

9 March 2018

SIG plc: Results for the year ended 31 December 2017

SIG plc ("SIG" or "the Group"), a leading European supplier of specialist building products with strong positions in its core markets of insulation and interiors, roofing and exteriors, and air handling, today issues its results for the year ended 31 December 2017 ("FY 2017").

Highlights

- Business stabilising, balance sheet strengthening and portfolio being rationalised
- Underlying revenue +7.4% and LFL² sales +3.8% (2016: +0.4%). Statutory revenue +1.2% (2016: +10.9%)
- Underlying PBT of £79.2m (2016: £75.9m) in line with expectations
- Underlying PBT excluding property profits of £65.5m (2016: £72.6m)
- Statutory loss before tax of £51.2m after £130.4m of non-underlying items
- ROCE improved to 10.3% (2016: 10.2%)
- Underlying basic EPS of 9.8p (2016: 9.7p). Statutory basic loss per share of 10.1p (2016: 20.6p)
- Final dividend of 2.5p per share in line with 2-3x cover policy
- Review of medium-term strategy complete - highly disciplined execution now key to delivering significant operational and financial improvement

Underlying operations ¹	2017	2016 Restated	Change
Revenue	£2,778.5m	£2,587.4m	7.4%
LFL ² sales	+3.8%	+0.4%	340bps
Underlying ³ operating profit	£94.3m	£89.7m	5.1%
Underlying ³ profit before tax	£79.2m	£75.9m	4.3%
Underlying ³ profit before tax excl. property profits	£65.5m	£72.6m	(9.8)%
Underlying ³ basic earnings per share	9.8p	9.7p	0.1p
Cash inflow from trading	£62.8m	£95.2m	(34.0)%
Return on sales	3.4%	3.5%	(10)bps
Return on capital employed (post-tax)	10.3%	10.2%	10bps
Net debt	£223.8m	£279.7m	(20.0)%
Headline financial leverage (net debt/EBITDA)	1.9x	2.4x	(0.5)x

Alternative performance measures are referred to as "underlying" and "like-for-like". These are applied consistently throughout this document and the calculations to these are found in Note 10 and below.

Statutory results	2017	2016 Restated
Revenue	£2,878.4m	£2,845.2m
Operating loss	£33.9m	£94.7m
Loss before tax	£51.2m	£110.0m
Basic loss per share	10.1p	20.6p
Total dividend per share	3.75p	3.66p

Commenting, Meinie Oldersma, Chief Executive Officer, said:

"In a year of challenge and change for SIG, I am pleased to be reporting results for 2017 in line with expectations, delivering the first improvement in underlying operating profit for three years, including the benefit of property profits.

We have achieved much this year, beginning to stabilise the business, returning SIG Distribution to underlying profitability and rationalising the loss-making UK Offsite Construction division. We have begun to get a grip on operating costs and working capital and we have made significant steps in refocusing the portfolio, exiting from eleven businesses, as we continue to strengthen our balance sheet.

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

Analyst presentation (9am today)

A briefing to analysts will take place today at 9am 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.

1. Underlying operations excludes businesses sold or closed before 9 March 2018. Revenue and LFLs² differ from the January trading statement due to the exclusion of GRM, Building Systems and IBSL which have been disposed of since 9 January 2018.

2. Like-for-like (LFL) is defined as sales per working day in constant currency excluding acquisitions and disposals. Sales are not adjusted for branch openings or closures.

3. Underlying results are stated before the amortisation of acquired intangibles, impairment charges, losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, the defined benefit pension scheme curtailment loss, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of other items and the effect of changes in taxation rates.

Enquiries

SIG plc

Meinie Oldersma, Chief Executive Officer +44 (0) 114 285 6300

Nick Maddock, Chief Financial Officer +44 (0) 114 285 6300

Hilary Kendrick, Group Communications Director +44 (0) 114 285 6300

FTI Consulting

Richard Mountain +44 (0) 20 3727 1340

Jefferies Hoare Govett

Chris Dickinson / Paul Nicholls +44 (0) 20 7029 8000

Peel Hunt LLP

Justin Jones / Charles Batten +44 (0) 20 7418 8900

Overall performance

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

Medium term targets	Target	2017	2016
LFL sales growth	Market growth	+3.8%	+0.4%
	Maintain market share		
Return on sales	c.5%	3.4%	3.5%
Return on capital employed	c.15%	10.3%	10.2%
Headline financial leverage	Under 1.0x	1.9x	2.4x

Included in the underlying PBT for the year is £13.7m (2016: £3.3m) of property profits relating to ongoing property portfolio management. On a statutory basis, the Group made a loss before tax of £51.2m in the year (2016: £110.0m) after £130.4m of non-underlying items (2016: £185.9m).

	FY 2017 LFL sales growth	FY 2017 Statutory sales growth
SIGD	+2.3%	+2.0%
SIGE	(1.1)%	(7.1)%
Ireland & Other UK	+8.1%	(40.2)%
UK & Ireland	+1.6%	(7.5)%
France	+5.9%	+12.1%
Germany	+4.8%	+4.9%
Poland	+13.7%	+24.1%
Air Handling	+10.9%	+18.1%
Benelux	(4.3)%	+2.0%
Mainland Europe	+5.9%	+10.8%
SIG Group	+3.8%	+1.2%

Stabilising the business

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

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

The Group has also looked to address the rapid rise in costs across the business, eliminating duplication and reducing discretionary expenditure. Group functions have been significantly scaled

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

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

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

Subdued UK trading environment

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

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

Return to underlying profitability in SIG Distribution

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

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

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

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

European recovery

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

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

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

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

Ongoing portfolio management

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

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

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

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

A reconciliation of underlying revenue to statutory revenue for 2017 as a result of these portfolio changes is set out below, with the impact on 2016 comparatives also detailed in the Financial Review section.

£m	2017 Revenue	2016 Revenue
Underlying	2,778.5	2,587.4
Carpet & Flooring	11.4	97.5
Drywall Qatar	1.2	7.9
Metetechno	1.3	3.3
WeGo Austria	7.6	27.6
Building Plastics	34.5	63.0
Middle East	19.5	30.4
ATC Turkey	12.0	14.2
Building Systems	8.0	9.2
GRM	2.6	2.6
IBSL	1.8	2.1
Sales attributable to businesses identified as non-core*	99.9	257.8
Statutory	2,878.4	2,845.2

*SIG also ceased the processing of insulation products at its Sitaco subsidiary in Poland. However, as it will still continue its distribution activities, the sales have not been reclassified.

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

Rationalisation of UK Offsite Construction division

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

Initial progress on leverage

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

On 9 January 2018, the Group announced that it had identified a historical overstatement of net cash and trade payables related to cash cut-off procedures in SIG Distribution, associated with the issue of cheques around previous period ends. This resulted in an overstatement of net cash of £19.8m at 31 December 2016 which, when adjusted, led to a restated net debt at 31 December 2016 of £279.7m and headline financial leverage of 2.4x. The restated headline financial leverage at 30 June 2017 increased to 2.0x.

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

£m	2017	2016 Restated
Opening net debt (as previously reported)	(259.9)	(235.9)
Historical overstatement of net cash	(19.8)	(23.9)
Opening net debt (restated)	(279.7)	(259.8)
Cash inflow from trading*	62.8	95.2
Increase in working capital	(11.8)	(15.3)
Interest and tax	(31.4)	(22.1)
Maintenance capex	(22.8)	(29.5)
Free cash flow	(3.2)	28.3
Investment capex	-	(10.4)
Dividends	(18.2)	(28.0)
Debt factoring	48.7	-
Sale of property and assets	34.6	39.5
Acquisitions including contingent consideration	(23.9)	(29.6)
Exchange, fair value and other	17.9	(19.7)
Decrease/(increase) in borrowings	55.9	(19.9)
Closing net debt	(223.8)	(279.7)
Headline financial leverage	1.9x	2.4x

* Cash inflow from trading before the impact of Other items for the year ended 31 December 2017 was £106.2m (2016: £112.7m).

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

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

Notwithstanding the current levels of leverage, the Group retains considerable headroom against its financing facilities, with total debt facilities of £553m as at 31 December 2017 (31 December 2016: £549m), and only £78m (2016: £162m) drawn from the Group's £350m Revolving Credit Facility at the year end.

Significant benefit from property profits

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

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

Non-underlying items

Following the extensive operational changes and portfolio management carried out during the year, SIG has 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. Total non-underlying items during the year amounted to £130.4m (2016: £185.9m), on a pre-tax basis, and comprised:

- Losses on agreed sale or closure of non-core businesses and associated impairment charges of £72.4m (2016: £40.1m), together with net operating losses from those businesses in 2017 of £14.3m (2016: £7.9m);
- Amortisation of acquired intangibles of £9.3m (2016: £10.3m);
- Impairment of £6.8m on the carrying value of the UK ERP system, Kerridge K8 (2016: £nil);
- Net restructuring costs relating to the supply chain review and other restructuring costs of £21.1m (2016: £13.3m) and other specific items of £0.3m (2016: £8.7m);
- Acquisition expenses and contingent consideration costs of £9.8m (2016: credit of £4.6m);
- Fair value gains and losses and other finance charges of £2.2m (2016: £1.5m);
being offset by
- Non-underlying profit on the disposal of property of £5.8m (2016: £2.8m).

The impact on net debt of these non-underlying items was £18.0m (2016: £44.4m).

SIG expects to disclose further non-underlying items in 2018, as management continues to restructure the Group and simplify its portfolio.

Strategy review - building on our potential

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

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

Delivery of these initiatives is being supported by investment in three key enablers: data, IT and capability. During 2018, SIG is rolling out a consistent data foundation, making it easier to analyse and improve performance. In IT, SIG is working towards a common infrastructure and central portfolio management, with projects delivered under a standard framework, building a platform for future integration. In parallel, SIG is reinforcing the breadth and depth of its people and management capability to improve on a poor track record of delivering successful changes to the business.

During the initial weeks of 2018, the leadership team presented the strategy and detailed action plans directly across the operating companies to around 1,200 managers from eleven countries, followed by a cascade of the same key messages to all employees across the Group. All parts of the

business have aligned around the key strategic priorities, with robust messaging about the need to simplify, focus and deliver. Performance management mechanisms have been revised to promote the strategy, with tools now in place for close monitoring and support, and the realignment of reward structures up and down the organisation.

There remains considerable work to be done to improve returns over the medium term and highly disciplined execution will be critical to success.

Current trading and outlook

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

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

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

Dividend

In 2017, the Group delivered underlying earnings per share of 9.8p (2016: 9.7p). As a result, the Board is recommending payment of a final dividend for the year of 2.5p (2016: 1.83p) per share. Together with the interim dividend of 1.25p (2016: 1.83p) per share, this gives a total dividend for the year of 3.75p (2016: 3.66p) per share, in line with the Group's stated policy to target dividend cover in the range of 2-3x underlying earnings per share.

In determining the final dividend, the Board has considered the current defined benefit pension deficit and ongoing discussions with regard to the triennial valuation and recovery plan that is due to be finalised by the end of March 2018.

Subject to approval at the Group's Annual General Meeting, the final dividend is expected to be paid on 6 July 2018 to shareholders on the register at the close of business on 8 June 2018. The ex-dividend date will be 7 June 2018.

Overview

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

Revenue and gross margin

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

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

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

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

Operating costs and profit

SIG's underlying operating cost base, excluding the benefits of property profits, increased by £51.2m to £655.9m in 2017 (2016: £604.7m), due to a foreign exchange translation cost of £23.6m, the full year impact of additional costs from 2016 acquisitions of £3.2m, and other cost increases of £24.4m. As a result, operating costs (excluding property profits) as a percentage of sales increased from 23.4% in 2016 to 23.6% in 2017. Costs peaked in the first half of 2017 at 23.9% of sales.

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

In the UK & Ireland, underlying operating profit fell 9.2% to £47.6m (2016: £52.4m) and the underlying operating margin declined 50bps to 3.6% (2016: 4.1%). In Mainland Europe, underlying operating profit increased by 23.5% to £59.4m (2016: £48.1m), including a £3.7m foreign exchange

translation benefit, with the underlying operating margin increasing slightly, up 30bps, to 4.0% (2016: 3.7%). The Group made a statutory operating loss of £33.9m in 2017 (2016: £94.7m).

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

The Group's underlying tax charge for the year was £20.5m (2016: £18.1m), representing an underlying effective tax rate of 25.9% (2016: 23.8%). After Other items, the total tax charge decreased by £4.2m to £7.4m (2016: £11.6m).

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

Return on Capital Employed

Post-tax Return on Capital Employed ("ROCE") is one of the Group's primary performance metrics and is calculated on a rolling 12 month basis as: underlying operating profit less tax, divided by average net assets, plus average net debt. As at 31 December 2017, Group ROCE was 10.3% (2016: 10.2%).

This improvement primarily reflects reduced levels of working capital and debt at the year end, with working capital falling from 9.9% of sales in 2016 to 9.0% of sales at 31 December 2017, and debt falling from £279.7m to £223.8m.

UK & Ireland

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

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

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

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

Underlying revenue in SIG Distribution, the Group's market leading specialist UK insulation and interiors distribution business was up 2.1% to £797.5m (2016: £781.2m) and by 2.3% on a LFL basis.

The underlying operating margin for the full year of 1.2% represents a decline on 2016 (2.3%). As a result, underlying operating profit for the full year of £9.9m reflects a decline of 45.6% on 2016 (£18.2m). Excluding property profits, underlying operating profit decreased by 39.6% to £9.0m (2016: £14.9m). On a statutory basis, after taking into account Other items, SIG Distribution reported an operating loss of £25.1m (2016: operating profit £5.7m).

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

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

Mainland Europe

	Revenue (£m)	Change	LFL change	Gross margin	Change	Underlying operating profit (£m)	Underlying operating margin	Change	Reported operating profit (£m)***
France	660.7	12.1%	+5.9%	27.6%	(10)bps	26.2	4.0%	(10)bps	25.2
Germany*	425.9	10.5%	+4.8%	26.4%	(50)bps	11.5	2.7%	70bps	9.1
Poland*	142.8	24.1%	+13.7%	20.0%	0bps	1.0	0.7%	(20)bps	-
Air Handling*	142.1	22.2%	+10.9%	38.4%	110bps	14.4	10.1%	90bps	5.2
Benelux	101.7	2.0%	(4.3)%	25.8%	60bps	6.3	6.2%	210bps	1.5
Mainland Europe before non-core	1,473.2	12.8%	+5.9%	27.4%	(10)bps	59.4	4.0%	30bps	41.0
Non-core businesses	19.6	(53.1)%	n/a	26.4%	140bps	(0.6)	(3.1)%	(560)bps	n/a
Mainland Europe**	1,492.8	10.8%	n/a	27.4%	0bps	58.8	3.9%	30bps	41.0

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

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

*** Reported operating profits are shown on a segmental basis, including the operating result of the non-core businesses.

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

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

Underlying revenue in Germany grew by 10.5% to £425.9m (2016: £385.6m), as it benefitted from foreign exchange translation. LFL sales grew by 4.8%, as the Group sought to improve its performance and to reposition the business towards the higher growth segments of the German

market, such as the residential sector. Underlying operating profit increased by £3.8m to £11.5m (2016: £7.7m). Excluding property profits, underlying operating profit decreased by 9.1% to £7.0m (2016: £7.7m).

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

Air Handling, the largest pure-play specialist air handling distributor in Europe, grew underlying revenue by 22.2% as it benefitted from a healthy LFL growth of 10.9%, and from acquisitions and foreign exchange translations. The air handling market continues to grow at a faster rate than the wider construction sector due to strong demand drivers, including higher energy efficiency and air quality standards. As a result, Air Handling delivered an improved underlying operating profit performance, up £3.6m to £14.4m.

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

Historical overstatements

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

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

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

Both of these overstatements have been restated in the results being presented today. In response to these issues, the Group has implemented a number of priority controls recommendations in relation to both rebates and cash. With support from KPMG, the Group has completed a review of financial reporting controls at SIG Distribution, which has identified no further material accounting cause for concern, although it has made some controls recommendations which are now being implemented. A number of employees are leaving the business following disciplinary investigations into the circumstances.

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

The Board is determined to hold itself and the broader Group to the highest standards of ethical and professional practice, and will not tolerate any breaches of these standards. Robust action has been taken by management, in conjunction with the Audit Committee, in relation to the controls issues identified during the year. The historical overstatements have been thoroughly investigated and reported, and we have moved swiftly and decisively to address these serious matters.

Impact of non-core businesses and historical overstatements

The revenue and profits of businesses that have been divested, closed or were under review at the year end, and which are therefore now being treated as non-underlying, are set out in the table below. The table also highlights the impact on profit of the historical overstatements, in order to derive comparatives for the underlying business:

£m	FY 2016		HY 2017		FY 2017	
	Underlying PBT	Revenue	Underlying PBT	Revenue	Underlying PBT	Revenue
Statutory Group revenue as reported at 2016 FY results	n/a	2,845.2	Not applicable			
Drywall Qatar ¹	2.8	(7.9)	1.4	(1.2)	1.4	(1.2)
Carpet & Flooring ¹	3.0	(97.5)	0.7	(11.6)	0.7	(11.4)
Underlying Group as reported at 2016 FY results	77.5	2,739.8	35.2	1,426.4	67.0	2,865.8
Metetechno ²	0.1	(3.3)	3.4	(1.3)	3.4	(1.3)
WeGo Austria ²	(0.6)	(27.6)	0.3	(7.5)	0.2	(7.6)
Building Plastics ³	(2.9)	(63.0)	(1.0)	(29.0)	(0.9)	(34.5)
Middle East ³	(0.9)	(30.4)	0.4	(13.2)	0.7	(19.5)
Underlying Group as reported at 2017 HY results	73.2	2,615.5	38.3	1,375.4	70.4	2,802.9
ATC Turkey ⁴	(0.2)	(14.2)	0.3	(6.9)	0.4	(12.0)
Building Systems ⁵	6.2	(9.2)	3.3	(4.2)	7.6	(8.0)
GRM Insulation ⁵	0.6	(2.6)	0.3	(1.3)	0.8	(2.6)
IBSL ⁶	(0.2)	(2.1)	(0.1)	(1.0)	-	(1.8)
Historical overstatement	(3.7)	n/a	(2.5)	n/a	n/a	n/a
Restated at 2017 FY results	75.9	2,587.4	39.6	1,362.0	79.2	2,778.5

1. First announced at SIG's 2016 full year results on 14 March 2017.

2. First announced in SIG's AGM trading update on 11 May 2017.

3. First announced at SIG's half year results on 8 August 2017.

4. First announced in SIG's trading update on 9 January 2018.

5. First announced on 28 February 2018.

6. First announced in this statement.

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 2017. 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 financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 8 March 2018 and signed on its behalf by:

Meinie Oldersma
Director
8 March 2018

Nick Maddock
Director
8 March 2018

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.

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 2017

		Underlying*	Other items**	Total	Underlying*	Other items**	Total
		2017	2017	2017	2016	2016	2016
		Restated	Restated	Restated	Restated	Restated	Restated
	Note	£m	£m	£m	£m	£m	£m
Revenue	2	2,778.5	99.9	2,878.4	2,587.4	257.8	2,845.2
Cost of sales		(2,042.0)	(83.9)	(2,125.9)	(1,896.3)	(201.0)	(2,097.3)
Gross profit		736.5	16.0	752.5	691.1	56.8	747.9
Other operating expenses		(642.2)	(144.2)	(786.4)	(601.4)	(241.2)	(842.6)
Operating (loss)/profit		94.3	(128.2)	(33.9)	89.7	(184.4)	(94.7)
Finance income		0.5	0.1	0.6	1.2	0.5	1.7
Finance costs		(15.6)	(2.3)	(17.9)	(15.0)	(2.0)	(17.0)
(Loss)/profit before tax		79.2	(130.4)	(51.2)	75.9	(185.9)	(110.0)
Income tax (expense)/credit	3	(20.5)	13.1	(7.4)	(18.1)	6.5	(11.6)
(Loss)/profit after tax		58.7	(117.3)	(58.6)	57.8	(179.4)	(121.6)
Attributable to:							
Equity holders of the Company		57.7	(117.3)	(59.6)	57.3	(179.4)	(122.1)
Non-controlling interests		1.0	-	1.0	0.5	-	0.5
Loss per share							
Basic and diluted loss per share	4			(10.1)p			(20.6)p

* Underlying represents the results before Other items.

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

All results are from continuing operations.

The 2016 results have been restated as noted in the basis of preparation (Note 1) and set out in prior year restatement (Note 11).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	2017	2016
	£m	Restated £m
Loss after tax	(58.6)	(121.6)
Items that will not subsequently be reclassified to the Consolidated Income Statement:		
Remeasurement of defined benefit pension liability	5.5	(12.5)
Deferred tax movement associated with remeasurement of defined benefit pension liability	(0.9)	2.3
Effect of change in rate on deferred tax	(0.2)	(0.5)
	4.4	(10.7)
Items that may subsequently be reclassified to the Consolidated Income Statement:		
Exchange difference on retranslation of foreign currency goodwill and intangibles	5.4	33.6
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)	13.6	35.7
Exchange and fair value movements associated with borrowings and derivative financial instruments	(9.2)	(25.3)
Tax credit on exchange and fair value movements arising on borrowings and derivative financial instruments	1.8	6.3
Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations	0.1	-
Gains and losses on cash flow hedges	0.4	(3.8)
Transfer to profit and loss on cash flow hedges	2.1	2.3
	14.2	48.8
Other comprehensive income	18.6	38.1
Total comprehensive expense	(40.0)	(83.5)
Attributable to:		
Equity holders of the Company	(41.0)	(84.0)
Non-controlling interests	1.0	0.5
	(40.0)	(83.5)

Consolidated Balance Sheet

as at 31 December 2017

	Note	2017 £m	2016 Restated £m
Non-current assets			
Property, plant and equipment		102.4	127.3
Goodwill		312.2	352.7
Intangible assets		57.0	76.9
Deferred tax assets		22.6	17.2
Derivative financial instruments		0.1	4.4
Deferred consideration		1.4	-
		495.7	578.5
Current assets			
Inventories		243.5	250.6
Trade and other receivables		468.0	512.8
Current tax assets		5.2	3.2
Derivative financial instruments		1.2	0.1
Deferred consideration		0.1	0.7
Other financial assets		-	1.1
Cash and cash equivalents		121.8	127.0
Assets classified as held for sale	8	0.3	15.6
		840.1	911.1
Total assets		1,335.8	1,489.6
Current liabilities			
Trade and other payables		429.0	421.6
Obligations under finance lease contracts		3.1	3.1
Bank overdrafts		29.6	22.7
Bank loans		84.2	171.6
Private placement notes		21.1	-
Loan notes and deferred consideration		17.0	2.7
Derivative financial instruments		0.2	0.2
Current tax liabilities		7.2	8.4
Provisions		12.0	14.5
Liabilities directly associated with assets classified as held for sale	8	0.1	15.6
		603.5	660.4
Non-current liabilities			
Obligations under finance lease contracts		6.8	8.1
Bank loans		-	0.3
Private placement notes		183.1	200.7
Derivative financial instruments		3.3	3.6
Deferred tax liabilities		13.4	15.2
Other payables		3.8	5.5
Retirement benefit obligations		30.4	37.1
Provisions		13.8	22.4
		254.6	292.9
Total liabilities		858.1	953.3
Net assets		477.7	536.3
Capital and reserves			
Called up share capital		59.2	59.1
Share premium account		447.3	447.3
Capital redemption reserve		0.3	0.3
Share option reserve		1.3	1.1
Hedging and translation reserve		19.6	7.9
Retained (losses)/profits		(50.9)	19.8
Attributable to equity holders of the Company		476.8	535.5
Non-controlling interests		0.9	0.8
Total equity		477.7	536.3

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Share option reserve £m	Hedging and translation reserve £m	Retained (losses)/ profits £m	Total £m	Non-controlling interests £m	Total equity £m
At 31 December 2015 (restated)	59.1	447.3	0.3	1.4	(42.4)	182.7	648.4	0.9	649.3
(Loss)/profit after tax	-	-	-	-	-	(122.1)	(122.1)	0.5	(121.6)
Other comprehensive income/(expense)	-	-	-	-	50.3	(12.2)	38.1	-	38.1
Total comprehensive income/(expense)	-	-	-	-	50.3	(134.3)	(84.0)	0.5	(83.5)
Share capital issued in the year	-	-	-	-	-	-	-	-	-
Debit to share option reserve	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Exercise of share options	-	-	-	-	-	-	-	-	-
Deferred tax on share options	-	-	-	-	-	(0.6)	(0.6)	-	(0.6)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(0.6)	(0.6)
Dividends paid to equity holders of the Company	-	-	-	-	-	(28.0)	(28.0)	-	(28.0)
At 31 December 2016 (restated)	59.1	447.3	0.3	1.1	7.9	19.8	535.5	0.8	536.3
(Loss)/profit after tax	-	-	-	-	-	(59.6)	(59.6)	1.0	(58.6)
Other comprehensive income	-	-	-	-	11.7	6.9	18.6	-	18.6
Total comprehensive income/(expense)	-	-	-	-	11.7	(52.7)	(41.0)	1.0	(40.0)
Share capital issued in the year	0.1	-	-	-	-	-	0.1	-	0.1
Credit to share option reserve	-	-	-	0.2	-	-	0.2	-	0.2
Exercise of share options	-	-	-	-	-	-	-	-	-
Deferred tax on share options	-	-	-	-	-	0.2	0.2	-	0.2
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(0.9)	(0.9)
Dividends paid to equity holders of the Company	-	-	-	-	-	(18.2)	(18.2)	-	(18.2)
At 31 December 2017	59.2	447.3	0.3	1.3	19.6	(50.9)	476.8	0.9	477.7

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.

Consolidated Cash Flow Statement

for the year ended 31 December 2017

		2017	2016
	Note	£m	Restated £m
Net cash flow from operating activities			
Cash generated from operating activities	5	99.7	79.9
Income tax paid		(18.8)	(9.6)
Net cash generated from operating activities		80.9	70.3
Cash flows from investing activities			
Finance income received		0.5	1.2
Purchase of property, plant and equipment and computer software		(19.9)	(37.5)
Proceeds from sale of property, plant and equipment		34.6	39.5
Settlement of amounts payable for purchase of businesses		(6.9)	(25.3)
Net cash flow arising on the sale of businesses		17.6	-
Net cash generated from/(used in) investing activities		25.9	(22.1)
Cash flows from financing activities			
Finance costs paid		(13.1)	(13.7)
Capital element of finance lease rental payments		(3.5)	(2.6)
Issue of share capital		-	-
Repayment of loans/settlement of derivative financial instruments		(87.9)	(139.5)
New loans/settlement of derivative financial instruments		0.2	166.1
Dividends paid to equity holders of the Company	7	(18.2)	(28.0)
Dividends paid to non-controlling interest		(0.9)	(0.6)
Net cash used in financing activities		(123.4)	(18.3)
(Decrease)/increase in cash and cash equivalents in the year		(16.6)	29.9
Cash and cash equivalents at beginning of the year		104.3	62.8
Effect of foreign exchange rate changes		4.5	11.6
Cash and cash equivalents at end of the year		92.2	104.3

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 2017 and 31 December 2016 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 2016 have been filed with the Registrar of Companies, and those for 2017 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2017 and 2016, 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 new and revised Standards and Interpretations have been adopted in the current period:

- Annual Improvements to IFRSs 2014-2016 Cycle – various standards (amendments to IFRS 12 "Disclosure of Interests in Other Entities")
- Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12 "Income Taxes")
- Disclosure initiative - amendments to IAS 7 ("Statement of Cash Flows")

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

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 2017.

Prior year restatements

Following a whistleblowing allegation in SIG Distribution, the core insulation and interiors business in the UK, the Group has identified a historical overstatement of profit relating to the years ended 31 December 2016 and 2015 due to overstatement of balances recognised in relation to rebates receivable from suppliers. This error has been corrected by restating the prior year comparatives, reducing prepayments and accrued income (included with trade and other receivables) by £3.3m and trade and other liabilities by £0.8m at 31 December 2016 and prepayments and accrued income by £0.4m at 1 January 2016. The impact on the Consolidated Income Statement for the year ended 31 December 2016 is an increase in cost of sales (before Other items) of £3.7m resulting in an increase in operating loss and loss before tax of £3.7m and an increase in loss after tax of £3.0m. Net assets are £3.3m lower than previously reported at 31 December 2016 and £0.3m lower at 1 January 2016. There is no impact on the Consolidated Cash Flow Statement for the year ended 31 December 2016. The restatement increased basic and diluted loss per share from 20.1p per share to 20.6p per share for the year ended 31 December 2016. Notes 2, 3, 4, 5 and 10 have also been restated where relevant to incorporate these changes.

During 2017 year end close procedures the Group also identified a historical overstatement of cash and trade payables in relation to cash cut-off procedures associated with cheques issued around previous period ends. This error has been corrected by restating the prior year comparatives, reducing cash and cash equivalents (reduction in cash £0.6m and increase in bank overdrafts £19.2m) and trade payables by £19.8m at 31 December 2016. This restatement had no impact on the reported consolidated income statement or net assets. The consolidated cash flow statement has also been restated, with cash and cash equivalents at 1 January 2016 reduced by £23.9m to £62.8m and at 31 December 2016 by £19.8m to £104.3m, resulting in an increase in net cash generated from operating activities of £4.1m to £29.9m for the year ended 31 December 2016. Notes 2, 6 and 10 have also been restated to incorporate this adjustment.

The effect of the prior year restatement on each financial line item affected is shown in Note 11.

The above restatements impacted net debt and EBITDA which had an impact on leverage and interest cover covenant calculations, but the Group remained within covenant requirements for all relevant periods. Additional interest payable as a result of the restatements has been accrued for in this financial information.

Further details regarding the restatements are provided in the Audit Committee Report in the Group's Annual Report and Accounts for the year ended 31 December 2017.

2. Revenue and segmental information

Revenue

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

	2017 £m	2016 £m
Sale of goods	2,814.1	2,786.8
Revenue from construction contracts	64.3	58.4
Total revenue	2,878.4	2,845.2
Finance income	0.6	1.7
Total income	2,879.0	2,846.9

2. Revenue and segmental information (continued)

a) Segmental analysis

Segment revenues and results 2017

	UK & Ireland				Mainland Europe				Eliminations	Total
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m	£m	£m
Revenue										
Underlying revenue	797.5	409.5	98.3	1,305.3	660.7	425.9	386.6	1,473.2	-	2,778.5
Revenue attributable to businesses identified as non-core	4.4	34.5	41.4	80.3	-	7.6	12.0	19.6	-	99.9
Inter-segment revenue^	15.3	5.2	-	20.5	12.5	0.2	0.6	13.3	(33.8)	-
Total revenue	817.2	449.2	139.7	1,406.1	673.2	433.7	399.2	1,506.1	(33.8)	2,878.4
Result										
Segment result before Other items	9.9	32.9	4.8	47.6	26.2	11.5	21.7	59.4	-	107.0
Amortisation of acquired intangibles	(2.0)	(4.9)	(0.1)	(7.0)	(0.8)	-	(1.5)	(2.3)	-	(9.3)
Impairment charges	(6.8)	-	-	(6.8)	-	-	-	-	-	(6.8)
Losses on agreed sale or closure of non-core businesses and associated impairment charges	(7.6)	(28.6)	(31.9)	(68.1)	-	(1.2)	(3.1)	(4.3)	-	(72.4)
Net operating losses attributable to businesses identified as non-core	(0.8)	0.9	(13.8)	(13.7)	-	(0.2)	(0.4)	(0.6)	-	(14.3)
Net restructuring costs	(16.8)	(1.3)	(0.8)	(18.9)	(0.2)	(1.0)	(1.0)	(2.2)	-	(21.1)
Acquisition expenses and contingent consideration	(1.1)	(1.6)	1.9	(0.8)	-	-	(9.0)	(9.0)	-	(9.8)
Other specific items	0.1	5.4	-	5.5	-	-	-	-	-	5.5
Segment operating (loss)/profit	(25.1)	2.8	(39.9)	(62.2)	25.2	9.1	6.7	41.0	-	(21.2)
Parent Company costs										(12.7)
Operating loss										(33.9)
Net finance costs before Other items										(15.1)
Net fair value losses on derivative financial instruments										(1.7)
Unwinding of provision discounting										(0.5)
Loss before tax										(51.2)
Income tax expense										(7.4)
Non-controlling interests										(1.0)
Loss for the year										(59.6)

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

2. Revenue and segmental information (continued)

a) Segmental analysis (continued)

Segment revenues and results 2016

	UK & Ireland				Mainland Europe				Eliminations	Total
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m		
Revenue										
Underlying revenue	781.2	414.8	85.5	1,281.5	589.2	385.6	331.1	1,305.9	-	2,587.4
Revenue attributable to businesses identified as non-core	4.7	63.0	148.3	216.0	-	27.6	14.2	41.8	-	257.8
Inter-segment revenue^	13.9	2.0	0.3	16.2	12.5	0.2	1.9	14.6	(30.8)	-
Total revenue	799.8	479.8	234.1	1,513.7	601.7	413.4	347.2	1,362.3	(30.8)	2,845.2
Result (restated)*										
Segment result before Other items	18.2	30.5	3.7	52.4	24.4	7.7	16.0	48.1	-	100.5
Amortisation of acquired intangibles	(2.2)	(4.9)	(1.0)	(8.1)	(0.8)	-	(1.4)	(2.2)	-	(10.3)
Impairment charges	-	-	-	-	(100.4)	-	(10.2)	(110.6)	-	(110.6)
Losses on agreed sale or closure of non-core businesses and associated impairment charges	-	-	(40.1)	(40.1)	-	-	-	-	-	(40.1)
Net operating losses attributable to businesses identified as non-core	(0.4)	2.9	(11.2)	(8.7)	-	0.6	0.2	0.8	-	(7.9)
Net restructuring costs	(8.8)	(0.2)	(1.6)	(10.6)	(1.5)	(0.7)	(0.5)	(2.7)	-	(13.3)
Acquisition expenses and contingent consideration	5.3	(2.0)	1.4	4.7	-	-	(0.1)	(0.1)	-	4.6
Defined benefit pension scheme curtailment loss	(0.9)	-	-	(0.9)	-	-	-	-	-	(0.9)
Other specific items	(5.5)	-	(0.5)	(6.0)	-	-	0.1	0.1	-	(5.9)
Segment operating (loss)/profit	5.7	26.3	(49.3)	(17.3)	(78.3)	7.6	4.1	(66.6)	-	(83.9)
Parent Company costs										(10.8)
Operating loss										(94.7)
Net finance costs before Other items										(13.8)
Net fair value losses on derivative financial instruments										(1.9)
Unwinding of provision discounting										0.4
Loss before tax										(110.0)
Income tax expense										(11.6)
Non-controlling interests										(0.5)
Loss for the year										(122.1)

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

The 2016 results have been restated as noted in the basis of preparation (Note 1) and set out in prior year restatement (Note 11).

2. Revenue and segmental information (continued)

a) Segmental analysis (continued)

Balance sheet 2017

	UK & Ireland				Mainland Europe				
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m	Total £m
Assets									
Segment assets	360.0	221.0	59.6	640.6	343.4	124.4	204.1	671.9	1,312.5
<i>Unallocated assets:</i>									
Property, plant and equipment									0.1
Derivative financial instruments									1.3
Deferred consideration									-
Other financial assets									-
Cash and cash equivalents									10.2
Deferred tax assets									0.2
Other assets									11.5
Consolidated total assets									<u>1,335.8</u>
Liabilities									
Segment liabilities	190.5	59.0	45.0	294.5	149.2	36.0	61.4	246.6	541.1
<i>Unallocated liabilities:</i>									
Private placement notes									204.2
Bank loans									75.7
Derivative financial instruments									3.5
Other liabilities									33.6
Consolidated total liabilities									<u>858.1</u>
Other segment information									
<i>Capital expenditure on:</i>									
Property, plant and equipment	6.5	2.3	1.1	9.9	5.4	2.1	2.0	9.5	19.4
Computer software	2.3	-	-	2.3	0.2	0.1	0.6	0.9	3.2
Goodwill and intangible assets (excluding computer software)	-	-	-	-	-	0.1	-	0.1	0.1
<i>Non-cash expenditure:</i>									
Depreciation	7.7	1.9	1.2	10.8	6.0	3.0	3.1	12.1	22.9
Impairment of property, plant and equipment and computer software	7.6	-	2.7	10.3	-	-	0.3	0.3	10.6
Amortisation of acquired intangibles and computer software	4.1	4.9	0.6	9.6	1.4	0.4	1.6	3.4	13.0
Impairment of goodwill and intangibles (excluding computer software)	5.6	-	1.0	6.6	-	-	-	-	6.6

2. Revenue and segmental information (continued)

a) Segmental analysis (continued)

Balance sheet 2016

	UK & Ireland				Mainland Europe				
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	Total £m	France £m	Germany £m	Other Europe £m	Total £m	Total £m
Assets (restated)									
Segment assets	391.9	283.0	109.4	784.3	351.3	130.0	201.1	682.4	1,466.7
<i>Unallocated assets:</i>									
Property, plant and equipment									0.9
Derivative financial instruments									4.5
Deferred consideration									0.7
Other financial assets									-
Cash and cash equivalents									14.5
Deferred tax assets									2.3
Other assets									-
Consolidated total assets									<u>1,489.6</u>
Liabilities (restated)									
Segment liabilities	186.9	85.5	62.2	334.6	143.9	34.5	52.6	231.0	565.6
<i>Unallocated liabilities:</i>									
Private placement notes									200.7
Bank loans									158.8
Derivative financial instruments									3.8
Other liabilities									24.4
Consolidated total liabilities									<u>953.3</u>
Other segment information									
<i>Capital expenditure on:</i>									
Property, plant and equipment	14.2	3.4	4.1	21.7	3.9	5.3	2.8	12.0	33.7
Computer software	4.6	0.1	0.1	4.8	0.6	0.5	0.3	1.4	6.2
Goodwill and intangible assets (excluding computer software)	6.1	4.1	0.4	10.6	1.4	-	6.5	7.9	18.5
<i>Non-cash expenditure:</i>									
Depreciation	10.5	2.4	1.5	14.4	5.1	3.4	3.1	11.6	26.0
Impairment of property, plant and equipment and computer software	8.2	-	3.8	12.0	-	-	-	-	12.0
Amortisation of acquired intangibles and computer software	4.4	5.0	1.5	10.9	1.0	0.3	1.6	2.9	13.8
Impairment of goodwill and intangibles (excluding computer software)	-	-	22.0	22.0	100.4	-	10.2	110.6	132.6

*The 2016 results have been restated as noted in the basis of preparation (Note 1) and set out in prior year restatement (Note 11).

2. Revenue and segmental information (continued)

b) Revenue by product group

The Group focuses its activities into three product sectors: insulation and interiors; roofing and exteriors; and air handling.

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

	2017 £m	2016 £m
Insulation and interiors	1,718.9	1,571.1
Roofing and exteriors	814.5	808.9
Air handling	245.1	207.4
Total underlying	2,778.5	2,587.4
Attributable to businesses identified as non-core	99.9	257.8
Total	2,878.4	2,845.2

c) Geographic information

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

Country	2017		2016	
	Revenue £m	Non-current assets £m	Revenue £m	Non-current assets £m
United Kingdom	1,207.0	265.0	1,196.0	298.0
Ireland	98.3	2.8	85.5	2.7
France	660.7	126.0	589.2	124.6
Germany	425.9	18.5	385.6	21.7
Poland	142.8	6.7	115.1	6.9
Benelux*	243.8	52.3	216.0	52.3
Total continuing	2,778.5	471.3	2,587.4	506.2
Attributable to businesses identified as non-core	99.9	0.3	257.8	50.7
Total	2,878.4	471.6	2,845.2	556.9

*Includes the Air handling business managed from The Netherlands.

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

3. Income tax

The income tax expense comprises:

	2017 £m	2016 Restated £m
Current tax		
UK & Ireland corporation tax: - charge for the year	0.6	0.1
- adjustments in respect of previous years	0.2	-
	0.8	0.1
France corporation tax: - charge for the year	7.0	6.5
- adjustments in respect of previous years	(0.2)	-
	6.8	6.5
Germany corporation tax: - charge for the year	2.8	1.8
- adjustments in respect of previous years	0.2	-
	3.0	1.8
Other corporation tax: - charge for the year	4.0	3.1
- adjustments in respect of previous years	0.5	(0.6)
	4.5	2.5
Total current tax	15.1	10.9
Deferred tax		
Current year	(2.1)	1.1
Adjustments in respect of previous years	(6.9)	(0.3)
Deferred tax charge in respect of pension schemes*	0.3	0.2
Effect of change in rate	1.0	(0.3)
Total deferred tax	(7.7)	0.7
Total income tax expense	7.4	11.6

* Includes a charge of £nil (2016: £0.1m) in respect of the change in rate.

3. 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:

	2017		2016 Restated	
	£m	%	£m	%
Loss on ordinary activities before tax	(51.2)		(110.0)	
Expected tax credit	(2.5)	4.9	(31.1)	28.3
Factors affecting the income tax expense for the year:				
– expenses not deductible for tax purposes [^]	3.9	(7.6)	9.0	(8.1)
– income non-taxable [*]	(1.8)	3.5	(5.5)	5.0
– impairment and disposal charges not deductible for tax purposes ^{**}	9.1	(17.9)	38.9	(35.4)
– losses arising in the year not recognised for deferred tax purposes	3.3	(6.4)	1.4	(1.3)
– other adjustments in respect of previous years ^{***}	(6.2)	12.1	(1.1)	1.0
– tax on branch profits	0.6	(1.2)	0.2	(0.2)
– effect of change in rate on deferred tax	1.0	(1.9)	(0.2)	0.2
Total income tax expense	7.4	(14.5)	11.6	(10.5)

[^] The majority of the Group's expenses that are not deductible for tax purposes are primarily in relation to the divestments of businesses and contingent consideration adjustments.

^{*} The majority of the Group's non-taxable income relates to French employment tax credits and to contingent consideration adjustments.

^{**} During the year the Group incurred impairment charges of £6.0m and disposal costs of £39.5m in relation to goodwill (2016: £127.9m). These impairment and disposal charges are not deductible for tax purposes.

^{***} In the prior year the Group was in the process of disposing of a number of businesses and the tax deductibility and utilisation of the write downs was uncertain. Following an investigation of these matters with the Group's tax advisors it was determined that these expenses were tax deductible.

The effective tax rate for the Group on the total loss before tax of £51.2m is negative 14.5% (2016: negative 10.5%). The effective tax charge for the Group on profit before tax before Other items of £79.2m is 25.9% (2016: 23.8%), which comprises a tax charge of 27.9% (2016: 24.5%) in respect of current year profits and a tax credit of 2.0% (2016: 0.7%) in respect of prior years.

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

- the mix of profits and losses between the tax jurisdictions in which the Group operates; in particular the tax rates in France, Germany and Belgium are relatively high when compared to the Group's underlying effective rate and so if the proportion of profits from these jurisdictions changes, this could result in a higher or lower Group tax charge;
- the impact of non-deductible expenditure and non-taxable income;
- agreement of open tax computations with the respective tax authorities; and
- the recognition or utilisation (with corresponding reduction in cash tax payments) of unrecognised deferred tax assets.

On 26 October 2017, the European Commission ("EC") announced an investigation into the UK's controlled foreign company ("CFC") rules. The UK's CFC rules provide an exemption for 75% of the CFC charge where the CFC is carrying out financing activities. The EC is investigating whether the UK's exemption is in breach of EU State Aid rules. This exemption has been claimed by SIG and the Group is monitoring developments in relation to the EC's investigation. The Group does not currently consider that a provision against the potential liability is required.

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

	2017	2016 Restated
	£m	£m
Deferred tax movement associated with remeasurement of defined benefit pension liabilities [*]	(0.9)	2.3
Deferred tax on share options	0.2	(0.6)
Tax (charge)/credit on exchange and fair value movements arising on borrowings and derivative financial instruments	(1.8)	6.3
Effect of change in rate on deferred tax [*]	(0.2)	(0.5)
Total	(2.7)	7.5

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

4. (Loss)/earnings per share

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

	Basic and diluted	
	2017	2016
	£m	Restated £m
Loss after tax	(58.6)	(121.6)
Non-controlling interests	(1.0)	(0.5)
	(59.6)	(122.1)
	Basic and diluted before Other items	
	2017	2016
	£m	Restated £m
Loss after tax	(58.6)	(121.6)
Non-controlling interests	(1.0)	(0.5)
Other items:		
Amortisation of acquired intangibles	9.3	10.3
Impairment charges	6.8	110.6
Losses on agree sale or closure of non-core businesses and associated impairment charges (Note 8)	72.4	40.1
Net operating losses attributable to businesses identified as non-core (Note 8)	14.3	7.9
Net restructuring costs	21.1	13.3
Acquisition expenses and contingent consideration	9.8	(4.6)
Defined benefit pension scheme curtailment loss	-	0.9
Other specific items	(5.5)	5.9
Net fair value losses on derivative financial instruments	1.7	1.9
Unwinding of provision discounting	0.5	(0.4)
Tax credit relating to Other items	(9.9)	(5.9)
Effect of change in rate on deferred tax	1.0	(0.2)
Other tax adjustments in respect of previous years	(4.2)	(0.4)
	57.7	57.3

Weighted average number of shares

	2017	2016
	Number	Number
For basic and diluted earnings per share	591,489,053	591,365,906

	2017	2016
		Restated
Loss per share		
Basic and diluted loss per share	(10.1)p	(20.6)p
Earnings per share before Other items[^]		
Basic and diluted earnings per share	9.8p	9.7p

[^] 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.

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

	2017			2016		
	Other items	Tax impact	Tax impact	Other items	Tax impact	Tax impact
	£m	£m	%	£m	£m	%
Amortisation of acquired intangibles	9.3	1.9	20.4	10.3	2.1	20.4
Goodwill and intangible impairment charges	6.8	1.3	19.1	110.6	-	-
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 8)	72.4	2.0	2.8	40.1	0.9	2.2
Net operating losses attributable to businesses identified as non-core	14.3	1.4	9.8	7.9	(0.1)	(1.3)
Net restructuring costs	21.1	4.1	19.4	13.3	2.9	21.8
Acquisition expenses and contingent consideration	9.8	-	-	(4.6)	-	-
Defined benefit pension scheme curtailment loss	-	-	-	0.9	0.2	22.2
Other specific items	(5.5)	(1.1)	20.0	5.9	(0.5)	(8.5)
Impact on operating loss	128.2	9.6	7.5	184.4	5.5	3.0
Net fair value losses on derivative financial instruments	1.7	0.3	17.6	1.9	0.4	21.1
Unwinding of provision discounting	0.5	-	-	(0.4)	-	-
Impact on loss before tax	130.4	9.9	7.6	185.9	5.9	3.2
Effect of change in rate on deferred tax	-	(1.0)	-	-	0.2	-
Other tax adjustments in respect of previous years	-	4.2	-	-	0.4	-
Impact on loss attributable to equity holders of the Company	130.4	13.1	10.0	185.9	6.5	3.5

5. Reconciliation of operating loss to cash generated from operating activities

	2017	2016 Restated
	£m	£m
Operating loss	(33.9)	(94.7)
Depreciation	22.9	26.0
Amortisation of computer software	3.7	3.5
Amortisation of acquired intangibles	9.3	10.3
Impairment of computer software	6.8	7.9
Impairment of property, plant and equipment	3.8	0.3
Goodwill and intangible impairment charges (excluding computer software)	6.6	110.6
Losses on agreed sale or closure of non-core businesses [^]	63.6	40.1
Profit on sale of property, plant and equipment	(20.2)	(8.5)
Share-based payments	0.2	(0.3)
Working capital movements:		
Increase in inventories	(0.3)	(0.5)
Decrease/(increase) in receivables	30.3	(27.6)
Increase in payables	6.9	12.8
Cash generated from operating activities	99.7	79.9

[^] The total losses on agreed sale or closure of non-core businesses of £72.4m includes the £63.6m above, together with £6.6m in relation to impairment of Goodwill and £2.2m in relation to impairment of property, plant and equipment.

Included within the cash generated from operating activities is a defined benefit pension scheme employer's contribution of £2.5m (2016: £2.5m).

Of the total profit on sale of property, plant and equipment, £5.8m (2016: £2.8m) has been included within Other items of the Consolidated Income Statement.

Included within working capital movements are payments of £2.7m (2016: £6.1m) in settlement of contingent consideration dependent upon the vendors remaining with the business. Receivables have decreased due to debt factoring of £48.7m (2016: £nil).

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

	2017	2016 Restated
	£m	£m
(Decrease)/increase in cash and cash equivalents in the year	(16.6)	29.9
Cash flow from decrease/(increase) in debt	93.9	(19.5)
Decrease in net debt resulting from cash flows	77.3	10.4
Debt added on acquisition	-	(1.6)
Debt relating to divested businesses	3.1	-
Recognition of loan notes	(17.0)	(2.7)
Non-cash items [^]	(3.3)	(14.4)
Exchange differences	(4.2)	(11.6)
Decrease/(increase) in net debt in the year	55.9	(19.9)
Net debt at 1 January	(279.7)	(259.8)
Net debt at 31 December	(223.8)	(279.7)

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

Net debt has decreased by £48.7m (2016: £nil) due to debt factoring.

Net debt is defined as follows:

	2017	2016 Restated
	£m	£m
Non-current assets:		
Derivative financial instruments	0.1	4.4
Deferred consideration	1.4	-
Current assets:		
Derivative financial instruments	1.2	0.1
Deferred consideration	0.1	0.7
Other financial assets	-	1.1
Cash and cash equivalents	121.8	127.0
Current liabilities:		
Obligations under finance lease contracts	(3.1)	(3.1)
Bank overdrafts	(29.6)	(22.7)
Bank loans	(84.2)	(171.6)
Private placement notes	(21.1)	-
Loan notes and deferred consideration	(17.0)	(2.7)
Derivative financial instruments	(0.2)	(0.2)
Non-current liabilities:		
Obligations under finance lease contracts	(6.8)	(8.1)
Bank loans	-	(0.3)
Private placement notes	(183.1)	(200.7)
Derivative financial instruments	(3.3)	(3.6)
Net debt	(223.8)	(279.7)

7. Dividends

An interim dividend of 1.25p per ordinary share was paid on 3 November 2017 (2016: 1.83p). The Directors have proposed a final dividend for the year ended 31 December 2017 of 2.5p per ordinary share (2016: 1.83p). The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in this financial information. Total dividends paid during the year, including the final dividend for 2016, were £18.2m (2016: £28.0m). No dividends have been paid between 31 December 2017 and the date of signing the Annual Report and Accounts.

At 31 December 2017 the Company has c.£53m of distributable reserves, as set out in the Company Financial Statements, and when required the Company can further increase these distributable reserves from appropriate repatriation of funds from subsidiary undertakings. Whilst the level of distributable reserves is sufficient to support the Group's dividend policy over the short term, the Directors intend to carry out a review during the coming year in order to optimise existing reserves.

8. Divestments and exit of non-core businesses

The Group has recognised a total charge of £72.4m (2016: £40.1m) in respect of "losses on agreed sale or closure of non-core businesses and associated impairment charges" within Other items of the Consolidated Income Statement.

Divested businesses

The Group has divested of the following businesses during the year:

Carpet & Flooring

As disclosed in the 2016 Annual Report and Accounts, at 31 December 2016 the Group Board had resolved to dispose of its UK specialist flooring distribution operation, Carpet & Flooring, and because a loss was anticipated the net assets of the business were impaired to reflect the estimated net proceeds. The disposal was completed on 28 February 2017 for consideration of £7.2m and resulted in a further loss on disposal within Other items in the Consolidated Income Statement in 2017 of £2.3m.

Drywall Qatar

As disclosed in the 2016 Annual Report and Accounts, at 31 December 2016 the Group Board had resolved to exit the Drywall Qatar business, and because a loss was anticipated the goodwill and fixed assets of the business were impaired. The disposal was completed on 27 March 2017. The Group has recognised further costs relating to the sale in the period ended 31 December 2017, and in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" the cumulative exchange differences on the retranslation of the net assets and goodwill intangibles of the business (£1.2m credit) have been reclassified to the Consolidated Income Statement, resulting in an overall net loss on disposal within Other items in the Consolidated Income Statement of £0.4m.

WeGo Austria

In May and June 2017 the Group sold certain trade and assets of WeGo Systembaustoffe Austria GmbH ("WeGo Austria") for consideration of £1.7m, and the entity has subsequently been liquidated, resulting in an overall loss on disposal within Other items in the Consolidated Income Statement of £1.2m.

Building Plastics

On 3 August 2017 the Group disposed of its UK building plastics distribution business ("Building Plastics"), part of the UK Exteriors division, for consideration of up to £20.3m, comprising an initial cash payment of £18.0m plus up to £2.3m of future consideration contingent on future performance of the business and payable in July 2019. The loss arising on disposal of £28.6m has been disclosed within Other items in the Consolidated Income Statement.

Air Handling Turkey

On 21 December 2017 the Group disposed of its shareholding in Air Trade Centre East BV and A.T.C. Air Trade Centre Havealandirma Aiatemieri Ticaret Limited Sirketi (together, "Air Handling Turkey"). Consideration for the sale was £3.1m, comprising an initial cash payment of £1.6m and £1.6m converted to a vendor loan repayable over 48 months from October 2018 which is recognised at the present value of future cash payments of £1.5m. The loss arising on disposal of £1.8m has been included within Other items in the Consolidated Income Statement. In addition, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", the cumulative exchange differences on the retranslation of the net assets of the business (£1.3m debit) have been reclassified to the Consolidated Income Statement, resulting in an overall net loss on disposal within Other items in the Consolidated Income Statement of £3.1m.

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

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

	Building Plastics		Other	
	At date of disposal	At 31 December 2016	At date of disposal	At 31 December 2016
	£m	£m	£m	£m
Attributable goodwill	39.0	39.0	0.8	-
Property, plant and equipment	0.5	1.0	1.3	1.5
Cash	-	-	8.6	0.1
Inventories	5.8	4.4	4.4	13.6
Trade and other receivables	0.7	0.5	13.8	19.7
Trade and other payables	-	-	(9.6)	(22.9)
Provisions	-	-	-	(0.1)
Bank and other loans	-	-	(1.6)	(0.1)
Net assets	46.0	44.9	17.7	11.8
Other costs	1.8		1.2	
Provision release	(1.2)		-	
Reclassification of cumulative exchange differences to Consolidated Income Statement	-		0.1	
Loss on disposal	(28.6)		(7.0)	
Sale proceeds	18.0		12.0	
Satisfied by:				
Cash and cash equivalents	18.0		10.5	
Deferred consideration (vendor loan note)	-		1.5	
	18.0		12.0	

Other non-core businesses

The Group has also divested of or agreed to exit/divest from the following businesses:

Building Systems

On 28 February 2018 the Group agreed terms to sell the trade and assets of SIG Building Systems Limited ("Building Systems"), the Group's offsite manufacturer of modular housing, to Urban Splash House Limited and the sale completed on 2 March 2018. The assets of the business have been impaired to reflect the recoverable amount indicated by the consideration received in respect of the sale. The write-downs and provisions in anticipation of the sale of the business of £7.9m have been disclosed within Other items in the Consolidated Income Statement. The business did not meet the criteria under IFRS 5 to be classified as held for sale at 31 December 2017.

The associated assets and liabilities of the Building Systems business were as follows:

	At 31 December 2017			At 31 December 2016
	Recoverable value	Impairment and asset write-down	Original carrying value	
	£m	£m	£m	£m
Property, plant and equipment	-	(2.1)	2.1	2.5
Inventories	-	(1.1)	1.1	0.2
Trade and other receivables	2.9	(0.9)	3.8	4.0
Trade and other payables	(4.3)	(1.3)	(3.0)	(1.1)
Net (liabilities)/ assets	(1.4)	(5.4)	4.0	5.6

In addition to the impairment and asset write-down above, £2.5m of provisions have been recorded in the Consolidated Balance Sheet in relation to ongoing property costs to be incurred by the Group, resulting in a total loss arising in anticipation of the sale of £7.9m.

GRM

On 2 February 2018 the Group completed the disposal of GRM Insulation Solutions ("GRM"), a division of SIG Trading Limited and part of the UK Distribution CGU. The goodwill, fixed assets and inventories associated with the business of £4.4m have been impaired to reflect the recoverable amount indicated by the sale proceeds and further costs of £1.3m have been accrued in relation to the sale. The loss arising on the agreed sale of £5.7m has been disclosed within Other items in the Consolidated Income Statement. The business did not meet the criteria under IFRS 5 to be classified as held for sale at 31 December 2017. The recoverable value of net assets of GRM at the balance sheet date, after the impairments and write-downs noted above, is £0.1m of fixed assets.

Metecho

On 27 March 2017 the Directors of Metecho Limited, a subsidiary of the Group, commenced the orderly wind down of Metecho Limited. The assets of the business and associated goodwill have been impaired to reflect the recoverable amount indicated by the period end impairment review process, resulting in a total loss on wind down of £4.2m included in Other items in the Consolidated Income Statement.

Middle East

The Group has announced the closure of its business in the Middle East. The assets of the business and associated goodwill have been impaired to reflect the recoverable amount indicated by the period end impairment review process, resulting in a total loss on wind down of £17.1m (principally relating to provisions for trade receivables, provisions for inventories and stock provisions and other closure costs) included in Other items in the Consolidated Income Statement. The closing net liabilities in relation to the Middle East business included in the Consolidated Balance Sheet at 31 December 2017 are £5.1m (2016: net assets of £7.6m).

IBSL

On 2 March 2018 the Group completed the disposal of IBSL, a small industrial insulation division operated by SIG Trading Limited and part of the UK Distribution CGU. The assets of the business have been impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell of £0.1m, resulting in an impairment of goodwill and intangible assets associated with the business of £1.6m and write down of inventories of £0.2m. The assets and liabilities have been classified as held for sale on the Consolidated Balance Sheet at 31 December 2017 (comprising fixed assets of £0.2m, inventories of £0.1m and liabilities of £0.1m). The total loss arising on the agreed sale of £1.9m has been disclosed within Other items in the Consolidated Income Statement.

Manufacturing in Poland

In December 2017 the Group ceased the processing of insulation product at its Sitaco subsidiary in Poland. Costs in relation to the closure of £0.9m have been recognised and included within Other items in the Consolidated Income Statement. It is not possible to separately identify the revenue and operating results in relation to this closure as the business continues to perform distribution activities. Therefore no amounts have been included in Other items in relation to revenue and operating profit/loss in either of the 2017 or 2016 periods.

The impairments for Building Plastics, IBSL, GRM, Metecho and Building Systems were charged to administration expenses within the respective segments.

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 continuing earnings of the Group. The amounts contributed to Revenue and Operating profit/(loss) before Other items for the year ended 31 December 2017 and 2016 are as follows:

	2017		2016	
	Revenue	Net operating profit/(loss)	Revenue	Net operating profit/(loss)
	£m	£m	£m	£m
Carpet & Flooring	11.4	(0.7)	97.5	(3.0)
Drywall Qatar	1.2	(1.4)	7.9	(2.8)
Businesses identified as non-core in 2016	12.6	(2.1)	105.4	(5.8)
Building Plastics	34.5	0.9	63.0	2.9
WeGo Austria	7.6	(0.2)	27.6	0.6
ATC Turkey	12.0	(0.4)	14.2	0.2
Building Systems	8.0	(7.6)	9.2	(6.2)
GRM	2.6	(0.8)	2.6	(0.6)
Metecho	1.3	(3.4)	3.3	(0.1)
Middle East	19.5	(0.7)	30.4	0.9
IBSL	1.8	-	2.1	0.2
Businesses identified as non-core in 2017	87.3	(12.2)	152.4	(2.1)
Total attributable to non-core businesses	99.9	(14.3)	257.8	(7.9)

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

The net cash inflow in the year ended 31 December 2017 in respect of divestments and the exit of non-core businesses is as follows:

	Carpet & Flooring	Drywall Qatar	WeGo Austria	Building Plastics	Air Handling Turkey	Total
	£m	£m	£m	£m	£m	£m
Cash consideration received for divestments	7.2	-	1.7	18.0	1.6	28.5
Cash at date of disposal	(6.6)	(0.1)	-	-	(1.9)	(8.6)
Disposal cost paid	(0.6)	(0.1)	(0.5)	(1.1)	-	(2.3)
Net cash (outflow)/ inflow	-	(0.2)	1.2	16.9	(0.3)	17.6

The losses arising on the agreed sale or closure of non-core businesses and associated impairment charges, along with their results for the current and prior periods have been disclosed within Other items in the Consolidated Income Statement in order to present the underlying earnings of the Group.

Events after the Balance Sheet Date

The disposals of the Building Systems, GRM and IBSL businesses completed after the balance sheet date, as disclosed above. There are no other post balance sheet events.

9. Related party transactions

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

SIG has a shareholding of less than 0.1% in a German purchasing co-operative. Net purchases from this co-operative (on commercial terms) totalled £318.5m in 2017 (2016: £283.8m). At the balance sheet date net trade payables in respect of the co-operative amounted to £10.1m (2016: £11.7m).

In 2017, SIG incurred expenses of £0.2m (2016: £0.3m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

Remuneration of key management personnel

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

	2017 £m	2016 £m
Short-term employee benefits	6.2	3.9
Termination and post-employment benefits	2.4	0.8
IFRS 2 share option charge/(credit)	0.2	(0.1)
	8.8	4.6

10. 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 or to adjust for businesses identified as non-core to provide information on the continuing 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 or where the Board has resolved to close or dispose of the businesses prior to signing the Annual Report and Accounts.

These measures are used by management for performance analysis, planning, reporting and incentive setting purposes and remain consistent year-on-year.

Information regarding covenant calculations (Notes 10a and 10c) is provided to show the financial measures used to calculate financial covenants as defined by the banking agreements.

a) Headline financial leverage covenant

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

	2017 £m	2016 Restated £m
Operating loss	(33.9)	(94.7)
Depreciation	22.9	26.0
Amortisation of computer software	3.7	3.5
Amortisation of acquired intangibles	9.3	10.3
Impairment charge	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges (note 8)	72.4	40.1
Net operating losses attributable to businesses identified as non-core*	14.3	5.8
Depreciation attributable to businesses identified as non-core*	(0.8)	(0.5)
Net restructuring costs	21.1	13.3
Acquisition expenses and contingent consideration	9.8	(4.6)
Defined benefit pension scheme curtailment loss	-	0.9
Other specific items	(5.5)	5.9
Annualised EBITDA impact of acquisitions	-	0.3
Covenant EBITDA	120.1	116.9

*The 2016 covenant calculation has not been restated to reflect the decisions made to exit non-core businesses after the signing of the 2016 Financial Statements (Note 8).

10. Non-statutory information (continued)

a) Headline financial leverage covenant (continued)

	2017	2016 Restated
	£m	£m
Reported net debt	223.8	279.7
Other covenant financial indebtedness	11.8	3.5
Foreign exchange adjustment*	(1.5)	(6.4)
Covenant net debt	234.1	276.8

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

	2017	2016
Headline financial leverage (covenant net debt to covenant EBITDA - maximum 3.0x)	1.9x	2.4x

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

Return on capital employed is the ratio of operating profit less taxation divided by average capital employed (average net assets plus average net debt). The ratio is used to understand the value creation to shareholders and to understand how effectively the Group is using the capital and resources it has available.

	2017	2016 Restated
	£m	£m
Operating loss	(33.9)	(94.7)
Income tax expense	(7.4)	(11.6)
Operating loss after tax	(41.3)	(106.3)

	2017	2016 Restated
	£m	£m
Operating loss	(33.9)	(94.7)
Amortisation of acquired intangibles	9.3	10.3
Impairment charges	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges	72.4	40.1
Net operating losses attributable to businesses identified as non-core	14.3	7.9
Net restructuring costs	21.1	13.3
Acquisition expenses and contingent consideration	9.8	(4.6)
Defined benefit pension scheme curtailment loss	-	0.9
Other specific items	(5.5)	5.9
Underlying operating profit	94.3	89.7
Income tax expense	(7.4)	(11.6)
Tax credit associated with Other items	(13.1)	(6.5)
Underlying operating profit after tax	73.8	71.6

	2017	2016
	£m	£m
Opening reported net assets (restated)	536.3	649.3
Opening reported net debt (restated)	279.7	259.8
Opening capital employed	816.0	909.1
Computer software impairment charges*	(6.8)	(14.7)
Goodwill and intangible impairment charges*	-	(110.6)
Losses on agreed sale or closure of non-core businesses and associated impairment charges*	(72.4)	(112.5)
Adjusted opening capital employed	736.8	671.3

10. Non-statutory information (continued)

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

	2017 £m	2016 £m
Closing reported net assets (2016 restated)	477.7	536.3
Closing reported net debt (2016 restated)	223.8	279.7
Closing capital employed	701.5	816.0
Computer software impairment charges*	-	(6.8)
Losses on agreed sale or closure of non-core businesses and associated impairment charges*	-	(72.4)
Adjusted closing capital employed	701.5	736.8
Average capital employed	758.8	862.6
Adjusted average capital employed*	719.2	704.1

* Capital employed has been adjusted to take into account the normalised impact of the goodwill and intangible impairment charges, the profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 8).

	2017	2016 Restated
Unadjusted ROCE (operating loss after tax to average capital employed)	(5.4)%	(12.3)%
ROCE (underlying operating profit after tax to adjusted average capital employed)	10.3%	10.2%

c) Covenant interest cover ratio

The covenant interest cover ratio is one of the primary covenants applicable to the Revolving Credit Facility and the Private Placement Notes. The monitoring of this covenant is therefore an important element of treasury risk management for the Group.

	2017 £m	2016 Restated £m
Operating loss	(33.9)	(94.7)
<i>Add back:</i>		
Amortisation of acquired intangibles	9.3	10.3
Impairment charges	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 8)	72.4	40.1
Net restructuring costs	21.1	13.3
Defined benefit pension scheme curtailment loss	-	0.9
Contingent consideration*	1.5	(4.7)
Other specific items**	(5.5)	6.3
Consolidated EBITA	71.7	82.1
Finance costs	17.9	17.0
Finance income	(0.6)	(1.7)
<i>Less:</i>		
Finance costs included within Other items	(2.3)	(2.0)
Finance income included within Other items	0.1	0.5
Interest costs arising on the defined benefit pension scheme	(0.7)	(0.5)
Covenant net interest payable	14.4	13.3
Interest cover ratio (consolidated EBITA to covenant net interest payable)	5.0x	6.2x

* This relates to the element of contingent consideration that is disallowed in the covenant calculation.

** Other specific items in 2016 is adjusted for the charge relating to fair value gains and losses on fuel hedging contracts of £0.4m. There were no contracts in 2017 and therefore the charge in 2017 is £nil.

10. Non-statutory information (continued)

d) Underlying profit before tax excluding property profits

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

	2017 £m	2016 Restated £m
Loss before tax	(51.2)	(110.0)
Amortisation of acquired intangibles	9.3	10.3
Impairment charges	6.8	110.6
Losses on agreed sale or closure of non-core businesses and associated impairment charges	72.4	40.1
Net operating losses attributable to businesses identified as non-core (Note 8)	14.3	7.9
Net restructuring costs	21.1	13.3
Acquisition expenses and contingent consideration	9.8	(4.6)
Defined benefit pension scheme curtailment loss	-	0.9
Other specific items	(5.5)	5.9
Net fair value losses and derivative financial instruments	1.7	1.9
Unwinding of provision discounting	0.5	(0.4)
Underlying profit before tax	79.2	75.9
Underlying property profits	(13.7)	(3.3)
Underlying profit before tax excluding property profits	65.5	72.6

e) Effective tax rates

The effective tax rate is a ratio of income tax expense to profit/(loss) before tax and is used to assess SIG's contribution to corporate taxation across the tax jurisdictions in which the Group operates.

	2017 £m	2016 Restated £m
Loss before tax	(51.2)	(110.0)
Other items	130.4	185.9
Underlying profit before tax (d above)	79.2	75.9

	2017 £m	2016 Restated £m
Income tax expense	(7.4)	(11.6)
Taxation credit associated with Other items	(13.1)	(6.5)
Underlying tax charge	(20.5)	(18.1)

	2017	2016 Restated
Effective tax rate (income tax expense to loss before tax)	(14.5)%	(10.5)%
Underlying effective tax rate (underlying tax charge to underlying profit before tax)	25.9%	23.8%

f) Like-for-like working capital to sales ratio

Like-for-like working capital to sales ratio is the ratio of closing working capital (including provisions but excluding pension scheme obligations) to annualised revenue (after adjusting for any acquisitions and disposals in the current and prior year) on a constant currency basis. The ratio is used to understand how effectively the Group is using the resources it has available.

	2017 £m	2016 Restated £m
<i>Current:</i>		
Inventories	243.5	250.6
Trade and other receivables	468.0	512.8
Trade and other payables	(429.0)	(421.6)
Provisions	(12.0)	(14.5)
<i>Non-current:</i>		
Other payables	(3.8)	(5.5)
Provisions	(13.8)	(22.4)
Reported working capital	252.9	299.4
Working capital for non-core businesses	1.1	(37.7)
Foreign exchange adjustment*	(2.9)	5.0
Adjusted working capital	251.1	266.7

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

10. Non-statutory information (continued)

f) Like-for-like working capital to sales ratio (continued)

	2017 £m	2016 £m
Reported revenue	2,878.4	2,845.2
Revenue attributable to business identified as non-core	(99.9)	(257.8)
Pre-acquisition revenue of the current year acquisitions for the period from 1 January to the acquisition dates	-	4.9
Foreign exchange adjustment	-	96.0
Adjusted revenue	2,778.5	2,688.3

	2017	2016 Restated
Reported working capital to reported revenue	8.8%	10.5%
Like-for-like working capital to sales ratio (adjusted working capital to adjusted revenue)	9.0%	9.9%

g) Net capital expenditure and net capital expenditure to depreciation ratio

Net capital expenditure to depreciation ratio is the ratio of capital expenditure to depreciation. The ratio is used to understand how investment in capital compares to the use of existing assets.

Maintenance capital expenditure

	2017 £m	2016 £m
Property, plant and equipment additions	(19.6)	(33.7)
Computer software additions	(3.2)	(6.2)
Capital expenditure	(22.8)	(39.9)
Depreciation	(22.9)	(26.0)
Amortisation of computer software	(3.7)	(3.5)
Depreciation (including amortisation of computer software)	(26.6)	(29.5)
Maintenance capital expenditure*	(22.8)	(29.5)

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

Investment capital expenditure

	2017 £m	2016 £m
Property, plant and equipment additions	(19.6)	(33.7)
Computer software additions	(3.2)	(6.2)
Capital expenditure	(22.8)	(39.9)
Less:		
Maintenance capital expenditure	22.8	29.5
Investment capital expenditure	-	(10.4)

Net capital expenditure

	2017 £m	2016 £m
Maintenance capital expenditure (above)	(22.8)	(29.5)
Investment capital expenditure (above)	-	(10.4)
Proceeds from sale of property, plant and equipment	34.6	39.5
Net capital expenditure	11.8	(0.4)

	2017	2016
Capital expenditure to depreciation ratio	0.86x	1.35x
Net capital expenditure to depreciation ratio	(0.44)x	0.01x

10. Non-statutory information (continued)

h) Gearing

Gearing is the ratio of net debt to net assets. It is used to understand the funding structure of the Group and is an important part of the treasury risk management of the Group.

	2017 £m	2016 Restated £m
Net assets	477.7	536.3
Net debt	223.8	279.7
Gearing (net debt to net assets ratio)	46.8%	52.2%

i) Cash inflow from trading

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

	2017 £m	2016 Restated £m
Cash generated from operating activities	99.7	79.9
<i>Addback:</i>		
Increase in inventories	0.3	0.5
(Decrease)/increase in receivables	(30.3)	27.6
Increase in payables	(6.9)	(12.8)
Cash inflow from trading	62.8	95.2

j) Operating costs as a percentage of sales

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

	Six months ended 30 June 2017 £m	Six months ended 31 December 2017 £m	Year ended 31 December 2017 £m	Six months ended 30 June 2016 £m	Six months ended 31 December 2016 £m	Year ended 31 December 2016 £m
Statutory revenue	1,439.2	1,439.2	2,878.4	1,375.2	1,470.0	2,845.2
Non-core businesses	(77.2)	(22.7)	(99.9)	(122.6)	(135.2)	(257.8)
Underlying revenue	1,362.0	1,416.5	2,778.5	1,252.6	1,334.8	2,587.4
Operating costs (statutory)	381.9	404.5	786.4	325.4	517.2	842.6
Other items	(64.6)	(79.6)	(144.2)	(39.6)	(201.6)	(241.2)
Underlying operating costs	317.3	324.9	642.2	285.8	315.6	601.4
Property profits	8.2	5.5	13.7	2.5	0.8	3.3
Underlying operating costs excluding property profits	325.5	330.4	655.9	288.3	316.4	604.7
Operating costs as a percentage of statutory revenue	26.5%	28.1%	27.3%	23.7%	35.2%	29.6%
Underlying operating costs excluding property profits as a percentage of underlying revenue	23.9%	23.3%	23.6%	23.0%	23.7%	23.4%

10. Non-statutory information (continued)

k) 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 organic branch openings and closures. This measure shows how the Group has developed its revenue for comparable business relative to the prior period. As such it is a key measure of the growth of the Group during the year.

	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	UK & Ireland £m	France £m	Germany £m	Poland £m	Benelux £m	Air Handling* £m	Mainland Europe £m	Group £m
Statutory revenue 2017	801.9	444.0	139.7	1,385.6	660.7	433.5	142.8	101.7	154.1	1,492.8	2,878.4
Non-core businesses	(4.4)	(34.5)	(41.4)	(80.3)	-	(7.6)	-	-	(12.0)	(19.6)	(99.9)
Underlying revenue 2017	797.5	409.5	98.3	1,305.3	660.7	425.9	142.8	101.7	142.1	1,473.2	2,778.5
Statutory revenue 2016	785.9	477.8	233.8	1,497.5	589.2	413.2	115.1	99.7	130.5	1,347.7	2,845.2
Non-core businesses	(4.7)	(63.0)	(148.3)	(216.0)	-	(27.6)	-	-	(14.2)	(41.8)	(257.8)
Underlying revenue 2016	781.2	414.8	85.5	1,281.5	589.2	385.6	115.1	99.7	116.3	1,305.9	2,587.4
<i>% change year on year:</i>											
Underlying revenue	2.1%	(1.3)%	15.0%	1.9%	12.1%	10.5%	24.1%	2.0%	22.2%	12.8%	7.4%
Impact of currency	-	-	(7.2)%	(0.5)%	(7.0)%	(7.0)%	(10.8)%	(6.3)%	(7.6)%	(7.3)%	(3.9)%
Impact of acquisitions	(0.2)%	(0.2)%	(0.1)%	(0.2)%	0.4%	-	-	-	(3.7)%	(0.2)%	(0.2)%
Impact of working days	0.4%	0.4%	0.4%	0.4%	0.4%	1.3%	0.4%	-	-	0.6%	0.5%
Like-for-like sales	2.3%	(1.1)%	8.1%	1.6%	5.9%	4.8%	13.7%	(4.3)%	10.9%	5.9%	3.8%

*represents the business managed from The Netherlands. Further Air Handling product category trading results are incorporated within the other operating segments.

l) Gross margin

Gross margin is the ratio of gross profit to revenue and is used to understand the value the Group creates from its trading activities.

	SIG Distribution %	SIG Exteriors %	Ireland & Other UK %	UK & Ireland %	France %	Germany %	Poland %	Benelux %	Air Handling* %	Mainland Europe %	Group %
Statutory gross margin 2017	23.9%	28.9%	16.8%	24.8%	27.6%	26.3%	20.0%	25.8%	37.7%	27.4%	26.1%
Impact of non-core businesses	-	(0.3)%	8.2%	0.7%	-	0.1%	-	-	0.7%	-	0.4%
Underlying gross margin 2017	23.9%	28.6%	25.0%	25.5%	27.6%	26.4%	20.0%	25.8%	38.4%	27.4%	26.5%
Statutory gross margin 2016	24.4%	29.2%	20.2%	25.3%	27.7%	26.6%	20.0%	25.2%	36.4%	27.4%	26.3%
Impact of non-core businesses	0.1%	(0.4)%	5.5%	0.6%	-	0.3%	-	-	0.9%	0.1%	0.4%
Underlying gross margin 2016	24.5%	28.8%	25.7%	25.9%	27.7%	26.9%	20.0%	25.2%	37.3%	27.5%	26.7%

*represents the business managed from The Netherlands. Further Air Handling product category trading results are incorporated within the other operating segments.

10. Non-statutory information (continued)

m) Operating profit before property profits

	SIG Distribution	SIG Exteriors	Ireland & Other UK	Total UK & Ireland	France	Germany	Other Europe	Total Mainland Europe	Parent Company Costs	Total Group
	£m	£m	£m	£'m	£m	£m	£m	£m	£m	£m
2017										
Underlying revenue (Note 2)	797.5	409.5	98.3	1,305.3	660.7	425.9	386.6	1,473.2	-	2,778.5
Underlying operating profit (Note 2^)	9.9	32.9	4.8	47.6	26.2	11.5	21.7	59.4	(12.7)	94.3
Property profits	(0.9)	(7.7)	-	(8.6)	(0.5)	(4.5)	(0.1)	(5.1)	-	(13.7)
Underlying operating profit before property profits	9.0	25.2	4.8	39.0	25.7	7.0	21.6	54.3	(12.7)	80.6
^Underlying operating profit equals segmental result before Other items										
Return on sales*	1.2%	8.0%	4.9%	3.6%	4.0%	2.7%	5.6%	4.0%	n/a	3.4%
Return on sales (excluding property profits)*	1.1%	6.2%	4.9%	3.0%	3.9%	1.6%	5.6%	3.7%	n/a	2.9%
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2016										
Underlying revenue (Note 2)	781.2	414.8	85.5	1,281.5	589.2	385.6	331.1	1,305.9	-	2,587.4
Underlying operating profit (Note 2^)	18.2	30.5	3.7	52.4	24.4	7.7	16.0	48.1	(10.8)	89.7
Property profits	(3.3)	-	-	(3.3)	-	-	-	-	-	(3.3)
Underlying operating profit before property profits	14.9	30.5	3.7	49.1	24.4	7.7	16.0	48.1	(10.8)	86.4
^Underlying operating profit equals segmental result before Other items										
Return on sales*	2.3%	7.4%	4.3%	4.1%	4.1%	2.0%	4.8%	3.7%	n/a	3.5%
Return on sales (excluding property profits)*	1.9%	7.4%	4.3%	3.8%	4.1%	2.0%	4.8%	3.7%	n/a	3.3%

* Return on sales is also referred to as underlying operating margin.

n) Other non-statutory measures

In addition to the alternative performance measures noted above, the Group also uses underlying EPS (as set out in Note 4) and underlying net finance costs.

11. Prior year restatement

During 2017, the Group discovered that profit had been overstated in relation to rebates receivable from suppliers and cash had been overstated in relation to cash cut-off procedures. As a consequence, cost of sales and the related assets and liabilities have been overstated. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the financial information.

a) Consolidated Balance Sheet

As at 1 January 2016	Impact of restatements		
	As previously reported	Adjustments	As restated
	£m	£m	£m
Deferred tax assets	21.0	0.1	21.1
Trade and other receivables	468.1	(0.4)	467.7
Cash and cash equivalents	146.2	(23.9)	122.3
Other assets	955.2	-	955.2
Total assets	1,590.5	(24.2)	1,566.3
Trade and other payables	417.7	(23.9)	393.8
Bank overdrafts	59.5	-	59.5
Other liabilities	463.7	-	463.7
Total liabilities	940.9	(23.9)	917.0
Retained profits	183.0	(0.3)	182.7
Other capital and reserves	466.6	-	466.6
Total equity	649.6	(0.3)	649.3

As at 1 January 2017	Impact of restatements		
	As previously reported	Adjustments	As restated
	£m	£m	£m
Deferred tax assets	16.4	0.8	17.2
Trade and other receivables	516.1	(3.3)	512.8
Cash and cash equivalents	127.6	(0.6)	127.0
Other assets	832.6	-	832.6
Total assets	1,492.7	(3.1)	1,489.6
Trade and other payables	440.6	(19.0)	421.6
Bank overdrafts	3.5	19.2	22.7
Other liabilities	509.0	-	509.0
Total liabilities	953.1	0.2	953.3
Retained profits	23.1	(3.3)	19.8
Other capital and reserves	516.5	-	516.5
Total equity	539.6	(3.3)	536.3

b) Consolidated Income Statement and Other Comprehensive Income

For the year ended 31 December 2016	Impact of restatements		
	As previously reported	Adjustments	As restated
	£m	£m	£m
Cost of sales	(2,093.6)	(3.7)	(2,097.3)
Income tax expense	(12.3)	0.7	(11.6)
Other income/(expenses)	1,987.3	-	1,987.3
Loss after tax	(118.6)	(3.0)	(121.6)
Total comprehensive expense	(80.5)	(3.0)	(83.5)
Loss per share	(20.1)p	(0.5)p	(20.6)p

11. Prior year restatement (continued)

c) Consolidated Cash Flow Statement

For the year ended 31 December 2016	Impact of restatements		
	As previously reported	Adjustments	As restated
	£m	£m	£m
Net cash generated from operating activities	66.2	4.1	70.3
Other cash flows	(40.4)	-	(40.4)
Increase in cash and cash equivalents in the year	25.8	4.1	29.9
Cash and cash equivalents at beginning of the year	86.7	(23.9)	62.8
Effect of foreign exchange rate changes	11.6	-	11.6
Cash and cash equivalents at end of the year	124.1	(19.8)	104.3

d) Consolidated Statement of Changes in Equity

For the year ended 31 December 2016	Impact of restatements		
	As previously reported	Adjustments	As restated
	£m	£m	£m
Total equity at 31 December 2014	664.3	-	664.3
Profit after tax	36.3	(0.3)	36.0
Other movements in equity	(51.0)	-	(51.0)
Total equity at 31 December 2015	649.6	(0.3)	649.3
Loss after tax	(118.6)	(3.0)	(121.6)
Other movements in equity	8.6	-	8.6
Total equity at 31 December 2016	539.6	(3.3)	536.3

12. Viability Statement

In accordance with the requirements of the 2016 UK Corporate Governance Code ("the Code"), the Directors confirm that they have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. As such, the key factors affecting the Group's prospects are:

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

The Board has determined that a three-year period to 31 December 2020 is the most appropriate time period for its viability review. This period has been selected since it gives the Board sufficient visibility into the future, due to industry characteristics, business cycle and the tenor of existing financing, to make a realistic viability assessment. This aligns with the turnaround 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 2020. The process included a detailed review of the plan, led by the Chief Executive Officer and Chief Financial Officer in conjunction with input from divisional and functional management teams. The Board participated fully in this process by means of an extended Board meeting to review and approve the plan.

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

- Modest but realistic growth: The Group is targeting top-line sales growth in line with the market over the medium-term. Other than the strategic levers and the impact of the annualising cost saving actions taken in 2017, trading is assumed to be on a 'business as usual' basis.
- Strategic levers: Improvements are assumed as a result of the delivery of the three strategic levers:
 - Operational efficiency: operating cost savings and working capital reduction;
 - Customer value: pricing and product, enhancing gross margin for the Group; and
 - Customer service: sales and service improvements.
- Dividends: No change in the stated dividend policy.
- Availability of financing: No change in capital structure as the refinancing undertaken in 2016 ensures that SIG has sufficient funding headroom and liquidity in place to support its plans over the medium-term.

12. Viability Statement (continued)

Assessment of viability

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

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

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

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

After conducting their viability review, and taking into account the Group's current position and principal risks, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment to 31 December 2020.

13. Going concern basis

In determining whether the Group's 2017 financial information can be prepared on a going concern basis, the Directors considered all factors likely to affect its future development, performance and financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities.

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 impacting the Group's businesses, including downside sensitivities, the Directors are satisfied that the Group will be able to operate within the terms and conditions of the Group's financing facilities, and have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group's 2017 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 strategy. 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:
<p>Delivering the change agenda</p> <p>Without appropriate and sufficient capability and capacity, the Group will suffer initiative overload resulting in management stretch and failure to focus on core activities.</p>	<ul style="list-style-type: none"> • Medium term plans for each operating company have been reviewed and prioritised from the outset and KPIs are monitored by senior management through local and Group dashboards. • Appropriate resources and personnel are brought in to deliver and support initiatives, for example, consultants, delivery directors and programme managers. • Appointment of a Group Change Director to support delivery of initiatives in the operating companies.
<p>Systems and data quality</p> <p>Lack of appropriate systems and availability and reliability of data and Management Information have an adverse impact on the ability of the business to make properly informed decisions, identify over-ride/ weakness of controls and to conduct processes consistently and accurately.</p>	<ul style="list-style-type: none"> • There are adequate firewalls, offsite back up and Disaster Recovery plans to safeguard existing systems. • A dedicated team is responsible for preparing appropriate management information for the business. • A new IT strategy for the Group has been approved by the Board. • New overlay systems in development to fill the gaps that exist in diverse systems and to define common master data.
<p>Access to finance</p> <p>The Group may not reduce its leverage sufficiently in order to gain access to funds for further investment and growth. This will impact its ability to grow profits.</p>	<ul style="list-style-type: none"> • The Group has strong relationships with its banking partners. • Capex and other expenditure is tightly controlled through robust planning, budgeting, and monitoring controls at operating company and Group level. • A Delegation of Authority policy is in place to ensure expenditure is approved at the right level. • Leverage position closely scrutinised through a series of senior forums.
<p>Working capital and cash management</p> <p>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.</p>	<ul style="list-style-type: none"> • Working capital forum has been established to develop workstreams to optimise stock, debtors and creditors. • Budgets set for all areas of the business, with accountability for performance established. • Stretch targets on inventory reduction have been applied to all branches. • Working capital is closely monitored at operating company and GEC level. • Weekly cash flow forecasting has been developed and piloted in the UK.

14. Principal risks and uncertainties (continued)

Risk	Key mitigation activities include:
<p>Market conditions</p> <p>Market downturn, impacting our ability to meet budget and City expectations.</p>	<ul style="list-style-type: none"> • The Group's geographical diversity reduces the impact of changes in market conditions in any one business. • Medium term plans for each operating company include consideration of forecast market conditions. • Cost reduction plans for each operating company have been agreed and are monitored monthly. • Industry-based KPIs are monitored monthly at operating company and Group level.
<p>Health and safety</p> <p>Health and safety risks, including major injury or loss of life.</p>	<ul style="list-style-type: none"> • Health and safety policy and procedure documents in place for use in all branches and risk assessments performed as appropriate. • The Group maintains its health and safety accreditation for ISO 18001 management systems. • Targeted training and awareness is delivered to relevant personnel. • Health and safety KPIs are monitored at Group level.
<p>Supplier rebate income</p> <p>Rebate income recognised is not fully supported by rebate agreements.</p>	<ul style="list-style-type: none"> • Regular review of rebate income and rebate debtors by commercial and finance teams in operating companies. • Monthly reconciliations of rebate debtor balances. • Rebate forecasts and assumptions are reviewed monthly and changes agreed between commercial and finance teams. • Review of rebate controls in all operating companies as part of the Internal Audit plan.