

8 March 2019

SIG plc: Results for the year ended 31 December 2018

Transformation on track

SIG plc ("SIG" or "the Group") is a leading supplier of specialist building materials to trade customers across Europe, with strong positions in its core markets as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products, and a provider of air handling solutions. The Group today issues its results for the year ended 31 December 2018 ("FY 2018").

Highlights

- Significant operational and financial progress in the second half of the year as the transformation starts to deliver
- Underlying revenue down 1.2% due to challenging market conditions and focus on profitability over volume
- Underlying gross margin up 50bps and operating costs down
- Underlying PBT (excl. property profits) up 25% to £72.7m (2017: £58.1m) in line with expectations
- SIG Distribution turnaround well underway, with underlying operating profit up to £20.9m (2017: £3.5m)
- Net debt sharply lower at £189.4m (2017: £258.7m) and headline financial leverage down to 1.7x (2017: 2.3x)
- Final dividend of 2.5p per share, bringing total for the year to 3.75p (2017: 3.75p)
- Group return on sales (excl. property profits) up to 4.0% in the second half, providing good visibility of further significant progress in 2019, despite macro uncertainties
- Board reviewing strategic options for Air Handling

Underlying operations ¹	2018	2017 Restated	Change
Revenue	£2,683.2m	£2,716.4m	(1.2)%
LFL ² sales	(2.1)%	+3.5%	n/a
Gross margin	26.7%	26.2%	+50bps
Underlying ³ operating profit	£90.6m	£85.6m	+5.8%
Underlying ³ profit before tax (PBT)	£75.3m	£69.4m	+8.5%
Underlying ³ profit before tax excl. property profits	£72.7m	£58.1m	+25.1%
Underlying ³ basic earnings per share	9.3p	8.6p	+8.1%
Return on sales (excl. property profits)	3.3%	2.7%	+60bps
Return on capital employed (post-tax)	10.3%	9.3%	+100bps
Net debt	£189.4m	£258.7m	26.8%
Headline financial leverage (net debt/EBITDA)	1.7x	2.3x	0.6x

Statutory results	2018	2017 Restated
Revenue	£2,741.9m	£2,878.4m
Operating profit/(loss)	£44.3m	£(36.3)m
Profit/(loss) before tax	£28.5m	£(54.7)m
Basic earnings/(loss) per share	3.0p	(10.2)p
Dividend per share	3.75p	3.75p

Commenting, Meinie Oldersma, Chief Executive Officer, said:

“As expected, our transformation strategy began to deliver during the year and we saw significant operational and financial progress in the second half. Despite challenging market conditions and lower revenue in our largest markets, our focus on pricing and profitability over volume, coupled with tighter control over operating costs, has enabled us to grow our gross margins and profit.

We have continued to strengthen our balance sheet during the year, enhanced by the disposal of peripheral businesses and structural reductions in levels of working capital, particularly stock. We have now reduced debt by over a third since the start of 2017. Leverage reduction remains a key priority for the Group and we expect further significant progress during 2019 towards our medium term target of headline financial leverage below 1.0x.

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

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

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 recording of which will also be available later in the day.

- 1. Underlying operations excludes businesses divested or closed, or which the Board has resolved to divest or close before 8 March 2019.*
- 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. LFL sales differ from the January trading statement primarily as a result of the reclassification of non-core businesses.*
- 3. Underlying results are stated before the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating profits/(losses) attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of other items and the effect of changes in taxation rates. These Other items amounted to £46.8m of net costs in the year (2017: £124.1m) and further details of these Other items are included in Note 3.*
- 4. Alternative performance measures are referred to as “like-for-like” and “underlying”. These are applied consistently throughout this document and the calculations to these are found in Note 11. Details of prior period restatements are described in Note 1 and the effect on each financial line item affected is shown in Note 12.*

Enquiries

SIG plc

Meinie Oldersma, Chief Executive Officer	+44 (0) 114 285 6300
Nick Maddock, Chief Financial Officer	+44 (0) 114 285 6300
Katharine Baxter, Group Communications	+44 (0) 114 285 6300

FTI Consulting

Richard Mountain / Susanne Yule	+44 (0) 20 3727 1340
---------------------------------	----------------------

Jefferies Hoare Govett

Ed Matthews / Jason Grossman	+44 (0) 20 7029 8000
------------------------------	----------------------

Peel Hunt LLP

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

Strategic update

Transformation on track

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

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

Medium term targets	Target	2018	2017 Restated
LFL sales growth	Market growth		
	Maintain market share	(2.1)%	+3.5%
Return on sales (excl. property profits)	c.5%	3.3%	2.7%
Return on capital employed	c.15%	10.3%	9.3%
Headline financial leverage	Under 1.0x	1.7x	2.3x

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

Step change in performance in second half of year

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

Underlying operations	H2 2018	H1 2018	FY 2018
Revenue	£1,342.5m	£1,340.7m	£2,683.2m
LFL sales	(4.2)%	+0.1%	(2.1)%
Gross margin	27.1%	26.4%	26.7%
Operating costs (excl. property profits)	£309.0m	£319.7m	£628.7m
Operating profit	£56.5m	£34.1m	£90.6m
Profit before tax PBT (excl. property profits)	£49.1m	£26.2m	£75.3m
	£46.8m	£25.9m	£72.7m
Return on sales (excl. property profits)	4.0%	2.5%	3.3%

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

Delivering the transformation

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

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

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

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

Customer service – investment in capability, branches and technology

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

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

Customer value – optimising pricing and profitability

The Group’s actions around customer value have primarily targeted pricing and profitability initiatives during the year. SIG Distribution led the way with the introduction of list price rises across a broad range of products from the middle of the year. SIG Distribution has also been at the

forefront of action to reduce the Group's exposure to low margin business with an ongoing review of profitability by customer.

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

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

Operational efficiency – reducing operating costs

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

Administrative costs have been significantly reduced, notably in the UK, where the back office support functions for the Group's insulation and roofing businesses in the UK have been combined and co-located in a single shared services centre in Sheffield. The finance back office in the UK has largely been outsourced to a third party provider and work is ongoing with the outsourcing partner to optimise processes and enhance levels of financial control. These changes have enabled the property portfolio in Sheffield to be consolidated into a single location following the sale of SIG's historical head office in Hillsborough. The Group continues to reduce management layers across the organisation.

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

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

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

The optimisation of branch networks and disposals of businesses have seen the number of trading sites fall from 661 at the beginning of 2017 to 538 at 31 December 2018. In parallel, headcount has fallen c.20% from 10,383 at the beginning of 2017 to 8,260 at 31 December 2018. Further

headcount reductions are anticipated in 2019 as the Group continues to streamline its operating model and ways of working.

Operational efficiency – reducing working capital

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

Key enablers – improved data and reporting

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

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

Turnaround at SIG Distribution well underway

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

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

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

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

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

profiling, new inventory processes and central control reduced average inventory days from 32 in H2 2017 to 25 in H2 2018.

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

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

Balance sheet further strengthened

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

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

Portfolio management continues at pace

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

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

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

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

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

Establishment of pan-European Air Handling business

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

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

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

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

Dividend

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

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

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

People

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

Current trading and outlook

The Group brings considerable financial benefits into 2019 and the delivery of a step change in performance in SIG Distribution has given us confidence to accelerate the pace of transformation in other major Group businesses. Trading conditions remain challenging, with the outlook in many of our end markets uncertain, and the Group expects continuing like-for-like sales declines in the first part of the year. Notwithstanding these headwinds, the margin and cost actions taken in 2018 give

us good visibility of further significant progress in the current year. While much work remains to be done, our delivery in 2018 and the momentum brought into 2019 confirm that our transformation of SIG is on track.

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

Financial performance

Overview

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

During the year, the Group divested six non-core businesses. It also closed SIG Cut Solutions in Germany and took the decision to close the Commercial Drainage business in the UK. These businesses have been excluded from underlying results in order to provide a better understanding of underlying performance in the continuing business. At a statutory level, the Group saw a 2017 loss before tax of £54.7m become a profit before tax of £28.5m in 2018, helped by the underlying performance improvement and by a reduction in losses associated with the sale or closure of non-core businesses.

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

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

Revenue and gross margin

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

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

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

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

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

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

Operating costs and profit

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

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

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

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

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

UK and Ireland

As previously reported, the UK construction market weakened during 2018 and became increasingly challenging towards the end of the year. Commercial construction demand remained dampened by macro-economic uncertainty, house price inflation slowed and secondary housing market transactions continued to fall. This weaker trading environment impacted on demand for SIG's products and is a key factor behind the lower LFL revenues in the UK and Ireland, down 5.6%.

Revenues at SIG Distribution also reflected the focus on improving profitability, which has delivered higher gross margins at the expense of lower revenue.

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

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

² Underlying operating profit and underlying operating margin are shown including property profits.

³ Reported operating profits are shown on a segmental basis including the operating result of the non-core businesses.

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

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

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

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

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

Mainland Europe

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

	Revenue £m	Change	LFL change	Gross margin	Change	Underlying operating profit £m ²	Underlying operating margin ²	Change	Reported operating profit £m ³
France ¹	663.6	0.4%	(0.9)%	27.7%	10bps	27.8	4.2%	20bps	24.0
Germany ¹	426.6	0.4%	(0.8)%	26.7%	30bps	9.1	2.1%	(70)bps	2.6
Poland	156.6	9.7%	8.5%	20.1%	10bps	3.3	2.1%	140bps	3.3
Air Handling ¹	148.2	4.3%	2.6%	38.1%	(30)bps	14.8	10.0%	(10)bps	14.2
Benelux	108.4	6.6%	5.7%	23.7%	(210)bps	4.5	4.2%	(200)bps	3.0
Mainland Europe before non-core	1,503.4	2.1%	0.8%	27.4%	-	59.5	4.0%	(10)bps	47.1
Non-core businesses	0.3	(98.5)%	n/a	33.3%	650bps	(0.3)	(100.0)%	(9,410)bps	n/a
Mainland Europe	1,503.7	0.7%	n/a	27.4%	-	59.2	3.9%	-	47.1

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

² Underlying operating profit and underlying operating margin are shown including property profits.

³ Reported operating profits are shown on a segmental basis including the operating result of the non-core businesses.

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

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

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

The Group's Polish business had a very strong year, with LFL sales up 8.5%, benefiting from economic stability, infrastructure investment and corresponding growth in construction end markets. In this environment, the Polish management team maintained its gross margin at 20.1%

(2017: 20.0%) and managed its cost base effectively to deliver an underlying operating profit of £3.3m in 2018 (2017: £1.0m).

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

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

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

Overall, Mainland Europe delivered underlying revenue of £1,503.4m (2017: £1,472.3m) and underlying operating profit of £59.5m (2017: £59.9m), at a return on sales (excl. property profits) of 3.8% (2017: 3.7%).

H1 / H2 performance

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

	H2 2018 £m	H1 2018 £m	FY 2018 £m
Underlying operating profit¹			
SIG Distribution	16.3	4.6	20.9
SIG Exteriors	11.6	5.7	17.3
Ireland & Other UK	3.1	3.0	6.1
UK & Ireland	31.0	13.3	44.3
France	14.7	13.1	27.8
Germany	5.6	3.5	9.1
Poland	3.0	0.3	3.3
Air Handling	7.1	7.7	14.8
Benelux	1.9	2.6	4.5
Mainland Europe	32.3	27.2	59.5
Group	56.5	34.1	90.6

¹ Underlying operating profit is shown including property profits.

Return on Capital Employed

Post tax return on capital employed ("ROCE") is one of the Group's primary performance metrics and is calculated on a rolling 12-month basis as underlying operating profit less tax, divided by average net assets plus average net debt. The Group continues to target a significant improvement in ROCE

to 15.0% over the medium term and made progress towards that target in 2018 with ROCE up to 10.3% at 31 December 2018 (2017: 9.3%).

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

Cash flow and leverage

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

	2018	2017 Restated
	£m	£m
Opening net debt (restated)	(258.7)	(299.2)
Cash inflow from trading	65.6	45.2
Decrease/(increase) in working capital and provisions	43.0	(0.5)
Debt factoring	1.0	48.7
Net cash flow from operating activities	109.6	93.4
Interest and tax	(27.1)	(31.4)
Dividends paid to equity holders	(22.2)	(18.2)
Capital expenditure	(25.3)	(32.3)
Sale of property and assets	5.1	34.6
Disposals/exits	35.8	17.6
Acquisitions/contingent consideration	(3.4)	(21.2)
Other	(3.2)	(2.0)
Closing net debt	(189.4)	(258.7)
Headline financial leverage	1.7x	2.3x

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

IFRS 16

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

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

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

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

Reconciliation of statutory result to underlying result

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

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

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

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

- Acquisition expenses and contingent consideration of £9.8m incurred in the prior year in relation to the acquisition of HC Groep by Air Handling in 2015;
- A net cost of £0.2m (2017: £5.5m credit) in relation to other specific items, mainly comprising income of £1.1m in relation to profit on the sale of property in connection with the acquisition of remaining 40% shares in ATC Bulgaria, offset by £1.0m charge in respect of the liability for equalising Guaranteed Minimum Pensions; and
- Net fair value losses on derivative financial instruments and unwinding of provision discounting of £0.5m (2017: £2.2m).

Prior period restatements

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

Full details of these prior period restatements are described in Note 1 and the effect on each financial line item affected is shown in Note 12. In aggregate, these prior period restatements increased net debt by £34.9m at 31 December 2017 and reduced underlying profit before tax by £3.5m in the year ended 31 December 2017.

Impact of non-core businesses and prior period restatements

The revenue and profits of businesses that had been divested or closed, or which the Board had resolved to divest or close, before 8 March 2019, and which are therefore now being treated as non-underlying, are set out in the table below. The table also shows the impact on profit of the prior period restatements in order to derive comparatives for the underlying Group.

	2018			2017		
	Underlying revenue £m	Underlying PBT £m	Net debt £m	Underlying revenue £m	Underlying PBT £m	Net debt £m
Underlying Group as reported at 2017 FY results	2,737.9	78.9	189.4	2,778.5	79.2	223.8
VJ Technology	(17.0)	(3.1)	-	(30.6)	(5.0)	-
Prior period restatements ¹	-	-	-	-	(3.0)	34.9
Underlying Group as reported at H1 2018 results	2,720.9	75.8	189.4	2,747.9	71.2	258.7
SIG Cut Solutions	(0.3)	0.3	-	(0.9)	0.6	-
Roofspace	(24.0)	(2.1)	--	(17.6)	(2.0)	-
Proteus	(3.4)	0.5	-	(5.6)	(0.6)	-
Commercial Drainage	(10.0)	0.8	-	(7.4)	0.7	-
Prior period restatements ²	-	-	-	-	(0.5)	-
Underlying Group as included at 2018 FY results	2,683.2	75.3	189.4	2,716.4	69.4	258.7

¹ *Comprises the prior period restatements identified as part of the review of the accounting treatment of certain opening balances following the appointment of the Group's new statutory auditor as included in the 2018 Interim Report.*

² *Comprises the prior period restatements in relation to dilapidations provisions identified and included in this Report.*

³ *Further details of the financial impact of these prior period restatements are included in Note 12.*

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 2018. Certain parts solely thereof are not included within this announcement.

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 7 March 2019 and signed on its behalf by:

Meinie Oldersma
Director
7 March 2019

Nick Maddock
Director
7 March 2019

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 2018

		Underlying*	Other items**	Total	Underlying*	Other items**	Total
		2018	2018	2018	2017^	2017^	2017^
					Restated	Restated	Restated
	Note	£m	£m	£m	£m	£m	£m
Revenue	2	2,683.2	58.7	2,741.9	2,716.4	162.0	2,878.4
Cost of sales		(1,966.5)	(40.5)	(2,007.0)	(2,004.7)	(121.2)	(2,125.9)
Gross profit		716.7	18.2	734.9	711.7	40.8	752.5
Other operating expenses	3	(626.1)	(64.5)	(690.6)	(626.1)	(162.7)	(788.8)
Operating profit/ (loss)		90.6	(46.3)	44.3	85.6	(121.9)	(36.3)
Finance income		0.6	-	0.6	0.5	0.1	0.6
Finance costs		(15.9)	(0.5)	(16.4)	(16.7)	(2.3)	(19.0)
Profit/(loss) before tax		75.3	(46.8)	28.5	69.4	(124.1)	(54.7)
Income tax (expense)/credit	4	(19.8)	9.2	(10.6)	(17.7)	13.2	(4.5)
Profit/(loss) after tax		55.5	(37.6)	17.9	51.7	(110.9)	(59.2)
Attributable to:							
Equity holders of the Company		55.1	(37.6)	17.5	50.7	(110.9)	(60.2)
Non-controlling interests		0.4	-	0.4	1.0	-	1.0
Earnings/(loss) per share							
Basic and diluted earnings/(loss) per share	5			3.0p			(10.2)p

^ The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See Note 1.

* Underlying represents the results before Other items.

** Other items relate to the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of Other items and the effect of changes in taxation rates. Other items have been disclosed separately in order to give an indication of the underlying earnings of the Group. Further details can be found in Note 3.

All results are from continuing operations.

The 2017 results have been restated as set out in Note 1 and Note 12.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	2018	2017 [^]
	£m	Restated £m
Profit after tax	17.9	(59.2)
Items that will not subsequently be reclassified to the Consolidated Income Statement:		
Remeasurement of defined benefit pension liability	0.1	5.5
Deferred tax movement associated with remeasurement of defined benefit pension liability	0.1	(0.9)
Effect of change in rate on deferred tax	-	(0.2)
	0.2	4.4
Items that may subsequently be reclassified to the Consolidated Income Statement:		
Exchange difference on retranslation of foreign currency goodwill and intangibles	1.3	5.4
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)	(0.6)	13.6
Exchange and fair value movements associated with borrowings and derivative financial instruments	1.8	(9.2)
Tax credit on exchange and fair value movements arising on borrowings and derivative financial instruments	(0.4)	1.8
Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations	-	0.1
Gains and losses on cash flow hedges	2.0	(1.6)
Transfer to profit and loss on cash flow hedges	(0.7)	4.1
	3.4	14.2
Other comprehensive income	3.6	18.6
Total comprehensive income/(expense)	21.5	(40.6)
Attributable to:		
Equity holders of the Company	21.1	(41.6)
Non-controlling interests	0.4	1.0
	21.5	(40.6)

[^] The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See Note 1.

The 2017 results have been restated as set out in Note 1 and Note 12.

Consolidated Balance Sheet
as at 31 December 2018

	2018 £m	2017 [^] Restated £m
Non-current assets		
Property, plant and equipment	105.4	118.1
Goodwill	293.9	312.2
Intangible assets	46.2	57.0
Deferred tax assets	14.6	13.7
Derivative financial instruments	1.9	0.1
Deferred consideration	0.7	1.4
	462.7	502.5
Current assets		
Inventories	207.2	243.5
Trade and other receivables	477.7	480.4
Contract assets	1.8	-
Current tax assets	5.5	5.2
Derivative financial instruments	-	1.2
Deferred consideration	0.8	0.1
Other financial assets	-	-
Cash at bank and on hand	83.3	108.2
Assets classified as held for sale	1.9	0.3
	778.2	838.9
Total assets	1,240.9	1,341.4
Current liabilities		
Trade and other payables	428.3	421.5
Contract liabilities	1.6	-
Obligations under finance lease contracts	3.2	3.2
Bank overdrafts	4.5	29.6
Bank loans	56.5	84.2
Private placement notes	-	21.1
Loan notes and deferred consideration	0.9	17.0
Other financial liabilities	1.1	8.0
Derivative financial instruments	0.3	0.2
Current tax liabilities	4.9	7.2
Provisions	11.0	12.0
Liabilities directly associated with assets classified as held for sale	-	0.1
	512.3	604.1
Non-current liabilities		
Obligations under finance lease contracts	20.2	20.0
Bank loans	-	-
Private placement notes	185.6	183.1
Derivative financial instruments	3.8	3.3
Deferred tax liabilities	1.4	1.4
Other payables	5.6	6.9
Retirement benefit obligations	28.7	30.4
Provisions	20.4	21.7
	265.7	266.8
Total liabilities	778.0	870.9
Net assets	462.9	470.5
Capital and reserves		
Called up share capital	59.2	59.2
Share premium account	447.3	447.3
Capital redemption reserve	0.3	0.3
Share option reserve	1.7	1.3
Hedging and translation reserve	21.7	19.6
Cost of hedging reserve	1.0	-
Retained losses	(68.3)	(58.1)
Attributable to equity holders of the Company	462.9	469.6
Non-controlling interests	-	0.9
Total equity	462.9	470.5

[^] The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See Note 1.

The 2017 Consolidated Balance Sheet has been restated as set out Note 1 and Note 12.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Share option reserve £m	Hedging and translation reserve £m	Cost of hedging reserve £m	Retained (losses)/ profits £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017 (restated) ^	59.1	447.3	0.3	1.1	7.9	-	13.2	528.9	0.8	529.7
(Loss)/profit after tax	-	-	-	-	-	-	(60.2)	(60.2)	1.0	(59.2)
Other comprehensive income	-	-	-	-	11.7	-	6.9	18.6	-	18.6
Total comprehensive income/(expense)	-	-	-	-	11.7	-	(53.3)	(41.6)	1.0	(40.6)
Share capital issued in the year	0.1	-	-	-	-	-	-	0.1	-	0.1
Credit to share option reserve	-	-	-	0.2	-	-	-	0.2	-	0.2
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Current and deferred tax on share options	-	-	-	-	-	-	0.2	0.2	-	0.2
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(0.9)	(0.9)
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(18.2)	(18.2)	-	(18.2)
At 31 December 2017 (restated)	59.2	447.3	0.3	1.3	19.6	-	(58.1)	469.6	0.9	470.5
Impact of adoption of IFRS 15	-	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Impact of adoption of IFRS 9	-	-	-	-	-	0.9	(0.7)	0.2	-	0.2
Adjusted balance at 1 January 2018	59.2	447.3	0.3	1.3	19.6	0.9	(59.5)	469.1	0.9	470.0
Profit after tax	-	-	-	-	-	-	17.5	17.5	0.4	17.9
Other comprehensive income	-	-	-	-	2.1	0.1	1.4	3.6	-	3.6
Total comprehensive income	-	-	-	-	2.1	0.1	18.9	21.1	0.4	21.5
Share capital issued in the year	-	-	-	-	-	-	-	-	-	-
Credit to share option reserve	-	-	-	0.4	-	-	-	0.4	-	0.4
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Current and deferred tax on share options	-	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Movement in reserves	-	-	-	-	-	-	(1.7)	(1.7)	1.7	-
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(0.3)	(0.3)
Transaction between equity holders	-	-	-	-	-	-	(3.6)	(3.6)	(2.7)	(6.3)
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(22.2)	(22.2)	-	(22.2)
At 31 December 2018	59.2	447.3	0.3	1.7	21.7	1.0	(68.3)	462.9	-	462.9

^ The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See Note 1.

Total equity at 1 January 2017 and 31 December 2017 has been restated as set out in Note 1 and Note 12.

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 2018

	Note	2018 £m	2017 [^] Restated £m
Net cash flow from operating activities			
Cash generated from operating activities	6	109.6	93.4
Income tax paid		(14.0)	(18.8)
Net cash generated from operating activities		95.6	74.6
Cash flows from investing activities			
Finance income received		1.0	0.5
Purchase of property, plant and equipment and computer software		(22.7)	(19.9)
Proceeds from sale of property, plant and equipment		5.1	34.6
Settlement of amounts payable for previous purchases of businesses		(17.2)	(6.9)
Net cash flow arising on the sale of businesses		35.8	17.6
Net cash generated from investing activities		2.0	25.9
Cash flows from financing activities			
Finance costs paid		(14.1)	(13.1)
Capital element of finance lease rental payments		(1.5)	(3.5)
Issue of share capital		-	-
Acquisition of non-controlling interests		(2.5)	-
Repayment of loans/settlement of derivative financial instruments		(57.1)	(87.9)
New loans		-	8.2
Dividends paid to equity holders of the Company	8	(22.2)	(18.2)
Dividends paid to non-controlling interest		(0.3)	(0.9)
Net cash used in financing activities		(97.7)	(115.4)
Increase/(decrease) in cash and cash equivalents in the year		(0.1)	(14.9)
Cash and cash equivalents at beginning of the year		78.6	89.0
Effect of foreign exchange rate changes		0.3	4.5
Cash and cash equivalents at end of the year*		78.8	78.6

[^] The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See Note 1.

* Cash and cash equivalents comprise cash at bank and on hand of £83.3m (2017: £108.2m) less bank overdrafts of £4.5m (2017: £29.6m).

The 2017 results have been restated as set out in Note 1 and Note 12.

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 2018 and 31 December 2017 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 2017 have been filed with the Registrar of Companies, and those for 2018 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2018 and 2017, 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.

Prior year restatements

As part of the transition to new auditors, the Group has reviewed certain accounting policies and judgements, resulting in a number of errors being corrected by prior year restatements to previously reported numbers. A summary of the changes made is provided below. Full details of the effect on each financial line item affected are shown in Note 12.

i) Definition of net debt

The Group's previous definition of net debt, as included in the 2017 Annual Report and Accounts, included the following: Derivative financial instruments (assets and liabilities), deferred consideration assets, other financial assets, cash and cash equivalents, obligations under finance lease contracts, bank overdrafts, bank loans, private placement notes, loan notes and deferred consideration liabilities.

At 31 December 2017, £8.0m of supplier balances in SIG France had been settled via a credit card working capital facility. As our previous definition of net debt did not refer to such facilities, this balance was included in trade payables at 31 December 2017.

It has been determined it would be more appropriate to treat such solutions as other financial liabilities and include within net debt. The Consolidated Balance Sheet at 31 December 2017 has therefore been restated to reclassify these balances from trade payables to other financial liabilities and to increase net debt by £8.0m, with no overall impact to net assets.

This had no impact on the Consolidated Income Statement, but resulted in a change in classification between working capital and debt movements on the Consolidated Cash Flow Statement for the year ended 31 December 2017. There was no impact on other previously reported periods as there were no such arrangements in place at previous period ends. There are no such arrangements in place at 31 December 2018 and we have updated our definition of net debt to incorporate other financial liabilities, including this type of working capital facilities.

ii) Cash in transit

The Group has reconsidered the appropriateness of its cash policy in relation to the treatment of cash in transit by reference to current guidance, acknowledging there may be mixed custom and practice in this area. It has been determined that in some cases cash in transit was being included in cash in advance of obtaining control of funds or cheques.

The Group no longer considers this to be appropriate and has determined that cash should only include electronic receipts that are cleared funds and cheques that are physically received by the period end date. Prior year figures have been restated accordingly. This has resulted in a reduction in cash and an increase in trade receivables of £15.3m at 1 January 2017 and £13.6m at 31 December 2017. There is no impact on the Consolidated Income Statement or net assets. The Consolidated Cash Flow Statement has also been restated, with cash and cash equivalents reducing by £13.6m at 31 December 2017, resulting in an increase in net cash from operating activities of £1.7m for the year ended 31 December 2017.

iii) Classification of lease arrangements

The accounting for sale and leaseback transactions, in particular relating to property, has been reassessed. Two transactions, in June 2017 and December 2016, are now considered to meet the criteria for recognition as a finance lease rather than an operating lease at the date of inception of the leaseback. The Consolidated Income Statement for the year to 31 December 2017, and the Consolidated Balance Sheet at that date, have been restated for this reclassification.

The restatement results in an increase in tangible fixed assets and finance lease liabilities of £13.1m at 31 December 2017.

The impact on the Consolidated Income Statement for the year ended 31 December 2017 is a reduction in underlying operating profit of £1.9m and an increase in finance costs of £0.7m, due to the add back of operating lease rentals replaced by charges for depreciation and interest, together with a change in the recognition of the profit on the sale which is now spread over the life of the finance lease instead of being recorded in full in the period of the transaction.

iv) Provision for uncertain tax position

At 31 December 2017 there was a reported deferred tax asset of £9.2m. The Group has reassessed its deferred tax asset position and as a result believes that an increased deferred tax asset should have been recognised in relation to losses and fixed asset timing differences.

The impact of recognising this is to increase the deferred tax asset at 31 December 2017 to £12.0m, and to increase profit after tax for the year ended 31 December 2017 by £2.8m.

v) Recognition of early settlement discounts

The Group previously accounted for early settlement discounts when paid. Under IAS 18 "Revenue" revenue should have been recognised taking into account expected discounts allowed. This has no impact on the Consolidated Income Statement or Consolidated Cash Flow Statement for the year ended 31 December 2017. The Consolidated Balance Sheet has been restated at 1 January 2017 and 31 December 2017, resulting in an increase in retained losses of £1.0m at each reporting date.

vi) Provision for leasehold dilapidations

The Group has corrected its policy for recognising provisions in relation to contractual obligations to reinstate leasehold properties to their original state of repair. Previously the provision was calculated with reference to the expired portion of individual lease agreements, where such a clause exists in the lease contract. The Group has reviewed the contractual obligations and provisions and considers that where a liability exists to rectify or reinstate leasehold improvements and modifications carried out at the inception of the lease, provision should be made at the inception of the lease, with a corresponding asset recognised in fixed assets and depreciated over the term of the lease. Provisions to rectify repairs and general wear and tear continue to be recognised as incurred over the life of the lease. Provisions for dilapidations are also required in Germany which were not previously recognised. This prior period restatement has resulted in an increase to fixed assets of £2.6m, an increase to liabilities of £7.9m and an increase in retained losses of £4.8m at 1 January 2017, and a decrease to the loss after tax for the year ended 31 December 2017 of £0.5m.

vii) Review of operating segments

The operating segments disclosure has been expanded in a manner consistent with the Group's internal reporting. Other Mainland Europe has been separated into Air Handling, Benelux and Poland, and the comparatives for previous periods have been reclassified to reflect this.

The above restatements impacted net debt and EBITDA which had an impact on headline financial leverage and interest cover covenant calculations, but the Group remained within covenant requirements for all relevant periods. The overall impact on the restatements was to increase net debt by £34.9m to £258.7m at 31 December 2017. Additional interest payable as a result of the restatements has been accrued in the relevant period (£0.4m for the year ended 31 December 2017).

New standards, interpretations and amendments adopted by the Group

The Group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout this financial information has not been restated to reflect the requirements of the new standards.

IFRS 15 "Revenue from contracts with customers"

The Group has adopted IFRS 15 using the modified retrospective method approach and therefore the 2017 comparative information has not been restated and the opening equity at 1 January 2018 is adjusted for the cumulative effect of applying IFRS 15 at that date. The comparative information continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below.

IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable for goods or services, net of discounts and customer rebates, VAT and other sales-related taxes. Revenue from the sale of goods was recognised on receipt of goods by the customer. Customer rebates were accounted for as a separate component of the sales transaction, with a portion of the fair value of the consideration allocated to customer rebates and recognised in the period as earned. Revenue generated from a contract to provide services was recognised by reference to the stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue from construction contracts was recognised by reference to the stage of completion of the contract activity at the reporting date. Stage of completion was normally measured by the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs, except where this would not be representative of the stage of completion.

The cumulative catch-up adjustment to the opening balance of retained earnings as at 1 January 2018 is shown in the Statement of Changes in Equity for the year ended 31 December 2018 and resulted in an increase in opening retained losses at 1 January 2018 of £0.7m. The Group elected to apply the cumulative catch-up method only to contracts that were not completed at 1 January 2018.

The details of the significant changes and quantitative impact of the changes are set out below.

a) Sale of goods

The majority of the Group's revenue arises from contracts with customers for the sale of goods, with one performance obligation. Revenue is recognised at the point in time that control of the goods passes to the customer, usually on delivery to the customer. The adoption of IFRS15 did not have an impact on the timing of revenue recognition in relation to the sale of goods, although the amount of revenue recognised is impacted by the following:

Volume rebates

The Group provides retrospective volume rebates to certain customers. Under IFRS 15, retrospective volume rebates give rise to variable consideration.

Prior to the adoption of IFRS 15, the Group estimated the expected volume rebates using an expected value approach and included a provision for rebates as a reduction to trade receivables. This continues to be appropriate under IFRS 15.

Early settlement discounts

Under IFRS15, early settlement discounts are estimated using the expected value approach and recognised at the time of recognising the revenue, subject to the constraint regarding variable consideration that it is highly probable that a change in estimate would not result in a significant reversal of the cumulative revenue recognised. As part of our review of the application of IFRS 15 it was considered that the previous treatment of early settlement discounts under IAS 18 was inappropriate and this has been amended accordingly by a restatement of the prior year reported numbers, as noted in Prior year restatements (v) above.

b) Construction contracts

The Group has the following revenue streams which fall under the category of "construction contracts":

- i) **Manufacture and installation of roofing systems**
Prior to the adoption of IFRS 15, revenue was recognised in two stages - on completion of manufacture and on installation. Under IFRS 15, the Group has assessed that there is one performance obligation, being the installation of the roofing system, and that revenue can continue to be recognised over time on a milestone basis, provided appropriate terms are included in the contract to confirm entitlement to payment for performance to date. Contract terms have been amended from 1 January 2018, but an adjustment is recorded on transition in relation to contracts in progress under previous contract terms, increasing retained losses at 1 January 2018 by £0.7m. The business carrying out these contracts was sold in December 2018 and this revenue stream is not relevant going forward.
- ii) **Air Handling projects**
The goods and services supplied as part of an air handling contract are significantly integrated and considered to be one performance obligation. The criteria for recognition over time are considered to apply as the entity's performance creates and/or enhances an asset controlled by the customer, the assets created do not have an alternative use as the installations are on the customers' premises, and the entity has an enforceable right to payment for performance completed to date. Progress towards completion is measured on the basis of costs incurred. The adoption of IFRS 15 does therefore not have an impact on the timing of revenue recognition for these contracts.
- iii) **Manufacture and supply of modular housing**
Under IFRS 15 the Group has assessed that there is one performance obligation, and that revenue is recognised over time as control passes on a milestone basis as each housing module is supplied. Progress towards completion is measured based on the percentage of total costs incurred. The adoption of IFRS 15 does not have an impact on the timing or measurement of revenue recognition for these contracts. The business carrying out these contracts was sold in February 2018 and this revenue stream is therefore not relevant going forward.
- iv) **Contracts for provision of industrial services**
The Group's Ireland & Other UK segment provides industrial painting, coating and repair services. Under IFRS 15, the Group concluded that revenue from these contracts will continue to be recognised over time, as the entity's performance enhances a customer-controlled asset, using an output method to measure progress towards completion depending on individual contract terms.

Under IFRS 15, any earned consideration that is conditional is recorded as a contract asset. A contract asset becomes a receivable when receipt is conditional only on the passage of time. Therefore, upon adoption of IFRS 15, revenue recognised from construction contracts described above which has not yet been invoiced is recognised as a contract asset, which is shown as a separate line item on the Consolidated Balance Sheet rather than as part of trade and other receivables.
- v) **Presentation and disclosure requirements**
The Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group has also disclosed information about the relationship between the disclosure of disaggregated revenue and the revenue information disclosed for each reportable segment. Refer to Note 1 for the disclosure on disaggregated revenue.

The following tables summarise the impacts of adopting IFRS 15 on the Consolidated Financial Statements for the year ended 31 December 2018:

a) Consolidated Balance Sheet

At 31 December 2018	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
	£m	£m	£m
Trade and other receivables	477.7	2.2	479.9
Contract assets	1.8	(1.8)	-
Other assets	761.4	-	761.4
Total assets	1,240.9	0.4	1,241.3
Trade and other payables	428.3	1.8	430.1
Contract liabilities	1.6	(1.6)	-
Other liabilities	348.1	-	348.1
Total liabilities	778.0	0.2	778.2
Net assets	462.9	0.2	463.1
Retained losses	(68.3)	0.2	(68.1)
Other capital and reserves	531.2	-	531.2
Total equity	462.9	0.2	463.1

b) Consolidated Income Statement and Other Comprehensive Income

For the year ended 31 December 2018	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
	£m	£m	£m
Revenue	2,741.9	(2.1)	2,739.8
Cost of sales	(2,007.0)	1.5	(2,005.5)
Operating expenses	(690.6)	-	(690.6)
Income tax (expense)/credit	(10.6)	0.1	(10.5)
Other expense	(15.8)	-	(15.8)
Profit/(loss) for the period	17.9	(0.5)	17.4
Total comprehensive income/(expense)	21.5	(0.5)	21.0

c) Consolidated Statement of Changes in Equity

For the year ended 31 December 2018	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
	£m	£m	£m
Retained losses at 1 January 2018	(59.5)	0.7	(58.8)
Profit/(loss) for the period	17.9	(0.5)	17.4
Other movements in equity	504.5	-	504.5
Total equity at 31 December 2018	462.9	0.2	463.1

IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9 "Financial Instruments" with a date of initial application of 1 January 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement", bringing together all three aspects of the accounting for financial instruments: classification and measurement; hedge accounting; and impairment.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018, but has chosen not to restate comparative information.

The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

a) Classification and measurement

Under IFRS 9, all financial assets are initially recognised at fair value, plus or minus (in the case of a financial asset not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the financial instrument. Debt financial assets are subsequently measured at amortised cost, fair value through profit and loss ("FVPL") or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets and whether the contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion"). This replaces the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The classification of the Group's financial assets under IFRS 9 is as follows:

- Amortised cost: trade and other receivables and deferred consideration
- Fair value through profit and loss: derivative financial instruments

The above classification does not have any impact on the classification, presentation or carrying value of financial assets on the Consolidated Balance Sheet.

The accounting for financial liabilities remains the same as it was under IAS 39 and therefore this has not had an impact on the Group's accounting policies or Financial Statements.

b) Hedge accounting

The Group has chosen to apply the hedge accounting requirements of IFRS 9 and has applied this prospectively. The new hedge accounting rules require the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

At the date of initial application, 1 January 2018, all existing hedging relationships are eligible to be treated as continuing hedging relationships under IFRS 9. The adoption of the hedge accounting requirements of IFRS 9 has resulted in a reclassification within equity between other reserves representing the deferred cost of hedging (£0.9m reclassified to cost of hedging reserve at 1 January 2018).

Under IAS 39 all gains and losses arising from the Group's cash flow hedging relationships were eligible to be reclassified subsequently to profit or loss. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets (for example a fixed asset or inventory) need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of IFRS 9, the "Gains and losses on cash flow hedges" is presented under "Items that will not subsequently be reclassified to the Consolidated Income Statement". This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the presentation of comparative figures.

c) Impairment

IFRS 9 replaces the 'incurred losses' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For contract assets and trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

The adoption of the ECL requirements of IFRS 9 has not resulted in any material change to the impairment allowances for trade receivables and contract assets.

Other amendments

Several other potentially relevant amendments and interpretations apply for the first time in 2018, but do not have an impact on the Financial Statements of the Group:

- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Considerations"
- Amendments to IAS 40 "Transfers of Investment Property"
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

New standards, amendments and interpretations not yet adopted

At the date of authorisation of this financial information, the following significant standards and interpretations, which have not been applied in this financial information, were in issue but not yet effective (and in some cases have not yet been adopted by the EU):

IFRS 16 “Leases” – effective for accounting periods beginning on or after 1 January 2019

The Group is required to adopt IFRS 16 Leases from 1 January 2019 which replaces IAS 17 Leases. The standard eliminates the classification of leases as either operating leases or finance leases for lessees and introduces a single lease accounting model where the lessee is required to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous, instead, the Group will include the payments due under the lease in its lease liability and impair the value in use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group estimates that it will recognise a total lease liability of c.£314m as at 1 January 2019, reflecting the total future lease payments discounted to present value, and a “right-of-use asset” of c. £308m based on the lease liability plus asset restoration costs less impairment. No significant impact change in overall net assets is expected at 1 January 2019.

Due to the adoption of IFRS 16, Group operating profit is expected to increase by c.£7m as rent is removed and part replaced by depreciation. Group profit before tax is expected to decrease by c.£4m as total depreciation and interest is greater than the previous rent cost due to the timing and maturity of the lease portfolio.

Net debt is expected to increase by c.£291m at 1 January 2019. Financial covenants in relation to existing debt facilities are based on existing accounting standards until maturity (impacting from October 2020) and therefore the adoption of IFRS 16 will not have an impact on compliance with existing covenants.

Other Standards

There are no other standards or interpretations issued but not yet effective which are expected to have a material impact on the Group.

2. Revenue and segmental information

Revenue

	UK & Ireland				Mainland Europe						Eliminations	Total
	SIG Distribution	SIG Exteriors	Ireland & Other	Total	France	Germany	Poland	Air Handling**	Benelux	Total		
2018	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Type of product												
Interiors	678.2	-	60.6	738.8	242.6	426.6	151.0	-	108.4	928.6	-	1,667.4
Exteriors	-	378.7	39.2	417.9	347.8	-	-	-	-	347.8	-	765.7
Heating, ventilation and air conditioning	23.0	-	0.1	23.1	73.2	-	5.6	148.2	-	227.0	-	250.1
Inter-segment revenue^	10.2	3.7	0.6	14.5	9.5	0.2	-	0.2	0.3	10.2	(24.7)	-
Total underlying revenue	711.4	382.4	100.5	1,194.3	673.1	426.8	156.6	148.4	108.7	1,513.6	(24.7)	2,683.2
Revenue attributable to businesses identified as non-core*	51.5	3.4	3.5	58.4	-	0.3	-	-	-	0.3	-	58.7
Total	762.9	385.8	104.0	1,252.7	673.1	427.1	156.6	148.4	108.7	1,513.9	(24.7)	2,741.9
Nature of revenue												
Goods for resale	738.9	385.8	96.0	1,220.7	673.1	427.1	156.6	122.8	108.7	1,488.3	(24.7)	2,684.3
Construction contracts	24.0	-	8.0	32.0	-	-	-	25.6	-	25.6	-	57.6
Total	762.9	385.8	104.0	1,252.7	673.1	427.1	156.6	148.4	108.7	1,513.9	(24.7)	2,741.9
Timing of revenue recognition												
Goods transferred at a point in time	738.9	385.8	96.0	1,220.7	673.1	427.1	156.6	122.8	108.7	1,488.3	(24.7)	2,684.3
Goods and services transferred over time	24.0	-	8.0	32.0	-	-	-	25.6	-	25.6	-	57.6
Total	762.9	385.8	104.0	1,252.7	673.1	427.1	156.6	148.4	108.7	1,513.9	(24.7)	2,741.9

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

* Revenue attributable to businesses identified as non-core all relates to interiors product types.

** Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

	UK & Ireland			Mainland Europe									
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling** £m	Benelux £m	Total £m	Eliminations £m	Total £m	
2017													
Type of product													
Interiors	716.1	-	58.2	774.3	241.5	425.0	137.5	-	101.7	905.7	-	1,680.0	
Exteriors	-	403.9	40.1	444.0	347.3	-	-	-	-	347.3	-	791.3	
Heating, ventilation and air conditioning	25.8	-	-	25.8	71.9	-	5.3	142.1	-	219.3	-	245.1	
Inter-segment revenue^	15.3	5.2	-	20.5	12.5	0.2	0.6	0.3	0.1	13.7	(34.2)	-	
Total underlying revenue	757.2	409.1	98.3	1,264.6	673.2	425.2	143.4	142.4	101.8	1,486.0	(34.2)	2,716.4	
Revenue attributable to businesses identified as non-core*	60.0	40.1	41.4	141.5	-	8.5	-	12.0	-	20.5	-	162.0	
Total	817.2	449.2	139.7	1,406.1	673.2	433.7	143.4	154.4	101.8	1,506.5	(34.2)	2,878.4	
Nature of revenue													
Goods for resale	799.6	449.2	125.1	1,373.9	673.2	433.7	143.4	122.3	101.8	1,474.4	(34.2)	2,814.1	
Construction contracts	17.6	-	14.6	32.2	-	-	-	32.1	-	32.1	-	64.3	
Total	817.2	449.2	139.7	1,406.1	673.2	433.7	143.4	154.4	101.8	1,506.5	(34.2)	2,878.4	
Timing of revenue recognition													
Goods transferred at a point in time	799.6	449.2	125.1	1,373.9	673.2	433.7	143.4	122.3	101.8	1,474.4	(34.2)	2,814.1	
Goods and services transferred over time	17.6	-	14.6	32.2	-	-	-	32.1	-	32.1	-	64.3	
Total	817.2	449.2	139.7	1,406.1	673.2	433.7	143.4	154.4	101.8	1,506.5	(34.2)	2,878.4	

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

* Revenue attributable to businesses identified as non-core: £0.3m relates to heating, ventilation and air conditioning, £5.2m to exteriors and £28.7m relates to interiors product types.

** Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

Segmental Information

a) Segmental analysis

Segment revenues and results

	UK & Ireland				Mainland Europe						Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m		
2018												
Revenue												
Underlying revenue	701.2	378.7	99.9	1,179.8	663.6	426.6	156.6	148.2	108.4	1,503.4	-	2,683.2
Revenue attributable to businesses identified as non-core	51.5	3.4	3.5	58.4	-	0.3	-	-	-	0.3	-	58.7
Inter-segment revenue^	10.2	3.7	0.6	14.5	9.5	0.2	-	0.2	0.3	10.2	(24.7)	-
Total revenue	762.9	385.8	104.0	1,252.7	673.1	427.1	156.6	148.4	108.7	1,513.9	(24.7)	2,741.9
Result												
Segment result before Other items	20.9	17.3	6.1	44.3	27.8	9.1	3.3	14.8	4.5	59.5	-	103.8
Amortisation of acquired intangibles	(1.4)	(4.8)	(0.4)	(6.6)	(0.8)	-	-	(1.3)	(0.2)	(2.3)	-	(8.9)
Impairment charges	(3.9)	-	-	(3.9)	-	(0.1)	-	-	-	(0.1)	-	(4.0)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	(1.8)	(4.8)	0.4	(6.2)	-	(0.1)	-	(0.4)	-	(0.5)	-	(6.7)
Net operating losses attributable to businesses identified as non-core	4.0	(0.5)	(2.0)	1.5	-	(0.3)	-	-	-	(0.3)	-	1.2
Net restructuring costs	(10.1)	(7.7)	(0.4)	(18.2)	(2.3)	(6.0)	-	-	(1.2)	(9.5)	-	(27.7)
Acquisition expenses and contingent consideration	-	-	-	-	-	-	-	-	-	-	-	-
Other specific items	(0.5)	-	-	(0.5)	(0.7)	-	-	1.1	(0.1)	0.3	-	(0.2)
Segment operating profit	7.2	(0.5)	3.7	10.4	24.0	2.6	3.3	14.2	3.0	47.1	-	57.5
Parent Company costs												(13.2)
Operating profit												44.3
Net finance costs before Other items												(15.3)
Net fair value losses on derivative financial instruments												(0.3)
Unwinding of provision discounting												(0.2)
Profit before tax												28.5
Income tax expense												(10.6)
Non-controlling interests												(0.4)
Profit for the year												17.5

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

* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

	UK & Ireland				Mainland Europe							Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m			
2017													
Revenue													
Underlying revenue	741.9	403.9	98.3	1,244.1	660.7	425.0	142.8	142.1	101.7	1,472.3	-		2,716.4
Revenue attributable to businesses identified as non-core	60.0	40.1	41.4	141.5	-	8.5	-	12.0	-	20.5	-		162.0
Inter-segment revenue^	15.3	5.2	-	20.5	12.5	0.2	0.6	0.3	0.1	13.7	(34.2)		-
Total revenue	817.2	449.2	139.7	1,406.1	673.2	433.7	143.4	154.4	101.8	1,506.5	(34.2)		2,878.4
Result (restated)**													
Segment result before Other items	3.5	30.1	4.8	38.4	26.2	12.0	1.0	14.4	6.3	59.9	-		98.3
Amortisation of acquired intangibles	(2.0)	(4.9)	(0.1)	(7.0)	(0.8)	-	-	(1.3)	(0.2)	(2.3)	-		(9.3)
Impairment charges	(6.8)	-	-	(6.8)	-	-	-	-	-	-	-		(6.8)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges	(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	5.5	1.5	(13.8)	(6.8)	-	(0.8)	-	(0.4)	-	(1.2)	-		(8.0)
Net restructuring costs	(16.8)	(1.3)	(0.8)	(18.9)	(0.2)	(1.0)	(0.9)	(0.1)	-	(2.2)	-		(21.1)
Acquisition expenses and contingent consideration	(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 profit/(loss)	(25.2)	0.6	(39.9)	(64.5)	25.2	9.0	0.1	0.5	6.1	40.9	-		(23.6)
Parent Company costs													(12.7)
Operating loss													(36.3)
Net finance costs before Other items													(16.2)
Net fair value losses on derivative financial instruments													(1.7)
Unwinding of provision discounting													(0.5)
Loss before tax													(54.7)
Income tax expense													(4.5)
Non-controlling interests													(1.0)
Loss for the year													(60.2)

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

* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

** The 2017 results have been restated as set out in Note 1 and Note 12.

	UK & Ireland				Mainland Europe						Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m	
2018											
Balance sheet											
Assets											
Segment assets	336.6	218.1	37.0	591.7	320.4	103.2	58.3	90.5	50.8	623.2	1,214.9
<i>Unallocated assets:</i>											
Property, plant and equipment											2.7
Derivative financial instruments											1.9
Cash and cash equivalents											14.9
Deferred tax assets											3.8
Other assets											2.7
Consolidated total assets											1,240.9
Liabilities											
Segment liabilities	163.2	77.9	17.1	258.2	152.7	35.2	29.3	20.8	10.8	248.8	507.0
<i>Unallocated liabilities:</i>											
Private placement notes											185.6
Bank loans											56.6
Derivative financial instruments											4.1
Other liabilities											24.7
Consolidated total liabilities											778.0
Other segment information											
<i>Capital expenditure on:</i>											
Property, plant and equipment	4.7	3.8	1.1	9.6	5.5	2.2	1.1	0.9	0.7	10.4	20.0
Computer software	2.0	-	2.5	4.5	0.2	0.3	-	0.3	-	0.8	5.3
Goodwill and intangible assets (excluding computer software)	-	-	-	-	-	-	-	-	-	-	-
<i>Non-cash expenditure:</i>											
Depreciation	5.3	2.4	0.9	8.6	5.6	2.5	1.1	1.3	0.6	11.1	19.7
Impairment of property, plant and equipment and computer software	4.4	-	-	4.4	-	-	-	0.1	-	0.1	4.5
Amortisation of acquired intangibles and computer software	4.4	4.8	0.5	9.7	1.5	0.3	0.1	1.5	0.2	3.6	13.3
Impairment of goodwill and intangibles (excluding computer software)	-	-	-	-	-	-	-	-	-	-	-

* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

	UK & Ireland				Mainland Europe						Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m	
2017											
Balance sheet											
Assets (restated)**											
Segment assets	360.6	230.0	59.6	650.2	339.0	123.1	55.0	110.1	38.6	665.8	1,316.0
<i>Unallocated assets:</i>											
Property, plant and equipment											0.1
Derivative financial instruments											1.3
Cash and cash equivalents											10.2
Deferred tax assets											3.1
Other assets											10.7
Consolidated total assets											1,341.4
Liabilities (restated)**											
Segment liabilities	196.5	70.6	45.0	312.1	144.8	36.4	23.8	28.8	8.4	242.2	554.3
<i>Unallocated liabilities:</i>											
Private placement notes											204.2
Bank loans											75.7
Derivative financial instruments											3.5
Other liabilities											33.2
Consolidated total liabilities											870.9
Other segment information											
<i>Capital expenditure on:</i>											
Property, plant and equipment	7.0	11.5	1.1	19.6	5.4	2.1	0.7	0.9	0.4	9.5	29.1
Computer software	2.3	-	-	2.3	0.2	0.1	-	0.6	-	0.9	3.2
Goodwill and intangible assets (excluding computer software)	-	-	-	-	-	0.1	-	-	-	0.1	0.1
<i>Non-cash expenditure:</i>											
Depreciation	8.2	2.2	1.2	11.6	6.0	3.0	1.3	1.1	0.7	12.1	23.7
Impairment of property, plant and equipment and computer software	7.6	-	2.7	10.3	-	-	-	0.3	-	0.3	10.6
Amortisation of acquired intangibles and computer software	4.1	4.9	0.6	9.6	1.4	0.4	-	1.4	0.2	3.4	13.0
Impairment of goodwill and intangibles (excluding computer software)	5.6	-	1.0	6.6	-	-	-	-	-	-	6.6

* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

** 2017 has been restated for the historical overstatements, as noted in the Note 1 and Note 12.

2. Revenue and segmental information (continued)

b) Geographic information

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

Country	2018 Non-current assets £m	2017 Restated Non-current assets £m
United Kingdom	248.6	256.6
Ireland	2.8	2.8
France	124.3	126.0
Germany	14.4	18.5
Poland	6.3	6.7
Benelux*	49.1	52.3
Total underlying	445.5	462.9
Attributable to businesses identified as non-core (Note 11)	-	24.4
Total	445.5	487.3

*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. Other operating expenses

a) Analysis of other operating expenses

	2018			2017 Restated		
	Before Other items £m	Other items £m	Total £m	Before Other items £m	Other items £m	Total £m
Other operating expenses:						
- distribution costs	249.2	5.1	254.3	252.4	34.5	286.9
- selling and marketing costs	195.1	3.1	198.2	209.7	10.6	220.3
- management, administrative and central costs	184.4	57.4	241.8	175.3	123.4	298.7
- property profits	(2.6)	(1.1)	(3.7)	(11.3)	(5.8)	(17.1)
	626.1	64.5	690.6	626.1	162.7	788.8

b) Other items

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

	2018			2017		
	Other items	Tax impact	Tax impact	Other items	Tax impact	Tax impact
	£m	£m	%	£m	£m	%
Amortisation of acquired intangibles	(8.9)	1.8	(20.2)	(9.3)	1.9	(20.4)
Impairment charges	(4.0)	-	-	(6.8)	1.3	(19.1)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 9)	(6.7)	1.3	(19.4)	(72.4)	2.0	(2.8)
Net operating profits/(losses) attributable to businesses identified as non-core (Note 9)	1.2	-	-	(8.0)	1.5	(18.8)
Net restructuring costs^	(27.7)	6.3	(22.7)	(21.1)	4.1	(19.4)
Acquisition expenses and contingent consideration	-	-	-	(9.8)	-	-
Other specific items*	(0.2)	(0.5)	250.0	5.5	(1.1)	(20.0)
Impact on operating profit	(46.3)	8.9	(19.2)	(121.9)	9.7	(8.0)
Net fair value losses on derivative financial instruments	(0.3)	0.1	(33.3)	(1.7)	0.3	(17.6)
Unwinding of provision discounting	(0.2)	-	-	(0.5)	-	-
Impact on profit before tax	(46.8)	9.0	(19.2)	(124.1)	10.0	(8.1)
Effect of change in rate on deferred tax	-	0.3	-	-	(1.0)	-
Other tax adjustments in respect of previous years	-	(0.1)	-	-	4.2	-
Impact on profit after tax	(46.8)	9.2	(19.7)	(124.1)	13.2	(10.6)

^ Included within net restructuring costs are costs associated with supply chain review of £nil (2017: £11.7m), property closure costs of £5.5m (2017: £2.8m), redundancy and related staff costs of £11.5m (2017: £3.9m), impairment of non-current assets due to restructuring of £0.6m (2017: £nil) and £10.1m (2017: £2.7m) in relation to restructuring consultancy costs, mainly incurred in connection with the fundamental restructuring of the target operating model of the major operating companies in the UK, Germany and France.

*Other specific items comprise the following:

	2018 £m	2017 £m
Profit on sale of property	1.1	5.8
Other specific costs	(0.3)	-
Impairment charge and other costs following the cessation of the UK eCommerce project	-	(0.3)
GMP equalisation	(1.0)	-
Total other specific items	(0.2)	5.5

4. Income tax

The income tax expense comprises:

	2018 £m	2017 Restated £m
Current tax		
UK & Ireland:		
- charge for the year	1.3	0.6
- adjustments in respect of previous years	(0.2)	0.1
	1.1	0.7
Mainland Europe:		
- charge for the year	11.2	13.8
- adjustments in respect of previous years	(0.7)	0.5
	10.5	14.3
Total current tax	11.6	15.0
Deferred tax		
Current year	(2.0)	(4.9)
Adjustments in respect of previous years	0.8	(6.9)
Deferred tax charge in respect of pension schemes	0.5	0.3
Effect of change in rate	(0.3)	1.0
Total deferred tax	(1.0)	(10.5)
Total income tax expense	10.6	4.5

4. Income tax (continued)

As the Group's profits and losses are earned across a number of tax jurisdictions an aggregated income tax reconciliation is disclosed, reflecting the applicable rates for the countries in which the Group operates.

The total tax charge for the year differs from the expected tax using a weighted average tax rate which reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates. The differences are explained in the following aggregated reconciliation of the income tax expense:

	2018		2017 Restated	
	£m	%	£m	%
Profit/(loss) before tax	28.5		(54.7)	
Expected tax charge/(credit)	8.8	30.9	(2.6)	4.8
Factors affecting the income tax expense for the year:				
- expenses not deductible for tax purposes [^]	3.5	12.3	3.9	(7.1)
- non-taxable income*	(3.7)	(13.0)	(1.8)	3.3
- impairment and disposal charges not deductible for tax purposes**	2.7	9.5	9.1	(16.6)
- losses arising in the year not recognised for deferred tax purposes	-	-	0.5	(0.9)
- release of deferred tax asset no longer recognised	0.3	1.1	-	-
- losses utilised not previously recognised for deferred tax purposes	(0.6)	(2.1)	-	-
- other adjustments in respect of previous years	(0.2)	(0.7)	(6.2)	11.3
- tax on branch profits	0.1	0.4	0.6	(1.1)
- effect of change in rate on deferred tax	(0.3)	(1.1)	1.0	(1.8)
Total income tax expense	10.6	37.2	4.5	(8.2)

[^] The majority of the Group's expenses that are not deductible for tax purposes are primarily in relation to the divestments of businesses, impairments of property and non-deductible interest payments.

* The majority of the Group's non-taxable income relates to the divestments of businesses and French employment tax credits.

** During the year the Group incurred disposal costs of £19.5m in relation to goodwill (2017: impairment charges £6.0m and disposal costs of £39.5m). These impairment and disposal charges are not deductible for tax purposes.

The effective tax rate for the Group on the total profit before tax of £28.5m is 37.2% (2017: negative 8.2%). The effective tax charge for the Group on profit before tax before Other items of £75.3m is 26.3% (2017: 25.5%), which comprises a tax charge of 26.6% (2017: 27.5%) in respect of current year profits and a tax credit of 0.3% (2016: 2.0%) in respect of prior years. Factors affecting the Group's future total tax charge as a percentage of underlying profits are:

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

The prior year presentation of the deferred tax assets and deferred tax liabilities has been restated so that, in accordance with IAS 12, deferred tax assets and deferred tax liabilities arising in the same tax jurisdiction have been offset.

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.

	2018	2017 Restated
	£m	£m
Deferred tax movement associated with remeasurement of defined benefit pension liabilities*	0.1	(0.9)
Deferred tax on share options	(0.2)	0.2
Tax credit/(charge) on exchange and fair value movements arising on borrowings and derivative financial instruments	0.4	(1.8)
Impact of adoption of IFRS 15	0.2	-
Effect of change in rate on deferred tax*	-	(0.2)
Total	0.5	(2.7)

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

5. Earnings/(loss) per share

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

	Basic and diluted	
	2018	2017
		Restated
	£m	£m
Profit/(loss) after tax	17.9	(59.2)
Non-controlling interests	(0.4)	(1.0)
	17.5	(60.2)
	Basic and diluted before Other items	
	2018	2017
		Restated
	£m	£m
Profit/(loss) after tax	17.9	(59.2)
Non-controlling interests	(0.4)	(1.0)
Add back:		
Other items (Note 3)	37.6	110.9
	55.1	50.7
	2018	2017
Weighted average number of shares	Number	Number
For basic and diluted earnings/(loss) per share	591,548,834	591,489,053
	2018	2017
		Restated
Profit/(loss) per share		
Basic and diluted earnings/(loss) per share	3.0p	(10.2)p
Earnings per share before Other items[^]		
Basic and diluted earnings per share	9.3p	8.6p

[^] Earnings per share before Other items (also referred to as underlying earnings per share) has been disclosed in order to present the underlying performance of the Group.

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

	2018	2017
	£m	Restated £m
Profit/(loss) before tax	28.5	(54.7)
Depreciation	19.7	23.7
Amortisation of computer software	4.4	3.7
Amortisation of acquired intangibles	8.9	9.3
Impairment of computer software	1.1	6.8
Impairment of property, plant and equipment	3.4	3.8
Goodwill and intangible impairment charges (excluding computer software)	-	6.6
Losses on agreed sale or closure of non-core businesses [^]	6.7	63.6
Profit on sale of property, plant and equipment	(7.5)	(17.8)
Share-based payments	0.4	0.2
Decrease in provisions	(1.9)	(5.0)
Working capital movements:		
- Decrease/(increase) in inventories	30.1	(0.3)
- Decrease in receivables	9.3	46.8
- Increase in payables	6.5	14.7
Cash generated from operating activities	109.6	101.4

[^] In 2017 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 £3.1m (2017: £2.5m).

Of the total profit on sale of property, plant and equipment, £1.1m (2017: £5.8m) has been included within Other items of the Consolidated Income Statement (see Note 3).

Included within working capital movements are payments of £nil (2017: £2.7m) in settlement of contingent consideration dependent upon the vendors remaining with the business.

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

	2018 £m	2017 Restated £m
Increase/(decrease) in cash and cash equivalents in the year	(0.1)	(14.9)
Cash flow from decrease in debt	75.5	86.0
Decrease in net debt resulting from cash flows	75.4	71.1
Debt relating to divested businesses	0.1	3.1
Recognition of loan notes and deferred consideration	(0.9)	(17.0)
Non-cash items^	(3.3)	(12.5)
Exchange differences	(2.0)	(4.2)
Decrease in net debt in the year	69.3	40.5
Net debt at 1 January	(258.7)	(299.2)
Net debt at 31 December	(189.4)	(258.7)

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

Net debt is defined as follows:

	2018 £m	2017 Restated £m
<i>Non-current assets:</i>		
Derivative financial instruments	1.9	0.1
Deferred consideration	0.7	1.4
<i>Current assets:</i>		
Derivative financial instruments	-	1.2
Deferred consideration	0.8	0.1
Cash at bank and on hand	83.3	108.2
<i>Current liabilities:</i>		
Obligations under finance lease contracts	(3.2)	(3.2)
Bank overdrafts	(4.5)	(29.6)
Bank loans	(56.5)	(84.2)
Private placement notes	-	(21.1)
Loan notes and deferred consideration	(0.9)	(17.0)
Other financial liabilities	(1.1)	(8.0)
Derivative financial instruments	(0.3)	(0.2)
<i>Non-current liabilities:</i>		
Obligations under finance lease contracts	(20.2)	(20.0)
Private placement notes	(185.6)	(183.1)
Derivative financial instruments	(3.8)	(3.3)
Net debt	(189.4)	(258.7)

8. Dividends

An interim dividend of 1.25p per ordinary share was paid on 9 November 2018 (2017: 1.25p). The Directors have proposed a final dividend for the year ended 31 December 2018 of 2.5p per ordinary share (2017: 2.5p). The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements. Total dividends paid during the year, including the final dividend for 2017, were £22.2m (2017: £18.2m). No dividends have been paid between 31 December 2018 and the date of signing the Financial Statements.

At 31 December 2018 the Company has c.£43.4m of distributable reserves, as set out in the Company Financial Statements, and when required the Company can further increase these distributable reserves from appropriate repatriation of funds from subsidiary undertakings.

9. Divestments and exit of non-core businesses

The Group has recognised a total charge of £6.7m (2017: £72.4m) in respect of losses on agreed sale or closure of non-core businesses and associated impairment charges within Other items of the Consolidated Income Statement.

Businesses disposed during the year

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

GRM

As disclosed in the 2017 Annual Report and Accounts, on 2 February 2018 the Group completed the disposal of GRM Insulation Solutions (GRM), a division of SIG Trading Limited and part of the SIG Distribution segment. In 2017 the goodwill, fixed assets and inventories were impaired to reflect the recoverable amount indicated by the sale proceeds and the expected costs of the sale were accrued, resulting in a loss on sale of £5.7m being recognised in 2017. During the period to 31 December 2018 inventory previously impaired has been sold and, therefore, £0.2m of this provision has been released as a credit to Other items in 2018.

IBSL

As disclosed in the 2017 Annual Report and Accounts, on 2 March 2018 the Group completed the disposal of IBSL, a small industrial insulation division operated by SIG Trading Limited and part of the SIG Distribution segment. In 2017 the assets of the business were impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell and a loss on sale of £1.9m recognised within Other items of the 2017 Consolidated Income Statement. The assets and liabilities were classified as held for sale at 31 December 2017 (comprising fixed assets of £0.2m, inventories of £0.1m and liabilities of £0.1m). During the period to 31 December 2018, further costs of £0.1m have been recognised.

Building Systems

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

VJ Technology

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

Roofspace

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

Proteus

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

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

	At date of disposal £m	At 31 December 2017 £m
Attributable goodwill	21.5	22.2
Property, plant and equipment	2.7	2.0
Cash	6.8	2.3
Inventories	7.7	6.7
Trade and other receivables	16.7	15.6
Trade and other payables	(5.3)	(12.4)
Net assets	50.1	36.4
Other costs	0.3	
Total loss on disposals	(5.4)	
Sale proceeds	45.0	
Satisfied by:		
Cash and cash equivalents	44.5	
Deferred consideration (vendor loan note)	0.5	
	45.0	

Other business closures

The Group has also agreed to exit the following businesses:

SIG Cut Solutions

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

Commercial Drainage

The Group has announced the closure of its Commercial Drainage business, part of the SIG Distribution segment. All assets are held at recoverable value and the operating losses for the year have been included in Other items in the Consolidated Income Statement.

Prior year divestments

Middle East

As disclosed in the 2017 Annual Report and Accounts, the Group has commenced the closure of its business in the Middle East. The assets of the business were impaired at 31 December 2017 to reflect the recoverable amount indicated by the period end impairment review process, resulting in a total loss on wind down of £17.1m for the year end 31 December 2017. During the period to 31 December 2018 a net expense of £0.9m has been recognised in Other items, comprising additional costs associated with the closure, offset with the release of a bad debt provision where amounts have been collected.

Air Handling Turkey

On 21 December 2017 the Group disposed of its shareholding in Air Trade Centre East BV and A.T.C. Air Trade Centre Havealandirma Sistemleri Ticaret Limited Sirketi (together, 'Air Handling Turkey'). The disposal led to a loss on disposal of £3.1m being included within Other items in the Consolidated Income Statement at 31 December 2017. During the period to 31 December 2018 an additional expense of £0.4m has been incurred due to the retranslation of the vendor loan which is repayable over 48 months from October 2018.

Other

Additional credits of £0.1m have been recognised and included within Other items in relation to the disposals of the Carpet & Flooring and Metecho businesses in the prior year.

Contribution to revenue and operating profit

The results of the above businesses for the current and prior periods have been disclosed within Other items in the Consolidated Income Statement in order to provide an indication of the underlying earnings of the Group. The revenue and net operating profit/(loss) of the non-core businesses for the years ended 31 December 2018 and 31 December 2017 are as follows:

	2018		2017	
	Revenue £m	Net operating profit/(loss) £m	Revenue £m	Net operating profit/(loss) £m
Carpet & Flooring	-	-	11.4	(0.7)
Drywall Qatar	-	-	1.2	(1.4)
Building Plastics	-	-	34.5	0.9
WeGo Austria	-	-	7.6	(0.2)
ATC Turkey	-	-	12.0	(0.4)
Building Systems	1.4	(1.2)	8.0	(7.6)
GRM	0.3	(0.2)	2.6	(0.8)
Metecho	-	-	1.3	(3.4)
Middle East	2.1	(0.8)	19.5	(0.7)
IBSL	0.2	(0.2)	1.8	-
Businesses identified as non-core in 2017	4.0	(2.4)	99.9	(14.3)
VJ Technology	17.0	3.1	30.6	5.0
Roofspace	24.0	2.1	17.6	2.0
Proteus	3.4	(0.5)	5.6	0.6
Commercial Drainage	10.0	(0.8)	7.4	(0.7)
SIG Cut Solutions	0.3	(0.3)	0.9	(0.6)
Businesses identified as non-core in 2018	54.7	3.6	62.1	6.3
Total attributable to non-core businesses	58.7	1.2	162.0	(8.0)

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

The net cash inflow in the year ended 31 December 2018 in respect of divestments and the exit of non-core businesses is as follows:

	GRM	IBSL	Building Systems	VJ Technology	Roofspace	Proteus	Other non- core businesses	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cash consideration received for divestments	0.1	0.3	0.2	29.3	14.6	0.5	-	45.0
Cash at date of disposal	-	-	-	(4.5)	(2.3)	-	-	(6.8)
Other income received/(Disposal costs paid)	0.2	(0.1)	1.0	(0.6)	(0.8)	-	(2.1)	(2.4)
Net cash inflow/(outflow)	0.3	0.2	1.2	24.2	11.5	0.5	(2.1)	35.8

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

10. Related party transactions

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

SIG had a shareholding of less than 0.1% in a German purchasing co-operative up until termination of the contract on 31 December 2018. Net purchases from this co-operative (on commercial terms) totalled £266.1m in 2018 (2017: £318.5m). At the balance sheet date net trade payables in respect of the co-operative amounted to £8.0m (2017: £10.1m).

In 2018, SIG incurred expenses of £0.2m (2017: £0.2m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

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".

	2018 £m	2017 £m
Short term employee benefits	4.8	6.2
Termination and post-employment benefits	0.5	2.4
IFRS 2 share option charge/(credit)	0.4	0.2
	5.7	8.8

11. Non-statutory information

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations.

The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as shown below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for Other items (as explained in further detail within the Statement of Significant Accounting Policies) or to adjust for businesses identified as non-core to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis. Non-core businesses are those businesses that have been closed or disposed of or where the Board has resolved to close or dispose of the businesses prior to signing the Annual Report and Accounts.

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

Information regarding covenant calculations (Notes 11a, 11c and 11g) 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.

	2018 £m	2017 Restated £m
Underlying operating profit	90.6	85.6
Add back:		
Depreciation	19.7	23.7
Amortisation of computer software	4.4	3.7
Reversal of restatement on net operating losses attributable to businesses identified as non-core*	-	6.3
Depreciation attributable to businesses identified as non-core*	(0.3)	(0.8)
Covenant EBITDA	114.4	118.5

*The 2017 covenant calculation has not been restated to reflect the decisions made to exit non-core businesses after the signing of the 2017 Financial Statements (Note 9).

	2018 £m	2017 Restated £m
Reported net debt	189.4	258.7
Other covenant financial indebtedness	10.9	11.8
Foreign exchange adjustment*	(1.8)	(1.5)
Covenant net debt	198.5	269.0

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

	2018	2017 Restated
Headline financial leverage (covenant net debt to covenant EBITDA - maximum 3.0x)	1.7x	2.3x

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

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

	2018 £m	2017 Restated £m
Statutory operating profit/(loss)	44.3	(36.3)
Income tax expense	(10.6)	(4.5)
Operating profit/(loss) after tax	33.7	(40.8)

	2018 £m	2017 Restated £m
Underlying operating profit	90.6	85.6
Income tax expense	(10.6)	(4.5)
Tax credit associated with Other items	(9.2)	(13.2)
Underlying operating profit after tax	70.8	67.9

	2018 £m	2017 £m
Opening reported net assets (restated)	470.5	529.7
Opening reported net debt (restated)	258.7	299.2
Opening capital employed	729.2	828.9
Computer software impairment charges*	(1.1)	(7.9)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*	(6.7)	(79.1)
Adjusted opening capital employed	721.4	741.9
Closing reported net assets (2017 restated)	462.9	470.5
Closing reported net debt (2017 restated)	189.4	258.7
Closing capital employed	652.3	729.2
Computer software impairment charges*	-	(1.1)
Losses on agreed sale or closure of non-core businesses and associated impairment charges*	-	(6.7)
Adjusted closing capital employed	652.3	721.4
Average capital employed	690.8	779.1
Adjusted average capital employed*	686.9	731.7

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

	2018	2017 Restated
Unadjusted ROCE (operating profit/(loss) after tax to average capital employed)	4.9%	(5.2)%
ROCE (underlying operating profit after tax to adjusted average capital employed)	10.3%	9.3%

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.

	2018 £m	2017 Restated £m
Underlying Operating profit	90.6	85.6
<i>Add back:</i>		
Net operating losses attributable to businesses identified as non-core (Note 9)	1.2	(8.0)
Contingent consideration*	-	(8.3)
Consolidated EBITA	91.8	69.3
Underlying Finance costs	15.9	16.7
Underlying Finance income	(0.6)	(0.5)
<i>Less:</i>		
Interest costs arising on the defined benefit pension scheme	(0.5)	(0.7)
Acceptance commission	(0.9)	(0.8)
Covenant net interest payable	13.9	14.7
Interest cover ratio (consolidated EBITA to covenant net interest payable)	6.6x	4.7x

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

d) Underlying profit before tax excluding property profits

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

	2018 £m	2017 Restated £m
Underlying profit before tax	75.3	69.4
Underlying property profits	(2.6)	(11.3)
Underlying profit before tax excluding property profits	72.7	58.1

e) Effective tax rates

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

	2018 £m	2017 Restated £m
Profit/(loss) before tax	28.5	(54.7)
Other items	46.8	124.1
Underlying profit before tax	75.3	69.4
Income tax expense	(10.6)	(4.5)
Tax credit associated with Other items	(9.2)	(13.2)
Underlying tax charge	(19.8)	(17.7)
Effective tax rate (income tax expense to profit/(loss) before tax)	37.2%	(8.2)%
Underlying effective tax rate (underlying tax charge to underlying profit before tax)	26.3%	25.5%

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

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

	2018 £m	2017 Restated £m
<i>Current:</i>		
Inventories	207.2	243.5
Trade and other receivables	477.7	480.4
Trade and other payables	(428.3)	(421.5)
Provisions	(11.0)	(12.0)
<i>Non-current:</i>		
Other payables	(5.6)	(6.9)
Provisions	(20.4)	(21.7)
Reported working capital	219.6	261.8
Working capital for non-core businesses	(0.6)	(17.4)
Foreign exchange adjustment*	(2.0)	(0.8)
Adjusted working capital	217.0	243.6

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

	2018 £m	2017 £m
Reported revenue	2,741.9	2,878.4
Revenue attributable to business identified as non-core	(58.7)	(162.0)
Foreign exchange adjustment	-	18.7
Adjusted revenue	2,683.2	2,735.1

	2018	2017 Restated
Reported working capital to reported revenue	8.0%	9.1%
Like-for-like working capital to sales ratio (adjusted working capital to adjusted revenue)	8.1%	8.9%

g) Consolidated net worth

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

	2018	2017
	£m	Restated £m
Net assets	462.9	470.5
less: Non-controlling interests	-	(0.9)
Consolidated net worth	462.9	469.6

h) Cash inflow from trading

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

	2018	2017
	£m	Restated £m
Cash generated from operating activities	109.6	101.4
<i>Add back:</i>		
- Decrease/(increase) in inventories	(30.1)	0.3
- Decrease in receivables	(9.3)	(46.8)
- Increase in payables	(6.5)	(14.7)
- Decrease in provisions	1.9	5.0
Cash inflow from trading	65.6	45.2

11. Non-statutory information (continued)

i) Like-for-like sales

Like-for-like sales is calculated on a constant currency basis, and represents the growth in the Group's sales per day excluding any acquisitions or disposals completed or agreed in the current and prior year. Revenue is not adjusted for branch openings and closures. This measure shows how the Group has developed its revenue for comparable business relative to the prior period. As such it is a key measure of the growth of the Group during the year.

	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	UK & Ireland £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Mainland Europe £m	Group £m
Statutory revenue 2018	752.7	382.1	103.4	1,238.2	663.6	426.9	156.6	148.2	108.4	1,503.7	2,741.9
Non-core businesses	(51.5)	(3.4)	(3.5)	(58.4)	-	(0.3)	-	-	-	(0.3)	(58.7)
Underlying revenue 2018	701.2	378.7	99.9	1,179.8	663.6	426.6	156.6	148.2	108.4	1,503.4	2,683.2
Statutory revenue 2017	801.9	444.0	139.7	1,385.6	660.7	433.5	142.8	154.1	101.7	1,492.8	2,878.4
Non-core businesses	(60.0)	(40.1)	(41.4)	(141.5)	-	(8.5)	-	(12.0)	-	(20.5)	(162.0)
Underlying revenue 2017	741.9	403.9	98.3	1,244.1	660.7	425.0	142.8	142.1	101.7	1,472.3	2,716.4
% change year on year:											
Underlying revenue	(5.5)%	(6.2)%	1.6%	(5.2)%	0.4%	0.4%	9.7%	4.3%	6.6%	2.1%	(1.2)%
Impact of currency	-	-	(1.3)%	(0.1)%	(1.2)%	(1.2)%	(0.8)%	(1.3)%	(1.3)%	(1.2)%	(0.7)%
Impact of acquisitions	-	-	-	-	-	-	-	-	-	-	-
Impact of working days	(0.3)%	(0.4)%	(0.4)%	(0.3)%	(0.1)%		(0.4)%	(0.4)%	0.4%	(0.1)%	(0.2)%
Like-for-like sales	(5.8)%	(6.6)%	(0.1)%	(5.6)%	(0.9)%	(0.8)%	8.5%	2.6%	5.7%	0.8%	(2.1)%

* Air Handling segment represents the business managed from The Netherlands, with further air handling product category trading results incorporated within other operating segments.

j) Gross margin

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

	SIG Distribution	SIG Exteriors	Ireland & Other UK	UK & Ireland	France	Germany	Poland	Air Handling*	Benelux	Mainland Europe	Group
	%	%	%	%	%	%	%	%	%	%	%
Statutory gross margin 2018*	25.3	28.3	23.8	26.1	27.7	26.8	20.1	38.1	23.7	27.4	26.8
Impact of non-core businesses	(0.6)	-	1.4	(0.2)	-	(0.1)	-	-	-	-	(0.1)
Underlying gross margin 2018	24.7	28.3	25.2	25.9	27.7	26.7	20.1	38.1	23.7	27.4	26.7
Statutory gross margin 2017*	23.9	28.9	16.8	24.8	27.6	26.3	20.0	38.2	25.8	27.4	26.1
Impact of non-core businesses	(1.2)	(0.5)	8.2	-	-	0.1	-	0.2	-	-	0.1
Underlying gross margin 2017	22.7	28.4	25.0	24.8	27.6	26.4	20.0	38.4	25.8	27.4	26.2

* Air Handling segment represents the business managed from The Netherlands, with further air handling product category trading results incorporated within other operating segments.

k) Operating cost as a percentage of sales

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

	Six months ended 30 June 2018	Six months ended 31 December 2018	Year ended 31 December 2018	Six months ended 30 June 2017	Six months ended 31 December 2017	Year ended 31 December 2017
	£m	£m	£m	£m	£m	£m
Statutory revenue	1,381.7	1,360.2	2,741.9	1,439.2	1,439.2	2,878.4
Non-core businesses	(41.0)	(17.7)	(58.7)	(107.2)	(54.8)	(162.0)
Underlying revenue	1,340.7	1,342.5	2,683.2	1,332.0	1,384.4	2,716.4
Operating costs (statutory)	338.6	352.0	690.6	384.1	404.7	788.8
Other items	(19.2)	(45.3)	(64.5)	(73.4)	(89.3)	(162.7)
Underlying operating costs	319.4	306.7	626.1	310.7	315.4	626.1
Property profits	0.3	2.3	2.6	5.8	5.5	11.3
Underlying operating costs excluding property profits	319.7	309.0	628.7	316.5	320.9	637.4
Operating costs as a percentage of statutory revenue	24.5%	25.9%	25.2%	26.7%	28.1%	27.4%
Underlying operating costs excluding property profits as a percentage of underlying revenue	23.8%	23.0%	23.4%	23.8%	23.2%	23.5%

l) Operating profit (excluding property profits) / Return on sales (excluding property profits)

This is used to enhance understanding and comparability of the underlying financial performance of the Group by period and segment, excluding the benefit of property profits which can have a significant effect on results in a particular period.

	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total UK & Ireland £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total Mainland Europe £m	Parent Company costs £m	Total Group £m
2018												
Underlying revenue	701.2	378.7	99.9	1,179.8	663.6	426.6	156.6	148.2	108.4	1,503.4	-	2,683.2
Underlying operating profit [^]	20.9	17.3	6.1	44.3	27.8	9.1	3.3	14.8	4.5	59.5	(13.2)	90.6
Property profits	-	-	-	-	(1.0)	(1.6)	-	-	-	(2.6)	-	(2.6)
Underlying operating profit (excluding property profits)	20.9	17.3	6.1	44.3	26.8	7.5	3.3	14.8	4.5	56.9	(13.2)	88.0
Return on sales*	3.0%	4.6%	6.1%	3.8%	4.2%	2.1%	2.1%	10.0%	4.2%	4.0%	n/a	3.4%
Return on sales (excluding property profits)*	3.0%	4.6%	6.1%	3.8%	4.0%	1.8%	2.1%	10.0%	4.2%	3.8%	n/a	3.3%

[^] Underlying operating profit equals segmental result before Other items

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

2017												
Underlying revenue	741.9	403.9	98.3	1,244.1	660.7	425.0	142.8	142.1	101.7	1,472.3	-	2,716.4
Underlying operating profit [^]	3.5	30.1	4.8	38.4	26.2	12.0	1.0	14.4	6.3	59.9	(12.7)	85.6
Property profits	(0.9)	(5.3)	-	(6.2)	(0.5)	(4.5)	-	(0.1)	-	(5.1)	-	(11.3)
Underlying operating profit before property profits	2.6	24.8	4.8	32.2	25.7	7.5	1.0	14.3	6.3	54.8	(12.7)	74.3
Return on sales*	0.5%	7.5%	4.9%	3.1%	4.0%	2.8%	0.7%	10.1%	6.2%	4.1%	n/a	3.2%
Return on sales (excluding property profits)*	0.4%	6.1%	4.9%	2.6%	3.9%	1.8%	0.7%	10.1%	6.2%	3.7%	n/a	2.7%

[^] Underlying operating profit equals segmental result before Other items

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

m) Other non-statutory measures

In addition to the alternative performance measures noted above, the Group also uses underlying EPS (as set out in Note 5) and underlying net finance costs (as set out in Note 3).

12. Prior year restatements

As disclosed in Note 1, following the transition to the new Auditor certain accounting policies and judgements have been reviewed and refined, resulting in a number of restatements to previously reported numbers. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's Financial Statements.

a) Consolidated Balance Sheet

	Impact of restatements		
	As previously reported	Adjustments	As restated
At 1 January 2018	£m	£m	£m
Property, plant and equipment	102.4	15.7	118.1
Deferred tax assets	22.6	(8.9)	13.7
Trade and other receivables	468.0	12.4	480.4
Cash and cash equivalents	121.8	(13.6)	108.2
Other assets	621.0	-	621.0
Total assets	1,335.8	5.6	1,341.4
Obligations under finance lease contracts	9.9	13.3	23.2
Non-current other payables	3.8	3.1	6.9
Trade and other payables	429.0	(7.5)	421.5
Other financial liabilities	-	8.0	8.0
Provisions	25.8	7.9	33.7
Deferred tax liability	13.4	(12.0)	1.4
Other liabilities	376.2	-	376.2
Total liabilities	858.1	12.8	870.9
Net assets	477.7	(7.2)	470.5
Retained losses	(50.9)	(7.2)	(58.1)
Other capital and reserves	528.6	-	528.6
Total equity	477.7	(7.2)	470.5

The adjustments to cash and cash equivalents, obligations under finance leases and other financial liabilities resulted in a £34.9m increase to net debt.

b) Consolidated Income Statement and Other Comprehensive Income

	Impact of restatements		
	As previously reported	Adjustments	As restated
For the year ended 31 December 2017	£m	£m	£m
Revenue	2,878.4	-	2,878.4
Cost of sales	(2,125.9)	-	(2,125.9)
Other operating expenses	(786.4)	(2.4)	(788.8)
Net finance costs	(17.3)	(1.1)	(18.4)
Profit/(loss) before tax	(51.2)	(3.5)	(54.7)
Income tax expense	(7.4)	2.9	(4.5)
Profit/(loss) after tax	(58.6)	(0.6)	(59.2)
Attributable to Equity holders of the Company	(1.0)	-	(1.0)
Loss after tax attributable to equity holders of the Company	(59.6)	(0.6)	(60.2)
Total comprehensive expense	(40.0)	(0.6)	(40.6)
Loss per share	(10.1)p	0.1p	(10.2)p

c) Consolidated Cash Flow Statement

	As previously reported	Impact of restatements	
		Adjustments	As restated
For the year ended 31 December 2017	£m	£m	£m
Net cash generated from operating activities	99.7	(6.3)	93.4
Cash flows from financing activities	(123.4)	8.0	(115.4)
Other cash flows	7.1	-	7.1
Decrease in cash and cash equivalents in the year	(16.6)	1.7	(14.9)
Cash and cash equivalents at beginning of the year	104.3	(15.3)	89.0
Effect of foreign exchange rate changes	4.5	-	4.5
Cash and cash equivalents at end of the year	92.2	(13.6)	78.6

d) Consolidated Statement of Changes in Equity

	As previously reported	Impact of restatements	
		Adjustments	As restated
For the year ended 31 December 2017	£m	£m	£m
Total equity at 31 December 2015	649.3	(5.3)	644.0
Profit after tax	(121.6)	(1.3)	(122.9)
Other movements in equity	8.6	-	8.6
Total equity at 31 December 2016	536.3	(6.6)	529.7
Profit after tax	(58.6)	(0.6)	(59.2)
Other movements in equity	-	-	-
Total equity at 31 December 2017	477.7	(7.2)	470.5

13. 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 market positions in its core businesses, 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 2021 is the most appropriate time period for its viability review. This period has been selected since it gives the Board sufficient visibility into the future, due to industry characteristics, business cycle and the tenor of existing financing, to make a realistic viability assessment. This aligns with the turnaround 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 2021. The process included a detailed review of the plan, led by the Group Chief Executive Officer and Group Chief Financial Officer in conjunction with input from divisional and functional management teams. The Board participated fully in this process by means of an extended Board meeting to review and approve the plan.

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

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

13. 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.	Delivery of the change agenda Market downturn Working capital management
The implications of both a challenging economic environment and a growing market on the Group's revenues (both pricing and volume impacts) have been modelled by assuming a severe but plausible reduction in sales volume throughout the period. The potential implications of macro-economic uncertainty due to Brexit have also been considered.	Market downturn
The impact of the competitive environment within which the Group's businesses operate and the interaction with the Group's gross margin has been modelled by assuming a severe but plausible reduction in gross margins throughout the period.	Delivery of the change agenda Market downturn
The impact of a severe and prolonged economic downturn on the Group's financial results was modelled using a scenario based on the 2008/2009 global financial crisis.	Market downturn

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

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

After conducting their viability review, and taking into account the Group's current position and principal risks, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment to 31 December 2021.

14. Going concern basis

In determining whether the Group's 2018 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, including macro-economic uncertainty due to Brexit;
- projections of working capital requirements taking into account normal seasonality trends and short-term working capital management;
- the impact of the competitive environment within which the Group's businesses operate;
- the availability and market prices of the goods that the Group sells;
- the credit risk associated with the Group's trade receivable balances;
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected; and
- the committed financing facilities available to the Group.

Having considered all the factors above impacting the Group's businesses, including downside sensitivities, the Directors are satisfied that the Group will be able to operate within the terms and conditions of the Group's financing facilities, and have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group's 2018 financial information.

15. Principal risks and uncertainties

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

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

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

15. Principal risks and uncertainties (continued)

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

Risk	Controls:
<p>Delivery of the change agenda</p> <p>Without appropriate and sufficient capability, capacity and culture, the Group could suffer initiative overload resulting in management stretch and failure to meet core objectives.</p>	<ul style="list-style-type: none"> • Appointment of transformation directors at each operating company level. • Consultation with external experts to aid project strategy and implementation. • Introduction of Group transformation committee meetings to govern project portfolio.
<p>Working capital management</p> <p>Failure to manage working capital effectively, leading to an increase in net debt, reducing the Group's funding headroom and liquidity.</p>	<ul style="list-style-type: none"> • Budgets set for all areas of the business with accountability for performance established. • Inventory task force set up to manage stock effectively across the Group. • Key metrics and reporting reviewed regularly in management accounts and at management meetings.
<p>Data quality</p> <p>Lack of availability and reliability of data may have an adverse impact on the ability of the business to make properly informed and consistent decisions.</p>	<ul style="list-style-type: none"> • Implementation of data entry controls. • Introduction of data warehouse with controlled data sources.
<p>Systems capability</p> <p>Systems become heavily customised and outdated and are unable to support critical business activity and decision making.</p>	<ul style="list-style-type: none"> • Strategy to bring in new off-the-shelf systems to fill existing gaps. • New systems and changes to existing systems require central approval.
<p>Market downturn</p> <p>Changes in the market impact the Group's ability to meet performance expectations.</p>	<ul style="list-style-type: none"> • The Group's geographical diversity across Europe reduces the impact of changes in market conditions in any one country. • Cost reduction plans across the Group to reduce cost base. • Industry-based KPIs monitored monthly at a Group and operating company level.
<p>Pricing management</p> <p>Prices cannot be adequately controlled to remain both competitive in the market and achieve margin improvement targets.</p>	<ul style="list-style-type: none"> • Implementation of pricing tools and centralisation of control by operating company. • Review and monitoring of margin by customer.
<p>Supplier rebates</p> <p>Rebate income may not be accurately accounted leading to an overstatement or understatement of profits.</p>	<ul style="list-style-type: none"> • Reducing the reliance on rebate income through off-invoice discounting. • Rebate debtors and income regularly reviewed by commercial and finance teams. • Changes to rebate assumptions approved by the rebates committee.

Risk	Controls:
<p>Retention of talent</p> <p>Failure to attract and retain people with the right skills, drive and capability to re-shape and grow the business.</p>	<ul style="list-style-type: none"> • Appointment of a new Group HR Director. • Engagement survey completed with associated action plan developed. • Improved remuneration packages and retention plans for critical roles.
<p>Health and safety</p> <p>Danger of incident or accident, resulting in injury or loss of life to employees, customers of the general public.</p>	<ul style="list-style-type: none"> • Health and Safety policies and procedures in place and available to all staff. • Well established training programme during induction and on an ongoing basis. • Monitoring and reporting on incidents and investigations into route cause carried out to continually improve processes. • Health and Safety audits completed by independent teams.
<p>Cybersecurity</p> <p>Internal or external cyber-attacks could result in system disruption of loss of sensitive data.</p>	<ul style="list-style-type: none"> • Appointment of experienced Chief Information Security Officer. • Training, communications and schedule to ensure staff awareness of risks. • Disaster recovery plans in place and secure backups conducted to ensure continuity of service.