

# Delivering the transformation



**Results for six months ended 30 June 2018**

**21 September 2018**





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# Delivering the transformation



**Meinie Oldersma**  
**Chief Executive Officer**

# Today's agenda

- H1 2018 highlights
- Financial review of the period
- Delivering the transformation
- Current trading and outlook

# H1 2018 highlights

- Transformational plans well underway
- Further progress on strengthening balance sheet and portfolio refocus
- Operating costs under control and working capital beginning to fall
- Senior leadership in place, management capability and data improving
- Underlying revenue +1.0% and LFL sales +0.4%, reflecting challenges in UK market
- Underlying PBT (excluding one-off property profits) of £26.6m
- Net debt down 18.8% to £176.1m, with continued progress towards leverage targets
- Interim dividend of 1.25p per share in line with 2-3x cover policy
- Increased visibility over delivery of significant profit improvement during H2



# H1 2018 headline performance

	Medium term target	H1 2018	H1 2017 Restated
LFL sales growth	Market growth Maintain market share	0.4%	2.9%
ROS (excl. property profits)	c.5%	2.5%	2.7%
ROCE	c.15%	9.2%	7.8%
Headline financial leverage	under 1.0x	1.8x	2.3x

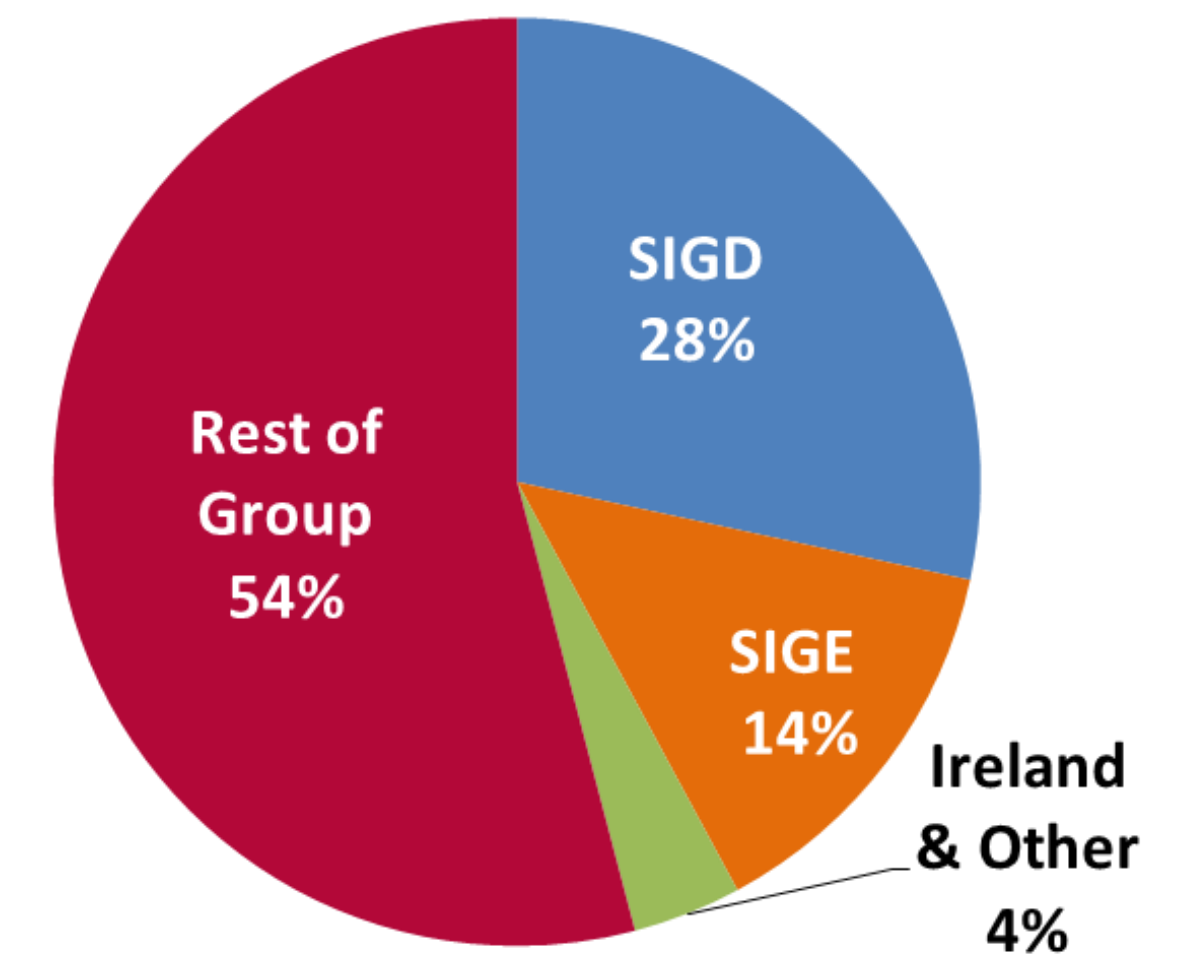
## Reduced leverage and improved ROCE

Note: H1 2017 restated to reflect matters included in 2017 Annual Report and Accounts and following review by Group’s new statutory auditor. Property profits: £0.3m (H1 2018), £5.8m (H1 2017)

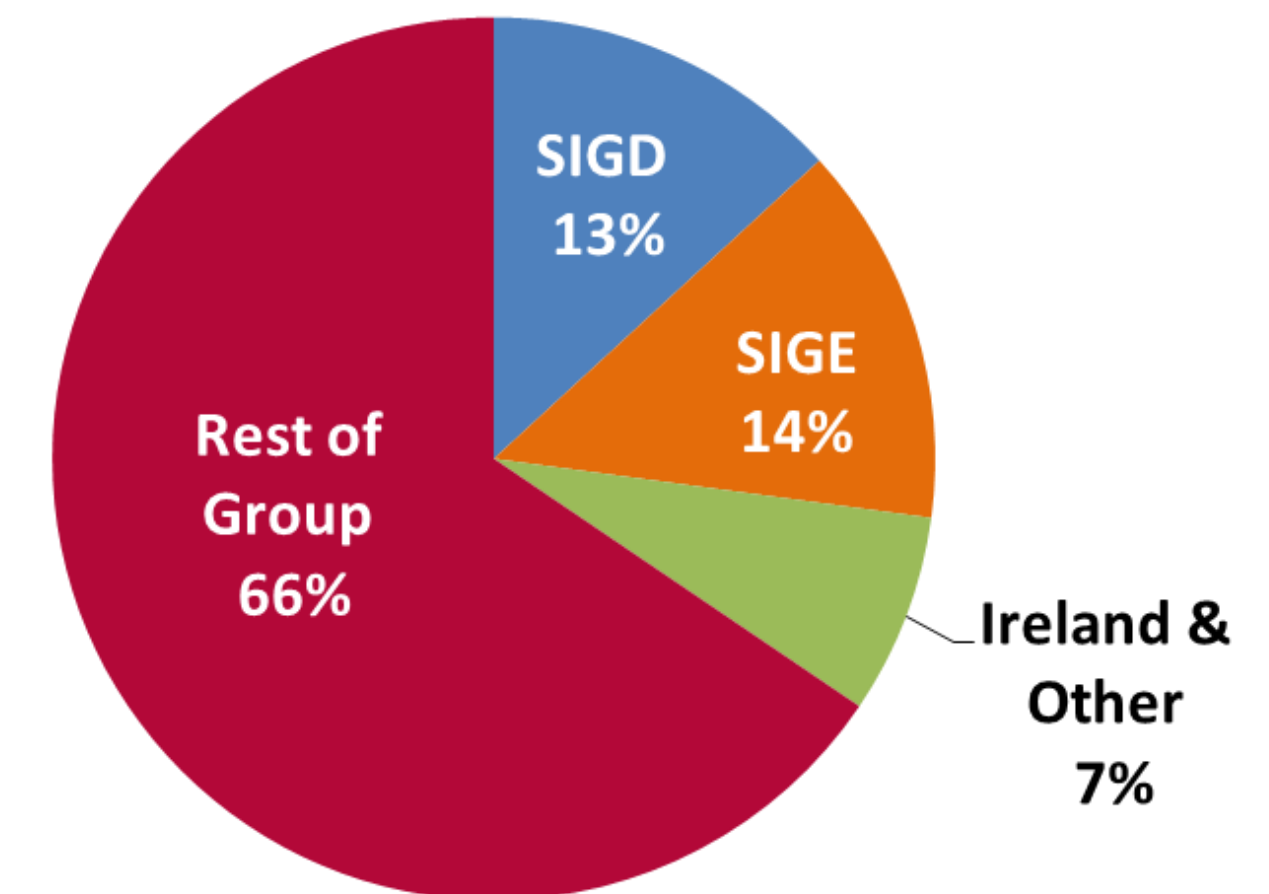
# Subdued UK trading

- LFL sales declined by 2.3%, reflecting poor weather and continuing macro uncertainty
- Significant shortfall in both Distribution and Exteriors
- As a result, UK revenues and operating profit behind expectations in the year to date
- Trading conditions in the UK continue to be challenging
- Transformational workstreams accelerated to enhance profitability in this challenging environment
- Stronger performance in Ireland - operating profit up 25.0%

H1 2018: £624.6m revenue



H1 2018: £14.2m operating profit

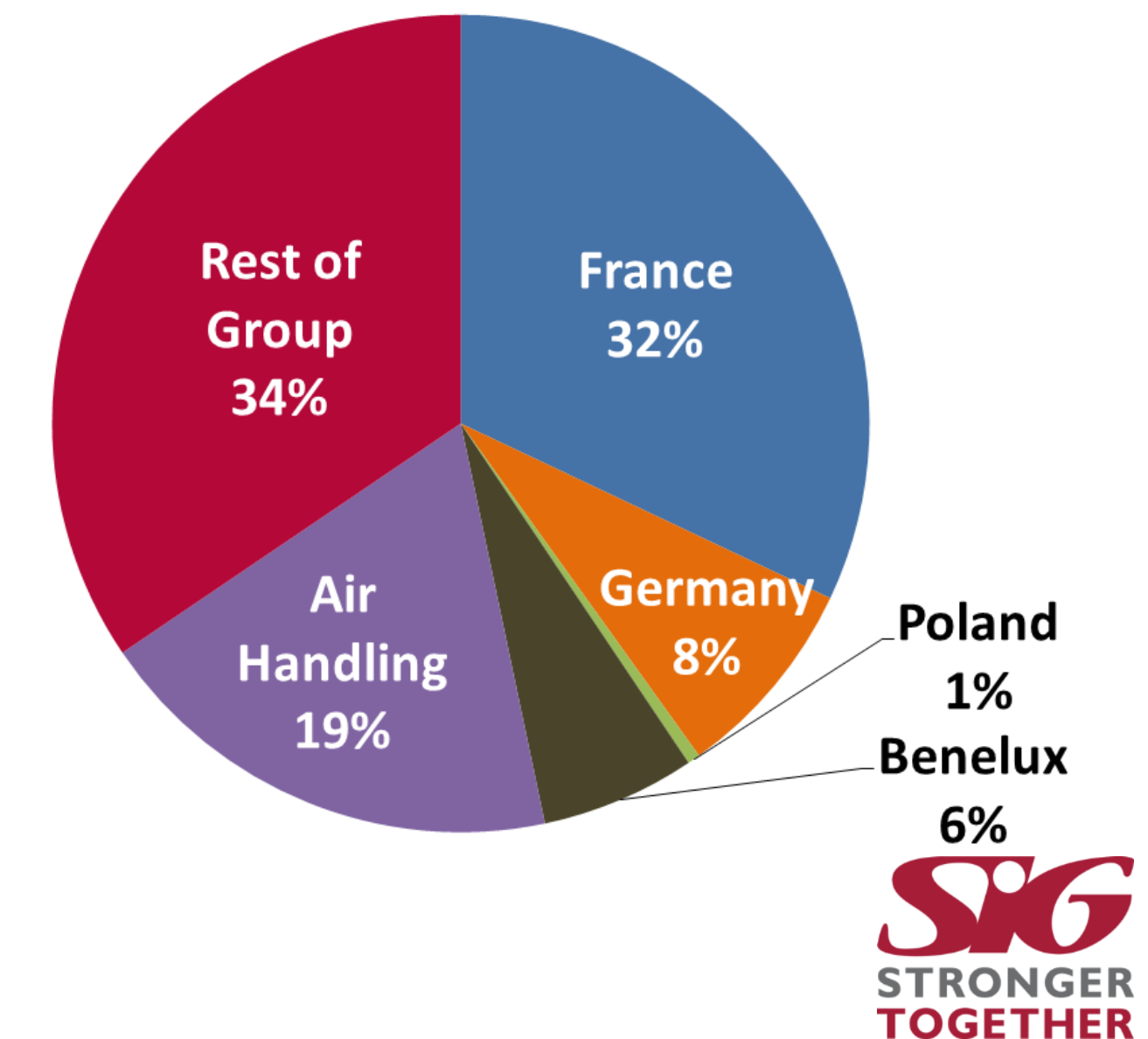
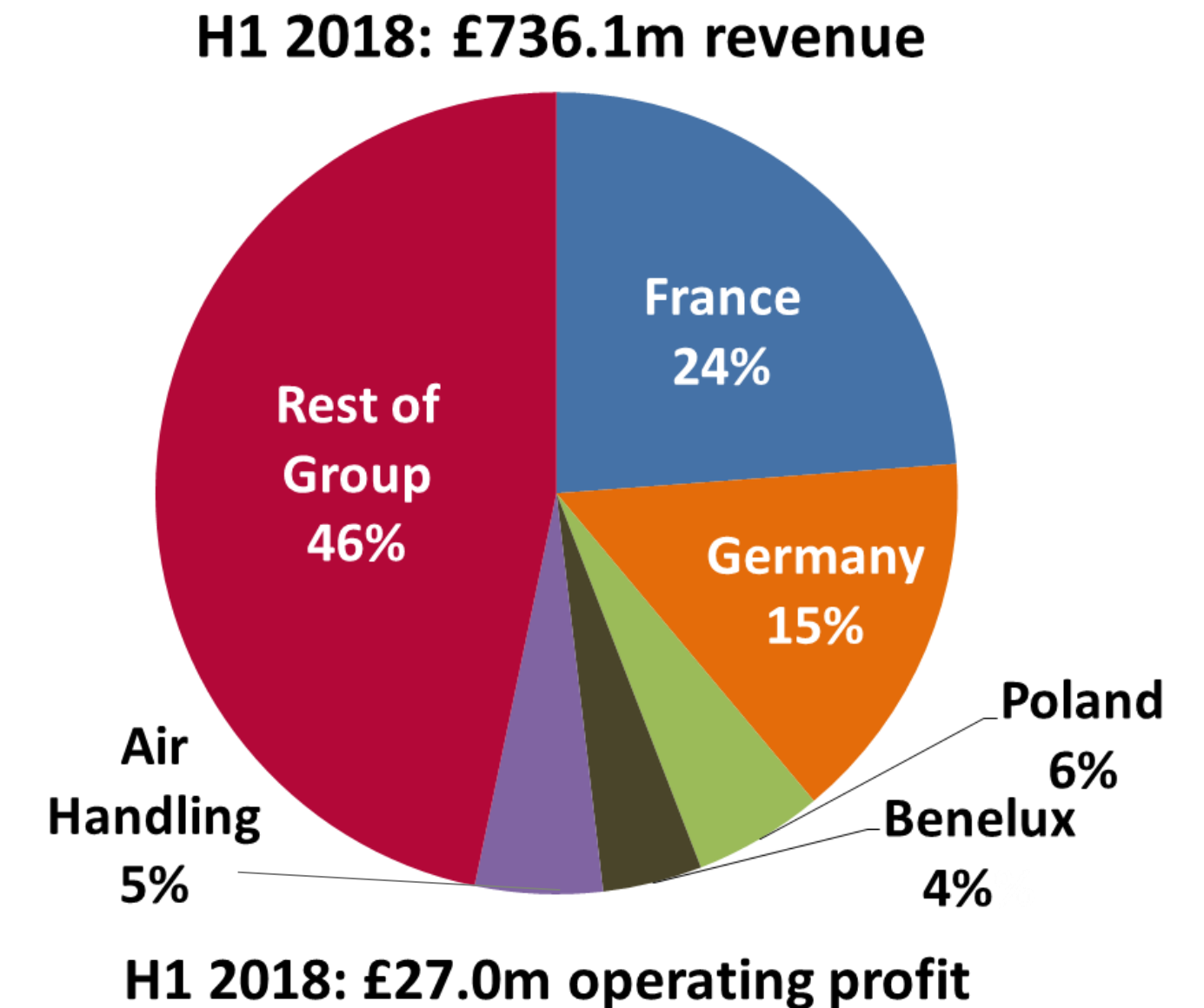


## Transformation to deliver significant H2 improvement

Note: Data represents underlying performance before central costs

# Improved European performance

- LFL revenues increased by 2.8%
- Margins ahead of H1 2017 and operating profit increased by 10.7%
- Solid performances in France and Germany. Good top line growth in Benelux, offset by mix and margin
- Strong H1 performances in Poland and Air Handling
- Planned operational improvements on track



## Favourable first half backdrop

Note: Data represents underlying performance before central costs



# Today's agenda

- H1 2018 highlights
- Financial review of the period
- Delivering the transformation
- Current trading and outlook

# Financial review of the period



**Nick Maddock**  
**Chief Financial Officer**

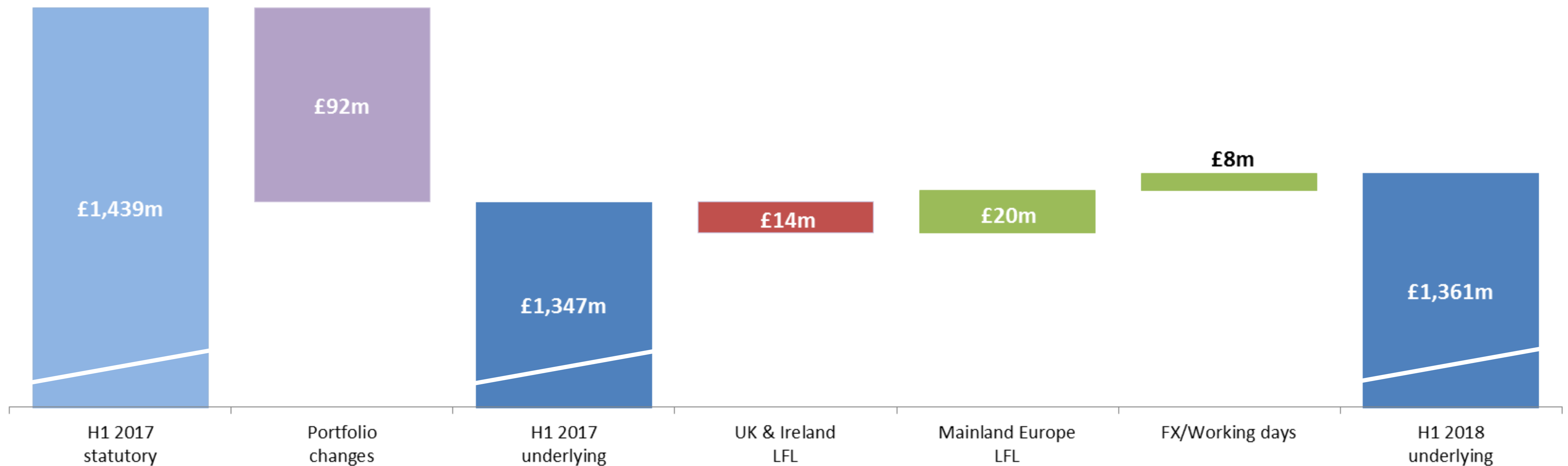


# H1 2018 key financials

	H1 2018	H1 2017 Restated	Change
Revenue	£1,360.7m	£1,347.1m	1.0%
LFL sales	0.4%	2.9%	(250)bps
Gross margin	26.4%	26.5%	(10)bps
Operating profit/(loss)	£34.8m	£42.3m	(17.7)%
<b>Profit before tax</b>	<b>£26.9m</b>	<b>£34.4m</b>	<b>(21.8)%</b>
<b>PBT excl. property profits</b>	<b>£26.6m</b>	<b>£28.6m</b>	<b>(7.0)%</b>
Basic earnings/(loss) per share	2.5p	(3.5)p	+6.0p
ROS (excl. property profits)	2.5%	2.7%	(20)bps
ROCE (post-tax)	9.2%	7.8%	140bps
Dividend per share	1.25p	1.25p	-
<b>Net debt (as at 30 June)</b>	<b>£176.1m</b>	<b>£217.0m</b>	<b>18.8%</b>
<b>Headline financial leverage</b>	<b>1.8x</b>	<b>2.3x</b>	<b>0.5x</b>

- Mainland Europe and Ireland continue to perform well
- LFL sales impacted by poor weather and continuing UK macro uncertainty
- As a result, revenues and operating profit behind expectations in the year to date, notably in the UK
- ROS (excluding property profits) similar to prior year
- Further good progress on debt, leverage and improved ROCE

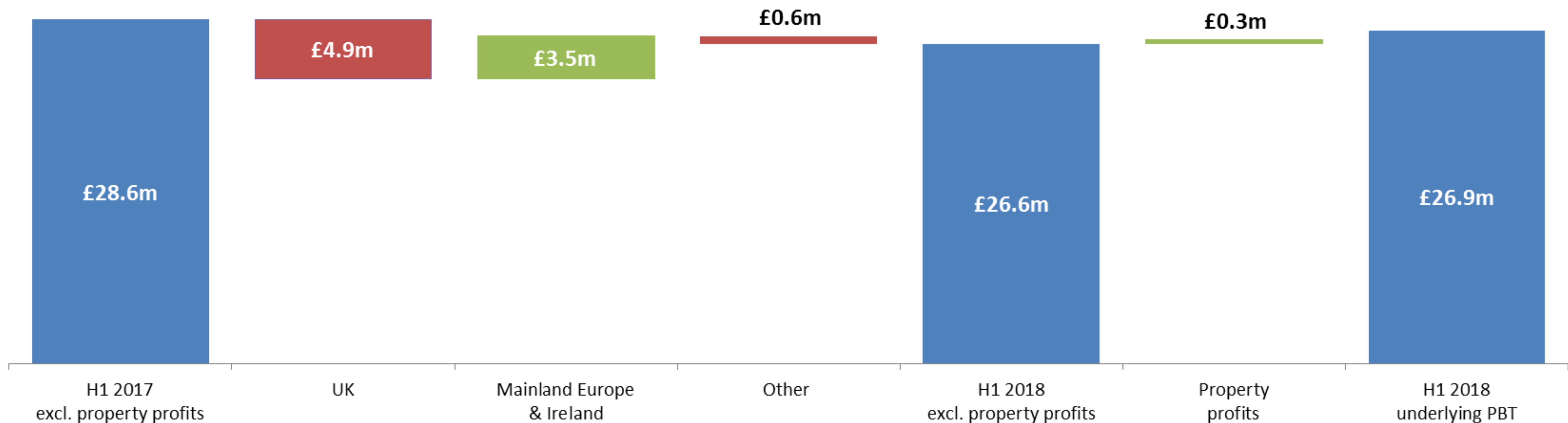
# H1 underlying revenue



**Revenue +1.0% and LFL sales +0.4%**



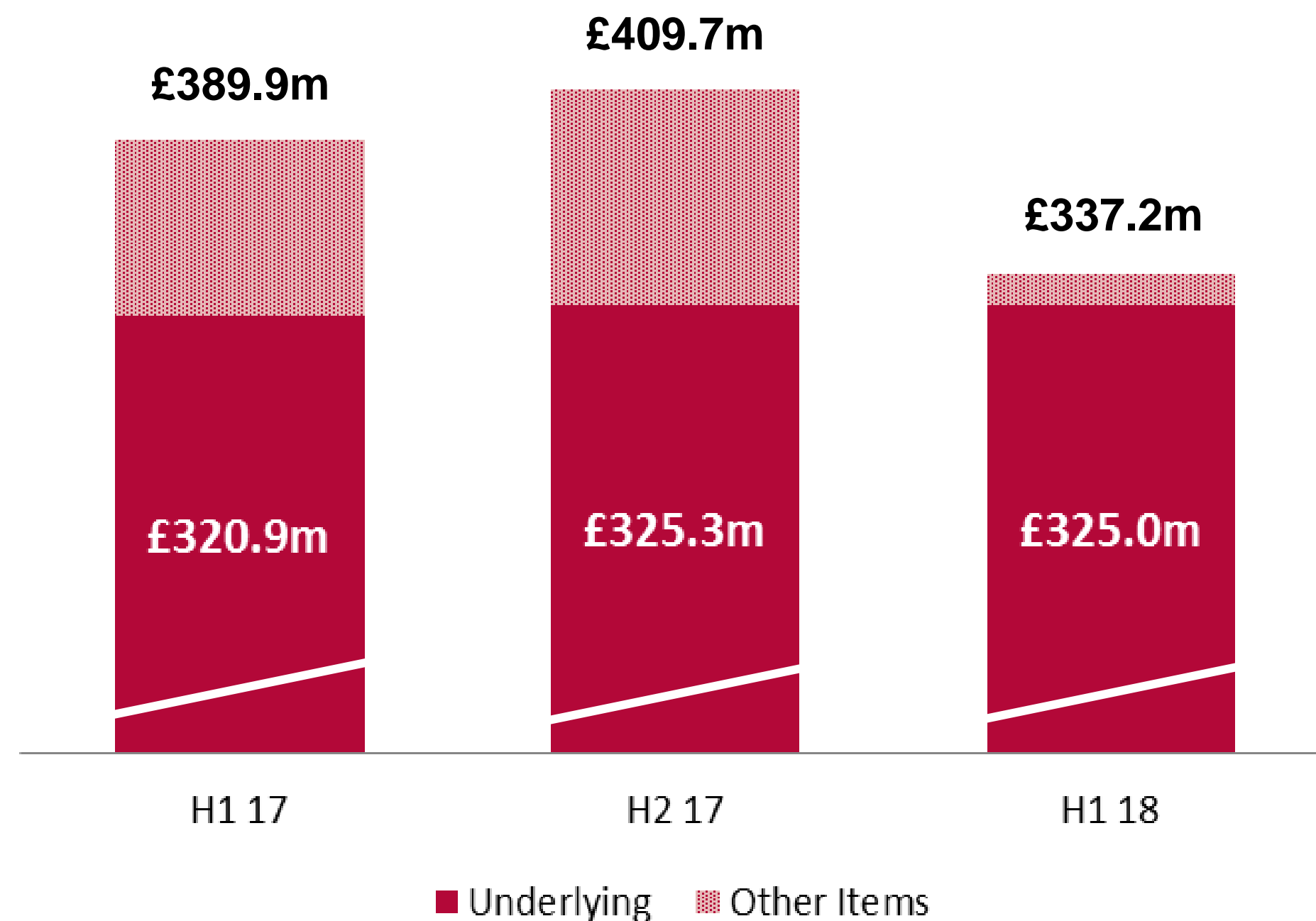
# H1 underlying profit before tax



**UK performance affected by weather and macro uncertainty**

# Indicators of progress - operating costs under control

Operating costs £'m

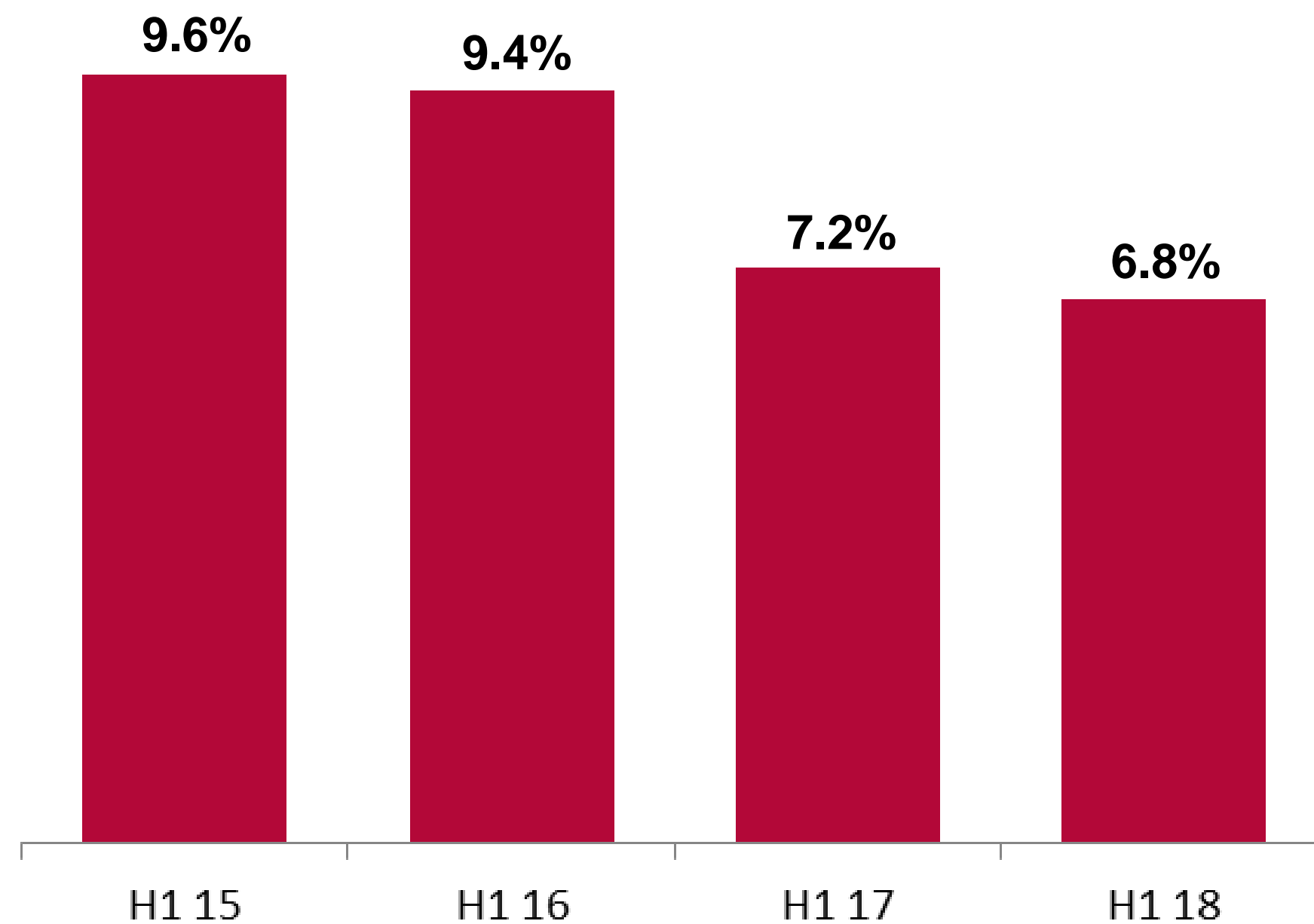


- Significant reduction in operating costs following disposals/reduced other items
- Underlying operating costs stabilised at £325m in the period, in line with H2 2017 despite FX headwind
- Operating costs/sales ratio higher as a result of UK revenue decline
- Operating costs now falling from headcount and other efficiencies
- H2 operating costs anticipated to reduce below 23% of sales in H2



# Indicators of progress - reducing working capital

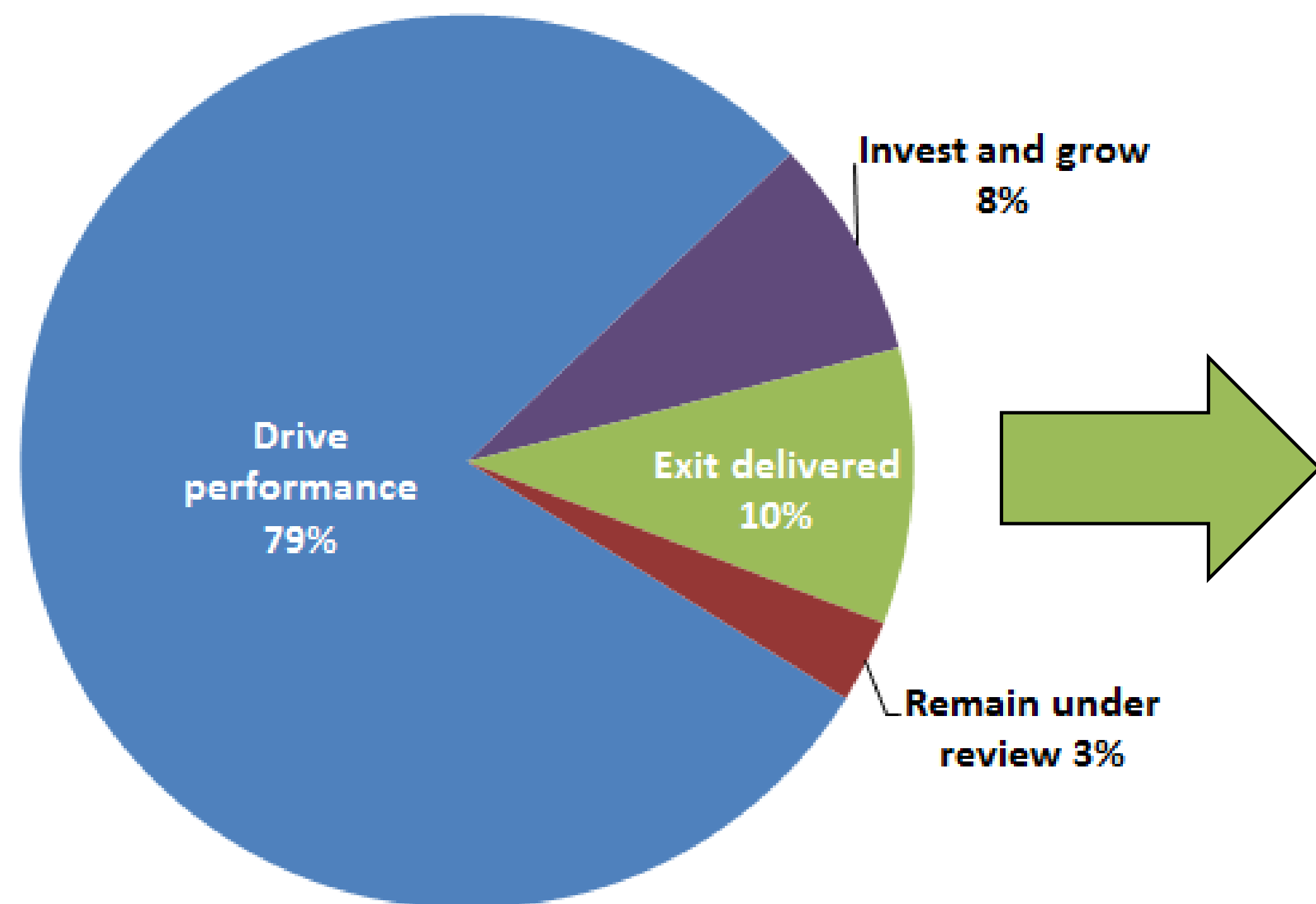
Working capital as % of sales



- Stock starting to respond to actions taken
- Some initial shift from annual to net rebate structures
- Continuing benefit of factoring and period end “working capital squeeze”
- Sustained focus on structural levels of stock during H2

# Indicators of progress - portfolio refocus

2016 statutory revenues: £2.8bn



Exited in 2018	
	<u>Announced</u>
GRM Insulation	February 2018
Building Systems	February 2018
IBSL	March 2018
VJT	June 2018
SIG Cut Solutions	September 2018
Net proceeds of £29.8m for above divestments	

## Refocus of portfolio largely complete



# Indicators of progress - reducing leverage



**On course for 1.0–1.5x leverage in 2018  
and below 1.0x over the medium term**

# Cash flow and liquidity

£m	H1 2018	H1 2017
<b>Opening net debt (restated)</b>	<b>(258.7)</b>	<b>(299.2)</b>
Cash inflow from trading	40.7	39.2
Decrease in working capital	44.6	4.5
Interest and tax	(11.1)	(13.7)
Capital expenditure	(10.8)	(13.5)
<b>Free cash flow</b>	<b>63.4</b>	<b>16.5</b>
Dividends	(14.7)	-
Debt factoring	11.6	42.5
Sale of property and assets	0.6	28.7
Disposals/exits	25.2	1.2
Acquisitions/contingent consideration	(3.3)	(6.8)
Exchange, fair value and other	(0.2)	0.1
Decrease in borrowings	82.6	82.2
<b>Closing net debt</b>	<b>(176.1)</b>	<b>(217.0)</b>
<b>Headline financial leverage (net debt/EBITDA)</b>	<b>1.8x</b>	<b>2.3x</b>
Headline financial leverage as previously reported		2.0x

30 June 2018	Total £m	RCF £m
Facilities	552.9	350.0
Drawn (gross)	296.1	93.2
Liquidity headroom	256.8	256.8

Note: £350m RCF falls due for renewal in May 2021

Covenants (RCF)	At 30 June	Test
Headline financial leverage	1.8x	<3.0x
Consolidated net worth	£475.3m	>£400.0m
Interest cover	5.3x	>3.0x

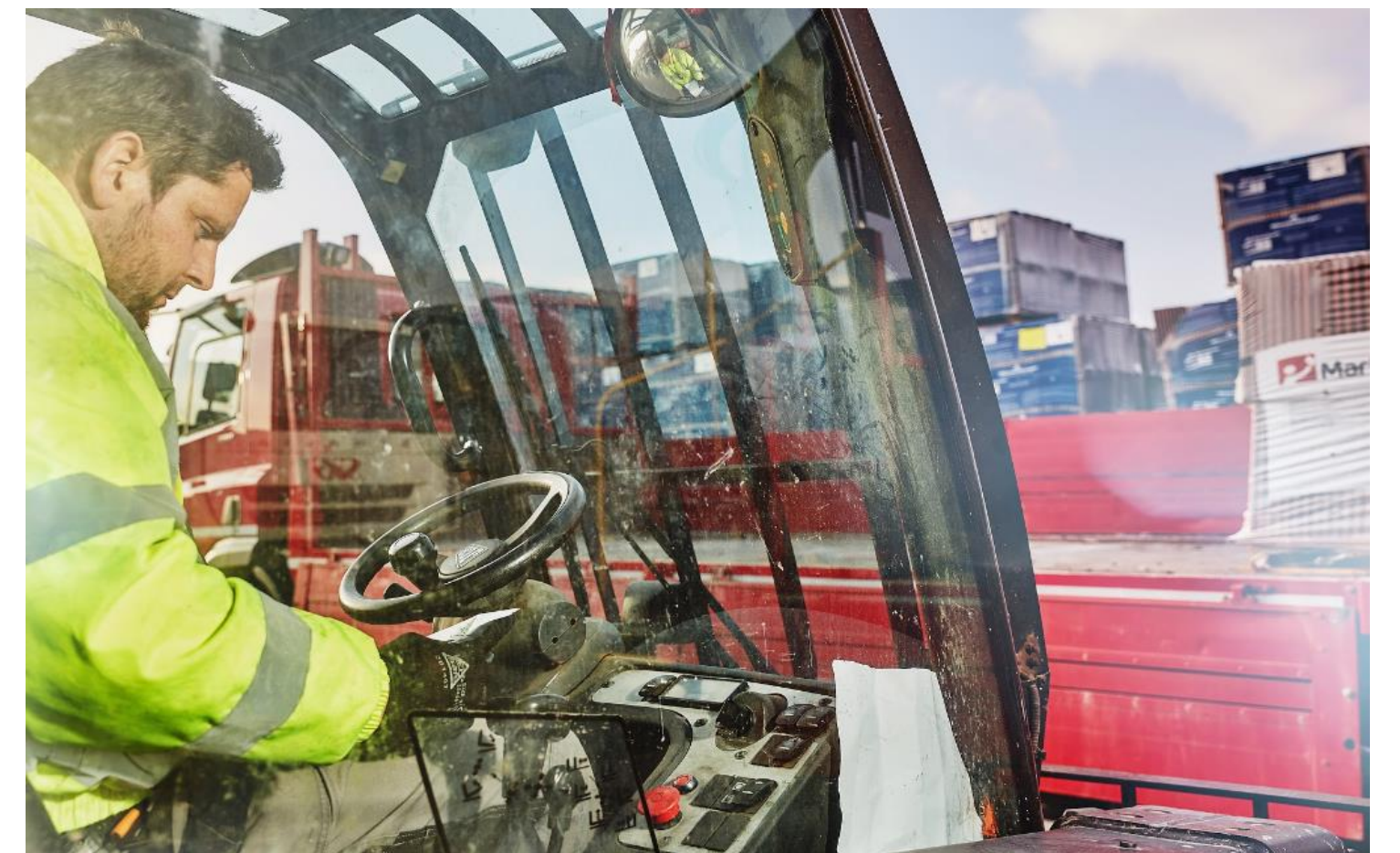
**The Group maintains significant liquidity and headroom against all its covenants**

Note: H1 2017 restated to reflect matters included in 2017 Annual Report and Accounts and following review by Group's new statutory auditor



# Dividend

- Declaring 2018 interim dividend of 1.25p (2017: 1.25p)
- In line with 2-3x earnings cover policy
- To be paid on 9 November to shareholders on register at close 5 October





# **Delivering the transformation**



**Meinie Oldersma**  
**Chief Executive Officer**

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- Financial review of the period
- **Delivering the transformation**
- Current trading and outlook

# Our strategic vision





# Our strategic vision - progress to date

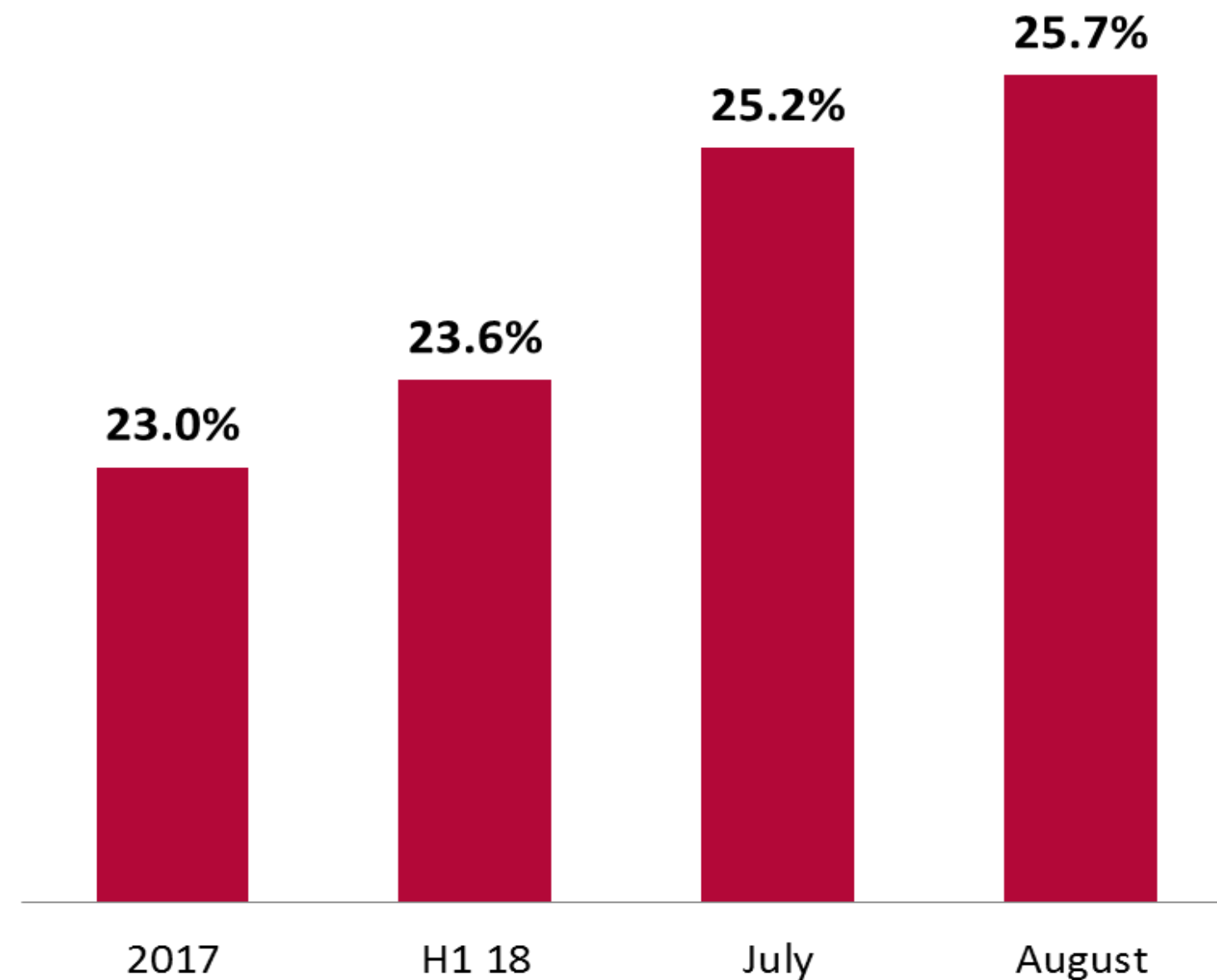
- Early evidence of progress being made:
  - Gross margins improving in key businesses
  - Operating costs under control and beginning to fall
  - Reducing working capital
  - Lower net debt and financial leverage
  - Return on capital employed has increased
  - Refocus of portfolio largely complete



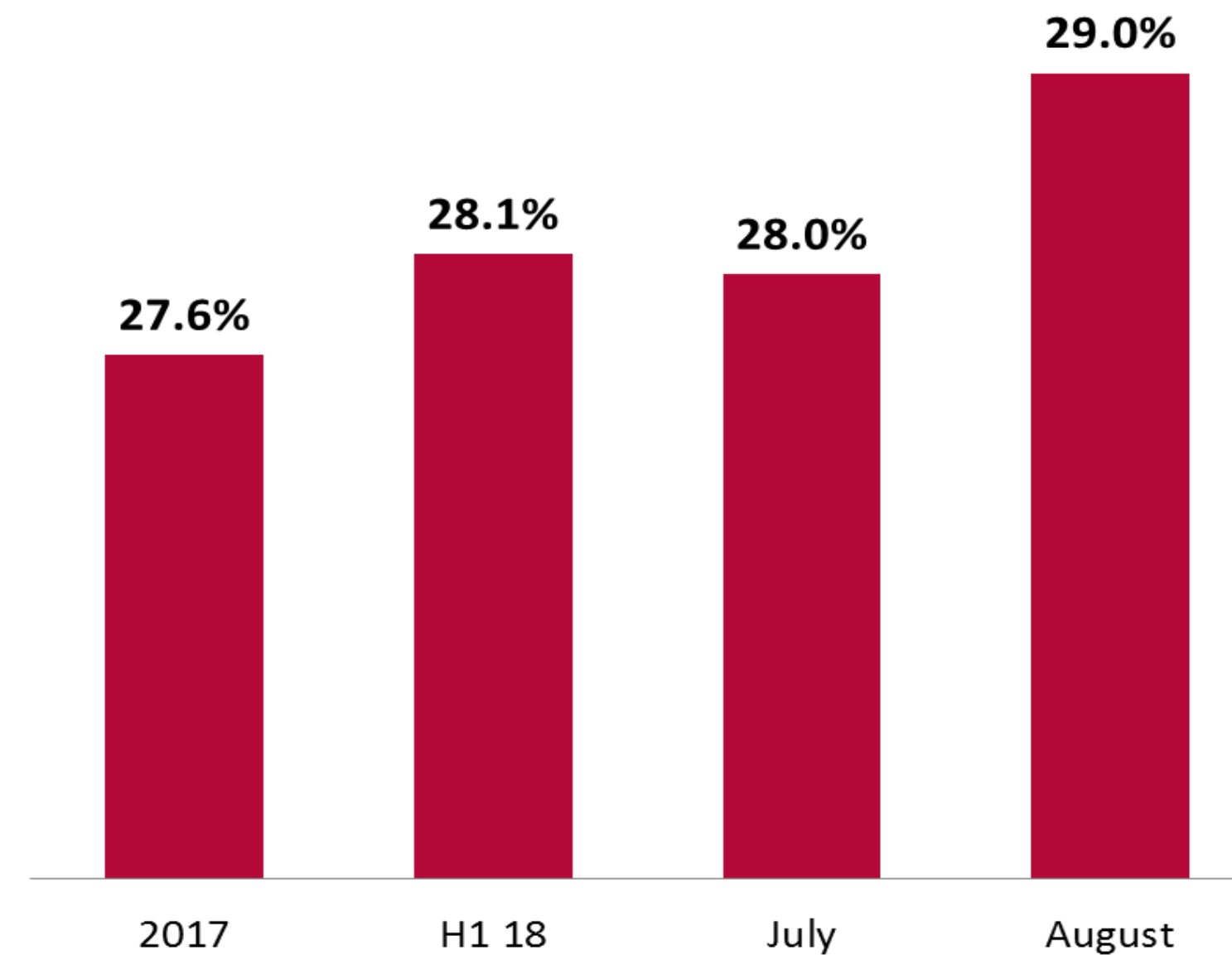


# Customer value - improving margins

**SIG Distribution**



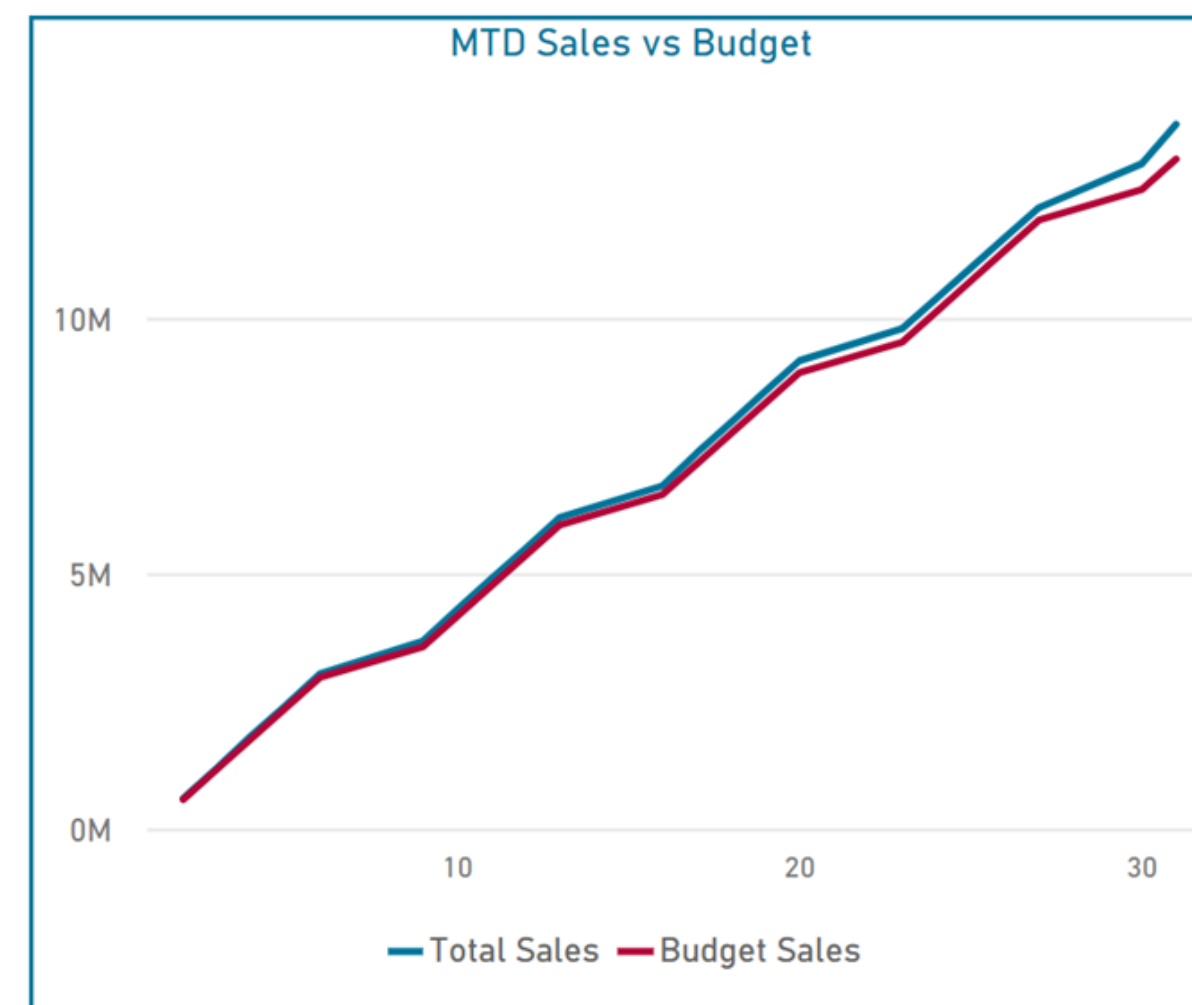
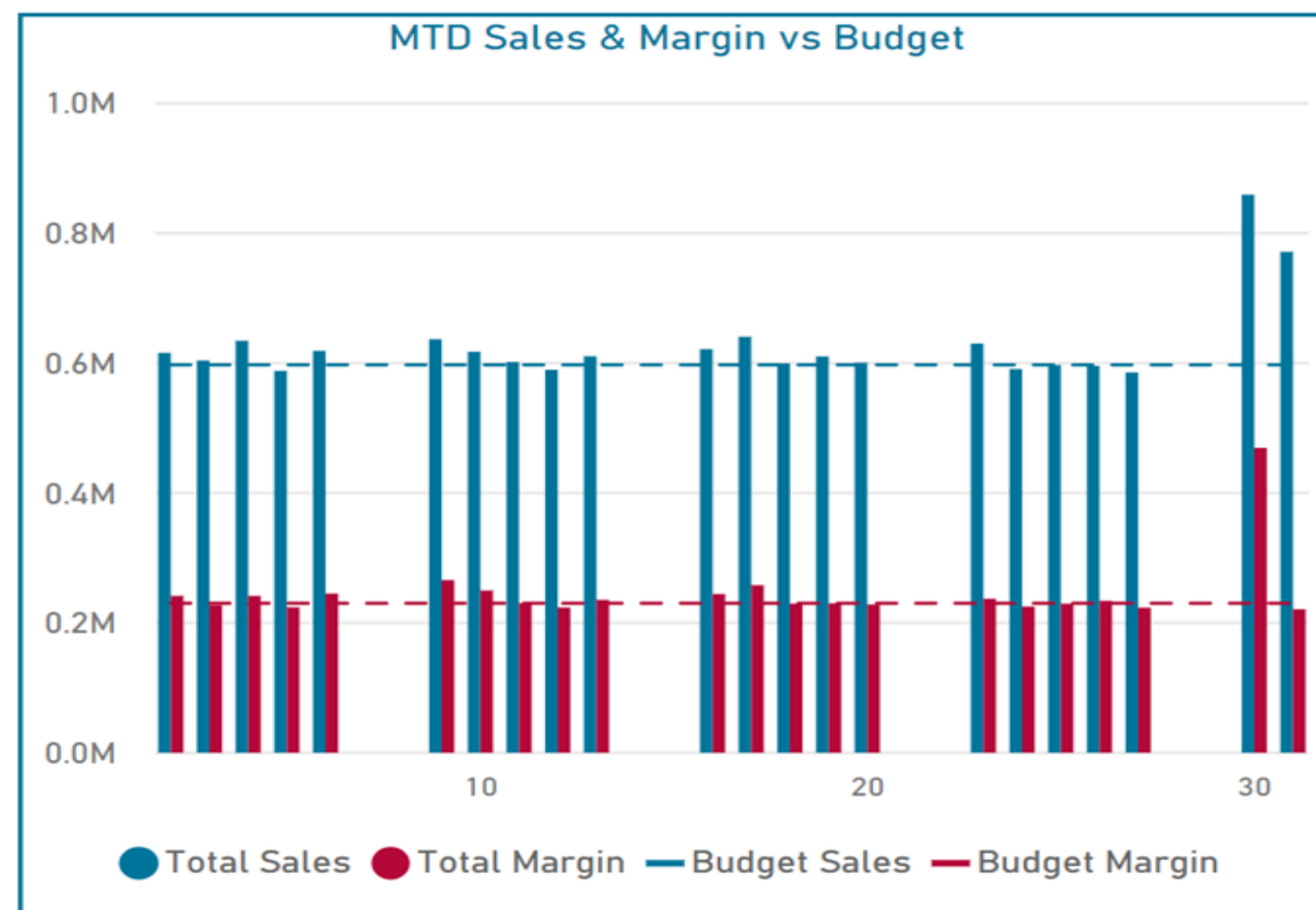
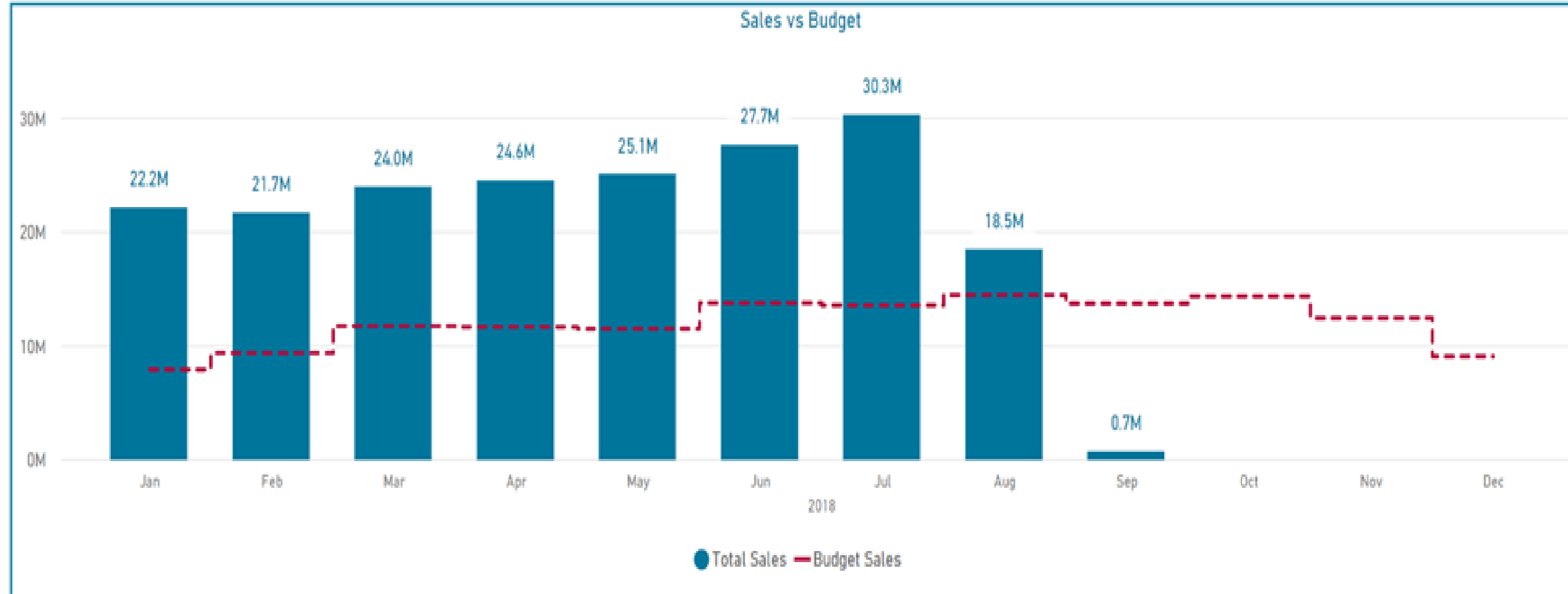
**SIG France**



- Pricing projects primarily drive SIGD margin performance
- Gross margin improvement in France due to pricing initiatives and focus on product mix
- Improvements aided by enhanced data provision

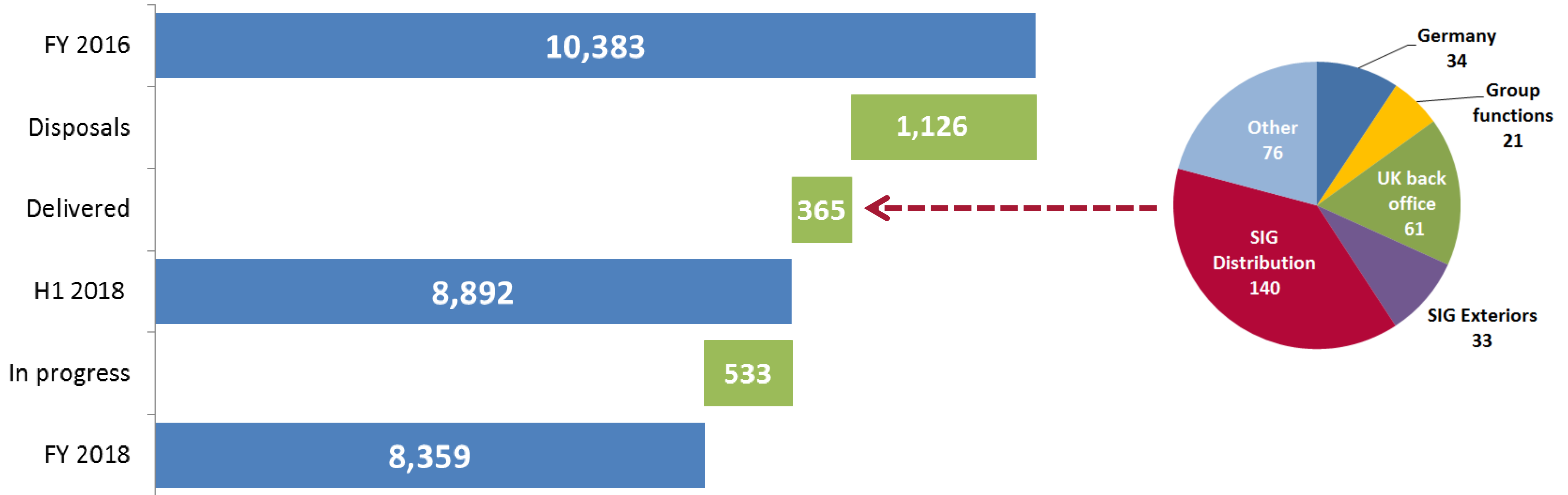
# Data - more timely and robust information

## Example reporting



- Group-wide daily sales and gross margin reporting now in place
- Drill-down to branch level
- Extending to daily reporting of branch stock levels by end of year
- Seeking to embed and leverage improved data as basis for performance management into 2019

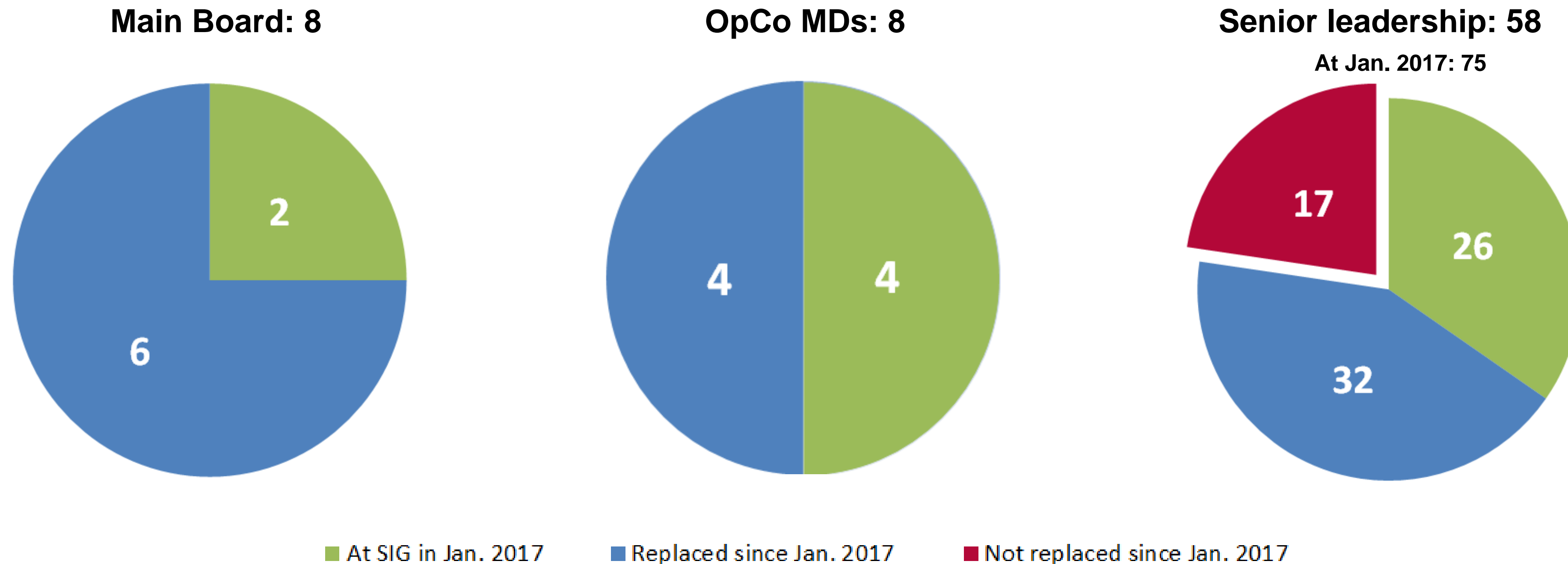
# Operational efficiency - reducing headcount



- c.20% reduction from FY16 expected by end of FY18
- Initial focus on administrative overheads
- Further efficiencies also derived from sales force optimisation
- Now moving focus to fleet and network optimisation



# Capability - changing leadership and culture



- 4 out of 8 OpCo MDs changed, representing c.60% of Group revenue
- Only 26 remain out of 75 senior leaders inherited, with 32 new to the business
- Senior leadership in place, management capability improving
- Developing genuine performance management culture

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# Current trading and outlook

## UK

- Ongoing challenges in parts of the UK construction sector
- Continuing macro uncertainty

## Mainland Europe and Ireland

- Continuing confidence across Mainland Europe and Ireland
- Some early indicators that French market may be softening

## Group outlook

- Absent any further deterioration in trading conditions, notably in the UK, we remain optimistic of delivering a full year result in line with our expectations

# Summary

- Transformational plans well underway and starting to see evidence of delivery
- Leverage is lower and the portfolio refocus is largely complete
- Operating costs under control, working capital beginning to fall
- Senior leadership in place, management capability and data improving
- Increased visibility over delivery of significant profit improvement during H2
- Whilst there remains considerable work to be done, we are getting on with the job

**We remain confident in our ability to deliver our transformational plans**



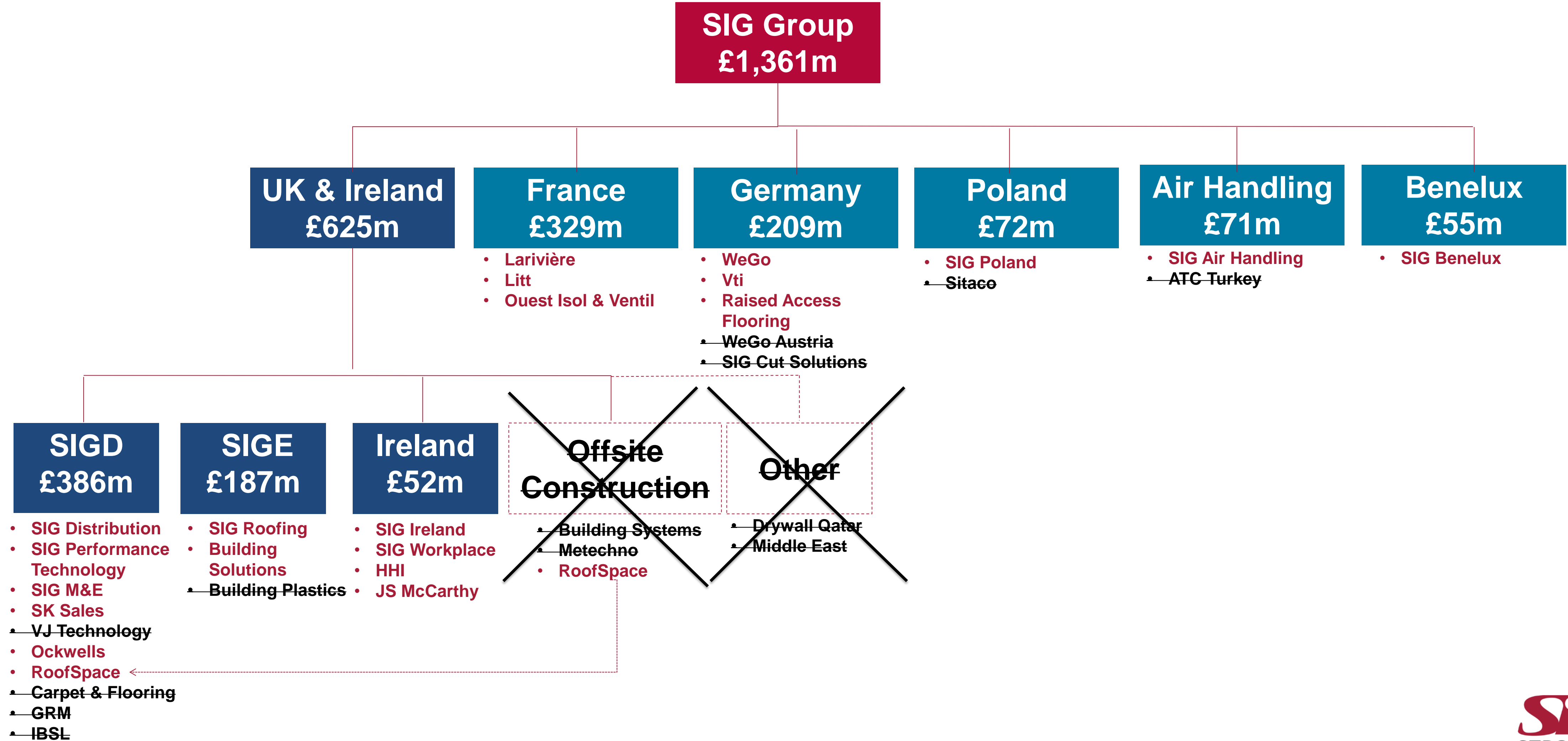


# Appendix

## Supporting schedules



# Ongoing portfolio management



Note: H1 2018 revenue from underlying operations

# Underlying financials by segment/OpCo

UK & Ireland	Revenue	Change	LFL	Gross margin	Change	Operating profit	Change	Operating margin	Change
SIG Distribution	£386.3m	(1.3)%	(1.3)%	23.6%	+10bps	£5.5m	£2.6m	1.4%	+70bps
SIG Exteriors	£186.7m	(6.8)%	(6.9)%	28.0%	(130)bps	£5.7m	(£12.7)m	3.1%	(610)bps
Ireland	£51.6m	+12.2%	+9.7%	25.0%	(90)bps	£3.0m	£0.6m	5.8%	+60bps
<b>Total</b>	<b>£624.6m</b>	<b>(2.1)%</b>	<b>(2.3)%</b>	<b>25.0%</b>	<b>(50)bps</b>	<b>£14.2m</b>	<b>(£9.5)m</b>	<b>2.3%</b>	<b>(140)bps</b>

Mainland Europe	Revenue	Change	LFL	Gross margin	Change	Operating profit	Change	Operating margin	Change
France	£329.2m	+1.5%	+1.1%	28.1%	+50bps	£13.1m	£0.7m	4.0%	+20bps
Germany	£208.4m	+3.5%	+2.7%	26.8%	+20bps	£3.3m	£0.1m	1.6%	-
Poland	£72.2m	+13.5%	+10.7%	19.4%	(60)bps	£0.3m	£0.6m	0.4%	+90bps
Air Handling	£70.9m	+3.4%	+1.9%	38.6%	+70bps	£7.7m	£1.8m	10.9%	+230bps
Benelux	£55.4m	+7.8%	+6.0%	24.0%	(170)bps	£2.6m	(£0.6)m	4.7%	(150)bps
<b>Total</b>	<b>£736.1m</b>	<b>+3.8%</b>	<b>+2.8%</b>	<b>27.6%</b>	<b>+10bps</b>	<b>£27.0m</b>	<b>£2.6m</b>	<b>3.7%</b>	<b>+30bps</b>

# 2018 revenue growth analysis

	UK & Ireland	Mainland Europe	Group
Price	4.0%	0.9%	2.4%
Volume	(6.3)%	2.0%	(2.0)%
<b>Like-for-like</b>	<b>(2.3)%</b>	<b>2.8%</b>	<b>0.4%</b>
Currency	0.2%	2.5%	1.4%
Working days	0.0%	(1.5)%	(0.8)%
<b>Reported</b>	<b>(2.1)%</b>	<b>3.8%</b>	<b>1.0%</b>

Note: Data represents underlying performance



# Financial impact of restatements

	31 December 2017			30 June 2017		
	Underlying PBT	Net debt	Headline financial leverage	Underlying PBT	Net debt	Headline financial leverage
As reported	£79.2m	£223.8m	1.9x	£38.3m	£166.5m	1.6x
Historical cash overstatement	n/a	n/a	n/a	n/a	£26.3m	0.3x
Historical profit overstatement	n/a	n/a	n/a	(£2.4)m	n/a	0.1x
<b>As restated for adjustments announced in 2017 Annual Report</b>	<b>£79.2m</b>	<b>£223.8m</b>	<b>1.9x</b>	<b>£35.9m</b>	<b>£192.8m</b>	<b>2.0x</b>
Impact of disposals/exits	(£5.0)m	n/a	n/a	£1.2m	n/a	n/a
Prior period restatements	(£3.0)m	£34.9m	0.4x	(£2.7)m	£24.2m	0.3x
<b>As announced in 2018 Interim Report</b>	<b>£71.2m</b>	<b>£258.7m</b>	<b>2.3x</b>	<b>£34.4m</b>	<b>£217.0m</b>	<b>2.3x</b>

# Number of trading sites

	31 Dec 2017	Closed/ merged	Opened	Disposed	30 June 2018
SIG Distribution	90	(11)	-	-	79
SIG Exteriors	134	(2)	-	-	132
Ireland & Other	10	-	-	-	10
<b>UK &amp; Ireland</b>	<b>234</b>	<b>(13)</b>	<b>-</b>	<b>-</b>	<b>221</b>
France	207	-	1	-	208
Germany	59	(3)	-	-	56
Poland	49	(6)	-	-	43
Air Handling	21	(3)	-	-	18
Benelux	15	-	-	-	15
<b>Mainland Europe</b>	<b>351</b>	<b>(12)</b>	<b>1</b>	<b>-</b>	<b>340</b>
<b>Group total</b>	<b>585</b>	<b>(25)</b>	<b>1</b>	<b>-</b>	<b>561</b>

# SIG Distribution

## Underlying financials

	H1 2018	H1 2017 Restated	Change
Revenue	£386.3m	£391.4m	(1.3)%
LFL sales	(1.3)%	1.9%	(320)bps
Gross margin	23.6%	23.5%	+10bps
Operating profit	£5.5m	£2.9m	+89.7%
Operating margin	1.4%	0.7%	+70bps
Branches	79	95	(16)

## Key products

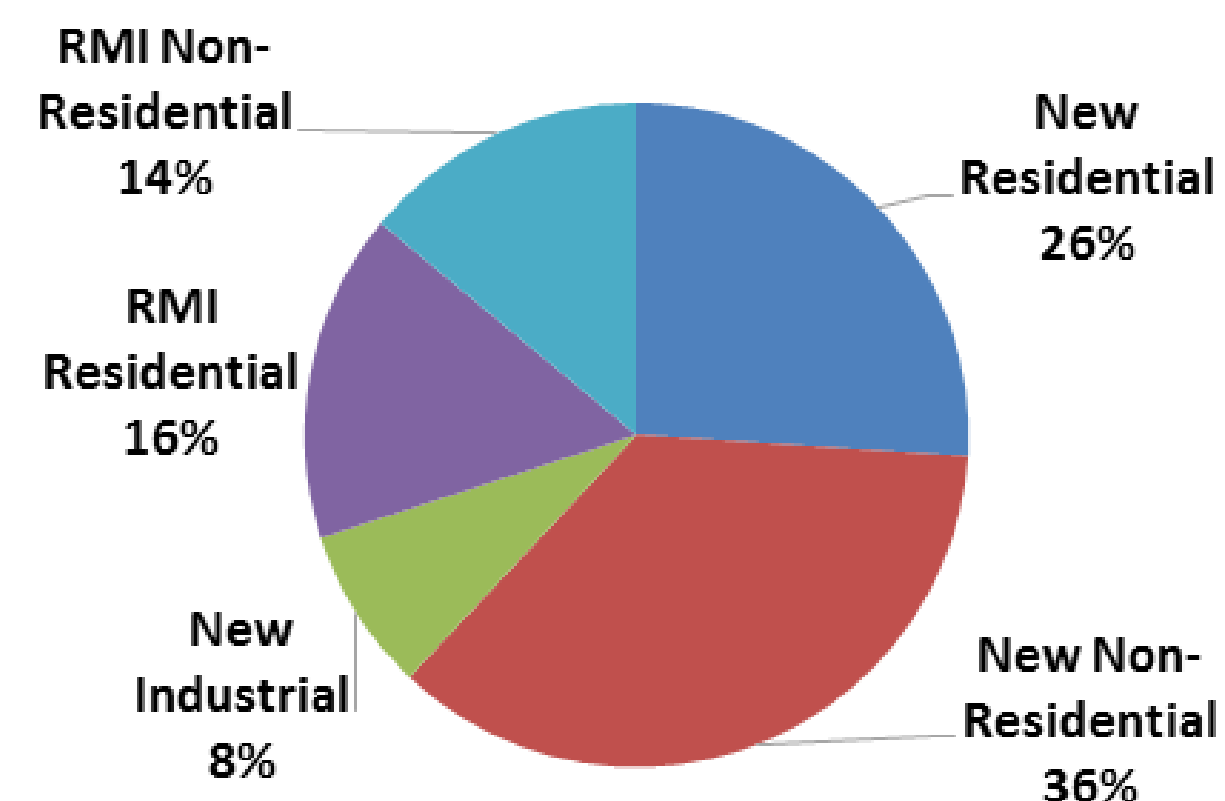
- Structural and technical insulation
- Dry lining/stud and track
- Construction accessories and fixings
- Ceiling tiles and grids
- Partition walls and doorsets



## Business and key competitors

- Principally insulation/interiors distribution
- Clear UK leader with 16% share in consolidated market
- Key competitors:
  - CCF (Travis Perkins)
  - Minster (Saint Gobain)
  - Encon (MBO)

## Markets



Key driver: Construction activity (mainly new build)

Note: Market share is company estimate. Data represents underlying performance. H1 2017 restated to reflect matters included in 2017 Annual Report and Accounts and following review by Group's new statutory auditor



# SIG Exteriors

## Underlying financials

	H1 2018	H1 2017 Restated	Change
Revenue	£186.7m	£200.4m	(6.8)%
LFL sales	(6.9)%	0.3%	(720)bps
Gross margin	28.0%	29.3%	(130)bps
Operating profit	£5.7m	£18.4m	(69.0)%
Operating margin	3.1%	9.2%	(610)bps
Branches	132	134	(2)

## Key products

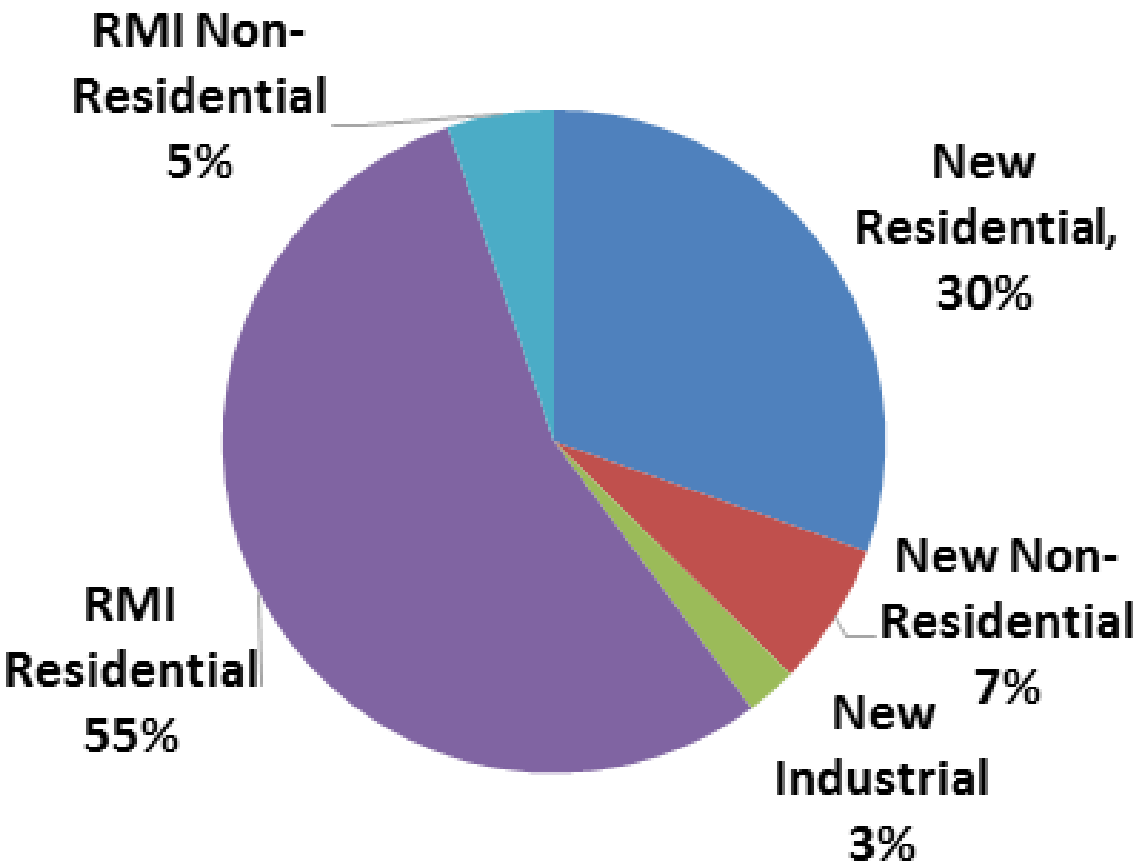
- Tiles, slates, membranes and battens
- Single-ply flat roofing systems
- Industrial roofing and cladding systems



## Business and key competitors

- Principally roofing merchanting
- Clear UK leader and only national specialist with c.30% share in fragmented market
- Key competitors:
  - Burtons
  - Rinus
  - General builders' merchants (to some degree)
  - Other small independent roofing specialists

## Markets



Key driver: Construction activity (mainly RMI residential)

Note: Market share is company estimate. Data represents underlying performance. H1 2017 restated to reflect matters included in 2017 Annual Report and Accounts and following review by Group’s new statutory auditor

# SIG Ireland

## Underlying financials

	H1 2018	H1 2017	Change
Revenue	£51.6m	£46.0m	+12.2%
LFL sales	9.7%	4.6%	+510bps
Gross margin	25.0%	25.9%	(90)bps
Operating profit	£3.0m	£2.4m	+25.0%
Operating margin	5.8%	5.2%	+60bps
Branches	10	10	0

## Key products

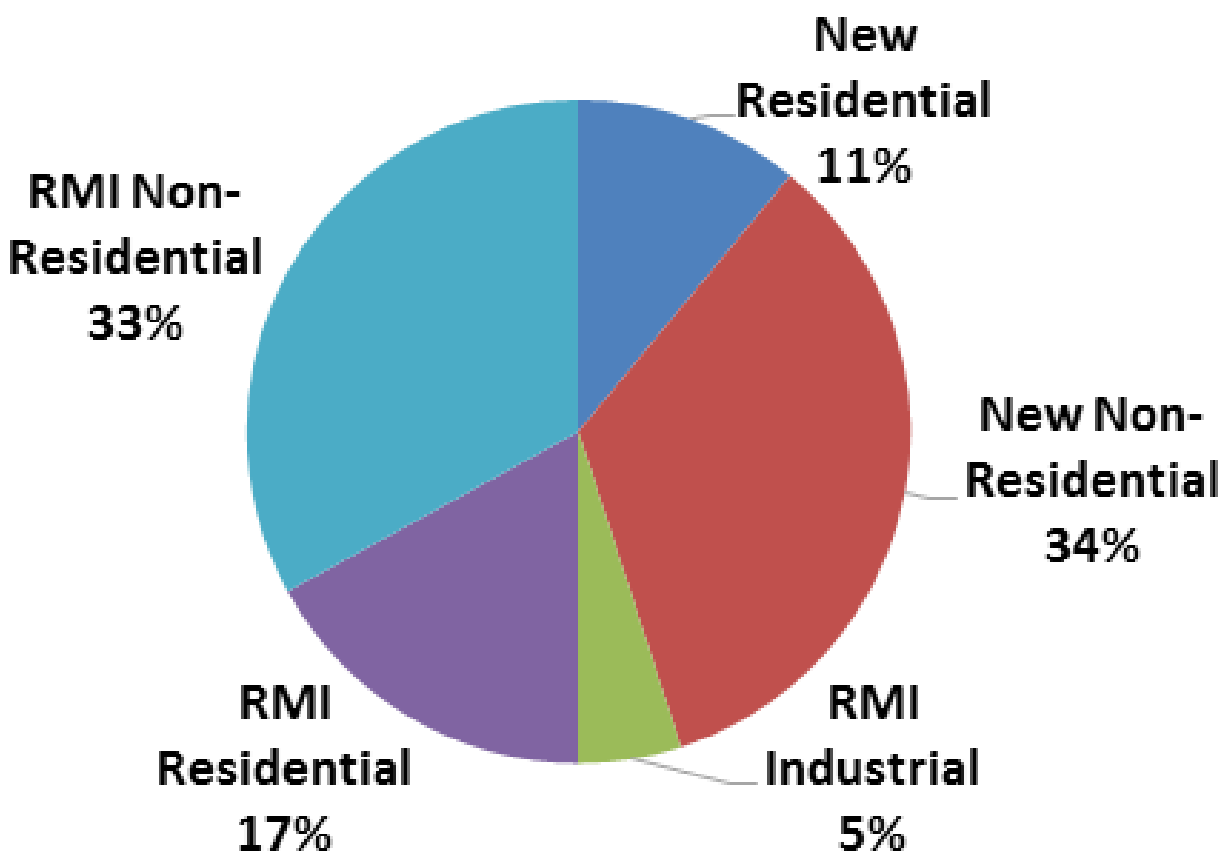
- Structural and technical insulation
- Dry lining
- Suspended ceilings
- Masonry support and waterproofing
- Tiles, slates and roofing accessories
- Cladding and façade systems



## Business and key competitors

- Principally distribution of interiors, insulation and construction accessories
- #1 Interiors (c.38% share); #2 Insulation (c.24% share); #1 Construction Accessories (c.24% share)
- Key competitors:
  - Tennants
  - Saint Gobain
  - Sitetech

## Markets



Key driver: Construction activity, total and sectoral (mainly non-residential)



Note: Market share is company estimate. Data represents underlying performance.

# SIG France

## Underlying financials

	H1 2018	H1 2017	Change
Revenue	£329.2m	£324.3m	+1.5%
LFL sales	1.1%	5.0%	(390)bps
Gross margin	28.1%	27.6%	+50bps
Operating profit	£13.1m	£12.4m	+5.6%
Operating margin	4.0%	3.8%	+20bps
Branches	208	210	(2)

## Key products

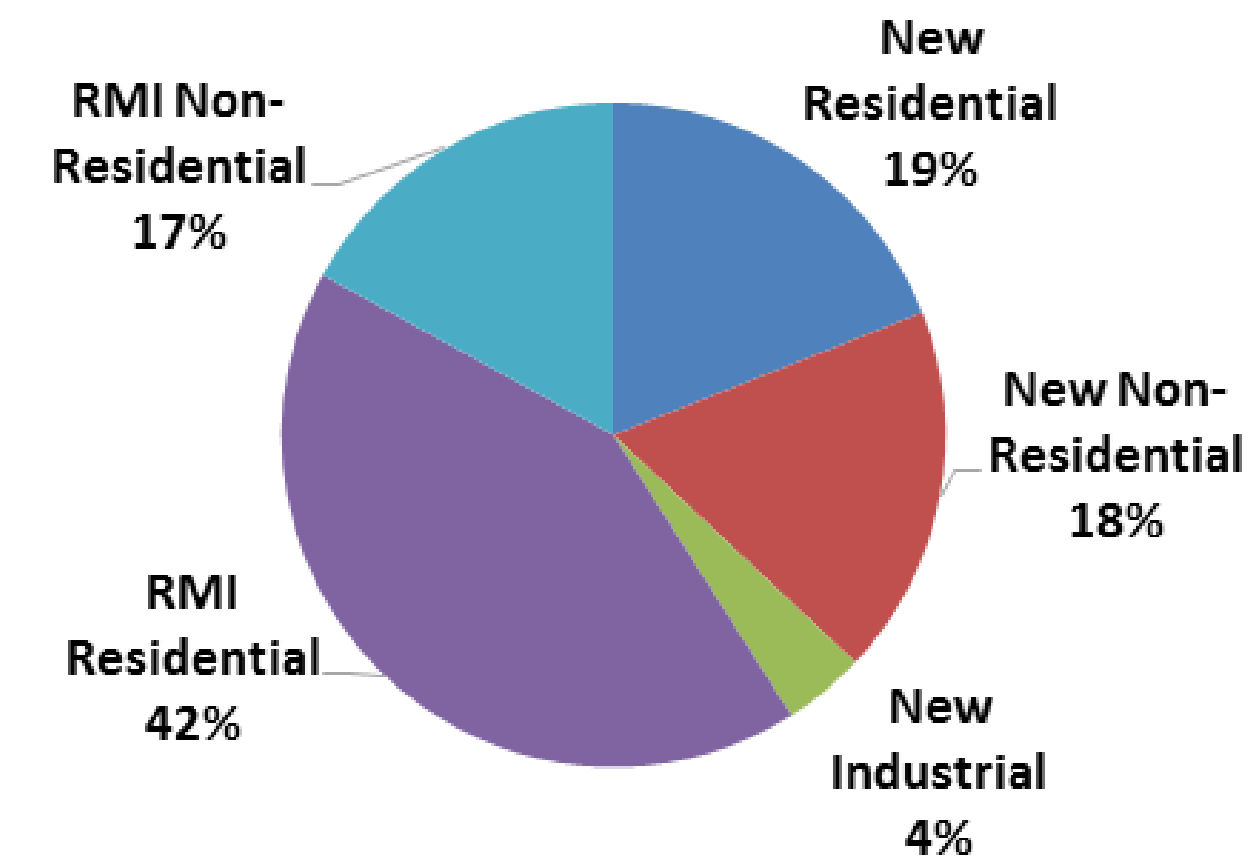
- Pitch roof
- Flat roof, waterproofing
- Facade
- Structural insulation
- Dry lining
- Partitioning
- Wood panels
- Ceilings
- Technical insulation
- Air handling



## Business and key competitors

- Insulation / Interiors / Air handling distribution and roofing merchanting
- #1 Specialist roofing (c.17% share)  
#1 Technical insulation (c.35% share)  
#1 Ceiling (c. 35% share)
- Key competitors:
  - L'Asturienne
  - SFIC
  - Aldes
  - Point P
  - Chausson
  - France Air

## Markets



Key driver: Construction activity (mainly residential)

Note: Market share is company estimate. Data represents underlying performance.



# SIG Germany

## Underlying financials

	H1 2018	H1 2017	Change
Revenue	£208.4m	£201.4m	+3.5%
LFL sales	2.7%	1.8%	+90bps
Gross margin	26.8%	26.6%	+20bps
Operating profit	£3.3m	£3.2m	+3.1%
Operating margin	1.6%	1.6%	-
Branches	56	61	(5)

## Key products

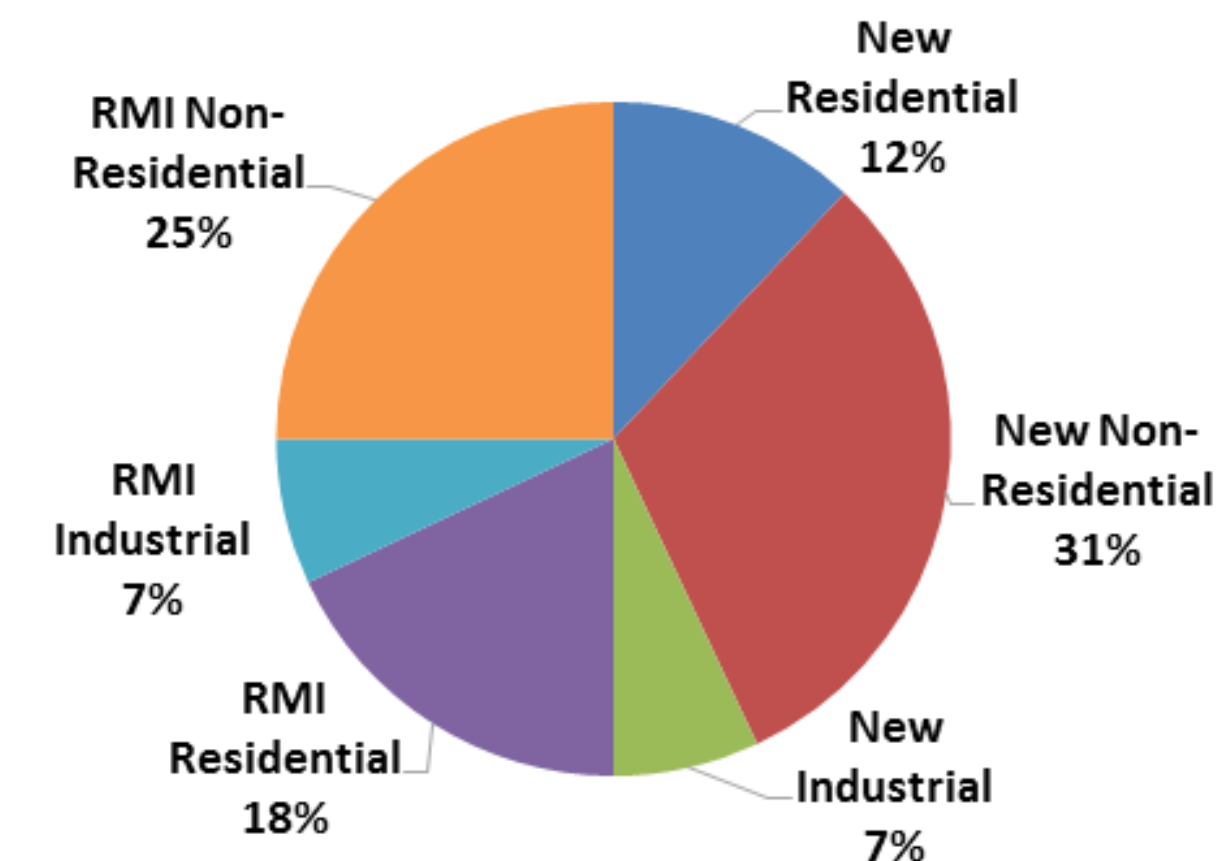
- Structural insulation and dry lining
- Screed and raised access flooring
- Ceiling tiles and grids
- Doors and frames
- Technical insulation



## Business and key competitors

- Insulation/interiors distribution
- #1 Dry lining/ceilings (c.14% share); #2 Technical insulation (c.17% share); #3 Structural insulation (c.9% share)
- Relatively fragmented market
- Key competitors:
  - Raab Karcher (Saint Gobain)
  - Bauking (CRH)
  - Baywa
  - Baustoff & Metall
  - Small independent regional players

## Markets



Key driver: Construction activity (mainly non-residential)

Note: Market share is company estimate. Data represents underlying performance.



# SIG Poland

## Underlying financials

	H1 2018	H1 2017	Change
Revenue	£72.2m	£63.6m	+13.5%
LFL sales	10.7%	9.6%	+110bps
Gross margin	19.4%	20.0%	(60)bps
Operating profit	£0.3m	(£0.3)m	+200%
Operating margin	0.4%	(0.5)%	+90bps
Branches	43	49	(6)

## Key products

- Structural and technical insulation
- Dry lining
- Ceiling tiles and grids
- Plasters and construction chemicals
- Roofing felts and membranes

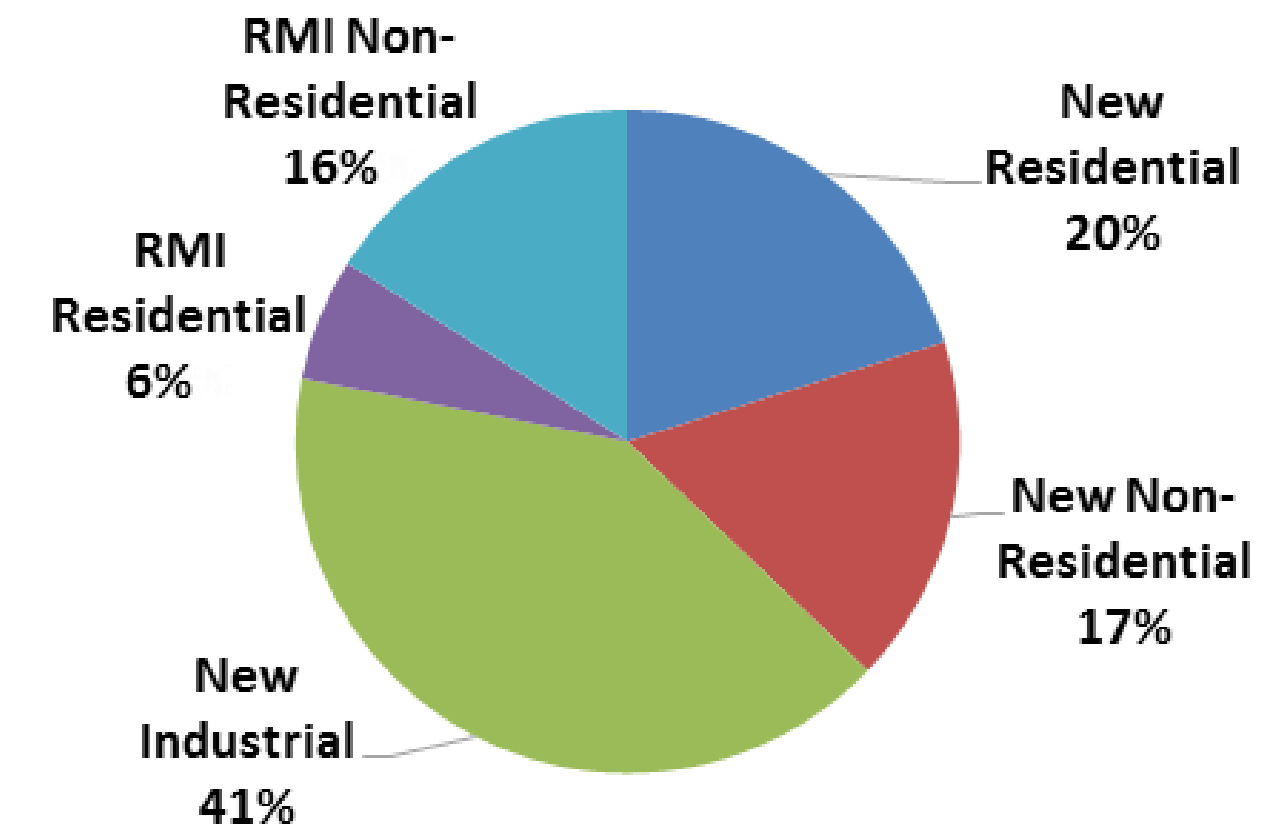


Note: Market share is company estimate. Data represents underlying performance.

## Business and key competitors

- Principally insulations/interiors distribution
- #1 Structural insulation/interiors (c.12% share);  
#1 Technical insulation (c.25% share)
- Key competitors:
  - PSB, GHB (Purchasing associations)
  - Caldo Izolacja, Herbud (TI & AH)
  - 3W, AB Bechcicki (following SIG business model)

## Markets



Key driver: Construction activity (mainly non-residential)



# SIG Air Handling

## Underlying financials

	H1 2018	H1 2017	Change
Revenue	£70.9m	£68.6m	+3.4%
LFL sales	1.9%	11.5%	(960)bps
Gross margin	38.6%	37.9%	+70bps
Operating profit	£7.7m	£5.9m	+30.5%
Operating margin	10.9%	8.6%	+230bps
Branches	18	22	(4)

## Key products

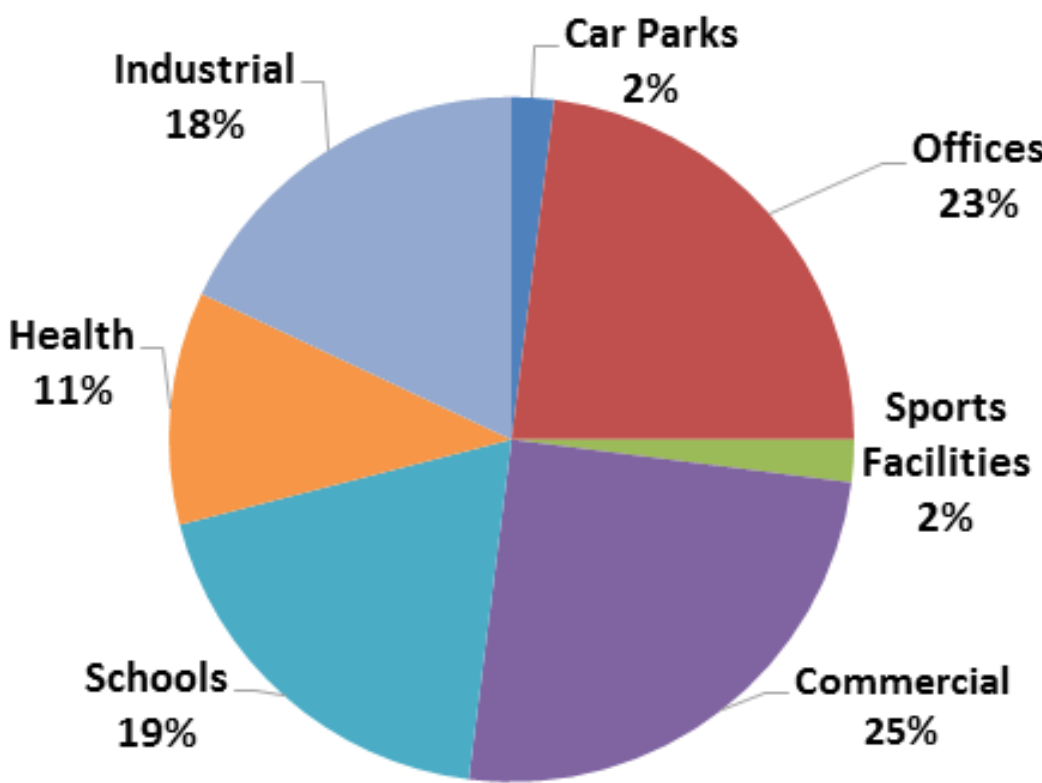
- Air handling units and fans
- Ducts, components and fixings
- Volume and fire/smoke dampers
- Climate ceilings and controls
- Grills and diffusers



## Business and key competitors

- Largest pure-play specialist AH distributor in Europe
- Value add via assembling facilities, project solutions and services
- Market supplied by manufacturers (55%), distributors (45%)
- Key competitors:
  - Systemair
  - Lindab
  - Fläkt Group
  - Trox
  - Swegon
  - Aldes

## Markets



Key drivers: Various sectors including commercial, offices, schools and industrial

Note: Market share is company estimate. Data represents underlying performance.

# SIG Benelux

## Underlying financials

	H1 2018	H1 2017	Change
Revenue	£55.4m	£51.4m	+7.8%
LFL sales	6.0%	(4.8)%	+1080bps
Gross margin	24.0%	25.7%	(170)bps
Operating profit	£2.6m	£3.2m	(18.7)%
Operating margin	4.7%	6.2%	(150)bps
Branches	15	15	0

## Key products

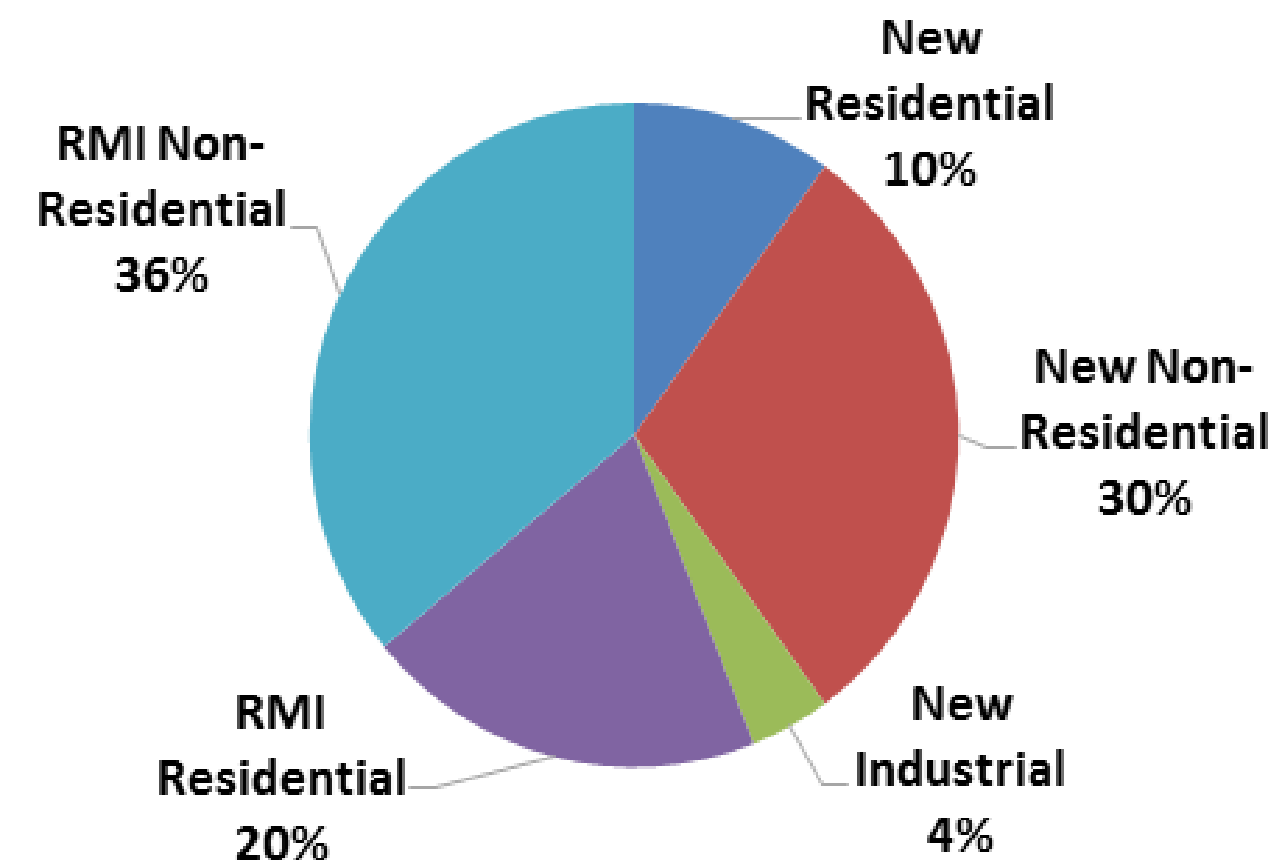
- Structural and technical insulation
- Wet plaster
- Dry lining
- Ceiling tiles and grids
- Stud and track



## Business and key competitors

- Insulations/interiors distribution
- #1 Technical insulation (c.25% share);  
#1 Interiors (c.28% share)
- Key competitors:
  - Astrimex
  - Baustoff & Metall
  - Veris
  - SFIC
  - Raab Karcher
  - IPCOM group

## Markets



Key driver: Construction activity (mainly non-residential)

Note: Market share is company estimate. Data represents underlying performance.



# Definition of terms

<b>Underlying operations</b>	Excluding the impact of any disposals made in current and prior year or currently under review
<b>Like-for-like (LFL)</b>	Sales per day in constant currency, excluding acquisitions and disposals
<b>ROS</b>	Return on Sales, calculated as underlying operating profit before tax, divided by underlying revenue
<b>ROCE</b>	Return on Capital Employed, calculated on a rolling 12 month basis as underlying operating profit less tax, divided by average net assets plus average net debt
<b>Headline financial leverage</b>	Ratio of closing net debt over underlying operating profit before depreciation, adjusted for the impact of acquisitions and disposals during the previous 12 months (“EBITDA”)
<b>Operating costs as % of sales</b>	Ratio of underlying other operating expenses to underlying revenue
<b>Working capital as % of sales</b>	Ratio of working capital (including provisions but excluding pension scheme obligations) to annualised revenue (after adjusting for acquisitions and disposals) on a constant currency basis