been recognised within goodwill and intangible assets in the year.

The Directors have made a provisional assessment of the fair value of the net assets acquired. Any further adjustments arising will be accounted for in 2017. These fair value adjustments may relate primarily to:

a) the review of the carrying value of all non-current assets to ensure that they accurately reflect their fair value;

b) the alignment of valuation and provisioning methodologies to those adopted by the Group; and

c) an assessment of all provisions and payables to ensure they are accurately reflected in accordance with the Group's policies.

The fair value of financial assets includes trade receivables with a fair value of £6.0m and a gross contractual value of £6.1m. The best estimate at the date of acquisition of the contractual cash flows not able to be collected is £0.1m.

9. Acquisitions (continued)

Included within goodwill is the benefit of staff acquired as part of the business and strategic acquisition synergies which are specifically excluded in the identification of intangible assets on acquisition in accordance with the relevant accounting standards. The goodwill of £10.8m arising from the acquisitions is not expected to be deductible for income tax purposes.

Post-acquisition revenue and operating profit for the year ended 31 December 2016 for all 2016 acquisitions amounted to £34.8m and £1.3m respectively.

The Directors estimate that the combined pre-acquisition revenue and operating profit of the 2016 acquisitions for the period from 1 January 2016 to the acquisition dates was £4.9m and £0.3m respectively.

10. Related party transactions

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

SIG has a shareholding of less than 0.1% in a German purchasing co-operative. Net purchases from this co-operative (on commercial terms) totalled £284m in 2016 (2015: £251m). At the balance sheet date net trade payables in respect of the co-operative amounted to £12m (2015: £1m).

In 2016, SIG incurred expenses of £0.3m (2015: £0.3m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

Remuneration of key management personnel

The total remuneration of key management personnel of the Group, being the Group Executive Committee members and the Non-Executive Directors, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	2016 **£m**	2015 £m
Short-term employee benefits	**3.9**	2.8
Termination and post-employment benefits	**0.8**	-
IFRS 2 share option (credit)/charge	**(0.1)**	0.1
	4.6	2.9

11. 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.

a) Leverage covenant

	2016 **£m**	2015 £m
Operating (loss)/profit	**(91.0)**	65.9
Depreciation	**26.0**	23.0
Amortisation of computer software	**3.5**	3.0
Amortisation of acquired intangibles	**10.3**	10.3
Goodwill and intangible impairment charges	**110.6**	-
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	**40.1**	-
Net operating losses attributable to businesses identified as non-core in 2016*	**5.8**	-
Depreciation attributable to businesses identified as non-core in 2016*	**(0.5)**	-
Net restructuring costs	**13.3**	8.3
Acquisition expenses and contingent consideration	**(4.6)**	14.3
Defined benefit pension scheme curtailment loss	**0.9**	-
Other one-off items	**5.9**	(0.1)
Annualised EBITDA impact of acquisitions	**0.3**	8.7
Covenant EBITDA	**120.6**	133.4

* The 2015 covenant calculation has not been restated to reflect the decision in December 2016 to exit the non-core businesses of Carpet & Flooring and Drywall Qatar.

11. Non-statutory information (continued)

a) Leverage covenant (continued)

	2016	2015
	£m	£m
Reported net debt	**259.9**	235.9
Other covenant financial indebtedness	**3.5**	2.6
Foreign exchange adjustment*	**(6.4)**	(1.6)
Covenant net debt	**257.0**	236.9

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

	2016	2015
Leverage (covenant net debt to covenant EBITDA - maximum 3.0x)	**2.1x**	1.8x

b) Post-tax Return on Capital Employed ("ROCE")

	2016	2015
	£m	£m
Operating (loss)/profit	**(91.0)**	65.9
Income tax expense	**(12.3)**	(15.0)
Operating (loss)/profit after tax	**(103.3)**	**50.9**

	2016	2015
	£m	£m
Operating (loss)/profit	**(91.0)**	65.9
Amortisation of acquired intangibles	**10.3**	10.3
Goodwill and intangible impairment charges	**110.6**	-
Profits and losses on agreed sale of closure of non-core business and associated impairment charges	**40.1**	-
Net operating losses attributable to businesses identified as non-core in 2016*	**5.8**	1.2
Net restructuring costs	**13.3**	8.3
Acquisition expenses and contingent consideration	**(4.6)**	14.3
Defined benefit pension scheme curtailment loss	**0.9**	-
Other one-off items	**5.9**	(0.1)
Underlying operating profit	**91.3**	99.9
Income tax expense	**(12.3)**	(15.0)
Tax credit associated with other items	**(7.2)**	(6.4)
Underlying operating profit after tax	**71.8**	78.5

	2016	2015
	£m	£m
Opening reported net assets	**649.6**	664.3
Opening reported net debt	**235.9**	126.9
Opening capital employed	**885.5**	791.2
Computer software impairment charges*	**(7.9)**	(7.9)
Goodwill and intangible impairment charges*	**(110.6)**	(110.6)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*	**(40.1)**	(40.1)
Adjusted opening capital employed	**726.9**	632.6

11. Non-statutory disclosures (continued)

b) Post-tax Return on Capital Employed ("ROCE") (continued)

	2016 £m	2015 £m
Closing reported net assets	**539.6**	649.6
Closing reported net debt	**259.9**	235.9
Closing capital employed	**799.5**	885.5
Computer software impairment charges*	**-**	(7.9)
Goodwill and intangible impairment charges*	**-**	(110.6)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*	**-**	(40.1)
Adjusted closing capital employed	**799.5**	726.9
Average capital employed	**842.5**	838.4
Adjusted average capital employed*	**763.2**	679.8

* Capital employed has been adjusted to take into account the normalised impact of the goodwill and intangible assets impairment charges, the profits and losses on agreed sale or closure of non-core businesses and associated impairment charges incurred in 2016 and computer software impairment charges.

	2016	2015
Unadjusted ROCE (operating profit after tax to average capital employed)	**(12.3)%**	6.1%
ROCE (underlying operating profit after tax to adjusted average capital employed)	**9.4%**	11.5%

c) Covenant interest cover ratio

	2016 £m	2015 £m
Operating (loss)/profit	**(91.0)**	65.9
Add back:		
Amortisation of acquired intangibles	**10.3**	10.3
Goodwill and intangible impairment charges	**110.6**	-
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	**40.1**	-
Net restructuring costs	**13.3**	8.3
Defined benefit pension scheme curtailment loss	**0.9**	-
Contingent consideration*	**(4.7)**	2.2
Other one-off items**	**6.3**	(0.5)
Consolidated EBITA	**85.8**	86.2
Finance costs	**17.0**	15.6
Finance income	**(1.7)**	(1.0)
Less:		
Finance costs included within Other items	**(2.0)**	(3.3)
Finance income included within Other items	**0.5**	-
Interest costs arising on the defined benefit pension scheme	**(0.5)**	(0.7)
Covenant net interest payable	**13.3**	10.6

	2016	2015
Interest cover ratio (consolidated EBITA to covenant net interest payable)	**6.5x**	8.1x

* This relates to the element of contingent consideration that is disallowed in the covenant calculation.
** Other one-off items in 2016 is adjusted for the credit relating to fair value gains and losses on fuel hedging contracts of £0.4m (2015: charge of £0.4m) in the covenant calculation.

11. Non-statutory information (continued)

d) Working capital to sales ratio

	2016 £m	2015 £m
Current:		
Inventories	**250.6**	242.9
Trade and other receivables	**516.1**	468.1
Trade and other payables	**(440.6)**	(417.7)
Provisions	**(14.5)**	(9.7)
Non-current:		
Other payables	**(5.5)**	(3.8)
Provisions	**(22.4)**	(37.6)
Reported working capital	**283.7**	242.2
Working capital for non-core businesses	**(3.8)**	(20.4)
Foreign exchange adjustment*	**(7.6)**	19.0
Adjusted working capital	**272.3**	240.8

* Working capital is translated at average rather than period end rates.

	2016 £m	2015 £m
Reported revenue	**2,845.2**	2,566.4
Sales attributable to business identified as non-core in 2016	**(105.4)**	(103.3)
Pre-acquisition revenue of the current year acquisitions for the period from 1 January to the acquisition dates	**4.9**	61.4
Foreign exchange adjustment	**-**	160.0
Adjusted revenue	**2,744.7**	2,684.5

	2016	2015
Reported working capital to reported revenue	**10.0%**	9.4%
Like-for-like working capital to sales ratio (adjusted working capital to adjusted revenue)	**9.9%**	9.0%

e) Net capital expenditure to depreciation ratio

	2016 £m	2015 £m
Property, plant and equipment additions	**33.7**	40.9
Computer software additions	**6.2**	9.2
Gross Capital expenditure	**39.9**	50.1
Proceeds from sale of property, plant and equipment	**(39.5)**	(4.9)
Net capital expenditure	**0.4**	45.2

	2016 £m	2015 £m
Depreciation	**26.0**	23.0
Amortisation of computer software	**3.5**	3.0
Depreciation (including amortisation of computer software)	**29.5**	26.0

	2016	2015
Gross capital expenditure to depreciation ratio	**1.35x**	1.93x
Net capital expenditure to depreciation ratio	**0.01x**	1.74x

f) Gearing

	2016 £m	2015 £m
Reported net assets	**539.6**	649.6
Reported net debt	**259.9**	235.9
Gearing (reported net debt to reported net assets ratio)	**48.2%**	36.3%

11. Non-statutory information (continued)

g) 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. Sales are not adjusted for organic branch openings and closures.

	UK £m	Ireland £m	UK & Ireland £m	Germany & Austria £m	France £m	Poland £m	Benelux £m	SIG Air Handling £m	Mainland Europe £m	Group £m
Continuing revenue 2016	1,306.6	85.5	**1,392.1**	413.2	589.2	115.1	99.7	130.5	**1,347.7**	**2,739.8**
Continuing revenue 2015	1,237.5	72.1	**1,309.6**	368.3	517.3	103.6	85.7	78.6	**1,153.5**	**2,463.1**
% change year on year:										
Continuing revenue	5.6%	18.6%	**6.3%**	12.2%	13.9%	11.1%	16.3%	66.0%	**16.8%**	**11.2%**
Impact of currency	(0.3)%	(14.1)%	**(1.1)%**	(13.3)%	(13.5)%	(9.0)%	(13.8)%	(19.5)%	**(13.4)%**	**(6.8)%**
Impact of acquisitions	(4.3)%	(0.4)%	**(4.0)%**	(0.1)%	(1.1)%	-	-	(38.0)%	**(3.2)%**	**(3.7)%**
Impact of working days	-	(0.3)%	**-**	-	(1.2)%	-	-	-	**(0.6)%**	**(0.3)%**
Like-for-like sales	**1.0%**	**3.8%**	**1.2%**	**(1.2)%**	**(1.9)%**	**2.1%**	**2.5%**	**8.5%**	**(0.4)%**	**0.4%**

h) Cash inflow from trading

	2016 £m	2015 £m
Cash generated from operating activities (Note 5)	**75.8**	61.6
Add back:		
Increase in inventories	**0.5**	15.8
Increase in receivables	**30.5**	9.0
(Increase)/decrease in payables	**(7.9)**	13.4
Cash inflow from trading	**98.9**	99.8

12. Viability Statement

In accordance with the requirements of the 2014 amendments to the 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.

The Board has determined that a three year period to 31 December 2019 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 and business cycle, to make a realistic viability assessment. As part of the Group's strategic planning process a three year business model was produced covering the period to 31 December 2019. In order to assess the resilience of the Group to threats to its viability posed by those risks in severe but plausible scenarios, this model was subjected to thorough multi-variant stress and sensitivity analysis together with an assessment of potential mitigating actions. This multi-variant stress and sensitivity analysis included scenarios arising from combinations of the following:

- the implications of both a challenging economic environment and a growing market on the Group's revenues (both pricing and volume impacts);
- the impact of the competitive environment within which the Group's businesses operate and the interaction with the Group's gross margin;
- global inflation and the impact on the Group's operating cost base;
- working capital requirements from investment and trading activities, taking into account normal seasonality trends and short term working capital management; and
- timing, delivery and efficiency of the Group's strategic growth priorities.

The resulting impact on key metrics, such as debt headroom and covenants, was considered. After conducting their viability review, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment to 31 December 2019.

13. Going concern basis

In determining whether the Group's 2016 financial information can be prepared on a going concern basis, the Directors considered all factors likely to affect the Group's future development, performance and its financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities.

The key factors considered by the Directors were as follows:

- the implications of the challenging economic environment and the continuing weak levels of market demand in the building and construction markets on the Group's revenues and profits
- projections of working capital requirements taking into account normal seasonality trends and short term working capital management;
- the impact of the competitive environment within which the Group's businesses operate;
- the availability and market prices of the goods that the Group sells;
- the credit risk associated with the Group's trade receivable balances;
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected; and
- the committed finance facilities available to the Group.

Having considered all the factors above, including downside sensitivities, the Directors are satisfied that the Group will be able to operate within the terms and conditions of the Group's financing facilities, and has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the Group's 2016 financial information.

14. Principal risks and uncertainties

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

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

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	Key mitigation activities Include:
Market conditions The Group is exposed to changes in the level of activity and therefore demand from the building, construction and civil engineering industries. Government policy and expenditure plans, private investor decisions, the general economic climate and both business and (to a lesser extent) consumer confidence are all factors which can influence the level of building activity and therefore the demand for many of the Group's products.	• Maintain a broad spread of markets, products and customers to limit risks and act as a natural hedge within any given territory. • The Group Board's portfolio review ensures that the Group's capital is appropriately allocated to the geographies and markets which remain core. • Continual review of all available indicators of market activity and regular communication with key suppliers and customers to ensure that any change in market demand is anticipated as early as possible. • Ensure the Group remains structured in a way that enables it to take prompt action in the event of a material change in the trading environment. • Ensure the Group maintains a strong balance sheet and financial position.
Competitors and margin management Challenging market trading conditions mean that competition pressures from direct specialist competition and the overlap with general suppliers remain high, which in turn results in continued margin pressures being faced by the Group.	• Strong trading presence and positions in the majority of the markets in which the Group trades. • Initiatives designed to improve the Group's core competencies surrounding customer service, sales support and training. • Ongoing pricing and purchasing initiatives, including supplier rebates, designed to improve gross margin. • Tight control of operating costs. • Significant investment in the branch network and distribution capability, people, IT infrastructure and product offering. • Diversified portfolio of products, customers and markets limits the risk from any single competitor.
Commercial relationships Failure to negotiate competitive terms of business with suppliers or failure to satisfy the needs of customers could harm the Group's business. Customer or supplier consolidation and/or manufacturers dealing directly with customers.	• Ongoing pricing and purchasing initiatives designed to improve gross margin. • The Group has extensive and regular dialogue with all commercial partners to maintain strong relationships. • Key supplier/customer harmonisation and national account strategy planning. • The Group is not overly reliant on any one supplier and all businesses undergo alternative key supplier scenario planning. • No significant customer dependency. Continued focus on customer service to maintain excellent relationships including monitoring of customer satisfaction. • Strategically important supply chain partners are reviewed globally to assess their financial health. • Monitoring of customer behaviour and performance.

14. Principal risks and uncertainties (continued)

Risk	Key mitigation activities Include:
Government legislation SIG operates in a number of countries, each with its own laws and regulations, encompassing environmental, legal, health and safety, employment and tax matters. Changes in these laws and regulations, including as a result of Brexit, could impact on SIG's ability to conduct its business, or make the conduct of such business more expensive. There is also the reputational and financial cost of being penalised for non-compliance.	• Embedding and operating a zero harm culture. • Dedicated resource to monitor compliance with legal and regulatory matters. • Active monitoring of relevant laws and regulations to ensure that any changes to the legal framework are identified and effects minimised. • Review of policies and procedures with reference to changing legislative requirements and the provision of associated training. • Affiliation with regulatory bodies and trade associations. • Strong internal control framework, policies and culture supported by strong leadership, accountability and commitment throughout the organisation. • Continuous monitoring of political environment. • Continuous review of business plans in order to minimise SIG's exposure to potential changes in Government policy. • Compulsory risk management training programmes (eg data protection and anti-bribery and corruption etc) appropriate to their roles in order to increase awareness of potential risks.
Availability of funding Group net debt at 31 December 2016 amounted to £259.9m (2015: £235.9m). The Group has to manage the following risks relating to its net debt: • future availability of funding • interest rate risk • foreign currency risk • compliance with debt covenants • counterparty credit risk.	• Regular meetings of the Tax and Treasury Committee. • Comprehensive Treasury Policy. • Regular monitoring, including sensitivity analysis, to understand the impact of interest rate and exchange rate movements. • Active hedging programme in place. • Monitoring performance against covenants on the Group's Revolving Credit Facility and private placement notes. • Regular discussion with banking and private placement partners. • Maintaining a strong balance sheet to enable access to cost effective sources of third party funding.
Working capital and cash management Failure to manage working capital effectively may lead to a significant increase in the Group's net debt, thereby reducing the Group's funding headroom and liquidity.	• Post-tax Return on Capital Employed is a Key Performance Indicator of the Group. • Cash flow targets are agreed with each business unit as part of the annual budget process and reviewed on a monthly basis. • Stringent authorisation procedures to control capital expenditure. • Proactive credit management systems supported by daily customer monitoring systems.

14. Principal risks and uncertainties (continued)

Risk	Key mitigation activities Include:
IT infrastructure and cybersecurity SIG uses a range of computer systems across the Group. Outages and interruptions could affect the ability to conduct day-to-day operations, which could result in loss of sales and delays to cash flow. Key systems are breached causing financial loss, data loss, disruption or damage. A new ERP system is currently being implemented within the UK distribution businesses.	• Continual review of IT strategies to ensure they remain appropriate. • Business continuity framework. • Dedicated internal IT support team together with external support providers. • Regular updates to technology, infrastructure, communications and application systems. • The Group is continuing to invest in advanced hardware and software security to ensure protection of commercial and sensitive data. • For new IT projects, external consultants are utilised in conjunction with internal project management teams. • Collaborative cross-functional risk group in place. • Formal security and information assurance governance structures to oversee and manage cybersecurity and similar risks.
Availability and quality of key resources Unavailability of key resources (eg assets such as property, stock and personnel) will impact on the ability of SIG to operate effectively and efficiently. Failure to attract and retain key individuals, strong management and technical staff in the future could have an adverse effect upon the Group's business.	• Strategic and budget reviews ensure all key resource requirements are identified and managed. • Senior management succession planning. • Continue to evolve a defined people strategy based on culture and engagement, talent management, training and reward recognition. • Provision of channels for employees to raise concerns to promote an environment of honesty and trust.