

PLAYING AN **IMPORTANT ROLE** IN A **CRITICAL INDUSTRY**



SIG

ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2019

Welcome

SIG is a leading specialist distributor of insulation and interior products and a roofing merchant across Europe.

Our purpose is to enable safe and sustainable living and working environments in the communities in which we operate.

2019 financial overview

- Underlying gross margin up 60 bps
- Implementation of IFRS 16 from 1 January 2019 has had no economic impact on the Group but has materially changed some of the Group's reported financial information. In order to allow clearer comparisons with 2018, the Group has presented key financial information for 2019 on both a pre and post IFRS 16 basis
- Operating costs, pre IFRS 16, lower by £6.0m (1.2%), reflecting the adoption of functional operating models, reduction in footprint and continued cost discipline
- Underlying profit before tax (including businesses held for sale), pre IFRS 16, of £41.9m (2018: £74.5m), consistent with previous guidance. Underlying profit before tax, post IFRS 16, of £15.6m (2018: £52.2m)
- Statutory loss before tax from continuing operations of £112.7m (2018: profit before tax of £10.3m), reflecting £128.3m of Other items, including £90.9m of impairments
- Net debt, pre IFRS 16, at year end of £162.8m (2018: £189.4m) and covenant leverage of 2.1x

2019 operational overview

- Underlying revenue decline of 9.0%, impacted by market share losses in UK and Germany due to poor execution of transformation initiatives which the Board believes disconnected the business from its customers, suppliers and its front-line colleagues
- The Group's other operating companies recorded continued steady performance, with like-for-like revenues up 1.4%
- Good operating progress made through the further development of new technologies, e-commerce and increased functionalisation

Statutory revenue

£2,160.6m

(2018: £2,431.8m)

Underlying revenue

£2,084.7m

(2018: £2,290.4m)

Statutory (loss)/profit before tax

£(112.7)m

(2018: £10.3m profit)

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

£41.9m

(2018: £74.5m)

Net debt, pre IFRS 16

£162.8m

(2018: £189.4m)

Net debt, post IFRS 16

£455.4m

(2018: £189.4m)

Accident incident rate

13.4

(2018: 13.1)

*Underlying profit before tax stated before IFRS 16 adjustments, including profit before tax for the Air Handling division and Building Solutions (National) Limited and excluding impairment and other non-underlying profits and losses.

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STRATEGIC REPORT



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Chairman's statement

"I am confident that the right actions are being taken to put the Group on a firm financial footing with a strategy to return SIG to profitable growth based on high-quality customer service, partnership with suppliers and highly engaged and motivated employees."

Andrew Allner, Chairman



Dear Shareholder,

I am sorry to report that 2019 has been a disappointing year for your company. After an encouraging start to the year, we saw an initially gradual decline in sales accelerate as, particularly in the UK, our customer service fell short and price increases were aggressively implemented. The new operating model was executed too quickly in the UK and to a lesser extent Germany, without the necessary supporting systems and processes, and in these countries many of our experienced sales colleagues became disillusioned and left the business, in some cases taking their customers with them. This, together with other factors, culminated in a significant profit shortfall against market expectations at the year end and a downward trend in sales coming into the new year.

Meinie Oldersma, Chief Executive Officer (CEO) and Nick Maddock, Chief Financial Officer (CFO) resigned on 24 February 2020 and we recruited Steve Francis, as CEO, who is widely experienced with a strong track record of returning businesses to growth. We also appointed Kath Kearney-Croft as interim CFO, who brings a wealth of experience. The Board believes this new leadership brings skills in driving rapid operational performance improvements through strong customer relationships, excellence in customer service and creating highly engaged teams.

A new strategy has been developed based on SIG's key differentiators of expertise, proximity-led, high-quality service and scale intelligence. The strategy will drive re-established relationships with customers and suppliers and engagement with employees.

SIG retains its strong positions in its core markets; it plays an important role in the industry. The objective of the new strategy is to return SIG to profitable growth.

COVID-19

The Board is monitoring the COVID-19 outbreak and the impact on the Group. Regular updates are being provided by management and the Board is holding additional meetings to ensure that it is updated on the situation on an ongoing basis and is taking appropriate action.

The need to preserve the health and safety of colleagues, customers and suppliers has remained our primary concern during the outbreak. The Board is ensuring that the Group follows all local and national instructions issued by government authorities in its markets to curtail the spread and impact of COVID-19. The Group has kept the position under regular review in every jurisdiction in which it operates. At the same time, the Company is remaining open where practicable in order to service its customers, particularly in respect of critical projects.

The impact of COVID-19 is still unfolding but the Group believes that the decisive actions led by the Board, taken across finance, treasury, human resources, sales and operations functions at all levels in the business will help mitigate the operational and financial impact.

Review of strategy

Over the last few years, SIG has been embarking on a transformation plan, predominantly in the UK businesses and in SIG Germany. The cost and debt reduction strategy drove the implementation of a new operating model; re-aligning the Group to more centralised functional structures in each operating company, and thereby increasing operational efficiency, lowering inventory levels and restoring profitability. However, the resulting growth in profitability was a short-term gain and masked the underlying damage to the Group in certain geographies, particularly in respect of worsening customer service, employee morale and top line performance.

In the context of the deterioration in financial performance towards the end of 2019, as stated above, the Board determined that it was appropriate to appoint new senior leadership, focused on profitable growth and recapturing lost market share, particularly in the UK distribution business.

Following these changes, the Group has moved swiftly to both define and execute the new strategy to date, and it will gain momentum over the coming months as the new management team re-focus and re-energise the business.

A renewed plan is being introduced across both UK Distribution and UK Exteriors and the businesses will create a unified divisional leadership. Over the next few months they will embark on a market share recovery plan.

SIG Germany will introduce a sales-led plan, with attention to enhanced productivity as growth targets are achieved. The rest of the European businesses are completing the functional-led approach and have stable management teams in place and maintain strong market positions, therefore are ready for growth.

The new strategy is outlined on page 16.

Delivering shareholder value

The 2019 like-for-like sales were calculated at (7.6%), reflecting loss of market share. The results for 2019 show an underlying profit, excluding IFRS 16 and including businesses held for sale of £41.9m, down 44% from the previous year (2018: £74.5m). As such, the Group saw a decline in the underlying earnings per share of 6.4p to -0.1p (2018: 6.3p).

Following the decrease in profitability in 2019 and the consequent impact from declining sales trends on 2020 profitability, and notwithstanding the receipt of proceeds from the Air Handling disposal, it was clear, even before COVID-19, that the level of underlying net debt was too high and the Group would need to renegotiate covenants with its bankers. The impact of COVID-19 has made the situation more acute.

Accordingly, in order to preserve the Group's liquidity position, and given the challenges surrounding COVID-19, the Board took the decision not to declare a full year dividend. An interim dividend of 1.25p (2018: 1.25p) was paid in November 2019 and therefore the total dividend for the year is 1.25p (2018: 3.75p) per share.

During January 2020, we sold the Air Handling division, a distribution-led specialised provider of air handling projects and solutions in Europe.

The Board is fully committed to delivering shareholder value and the forward-facing strategy will allow the business to leverage its capacity to grow in different market segments, enabled by a sales and proximity led, customer-centric approach.

Financing

I am pleased to unveil our proposed equity raise of approximately £150m where we look forward to working with Clayton, Dubilier & Rice LLC (“CD&R”) who have agreed to invest up to £85m in the Company as part of the equity raise. The Board continues to have constructive discussions with its banks and private placement noteholders with a view to resetting covenants and agreeing other amendments to its financing facilities. Further details will be provided in due course.

PwC report

Following the Company's full year Trading Update published on 9 January 2020, PwC were commissioned to undertake an independent review in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January Trading Update and market consensus of forecast profit prior to that announcement.

The evidence as presented in the PwC Report indicates a number of issues with the 2019 forecasting process, with a principal shortcoming being in the reporting to the Board of information received by Group from the operating companies. As a result, the Board was unsighted as to the overall picture. The PwC report makes clear that the issues identified were not adequately communicated to the Board in the reports presented to it by the CFO.

The Board takes the findings of the PwC report very seriously. Since SIG's receipt of the PwC report, in order to strengthen the Group's financial forecasting and internal reporting, and Board has appointed KPMG to assist the Audit Committee in ensuring appropriate improvements are implemented to the Company's forecasting systems, procedures and controls. Further detail can be found on page 108.

Governance and Board

I believe that good governance comes from a strong and effective Board which provides real leadership to the Group and is fully engaged with all its workforce and other stakeholders. As an essential part of this commitment, the Group supports high standards in corporate governance.

Looking back at 2019 it is not easy to say, with hindsight, that your Board has been highly effective. The issues resulting in the decline in performance were discussed at the Board and assurances received from the Executive Directors. The decline in sales became an increasing and urgent concern as the year progressed and action was taken promptly once the full extent of the profit shortfall became apparent. However, your Board is aware that, with hindsight, action could have been taken sooner.

The 2018 Board evaluation was externally facilitated by Condign Board Consulting. This year the evaluation has been led by our new Company Secretary. Details of the evaluation and its outcome are covered on page 87.

This year has seen changes to the Board with the retirement of Janet Ashdown and Cyrille Ragoucy, and Andrea Abt retired in February 2020. During the year, the Board was further strengthened with the appointment of two new Directors, Kate Allum and Gillian Kent in July 2019. They each bring a range of skills and experience which add value to our Board and will benefit the Company as it moves forward with its long-term vision and strategy.

In order to bring more industry experience on to the Board, Simon King has been appointed as a Non-Executive Director with effect from 1 July 2020. Simon brings extensive, hands-on experience from a career spanning over 35 years, most recently serving on the Travis Perkins Executive Board and holding the position of Chief Operating Officer for Wickes. Simon's appointment is invaluable in our efforts to build on SIG's leading market positions and return the business back to profitable growth.

As noted, Meinie Oldersma and Nick Maddock resigned from the Board on 24 February 2020 and Steve Francis, CEO, In addition, Ian Ashton has been appointed as permanent Group CFO with effect from 1 July 2020. Ian is a highly experienced senior executive with a strong track record of driving change and is an extremely valuable addition to the team as we pursue our new strategy for growth. Ian replaces Kath Kearney-Croft, who assumed the role of Interim CFO on 25 February 2020.

In October 2019, following the retirement of Richard Monro, we welcomed a new Company Secretary, Kulbinder Dosanjh, who is bringing new ideas and energy to improve some of our existing governance processes.

We continue to meet the disclosure requirements and adopt best practices in corporate governance, which are set out on pages 70 to 95 of the Corporate Governance report.

Health and safety

We continue to drive action against our Zero Harm Policy with increased management attention, however, the overall health and safety performance of the Group, as seen through the Accident and Incident Rate, did not improve year-on-year.

We remain committed to delivering the highest levels of health and safety in SIG, which we intend to improve upon in 2020 through a focus on eliminating the causes of the most serious accidents and increased expectations for managers on health and safety leadership.

People and culture

The Group would like to thank all employees of SIG for their continued commitment and resilience in what has been a particularly challenging year, both due to external market conditions and the rapid pace of transformational change. Their efforts over the year, and latterly in supporting the business during the COVID-19 pandemic have been commendable and have ensured we are prepared for the further development of the Group in 2020.

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

Outlook

The recent months have been unprecedented with the departure of the previous CEO and CFO and the uncertainty of COVID-19 and it is evident that the key objective for the Group in 2020 is to establish a firm financial footing and deliver a return to profitable growth as quickly as possible and to focus on re-launching SIG as a stronger business, building on our market leading positions.

Whilst there are a number of actions being taken by management to address financial and operational performance, the Group expects to report continuing like-for-like sales declines in the first half of 2020 as the immediate outlook for trading conditions in many of our key markets and the impact of COVID-19 remains uncertain.

Whilst much work needs to be done, I remain confident that SIG will return to growth and I am committed to leading the Board and working on your behalf to ensure delivery of the Group's strategy and restore value for shareholders.

Andrew Allner

Chairman
29 May 2020

SIG at a glance

SIG is a leading supplier of specialist building products to trade customers across Europe, with strong positions in its core markets.

SIG is well-qualified and trusted to protect and develop the brands and products of our key suppliers with our local approach, efficient branches and high quality people. We play an important role in connecting the construction industry, ensuring that our customers receive the right product, in the right place, at the right time. Our main countries of operation are the UK, France and Germany.



Underlying Group
revenue

£2,085m

(2018: £2,290m)

Specialist distribution

A market leading supplier of insulation and interiors solutions to the construction industry.

£1,454.3m

(2018: £1,623.8m)

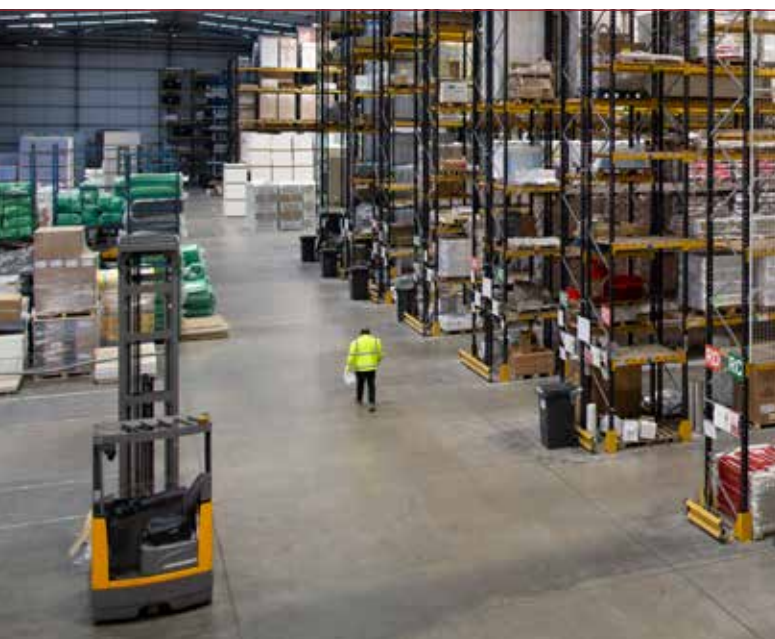


Roofing merchant

A specialist merchant of roofing materials to small to medium sized construction businesses.

£630.4m

(2018: £666.6m)



Our purpose

Our purpose is to enable safe and sustainable living and working environments in the communities in which we operate.

Our vision

Our vision is to be Europe's leading supplier of specialist solutions to the construction industry.

Our culture

Our culture is underpinned by our **bold, flexible and agile approach** and we work together to do the right thing to **make a positive difference**.

Key differentiators of SIG



Proximity

Our network holds local and long-standing relationships across a fragmented market of existing and potential customers, small and large.



Expertise

Knowledgeable staff and deep working relationships with market-leading suppliers give SIG the ability to provide technical advice and support specification across a wide range of products.



Service

Our model provides high levels of availability and co-ordination of complex deliveries that are seen as critical by customers along with flexible credit management.



Scale

Our scale can provide deep intelligence into the developing needs of the sector and provides an excellent platform for new specialisms and technologies.

c6,452*
employees

425
trading sites

83%
revenue from
UK, France
and Germany

6
operating
locations



*Headcount as at 31 December 2019 (excluding Air Handling).

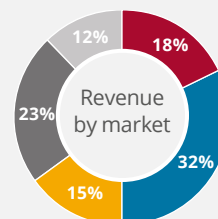
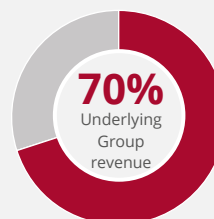
Our business and markets

SIG is a leading supplier of specialist building materials products and solutions to trade customers across Europe, with our main countries of operation being the UK, France and Germany. Our response to market conditions varies across geography and sector, but in particular the growth within the construction industry, linked to economic growth, is an important driver.

Specialist distribution

Specialist supplier of insulation and interior products and solutions to the construction industry.

200
trading
sites



UK
Insulation and interiors



www.siginsulation.co.uk



www.siginteriors.co.uk

Ireland
Insulation and interiors,
construction accessories



www.sig.ie

France
Technical and
structural insulation



www.litt.fr

Benelux
Insulation and interiors



www.sigbenelux.com

Poland
Insulation and
interiors



www.sig.pl

Germany
Technical insulation
and interiors



www.wego-vti.de



Market drivers

- Level of construction activity - new build and Repair Maintenance and Improvement (RMI)
- Availability of skilled construction labour and labour impact of immigration status
- Higher energy efficiency standards
- Environmental legislation, including NOx and PFAS in Benelux
- Levels of expected fit out standards
- Credit levels available to customers

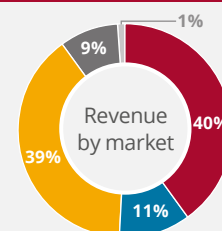
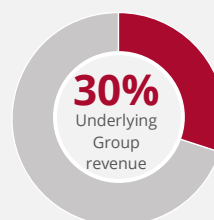
Trends and opportunities

- Returning levels of confidence in the sector which is releasing investment in major projects
- Suppliers are investing in increased capacity over the next three years
- Changes in legislation for materials suitable for use in older buildings
- Increasing focus on RMI investment to meet fire regulations

Roofing merchant

Specialist merchant of roofing material and exterior products to small and medium sized construction businesses.

225
trading
sites*



■ New residential
■ New non-residential
■ RMI residential
■ RMI non-residential
■ Industrial

UK

Specialist roofing



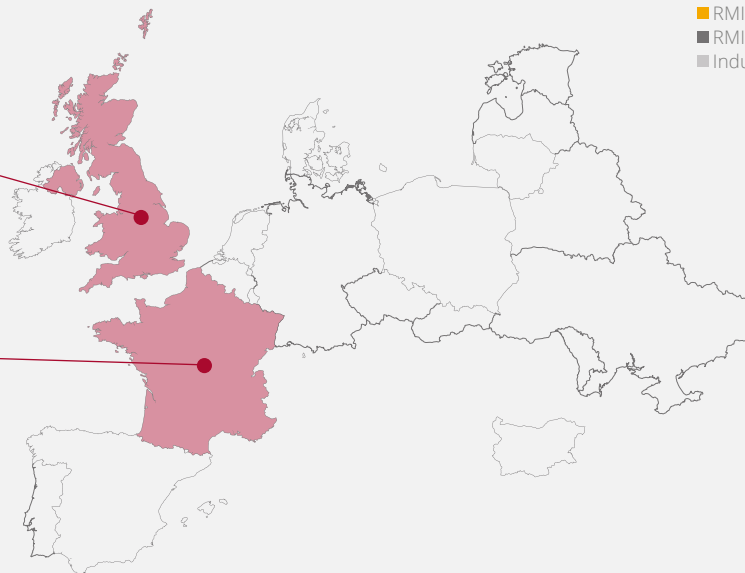
www.sigroofing.co.uk

France

Specialist roofing



www.lariviere.fr



Market drivers

- Regulatory changes
- Level of construction activity (new build and RMI)
- Availability of skilled construction labour market
- Supply chain availability

Trends and opportunities

- Stability following UK General Election with improved customer confidence
- Backlog of new housing required
- Investment in public sector refurbishment and new build schemes
- Potential for consolidation within the merchanting sector
- Introduction of omni-channel approach

*includes 7 branches relating to the Building Solutions business

Our business model

SIG plays an important role in the construction industry supply chain, ensuring that our customers receive the right product, in the right place, at the right time. We have c6,452* employees and operate across the UK, Ireland and mainland Europe.

Key resources



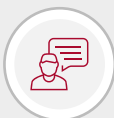
People

Strong, sustainable and capable teams with specialist knowledge



Suppliers

Specialist building material manufacturers and suppliers



Customers

Developers, contractors and sub-contractors



Technology

Investment in technology and digital channels to support growth



Network

Distribution centres, branches and fleet vehicles



What we do



Suppliers



Warehouse Management System

Full inventory control with real-time barcode scanning

⊕ See our **Case study** on page 13



Warehouses

We receive products from specialist suppliers and store in our warehouses



Suppliers



Inventory Management System

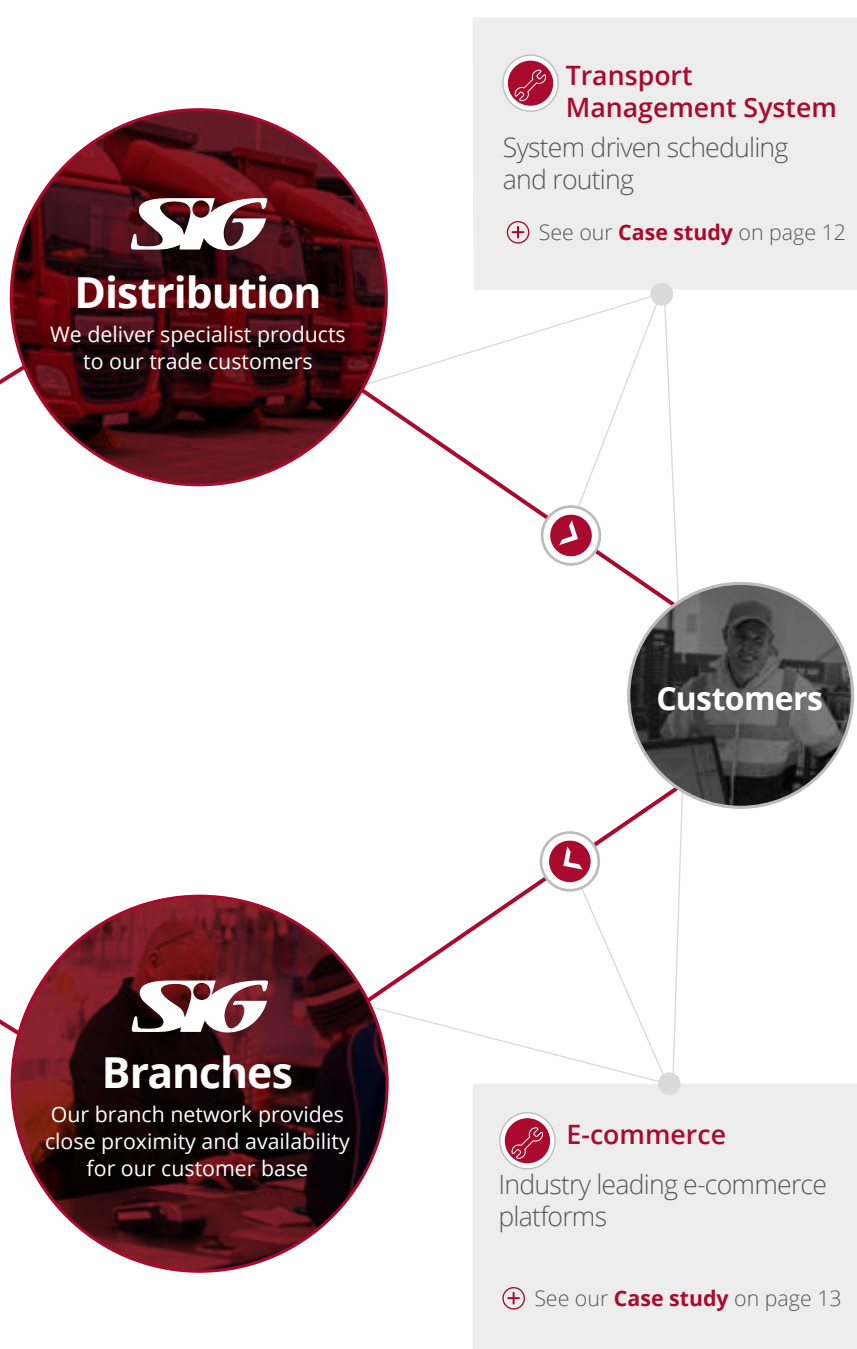
Instant visibility of stock availability

⊕ See our **Case study** on page 12

*Headcount as at 31 December 2019 (excluding Air Handling).

Our operating model is focused on driving an omni-channel customer and sales-led organisation built around strong, local relationships and supported by our network of specialists and well-invested national supply chains, utilising digitisation wherever possible.

Value creation



For our customers

Right products, in the right place, at the right time



For our employees

Encourage talent, reward collaboration and provide training



For our suppliers

Partnering with our supply chain to deliver value-add solutions and expertise



For our shareholders

Creating long term sustainable growth and profitability



For our environment

Minimise impact of climate change, carbon footprint, supporting our communities



Enablers for best-in-class customer service

Case studies



Effective partnerships

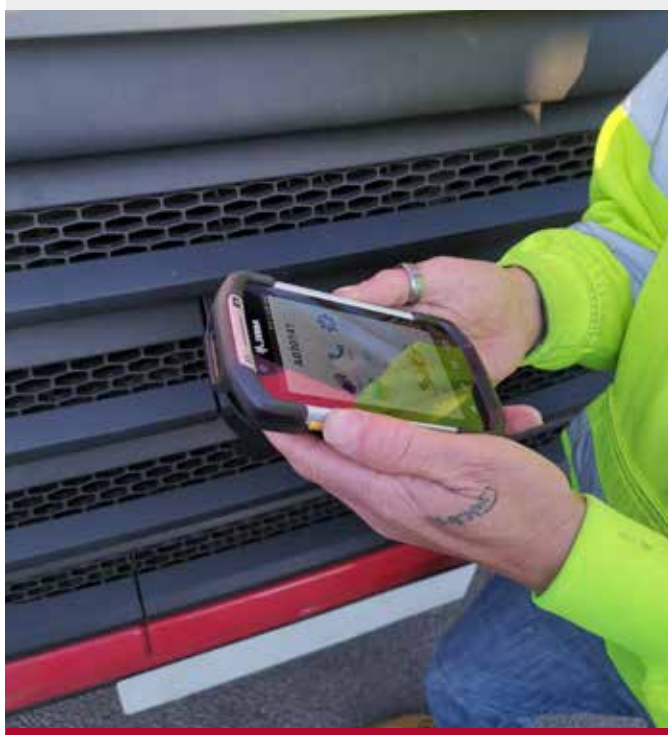
Introducing vehicle routing software

Throughout the second half of 2019 we rolled out Descartes On Demand, our brand new vehicle routing and scheduling software across UK Exteriors and UK Distribution. The system is fully integrated with our ERP and our state of the art handheld devices. This provides an end-to-end solution that is demonstrating best-in-class customer service.

The software has created a more efficient planning function and improved asset utilisation. Significantly better management and KPI reporting will facilitate further efficiencies. The back office benefits such as device enabled vehicle safety checks, branch visibility and automated invoicing have reduced overheads and accelerated the order to payment process. Electronic proof of delivery and real time delivery tracking is delivering a step change in our service offering and customer experience.

More specifically, customers benefit from a simplified order to delivery process with full visibility at every stage. Flexibility to manage exceptions on site with electronic proof of delivery emailed immediately on receipt of goods is expected to significantly reduce the customer administration.

We will shortly be introducing real time delivery notifications via smartphone technology, providing customers with certainty of the delivery window and enabling effective management of contracts.



Modernised operating model

Managing inventory and working capital

In 2019 UK Distribution implemented an inventory management function to manage stock availability and working capital levels, one of the key aims set out in the transformation programme.

With few existing systems in place, the team launched a project to implement an Inventory Management System. In the space of only three months SAP IBP was put in place in the UK as an initial implementation that delivered the ability to plan stock levels and place orders with suppliers.

Further work is now ongoing to fully integrate this new system into the ERP and to allow far greater forecasting capability and inventory optimisation, which is on track to be completed by the end of the year.

For this extremely rapid change in the business, the team were proud to receive a silver award in the Fast Implementation category at the annual SAP awards in 2019.





A leading market position

Launching an e-commerce platform

SIG Poland launched an e-commerce platform in 2019, where customers can purchase goods online direct through the SIG website. During 2019, there has been an average of 70,000 monthly visits to the website.

This has been an important step in the digitalisation of the sales processes. Introducing an internet platform has allowed customers to purchase goods through a variety of methods. They can get seamless and consistent service and information regardless of their chosen channel, at the most convenient time and place for them.

We recognise that customer needs are changing in line with the pace of technology advances, and the increasing importance of the internet in our lives has also impacted on the customers purchasing habits. By introducing the e-commerce channel, we believe we are providing customers with significantly improved service and as a result have seen increased customer loyalty. We have also seen positive impacts on results, with an average 40% increase in the basket size in Poland.



Modernised operating model

Delivering inventory control

In June 2019, we installed a new Warehouse Management System (WMS) into our National Distribution Centre in Dublin. The WMS is a bolt on to our existing ERP system.

By implementing WMS, the operation moved away from paper-based processes and utilised barcode scanning via RDTs to provide full inventory control with real-time technology giving the business benefits in terms of inventory visibility, fulfilment and accuracy.

The WMS starts with a simple goods in process, whereby incoming pallets are given a tracking label that can be scanned by a hand-held device. Once the goods inwards process is completed, the system instructs the operator on where to put the pallet. The operator then scans the warehouse location and the pallet to confirm they have put it away. This ensures every product is in the correct place.

In addition to the goods receipt and put away processes, WMS provides functionality for managing all the other core processes that take place within the warehouse, such as picking, despatch, returns and stock taking.

The WMS is beginning to deliver significant operational improvements, which we are converting into an improved service offering to our customers, and we expect this to progress further throughout the next year.



Our history



Our history

1957 – 2008

A growing federation of local branches

- Strong customer-centric values: proximity, expertise, service
- Deep partnerships with key suppliers
- Sales and branch-led
- De-centralised, multi-brand model
- Acquisition-driven growth
- New countries and product markets



2020 strategy

Clarity of core businesses and USPs

Culture and behaviours

Prioritisation between growth and cost

Leadership

Financial forecasting and controls

Role of central functions

Customer focus

Clarity of operating model



2009 – 2013

Adjusting to austerity

- 2009 equity raise
- Focus on debt reduction and divestment of non-core operations
- Business consolidation
- Reduced layers of management and c3,700 reduction in employee headcount
- c220 branches closed or merged
- Acquisition strategy continues

2014 – 2016

Retail-isation

- Continued focus on debt and cost reduction at expense of growth
- Ongoing divestment of non-core operations
- Retail-like focus on reducing cost of materials, risking service levels
- Branch manning levels reduced
- Market share erosion begins

2017 – 2019

Functionalisation and centralisation

- Ongoing divestment of non-core operations
- Group strategy focused on debt reduction and functional 'Target Operating Model'
- Key commercial functions centralised without adequate supporting systems and tools
- Accountability of branches unclear
- Loss of expertise, proximity and service in UK and Germany
- Price increases to offset market share losses

Returning to profitable growth

From

Disposal candidates and peripheral business disposals based on cost and debt reduction

Command and control culture and unclear shared principles and behaviours

Main strategic focus on cost reduction

Senior leadership new to SIG/industry (particularly in UK and Germany)

Reactive profit warnings and room for improvement in financial reporting and processes

Increasing Group costs interventions, reducing autonomy, accountability and speed in operating companies

Optimised less stock and logistics across fewer/larger locations (UK and Germany only)

Bias to centralisation causing service levels to fall, expertise to reduce and salesforce demotivation

To

Clear definition of vision and purpose and clear USPs, active leadership in our industry

Commitment culture, led from the top with a set of clearly defined behaviours

Growth with controls and acquisitive

Blend of SIG and external talent acquisition with industry experience

New growth-oriented KPIs and improved financial reporting and processes as a priority

Group activities lean and smart

Sales-led focus on re-establishing customer and supplier partnerships

Local B2B franchise model, open to innovation and value-add acquisitions with omni-channel approach



A leading market position



Modernised operating model



Effective partnerships



High performing teams



Responsible business

Our key focus areas



A leading market position



- **Target operating margin of approximately 5%** whilst reinvesting in business efficiency and innovation
- **Growing our market share** in our chosen specialist markets
- **Seeking new market opportunities** in the construction industry that complement our strategy
- **Obtaining superior economies of scale and skill** through our modernised supply chain and continuously searching for **opportunities to digitise our business**

How we will measure success

- Increased market share and cash conversion

Link to risks

- See page 48 on how the principal risks link to the strategy.

Link to remuneration

- Longer term plans focused on shareholder value creation



Modernised operating model



- **Driving an omni-channel customer and sales-led organisation** built around strong, local relationships, supported by our specialists and national supply chain network
- **Facilitating local accountability for performance** supported by divisional teams with deep functional expertise
- **Operating a lean and efficient Corporate and Group function**, which oversees performance, sets policy, provides guidance and ensures high governance standards

How we will measure success

- Branch-level cash conversion
- Sales productivity, on time and in full (OTIF)
- Minimised difference between operating companies and Group profit margins

Link to risks

- See page 48 on how the principal risks link to the strategy.

Link to remuneration

- Profit measures in annual bonus scheme for senior management and staff



Effective partnerships



- **Strengthening customer relationships** through a consistent, disciplined and proactive approach to sales force management and training, high-quality service and expertise
- **Developing indispensable supplier relationships** through scale, coverage and an intimate knowledge of their business and our markets

How we will measure success

- Customer, supplier and employee satisfaction

Link to risks

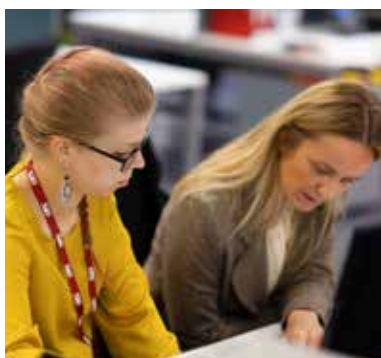
- See page 48 on how the principal risks link to the strategy.

Link to remuneration

- Profit measures in annual bonus scheme for senior management and staff



High performing teams



- Demonstrating **passionate leadership** throughout our business
- Developing **talent** in the business and for the future
- Nurturing **strong, sustainable and capable teams**
- Develop our culture to enable **bold, flexible and agile** working, to make a positive difference

How we will measure success

- Tenure and expertise
- Commitment behaviours
- Employee engagement index

Link to risks

- See page 48 on how the principal risks link to the strategy.

Link to remuneration

- Longer term plans focused on shareholder value creation



Responsible business



- Driving **health and safety standards** with determination, energy and passion to achieve Zero Harm
- Acting **responsibly** in our impact on our communities and the environment
- Fostering a community of **diversity and inclusion**, where everyone is valued

How we will measure success

- Zero accident incident rate

Link to risks

- See page 48 on how the principal risks link to the strategy.

Link to remuneration

- Safety gateway measure in annual bonus scheme for senior management and staff



Our KPIs

In 2020 we will be adopting a new set of KPIs however in this report we continue to illustrate the previous, more financial KPIs. The KPIs are calculated based on underlying, continuing operations.

Like-for-like sales (%)	Return on sales (%)	Operating costs as a % of revenue	Working capital as a % of revenue
17 18 19	17 18 19	17 18 19	17 18 19
Definition and importance The growth/(decline) in sales per day (in constant currency) excluding any current and prior year acquisitions and disposals. Sales are 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.	Definition and importance The ratio of underlying operating profit (excluding property profits) pre IFRS 16, divided by underlying revenue. Return on sales provides the key measure of the profit the Group can deliver for a given level of sales.	Definition and importance The ratio of underlying operating costs (excluding property profits) to underlying revenue. This ratio enables the business to track the delivery of its strategy of improving operating and financial performance, by reducing costs.	Definition and importance The ratio of underlying working capital to underlying revenue. This ratio is used to understand how effectively the Group is using the resources it has available.
Supporting performance measures Underlying revenue growth (%)	Supporting performance measures Underlying operating profit (£m) Underlying operating costs as % of sales	Supporting performance measures Underlying revenue growth (%) Underlying operating profit (£m)	Supporting performance measures Inventory and receivables days Inventory value (£m) Payable days
2019 performance Like-for-like sales have fallen by -7.6% (2018: -2.1%), with a 8.8% reduction seen in Distribution and a 4.3% decrease in Roofing. The reduction is led by ongoing deterioration within the construction industry and challenges sustaining sales rates during a period of rapid organisational change. Read more on page 214. 2019 target: growth in line with market	2019 performance Return on sales have decreased by 120bps in the year to 1.6% (2018: 2.8%). This reflects the challenges faced during the year in relation to the market share losses and poorly executed centralisation strategy. Read more on page 215. 2019 target: 5%	2019 performance Underlying costs excluding property profits represented 24.0% of revenue (2018: 22.5%). The underlying operating costs (excluding property profits) are £14.4m lower than in the previous year, as a result of the cost reduction initiatives. Read more on page 214. 2019 target: n/a	2019 performance The 2019 working capital as a % of revenue dropped to 4.8% (2018: 8.4%) as management continue to focus on improving working capital levels. The inventory management system introduced during the year in the UK has resulted in better inventory control and lower inventory days. Read more on page 213. 2019 target: n/a
Link to strategy Demonstrates that our modernised operating model is effective	Link to strategy Demonstrates that our focus on market leading position has been delivered	Link to strategy Demonstrates that our modernised operating model is effective	Link to strategy Demonstrates that our partnerships have been effective
Link to risks Market downturn Delivering business change Supplier rebates Delivering the customer experience	Link to risks Market downturn Delivering business change Supplier rebates Systems failure	Link to risks Delivering business change Systems failure	Link to risks Delivering business change Access to finance and liquidity
Link to remuneration Profit measures in annual bonus scheme for senior management and staff	Link to remuneration Profit measures in annual bonus scheme for senior management and staff	Link to remuneration Capital measures (working capital and ROCE) in annual bonus scheme for senior management and staff	Link to remuneration Capital measures (working capital and ROCE) in annual bonus scheme for senior management and staff

Link to strategy



A leading market position



Modernised operating model



Effective partnerships



High performing people



Responsible business

Covenant leverage	Return on capital employed (%)	Accident incident rate	2020 strategy KPIs
2.3x 1.7x 2.1x 17 18 19 Definition and importance The ratio of covenant EBITDA (earnings before interest, tax, depreciation and amortisation) to covenant net debt as defined in the Group's banking and private placement arrangements. This ratio is a bi-annual covenant of the Group's principal medium and long-term funding facilities and has a maximum permitted ceiling of 3.0x. As such it is a measure of balance sheet strength and resilience to economic downturn.	8.9% 10.3% 6.1% 17 18 19 Definition and importance The ratio of underlying operating profit less taxation divided by adjusted average capital employed (average net assets plus average net debt), excluding the impact of IFRS 16. Return on capital employed (ROCE) is a measure of value creation for our stakeholders and is a measure of how efficiently the Group is using the capital and resources it has available.	9.9 13.1 13.4 17 18 19 Definition and importance The ratio per 1,000 employees of work-related accidents and incidents (lost time over three days and major injury). All employees, customers and suppliers should be able to work in a safely managed environment across every part of the SIG Group.	Definition and importance In 2020 we will be adopting a new set of KPIs which align the business around our strategic priorities: the focus on our USPs (Expertise, Service & Proximity), on market share growth and industry influence, cash conversion, environment and our commitment culture. In this report we continue to illustrate the previous, more financial KPIs. Read about our 2020 strategy on page 18.
Supporting performance measures Underlying operating profit (£m) Trading cash (£m) Net debt (£m)	Supporting performance measures Underlying operating profit (£m) Like-for-like working capital as a % of sales	Supporting performance measures Near misses	
2019 performance The covenant leverage closed the year at 2.1x (2018: 1.7x). This reflects a reduction in net debt (excluding IFRS 16), driven by better working capital management, but also a reduction in EBITDA. Read more on page 210. 2019 target: under 1.0x	2019 performance ROCE excluding impact of IFRS 16 decreased by 420bps to 6.1% (2018: 10.3%) Whilst the capital employed has decreased during the year following working capital improvements, the reduction in ROCE is driven by the lower underlying operating profit. Read more on page 211. 2019 target: c.15%	2019 performance Despite maintaining the highest standards of health and safety across the Group, we saw a 2% increase in accident incident rates. We continue to focus on our Zero Harm programme and reissued the 'Life Saving Rules' during 2019. Read more on page 61. 2019 target: zero accident in any given period for all critical hazards	
Link to strategy Demonstrates that our modernised operating model is effective	Link to strategy Demonstrates that our modernised operating model is effective	Link to strategy Demonstrates our responsible business focus	+ Read about our strategy on page 14
Link to risks Delivering business change Access to finance and liquidity	Link to risks Market downturn Delivering business change Access to finance and liquidity	Link to risks Health and safety	+ Read about our risks on page 46
Link to remuneration Capital measures (working capital and ROCE) in annual bonus scheme for senior management and staff	Link to remuneration Capital measures (working capital and ROCE) in annual bonus scheme for senior management and staff Longer term plans focused on shareholder value creation	Link to remuneration Safety gateway in annual bonus scheme for senior management and staff	+ Read about our remuneration on page 116

"I am delighted to have taken on a leadership role of SIG, a true pan-European leader in our industry but also in its 63rd year carrying a proud Sheffield originated heritage of trust and service. SIG plays a leadership and balancing role in our industry, protecting and developing the brands and products of our major suppliers, and finding better solutions for our customers. However, over the last several years there has been over-emphasis on cost reduction, disposals and inventory minimisation to the detriment of the health of our Group and legacy in some of our countries of operation.

Our EU businesses, with the exception of Germany, have stable and experienced management and are true to our traditional strengths. Their continued steady performance reflects this. Unfortunately, our UK and German businesses have seen too much change with indelicate implementation leading, ultimately, to significant market share loss. By the time I arrived in February this year the Group's trading was poor and small losses were recorded. We had lost our sense of identity and direction.

The COVID-19 pandemic has been challenging for everyone and has brought to the fore the bravery and passion of our teams. It has reminded us of our core values and the great strengths we inherit.

Our new Growth and Recapitalisation strategy is designed to refresh and re-energise our business, reconnecting to our customers, suppliers and colleagues and restoring our leading market positions in every country of operation. It will provide the basis, not only for the restoration of profit and cash conversion but also as a foundation to play a leading role in our industry in the years to come."

Steve Francis, Chief Executive Officer

NEW STRATEGY FOR GROWTH

New senior leadership

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

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

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

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

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

New growth strategy

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

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

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

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

The Group's new strategy comprises seven key tenets:

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

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

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

The Group's medium term vision

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

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

- **Margin:** An operating margin of approximately 5% within the Group's operating companies, and a Group operating margin of approximately 3%, trending towards approximately 5% in the longer-term
- **Leverage:** Covenant leverage of <1.5x
- **Dividend:** Dividend cover of 2-3x once appropriate leverage has been achieved

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

People

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

The Board recognises that safety must always be its number one priority; for its employees, its suppliers, customers, and within the communities where we operate. A key focus for the Group since the outbreak of the COVID-19 pandemic has been to ensure that within those operations that remained open for business, all necessary measures were taken in line with government safety guidelines to protect the health and safety of employees, suppliers and customers.

In 2019, a Board workforce engagement programme was developed, designed to provide a direct communication channel

Like-for-like sales

-7.6%

(2018: -2.1%)

Total underlying Group revenue

£2,085m

(2018: £2,290m)

Return on sales

1.6%

(2018: 2.8%)



Business review



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

COVID-19

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

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

As a result of government restrictions that were implemented to mitigate the spread of COVID-19, large sections of SIG's end-markets experienced a severe reduction in sales. During April, the fourteen-day rolling average daily sales in the UK and Ireland reduced to approximately 12% of

their average daily sales between January and mid-March (i.e. pre COVID-19 levels), reflecting the closure of the majority of SIG's trading sites in response to government advice. By mid-May, the fourteen-day average daily sales had recovered to over 50% of pre COVID-19 levels as the Group's sites and customers began to re-open. The Group had re-opened over 80% of the UK and Ireland sites by the middle of May.

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

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

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

- **Government support:** Relevant government support is being accessed in all countries of operation, across employment support, tax and social security deferrals and the business is assessing whether to apply for government loans (which are currently being considered in France and Germany, in coordination with the Group's existing financial arrangements). Tax and social security deferrals have been implemented where available in the UK (PAYE/NIC, VAT), in France (social charges, pension contributions), Germany (VAT), Poland (corporation tax), Belgium (VAT, payroll tax) and the Netherlands (VAT, payroll tax). In the aggregate, use of government support schemes has enabled the Group to defer approximately £15 million of cash payments in the period through May 2020.
- **Capital expenditure:** Programmes that require significant cash investment or do not provide near-term business benefits have been paused, including major IT projects.
- **Customers:** The Group has maintained a sharp focus on proactively managing collections and monitoring overdue payments.
- **Trade suppliers:** The Group has conducted active discussions with large trade suppliers, in order to maintain continuity of supply while netting rebates and agreeing slower payment plans where possible.
- **Non-trade suppliers:** Deferral and terms extension requests are being managed across non-trade suppliers, with a significant focus on IT, services and property, with property rates being deferred on UK properties and 'empty' or 'retail' relief claims submitted.
- **Landlords:** A number of UK landlords have been approached to request that the June rent quarter payment is spread across the subsequent two quarters. In other cases, lease extensions are being offered in return for rent-free periods. The Group's business in Poland has also approached landlords for rent reductions.
- **Fleet leases:** Payment holidays have been requested from fleet lease providers.
- **Dividend:** The Board took the decision not to declare a full year 2019 dividend, nor to consider any return to shareholders of the proceeds of recent disposals.

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

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

CURRENT TRADING AND OUTLOOK

Pre COVID-19 (January 2020 to February 2020)

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

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

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

COVID-19 period (March 2020 to April 2020)

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

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

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

Trading activity suffered a temporary setback France following the short-term closure of

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

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

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

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

Outlook

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

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

to targeted levels of revenue faster given its strong existing platform in the region.

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

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

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

Business review

2019 PERFORMANCE

Overall performance

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

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

The improvements in margins and reductions to the cost base in H1 were insufficient to stop a deterioration in bottom line profits, resulting in full year underlying profit before tax, post IFRS 16, of £15.6m, down 70.1% on prior year (2018: £52.2m). Underlying profit before tax (including businesses held for sale), pre IFRS 16, was £41.9m (43.8% down on prior year). Statutory loss before tax from continuing operations was £112.7m (2018: profit before tax of £10.3m), reflecting £128.3m of Other items, including £90.9m of impairment of goodwill and other intangibles.

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

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

1: Underlying profit before tax stated before IFRS 16 adjustments, including profit before tax for the Air Handling division and Building Solutions (National) Limited and excluding impairment and other non-underlying profits and losses.

2: Included within Discontinued operations in the Consolidated Income Statement

3: Included within Other items in the Consolidated Income Statement

Marked deterioration in second half performance

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

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

PwC investigation

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

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

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

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

Further details on the actions taken to date (including as regards actions taken during the course of the year in relation to cultural changes) are included in the Corporate Governance report on page 72 and further background on the scope of the PwC review and the remediation actions is set out in the Audit Committee report on page 108.

Further organisational progress

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

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

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

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

Business review

Continued investment in customer service

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

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

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

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





A leading market position

Increased capability and efficiencies in UK Distribution

Throughout 2019, extensive work was undertaken in SIG Distribution to prepare an advanced warehouse in Heathrow, known as UK Distribution West London. Fully operational from the end of May 2020, the facility covers 169,000 sq ft and provides enhanced capability to ensure that we are well positioned to provide high levels of efficiency and improved customer service.

The team were proud to support customers from this facility during the ongoing challenges related to COVID-19.

Since his appointment in early 2020 as Managing Director, UK, Philip Johns has been working on supporting customers by the re-opening of sites across the UK Distribution network. He commented, "We have to put the customer at the heart of everything we do, which is a key focus on the UK strategy going forward. Our site network across the UK, supplemented by our flagship distribution centres, in Manchester and now at Heathrow, offer a considerable stock holding across all of our product areas and ensures we can supply the products our customers need when they need them."



Philip Johns, Managing Director UK and Steve Francis, CEO at UK Distribution West London.



Financial review

“The Group saw an underlying revenue decline in 2019, primarily due to a tough economic backdrop and a poor execution of a centralisation strategy in UK and Germany. However, good operating progress was made through the further introduction of new technologies, e-commerce and increased functionalisation.”

Kath Kearney-Croft, Chief Financial Officer

	2019 (Pre IFRS 16)	2018 (Restated, pre IFRS 16)	Change	2019 (Post IFRS 16)
Underlying operations¹				
Revenue	£2,084.7m	£2,290.4m	(9.0)%	£2,084.7m
Like-for-like sales ² growth	(7.6)%	(2.1)%	(550)bps	(7.6)%
Gross margin	25.9%	25.3%	60bps	25.9%
Underlying ³ operating profit	£33.5m	£66.9m	(50.0)%	£39.6m
Underlying ³ profit before tax	£20.6m	£52.2m	(60.5)%	£15.6m
Underlying profit before tax (including businesses held for sale) ⁴	£41.9m	£74.5m	(43.8)%	£36.3m
Underlying ³ basic earnings per share	0.6p	6.3p	(90)%	(0.1)p
Return on sales (excluding property profits)	1.6%	2.8%	(120)bps	1.9%
Post-tax return on capital employed (ROCE)	6.1%	10.3%	(420)bps	n/a
Net debt	£162.8m	£189.4m	14.0%	£455.4m
Covenant leverage (covenant net debt/covenant EBITDA)	2.1x	1.7x	(0.4)x	n/a

	Statutory	
	2019 (Post IFRS 16)	2018 (Restated, pre IFRS 16)
Revenue	£2,160.6m	£2,431.8m
Operating Profit	£(87.9)m	£26.2m
Profit/(loss) before tax ⁵	£(112.7)m	£10.3m
Basic earnings/(loss) per share	(21.0)p	3.0p
Dividend per share	1.25p	3.75p

1 - Underlying operations excludes businesses divested or closed, or which the Board has resolved to divest or close by 31 December 2019.

2 - Like-for-like (LFL) is defined as sales per working day in constant currency excluding acquisitions and disposals completed or agreed in the prior year, or before announcement of the Group's results for the relevant period. Sales are not adjusted for branch openings or closures. LFL sales differ from the January trading statement primarily as a result of the reclassification of non-core businesses.

3 - Underlying results are stated before the revenue and cost items of businesses that have been disposed of, the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating profits/(losses) attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of other items and the effect of changes in taxation rates.

4 - Per note 3 above, together with the underlying profit before tax for the Air Handling division (Discontinued operations) and Building Solutions (National) Limited (non-core business).

5 - Statutory results of Continuing operations only.

Overview and trading update comparison

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

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

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

1 - Underlying profit before tax stated before IFRS 16 adjustments, including profit before tax for the Air Handling division and Building Solutions (National) Limited and excluding impairment and other non-underlying profits and losses.

2 - Included within Discontinued operations in the Consolidated Income Statement

3 - Included within Other items in the Consolidated Income Statement

During the year, the Group announced the disposal of its Air Handling division. The results from this business have been excluded from the reported underlying results and are shown as a discontinued operation in order to provide a better understanding of the Group's underlying performance in the continuing business.

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

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

Revenue and gross margin

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

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

Offset against the decline in revenue is an increase in underlying gross margin, which increased 60bps to 25.9% (2018: 25.3%). The actions around improving gross margin levels that were introduced across the Group during 2018 continued through into 2019. Focus remained on

adopting a range of initiatives to optimise pricing and margins, supported by software systems in UK Distribution and Germany that provide management with greater degrees of control around such areas as quantity breaks, spot pricing, end-to-end margin visibility and centralised discount management. Further margin uplift was achieved by the continual review of the levels of profitability by customer, updating historical terms and conditions at current levels wherever possible, along with the introduction of new charging structures for ancillary services across a number of the businesses. Underlying gross margin increased in Specialist Distribution to 25.9% (2018: 25.1%) but dropped slightly in Roofing Merchandising to 25.7% (2018: 25.8%).

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

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

Operating costs and profit

At a Group level, underlying operating profit, pre IFRS 16, dropped by 50% year-on-year and decreased to £33.5m (2018: £66.9m). The Group continued to reduce its operating cost base following on from structural changes made in 2018, particularly in its two UK businesses, where UK Distribution transformed their organisational structure from a branch-centric model to a centralised functional model, and UK Roofing to a centrally governed but locally adaptive model. These actions throughout the year resulted in underlying operating costs, pre IFRS 16, reducing by 1.2% to £505.8m (2018: £511.8m).

Non-core businesses, reported a combined operating profit (excluding exceptional items) of £2.0m in the year (2018: £5.5m). The underlying operating profit for discontinued operations, which included the Air Handling division, was £19.1m (2018: £20.1m). For further detail on Divestments and Discontinued operations, refer to notes 11 and 12.



Return on capital employed

6.1%

(2018: 10.3%)

Covenant leverage

2.1x

(2018: 1.7x)

Financial review

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

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

Specialist Distribution

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

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

¹ Excludes SK Sales, which is now reported within the Air Handling division.

² Reported revenue is shown on a segmental basis, including the operating result of the non-core businesses.

	Pre IFRS 16			As reported post IFRS 16		Statutory post IFRS 16
	Underlying operating profit (£m)	Underlying operating margin	Change	Underlying operating profit (£m)	Underlying operating margin	Reported operating profit/(loss) (£m) ²
UK Distribution ¹	5.8	1.1%	(230)bps	7.9	1.5%	(62.9)
France Distribution (LiTT)	10.8	5.9%	100bps	11.2	6.1%	11.2
Germany (WeGo/VTi)	3.4	0.9%	(100)bps	4.4	1.2%	4.5
Poland	4.2	2.7%	60bps	4.3	2.8%	4.3
Benelux	5.1	5.0%	80bps	5.2	5.0%	4.8
Ireland	6.2	6.5%	40bps	6.8	7.2%	4.7
Distribution before non-core	35.5	2.4%	(90)bps	39.8	2.7%	(33.4)
Non-core businesses	0.1	n/a	n/a	n/a	n/a	n/a
Distribution	35.6	2.4%	(60)bps	39.8	2.7%	(33.4)

¹ Excludes SK Sales, which is now reported within the Air Handling division.

² Reported operating profit is shown on a segmental basis, including the operating result of the non-core businesses and after taking into account Other items.

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

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

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

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

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

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

Overall, Distribution delivered underlying revenue of £1,454.3m (2018: £1,623.8m) and underlying operating profit, pre IFRS 16, of £35.5m (2018: £53.1m), at an operating margin of 2.4% (2018: 3.1%). On a statutory basis, after taking into account Other items and adjusting for first time adoption of IFRS 16, Distribution reported an operating loss of £33.4m (£31.0m profit).

Roofing Merchanting

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

	Underlying revenue (£m)	Change	LFL change	Reported revenue (£m) ²	Gross margin	Change
UK Exteriors	288.2	(10.5%)	(10.1%)	346.5	28.4%	0bps
France Exteriors (Lariviere)	342.2	(0.7%)	1.1%	344.1	23.4%	10bps
Roofing before non-core	630.4	(5.4%)	(4.3%)	690.6	25.7%	10bps
Non-core businesses	60.2	n/a	n/a	n/a	n/a	n/a
Roofing	690.6	(5.3%)	n/a	690.6	25.9%	0bps

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

	Pre IFRS 16			As reported post IFRS 16		Statutory post IFRS 16
	Underlying operating profit (£m)	Underlying operating margin	Change	Underlying operating profit (£m)	Underlying operating margin	Reported operating profit (£m) ²
UK Exteriors	7.7	2.7%	(160)bps	8.9	3.1%	(2.7)
France Exteriors (Lariviere)	8.0	2.3%	(150)bps	8.6	2.5%	(29.1)
Roofing before non-core	15.7	2.5%	(160)bps	17.5	2.8%	(31.8)
Non-core businesses	1.9	n/a	n/a	n/a	n/a	n/a
Roofing	17.6	2.5%	(160)bps	17.5	2.8%	(31.8)

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

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

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

Financial review

Discontinued operations – Air Handling

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

	Underlying revenue (£m)	Change	LFL change	Reported revenue (£m)	Gross margin	Change
Air Handling¹	323.1	4.2%	n/a	323.1	37.5%	0bps

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

	Pre IFRS 16			As reported post IFRS 16		Statutory post IFRS 16
	Underlying operating profit (£m)	Underlying operating margin	Change	Underlying operating profit (£m)	Underlying operating margin	Reported operating profit (£m) ²
Air Handling¹	19.1	5.9%	60bps	19.8	6.1%	5.0

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

² Reported operating profit is stated after taking into account Other items.

The Air Handling division in France was also affected at an operating profit level by the ransomware attack described above, and in the UK by losses in the early part of the year at SK Sales. As a result, Air Handling delivered a reduced underlying operating profit performance, pre IFRS 16, of £19.1m (2018: £19.4m). For further detail on Discontinued operations, refer to note 12.

Dividend

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

Return on Capital Employed

Post tax return on capital employed (ROCE) is one of the Group's primary performance metrics and is calculated on a rolling 12-month basis as underlying operating profit less tax, divided by average net assets plus average net debt. ROCE (excluding the impact of IFRS 16) was 6.1% at 31 December 2019 (2018: 10.3%), with the reduction in underlying operating profit more than offsetting lower average net assets and debt (refer to note 33c).

Cash flow and leverage

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

	2019 £m	2018 £m
Opening net debt	(189.4)	(258.7)
Cash inflow from trading	92.1	73.5
Decrease/(increase) in working capital	73.9	29.1
Cash inflow from factoring arrangement	0.0	1.0
Cash inflow from operating activities	166.0	103.6
Interest and tax	(35.3)	(27.1)
Dividends paid to equity holders of the Company	(22.2)	(22.2)
Capital expenditure	(34.5)	(25.3)
Proceeds from sale of property, plant and equipment	7.6	5.1
Cashflow from divested businesses	8.4	35.8
Acquisitions/contingent consideration	(0.9)	2.6
Movement in lease liabilities	(55.2)	–
Other (including fair value movements)	0.5	(3.2)
Movement in net debt	34.4	69.3
IFRS 16 on adoption at 1 January 2020	(300.4)	–
Movement in net debt	(266.0)	69.3
Closing net debt	(455.4)	(189.4)
Headline financial leverage	2.1x	1.7x

The Group's covenant net debt as at 31 December 2019 was £168.5m, compared with covenant EBITDA for 2019 of £78.4m. Covenant leverage is one of the Group's primary performance metrics and is calculated on the same basis as one of the primary covenants to the Group's revolving credit facility and private placement notes. The monitoring of this covenant is an important element of treasury risk management. The Group's covenant leverage (the ratio of covenant net debt to covenant EBITDA) was 2.1x as at the same date, and increased year-on-year as a result of lower EBITDA more than offsetting the benefit of lower net debt (refer to note 33b).

Financial review

IFRS 16

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

The Group elected to adopt the standard using the modified retrospective approach, which means that 2019 is the first year impacted by the accounting standard. 2018 has not been restated. On 1 January 2019, £306.2m of leases were recognised as liabilities on adoption of the standard and £312.8m capitalised as right of use assets, including £18.0m previously included in property, plant and equipment in relation to assets held under finance leases under the old standard.

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

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

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

Reconciliation of statutory result to underlying result

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

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

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

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

Impact of divestments and closure of non-core businesses

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

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

Taxation

The Group's approach to its worldwide tax affairs is to act in a responsible manner and in accordance with the laws and objectives of the territories in which it operates. The Group seeks to pay, at the right time, the correct amount of taxes due, both direct and indirect, in accordance with all relevant tax laws and regulations.

The Board has overall responsibility for managing and controlling risk, including tax risk, within the Group. The Group Board recognises the importance of tax risk management as part of the day-to-day management of the business. The Group has a Tax and Treasury Committee that provides regular updates to the Board, which enables the Board to consider the tax implications of significant strategic decisions on a timely basis.

The Group takes appropriate advice from reputable professional advisers to ensure compliance with applicable rules and regulations, and to consider potential mitigating actions in order to manage tax risks.

The Group pro-actively manages relationships with tax authorities, aiming to maintain transparent and constructive relationships, to comply fully with regulatory obligations and to uphold its reputation as a responsible corporate citizen. In accordance with UK legislation the Group publishes an annual tax strategy, which is available on the Group's website (www.sigplc.com).

The effective tax rate for the Group on the total loss before tax of £108.9m is negative 14.3% (2018: 37.2%). The effective tax charge for the Group on profit before tax excluding Other items of £19.4m is 103.3% (2018: 26.3%) which comprises a tax charge of 95.8% (2018: 26.6%) in respect of current year profits and a tax charge of 7.5% (2018: credit of 0.3%) in respect of prior years. The increased current year rate is predominantly due to unrecognised deferred tax assets (see Note 24) and expenses not deductible for tax purposes.

Financial review

Shareholders' funds and returns to shareholders

Shareholders' funds decreased by £168.1m to £294.2m (2018: £462.3m). The decrease comprised the following elements:

	£m
Profit after tax attributable to equity holders of the Company	(124.5)
Other items – impact operating profit:	
Exchange differences on assets and liabilities after tax	(14.8)
Gains on cash flow hedges	1.3
Impact of IFRS 16	0.0
Movements attributable to share options	0.1
Actuarial gain on pensions schemes (net of deferred tax)	(8.0)
Acquisitions of non-controlling interests	0.0
Transaction between equity holders	0.0
Dividends paid to equity holders of the Company	(22.2)
Decrease in Shareholders' funds	(168.1)

The Company pays dividends out of the Parent Company retained earnings. When required the Company can repatriate cash from its subsidiaries to increase distributable reserves. Further details are included in Note 7 of the Company Financial Statements.

Fixed assets

Net capital expenditure (including computer software) was a net cash outflow of £27.1m (2018: £20.2m outflow), representing a capex to depreciation ratio of 1.4x (2018: 0.8x). Capital expenditure includes new vehicles, new brownfield sites, investment in plant and machinery and computer software.

The capex to depreciation ratio is influenced by the level of proceeds from the sale of property, plant and equipment, which were £7.6m (2018: £5.1m). Excluding these proceeds, the capex to depreciation ratio would be 1.8x (2018: 1.10x).

Foreign currency translation

Overseas earnings streams are translated at the average rate of exchange for the year whilst balance sheets are translated using closing rates. The table below sets out the principal exchange rates used:

	Average rate			Closing rate		
	2019	2018	Movement %	2019	2018	Movement %
Euro	1.1	1.1	1%	1.2	1.1	6%
Polish Zloty	4.9	4.8	2%	5.0	4.8	5%

The impact of exchange rate movements on the translation of the Group's overseas earning streams, net assets and net debt can be summarised as follows:

	Impact of currency movements in 2019 £m
Underlying revenue	(18.8)
Statutory revenue	(19.0)
Underlying operating profit	(0.6)
Statutory operating profit	(0.3)
Underlying profit before tax	(0.6)
Statutory profit before tax	(0.3)
Consolidated net assets	(15.3)
Net debt	(6.8)

Fluctuations in exchange rates give rise to translation differences on overseas earnings streams when translated into Sterling. Further details of SIG's foreign exchange policies are detailed in the Foreign currency risk section on page 38.

Pension schemes

In total, the Group operates six defined benefit pension schemes, the largest of which is a funded scheme held in the UK which was closed to future accrual on 30 June 2016. The remaining five defined benefit pension schemes are unfunded book reserve schemes held in the Group's mainland European businesses. Together the UK defined benefit scheme and the five book reserve schemes are referred to as "defined benefit pension schemes".

The last triennial valuation of the UK scheme ("the Plan") was conducted at 31 December 2016 and concluded in the first quarter of 2018. The Trustees and the Company agreed to fund the triennial pension deficit and increase the security of the Plan using an asset backed funding arrangement under a partnership arrangement, which was implemented in March 2018. The asset backed funding arrangement transfers certain rights over a managed pool of certain customer receivables of one of the Group's subsidiary companies to the partnership and provides a mechanism to settle future funding commitments from receipts from higher quality trade receivables to ensure contributions to the Plan of £2.5m per annum for up to 20 years (as may be required and subject to certain discretions).

The Group's total pension charge for the year (from continuing operations), including amounts charged to interest and Other items, was £7.0m (2018: £8.5m), of which a charge of £0.7m (2018: £1.5m) related to defined benefit pension schemes and £6.3m (2018: £7.9m) related to defined contribution schemes.

The overall gross defined benefit pension schemes' liability decreased during the year to £24.8m (31 December 2018: £28.7m).

In addition to the defined benefit pension schemes, the Group also operates a number of defined contribution pension schemes. Further details of the pension schemes operated by SIG are set out in Note 30(c) of the Financial Statements on pages 203 to 206.

Capital structure

The Group manages its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group has continued to focus on strengthening the balance sheet during 2019.

The main measure used to assess the appropriateness of the Group's capital structure is its net debt to EBITDA (see Note 33(b) of the Financial Statements) ratio (i.e. leverage), thus ensuring that the Group's capital structure is aligned to the Group's debt covenants.

As at 28 May 2020, SIG's share price closed at 28.0p per share, representing a market capitalisation of £165.6m at that date. SIG monitors relative Total Shareholder Return (TSR) for assessing relative financial performance. This has been detailed in the Directors' Remuneration Report on page 111.

Treasury risk – introduction

SIG's finance and treasury policies set out the Group's approach to managing treasury risk. These policies are reviewed and approved by the Group Board on a regular basis. It is Group policy that no trading in financial instruments or speculative transactions be undertaken.

Funding of operations

SIG finances its operations through a mixture of retained profits, shareholders' equity, bank funding, private placement and other borrowings. A small proportion of SIG's assets are funded using fixed rate finance lease contracts.

The Group's net debt is made up of the following categories:

	2019 £m	2018 £m
Obligations under finance lease contracts	275.6	23.4
Bank overdrafts	–	4.5
Bank loans	99.6	56.5
Private placement notes	175.5	185.6
Loan notes and deferred consideration	–	0.9
Other financial liabilities	2.9	1.1
Derivative financial instruments (liabilities)	2.1	4.1
Financial liabilities held for sale	45.3	–
Total	601.0	276.1
Derivative financial instruments (assets)	(2.6)	(1.9)
Gross debt (after derivative financial assets)	598.4	274.2
Cash at bank and on hand	(101.9)	(83.3)
Lease receivables	(5.2)	–
Deferred consideration	–	(1.5)
Financial assets held for sale	(35.9)	–
Net debt	455.4	189.4

Financial review

This reconciles to net debt used for covenant calculations as follows:

	2019 £m	2018 £m
Net debt	455.4	189.4
Other covenant financial indebtedness	5.4	10.9
Foreign exchange adjustment	0.3	(1.8)
IFRS 16 adjustment	(292.6)	–
Covenant net debt	168.5	198.5

The Group's gross financial liabilities can be further analysed as follows:

	2019 £m	2019 %	2018 £m	2018 %
Gross financial liabilities with a maturity profile of greater than five years	81.9	14.8%	111.0	40.5%
Gross financial liabilities held on an unsecured basis	275.3	49.7%	262.9	95.8%

The liabilities with a maturity profile of greater than five years do not include Private Placement notes of £91.2m with a contractual maturity date of 2026 which as at 31.12.2019 are shown as current. Details of this allocation and derivative financial instruments are shown in Note 19 of the Financial Statements on page 184.

Management of treasury risks

Treasury risk management incorporates liquidity risk, interest rate risk, foreign currency risk, commodity risk, counterparty credit risk and the risk of breaching debt covenants. These specific risks, and the Group's management of them, are detailed below.

Liquidity risk and debt facilities

Liquidity risk is the risk that SIG is unable to meet its financial obligations as they fall due. In order to minimise this risk, SIG seeks to balance certainty of funding and a flexible, cost-effective borrowing structure. This is achieved by using a range of sources of funding, preventing over-reliance on any single provider. The key sources of finance are private placement note investors, being mainly US-based pension funds, and principal bank debt.

The maturity profile of the Group's debt facilities at 31 December 2019 is as follows:

	Facility amount £m	Amount drawn £m	Amount undrawn £m	Date of expiry
Bank debt	233.3	100.0	133.3	May 2021
Private placement loan notes	25.4	25.4	–	Oct 2020
Private placement loan notes	16.9	16.9	–	Oct 2021
Private placement loan notes	42.3	42.3	–	Oct 2023
Private placement loan notes	91.2	91.2	–	Aug 2026
	409.1	275.8	133.3	

As at 31 December 2019, the private placement notes of have been reclassified as a current liability (2018: non-current liability) on the balance sheet. See Note 19 for details.

Interest rate risk

The Group has exposure to movements in interest rates on its outstanding debt, financial derivatives and cash balances. To reduce this risk the Group monitors its mix of fixed and floating rate debt and, if required, transacts derivative financial instruments to manage this mix where appropriate. SIG has a policy of aiming to fix between 50% and 75% of its average net debt over the medium term. The percentage of gross debt at fixed rates of interest at 31 December 2019 is 87% (2018: 88%).

Foreign currency risk

Income statement

SIG has a number of overseas businesses whose revenues and costs are denominated in the currencies of the countries in which they operate. 61% of SIG's 2019 continuing revenues (2018: 60%) were in foreign currencies, being primarily Euros and Polish Zloty. SIG faces a translation risk in respect of changes to the exchange rates between the reporting currencies of these operations and Sterling and has decided not to hedge the income statement translational risk arising from these income streams.

SIG also faces a translation risk from the US Dollar in respect of the interest due on its private placement borrowings. This risk has been eliminated with the use of cross currency swaps, which swap the US dollar private placement debt and associated interest payments into euros.

Balance sheet

The Consolidated Balance Sheet of the Group is inherently exposed to movements in the Sterling value of its net investments in foreign businesses. For currencies where the Group has significant exposure, SIG seeks to hold financial liabilities and derivatives in the same currency to partially hedge the net investment values.

SIG had the following net debt denominated in foreign currencies, held partially to hedge the assets of overseas businesses (including cash and cash equivalents):

	2019 Local currency net borrowings/ (cash) LC'm	2019 Sterling equivalent borrowings/ (cash) £m	2018 Sterling equivalent borrowings/ (cash) £m
Euro	291.9	217.6	134.3
PLN	(40.4)	(8.0)	(15.8)
Other currencies	multiple	(7.2)	(3.9)
Total	n/a	202.4	114.6
% of net debt	n/a	44.5%	61%

Euro net debt at 31 December 2019 represented 47.8% of Group net debt (2018: 71%).

The overall impact of foreign exchange rate movements on the Group's Consolidated Income Statement and Consolidated Balance Sheet is disclosed on page 36 of this Strategic Report.

Commodity risk

The nature of the Group's operations creates an ongoing demand for fuel and therefore the Group is exposed to movements in market fuel prices. The Group enters into commodity derivative instruments to hedge such exposures where it makes commercial and economic sense to do so. The Group currently has no commodity derivative contracts in place.

Counterparty credit risk

SIG holds significant investment assets, being principally cash deposits and derivative assets. Strict policies are in place in order to minimise counterparty credit risk associated with these assets.

A list of approved deposit counterparties is maintained and counterparty credit limits, based on published credit ratings and CDS spreads, are in place. These limits, and the position against these limits, are reviewed and reported on a regular basis.

Sovereign credit ratings are also monitored, and country limits for investment assets are in place. If necessary, funds are repatriated to the UK.

Debt covenants

The Company's debt facilities in place at 31 December 2019 contained a number of covenants to which the Group must adhere. The Group's debt covenants are tested at 30 June and 31 December each year, with the key financial covenants being net worth, leverage and interest cover. The Group has already sought and obtained a waiver of the Consolidated Net Worth (CNW) covenant contained in the private placement notes in respect of any testing thereof in the period from 28 May 2019 until 1 August 2020 (subject to certain events not occurring in that period) including the testing of the CNW covenant as at 31 December 2019 on the basis of these financial statements.

The ratio for each of the key debt covenants is set out below:

	Requirement	Year ended 31 December 2019	Year ended 31 December 2018
Consolidated net worth ¹	>£400m	£300.3m	£463.6m
Interest cover ratio ²	>3.0x	4.5x	6.6x
Leverage ratio ³	<3.0x	2.1x	1.7x

¹ The consolidated net worth covenant is applicable to the private placement debt only and is based on consolidated net assets.

² Covenant interest cover is the ratio of the previous 12 months' underlying operating profit (including the trading losses and profits associated with divested businesses) to net financing costs (excluding pension scheme finance income and finance costs).

³ Covenant leverage is the ratio of closing net debt (at average exchange rates) to the underlying operating profit before depreciation, adjusted if applicable for the impact of acquisitions and disposals during the previous 12 months (EBITDA).

Detailed calculations of the interest cover ratio and leverage can be found in Note 33d to the accounts on page 211.

Financial review

Viability statement

In accordance with the requirements of the 2018 UK Corporate Governance Code ("the Code"), the directors confirm that they have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of the risk identification and management process and a description of the principal risks and uncertainties facing the Group are included in this Strategic report on pages 48 to 49. As such, the key factors affecting the Group's prospects are:

- **Market positions:** SIG retains strong market positions in its two core businesses, which the Board believes will continue to offer sustainable positions over the medium term;
- **Specialist business model:** SIG is focused on specialist distribution and 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; and
- **Capital structure:** ability of the Group to raise up to £150m in new equity and, alongside the proposed equity raise, to agree amended facilities in respect of the Group's RCF and private placement debt, including a reset of financial covenants.

The Board has determined that a three-year period to 31 December 2022 is the most appropriate time period for its viability review. This period has been selected since it gives the Board sufficient visibility into the future, due to industry characteristics, business cycle and the tenor of the Group's financing, to make a realistic viability assessment. This also aligns with the new growth plan for the business.

The assessment process and key assumptions

As part of the Group's strategic and financial planning process a medium term business plan including detailed financial forecasts for the first three years was produced covering the period to 31 December 2022. The process included a detailed review of the plan, led by the Chief Executive Officer and Chief Financial Officer in conjunction with input from divisional and functional management

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

- **Turnaround for the business:** a new strategy is in place based on growing the stronger EU businesses whilst maintaining margin and costs, and delivering a market share recapture plan in the UK. Turnaround in the UK is focussed on back to basics and re-establishing valuable customer and supplier relationships.
- **Return to profitable growth:** a new strategy is in place to return the Group to profitable growth through focussing on:
 - i) **Leading market positions:** maintaining and growing our leading share in chosen specialist markets and obtaining economies of scale and skill through a modernised supply chain and opportunities to digitise our business;
 - ii) **Modernised operating model:** driving an omni-channel customer and sales-led organisation built around strong, local relationships supported by specialists and national supply chain network; and
 - iii) **Effective partnerships:** strengthening customer relationships with superior service and expertise and developing supplier relationships through scale, coverage and knowledge of their business and markets.
- **Impact of COVID-19:** financial forecasts include the impact of COVID-19 in FY20, in particular in the UK, French and Irish businesses, with two main scenarios considered and updated for trading performances during March and April and time required to return to normal trading.
- **Dividends:** no final dividend for 2019 as previously announced.

- **Availability of financing:** €50m of private placement debt matures within the viability assessment period and the Group's £233m Revolving Credit Facility ("RCF") is due to expire in May 2021. However, alongside the proposed equity raising and having regard to the 3 year viability period, the Group is currently engaged in discussions with its RCF lenders and private placement noteholders with a view to agreeing amended facilities in respect of the RCF and private placement debt, including a reset of financial covenants and an extension of the availability of the RCF. Pending the entry into such documentation, the Group has already sought and obtained a waiver of the Consolidated Net Worth (CNW) covenant contained in the private placement notes in respect of any testing thereof in the period from 28 May 2020 until 1 August 2020 (subject to certain events not occurring in that period) including the testing of the CNW covenant as at 31 December 2019 on the basis of these financial statements.
- **Strengthening of balance sheet:** a £150m equity raise is in progress to strengthen the Group's balance sheet and enable reductions in net debt and leverage.

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

Assessment of viability

Variant	Link to principal risks and uncertainties
Sensitivity analysis has been modelled on the basis that the return to profitability may take longer than expected, with downside scenarios modelled for 2021 and 2022.	Delivering business change Market downturn
The implications of a challenging economic environment, in particular the continued uncertainty in relation to COVID-19, have been modelled by assuming a severe but plausible reduction in sales in FY20 due to temporary closure and reduced operations, in particular in the UK, France and Ireland.	Delivering business change Market downturn Access to finances and cash management
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 revenue and gross margins throughout the period.	Delivering business change Market downturn
The impact of the equity raise not being successful has been considered.	Access to finances and cash management

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

If the equity raise is not successful then this would trigger an end to the CNW waiver referred to above or, following documentation being agreed with the Group's RCF lenders and private placement noteholders (and based on the Group's current expectations), an event of default under such amended documentation. In either case the Group

will have to take mitigating actions, including further discussions with the RCF lenders and the private placement noteholders regarding any basis upon which they may be willing to continue to support the Group (including the need for covenant waivers and access to further liquidity).

The Group has controls in place to monitor these risks. In the case of these scenarios arising, various mitigating actions are available to the Group, including further cost reduction programmes, a reduction in non-essential capital expenditure, seeking support from the RCF lenders and the private placement noteholders, seeking alternative sources of finance, making further business disposals and/or a merger or acquisition transaction.

The financial statements for 2019 are prepared on a going concern basis but noting

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

After conducting their viability review, and taking into account the Group's current position and principal risks, and noting the material uncertainties disclosed in relation to going concern, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment to 31 December 2022.

Financial review

Going concern basis

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

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

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

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

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

- An equity issuance timetable including receipt of proceeds in an amount of at least £100m by no later than 29th July 2020;
- An extension of the maturity of the RCF in order to meet the Group's on-going working capital requirements;
- A new covenant package which will support an equity raise;

- Dividend restrictions until leverage reaches certain levels;
- An event of default if the Group's equity raising fails and/or related key milestones are not reached, triggering a requirement for the Group to present an alternative deleveraging plan for consideration by the RCF lenders and private placement noteholders. A deleveraging plan could result in, without limitation and if the consent of the RCF lenders and private placement noteholders is obtained, potential disposals or a merger or acquisition transaction to ensure an acceptable deleveraging of the Group's Balance Sheet; and
- Opportunity to explore additional Government funding facilities both in the UK and in Europe to further support the Group.

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

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

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

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

IKO, which currently owns approximately 15 per cent of the issued ordinary share capital of the Company, has confirmed that it is fully supportive of the Company's new strategy and equity raise and are intending to take up their pro-rata entitlements in full as part of the open offer.

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

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

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

In addition to the matters set out above, the COVID-19 virus has added additional uncertainty to the Group's liquidity position as Government restrictions in the UK and Ireland, applied from late March 2020, resulted in swathes of construction activity stopping and impacting the Group's sales. To protect the health, safety and wellbeing of staff, the majority of the Group's UK

and Irish sites were substantially closed in April although a phased return to work has since begun. In March, the Group's French operating company was briefly closed following government guidance although sites were permitted to be reopened shortly afterwards, and trading in France continues to build to pre-COVID-19 levels. However, the Directors believe the Group will be able to continue to manage through the current COVID-19 uncertainty, particularly given the experience of the Group's operating companies in Benelux, Germany and Poland which have continued to trade well despite government lockdown guidance.

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

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

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

- The Group successfully agreeing outline terms with its RCF lenders and private placement noteholders (and the RCF lenders and private placement noteholders obtaining credit approval of the same).
- The Group, together with its RCF lenders and private placement noteholders, successfully documenting such terms in substantive and binding documentation.

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

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

Cautionary statement

This Strategic report 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 Strategic report and other sections of this report contain 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 Strategic report 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 forward-looking statements should be read in particular in the context of the specific risk factors for the Group identified on pages 44 to 49 of this Strategic report. The Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. This Strategic report has not been audited or otherwise independently verified. The information contained in this Strategic report 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 Strategic report during the financial year ahead.

The Strategic report (comprising pages 03 to 61) was approved by a duly authorised committee of the Board of Directors on 29 May 2020 and signed on the Board's behalf by Steve Francis and Kath Kearney-Croft.

Steve Francis
Chief Executive Officer

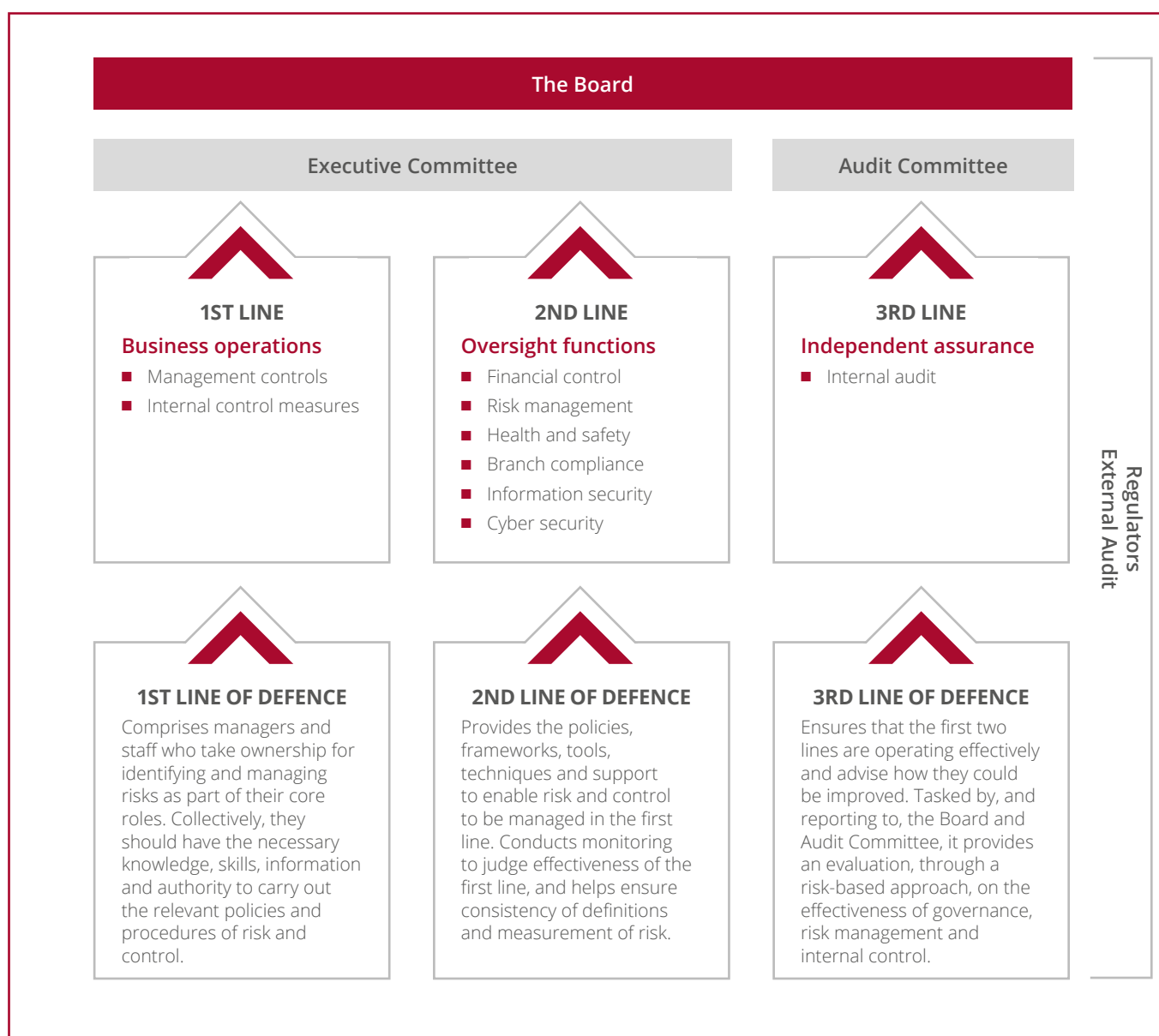
29 May 2020

Kath Kearney-Croft
Chief Financial Officer

29 May 2020

Principal risks and uncertainties

Risk management plays an integral part in SIG's planning, decision making and management processes. All employees have a responsibility to ensure they understand the risks in their area of activity, ensure appropriate controls are in place and that they are operating effectively to manage these risks. The Board maintains overall responsibility for ensuring risk management and internal control systems are robust.



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

The Group employs a three lines of defence model to provide a simple and effective way to enhance the risk and control management process and ensure roles and responsibilities are clear. The Board maintains oversight to ensure risk

management and control activities carried out by the three lines of defence are proportionate to the perceived degree of risk and its own risk appetite across the Group.

Risk management framework

The SIG risk management framework is based on the identification of risks through regular discussion at local operating company leadership and Executive Committee meetings. New and emerging risks are identified through the use of horizon scanning, regular exercises with the Executive Committee and attendance at relevant forums. These risks are monitored on an ongoing basis with thorough risk assessments completed where needed, to ensure that the Group is well positioned to manage these risks should they crystallise. Climate change impacts are also considered.

Group risks are owned by an Executive Committee member and sponsored by either the CEO or CFO. These risks are assessed at both a gross and net level using an agreed risk scoring methodology. Mitigating controls currently in place are documented and regularly assessed, and any further actions required to bring the risk within risk appetite are agreed with risk owners with clear dates for completion.

Group risks are formally reviewed by risk owners with updates reported back to the Executive Committee and Board bi-annually. This includes a review of the completeness of risk registers and the appropriateness of risk scoring. On a monthly basis, the Executive Committee examines, in detail, a 'spotlight risk' from the Group risk register. A similar risk management process occurs at the operating company level where the risk register contains risks to the achievement of the local medium-term plan. The Group Risk team periodically review these risks with local management and perform a reconciliation with the Group risk register. Details of spotlight risks are presented at each Audit Committee meeting, with a focus on Brexit, pricing, working capital and cyber in 2019.

In 2019, the Group risk process was enhanced through development of risk appetite statements. An exercise was completed with the Board to define the Group's risk appetite for seven categories, which were classified as Averse, Cautious, Open or Entrepreneurial. Each Group risk was then assigned to a risk category to define how much risk the Group was prepared to take in relation to a specific risk. Setting risk appetite has allowed the Group to determine the effort and resource it is prepared to commit to manage its risks. For example, the Group decided to review its strategy for health and safety in order to ensure it was committing resource in the right areas. Agreed appetite levels are now compared against current risk assessments for each of the principal risks with action plans agreed if a risk is operating outside of

Risk category	Risk appetite statement
Financial	SIG prefers options in its everyday business that limit the possibility of financial loss even though rewards may be restricted as a result.
Operational	SIG is prepared to accept some adverse impact on operational performance in the short term if there is a clear business case with defined benefits that will help achieve its objectives.
Health and safety	SIG has a priority to ensure that no harm comes to colleagues, customers and suppliers and that there are zero reportable incidents. SIG invests heavily to achieve this zero-tolerance culture.
Regulatory and compliance	SIG is a compliant organisation and invests to ensure that there is a robust control environment to maintain a high level of compliance.
People	SIG will be forward-thinking in its organisational structure and is prepared to make decisions that may impact a limited number of employees if there is a clear medium to long term benefit.
Strategy	SIG will actively look to take strategic decisions that maximise shareholder value. The risks will be assessed, documented and managed but an increased level of risk may be tolerated if additional reward could be obtained.
Transformation	SIG is willing to conduct transformation activity that has greater potential of risk to delivery and underlying business if there is a high potential for reward.

the Board approved appetite. The agreed risk appetite statements for each risk category are set out in the above table.

The Group monitors Key Risk Indicators (KRIs) for its principal risks which help identify when a risk profile may be changing. The KRIs are reported monthly through the management accounts and monitored as part of the Executive Committee and Board monthly meetings.

Assurance activity

First and second line functions provide comfort to management that controls are designed appropriately and are working effectively to mitigate the principal risks. Examples include the programme of branch inspections by the Health and Safety team and the review of the key controls framework in each operating company by the Group Controls team.

Internal audit provides independent assurance on both control design and effectiveness and, where relevant, the activity conducted by first and second line functions. The annual internal audit plan comprises of a core cyclical plan (which mandates a review of key financial and IT controls on an annual

basis) and a risk-based plan that is aligned to Group risks. Whilst most of the work is performed by an in-house team of qualified auditors, expertise for specialist areas such as IT and change programmes are obtained through a co-source arrangement with KPMG.

The Internal Audit team and KPMG agree a set of control improvements with executive stakeholders for each assignment and obtains regular updates on progress towards completion. All actions completed by management are verified by the Internal Audit team to ensure they mitigate the risk originally identified. The status of all actions is presented each month to the Executive Committee and on a quarterly basis to the Audit Committee.

In 2019 a high-level assurance map was developed to identify the level of assurance activity taking place across the three lines of defence in relation to the principal risks. The preliminary assessment identified assurance gaps which will be addressed as part of the risk management process in 2020.

Principal risks and uncertainties

Developments in 2019

Key developments of the management of risk and internal control in 2019 included:

- Updates to the risk management framework.
- Development and agreement of the Group's risk appetite.
- Assurance mapping exercise to identify potential gaps or inefficiencies in assurance activity.
- Development by the Group Controls team of the key controls framework to include more detailed risk and control matrices for significant risk areas.
- Roll out of an action tracking tool to internal control.
- Accelerated program of enhancement of the cyber security environment.

Improvements planned for 2020

SIG will continue to improve its risk management processes with a number of initiatives in 2020:

- Further refinement, automation and development of KRI reporting.
- Documentation of risk and controls matrices for remaining key control areas.
- Further review of legacy systems in SIG France, SIG Germany and the UK to ensure the Group adopts the right system and strengthens controls accordingly.

- Incorporation of standard tests in all risk-based audits, such as for IT general controls and fraud.
- Independent review of the Group's forecasting process to establish greater control, accountability and transparency.

Brexit risk

At 11pm on 31 January 2020 the UK entered an 11-month transition period marking the UK's exit from the European Union. During the transition, the UK remains subject to EU law and remains part of the EU customs union and single market.

The Board continues to regularly review the potential impacts of the transition period and beyond, to ensure its assessments of risk to SIG's businesses, particularly in the UK and Ireland, remain appropriate.

Whilst the majority of the Group's profits are generated by its mainland European businesses, a significant proportion are derived from the UK and ROI, both of which will face changes to the way they distribute goods across borders. The potential impacts of the changes on 1 January 2021, such as the impact of trade agreements, tariffs and quotas that result from forthcoming trade negotiations, will continue to be monitored on a regular basis. The major areas of potential exposure are considered to be:

- Declining market conditions – the least quantifiable and most uncertain of the risks that may have an impact on

the Group is the potential decline in market trading conditions. The ongoing uncertainty over trade deals is likely to perpetuate the delays to large projects in the UK and Europe during the Brexit negotiation period, impacting the demand for materials. Market data is continually monitored to ensure that contingency plans are appropriate.

- Heightened borders – with the exact nature of the UK/EU borders yet to be confirmed there is a risk that goods supplied from Europe (directly or indirectly) may ultimately have longer lead times, may be subject to tariffs or become unavailable from 1 January 2021. The majority of materials sold in the UK are purchased in-country, however some raw materials are sourced by suppliers from the EU. Discussions with suppliers have been held to identify potential risk areas and targeted increases in stockholding are under consideration. Whilst the Irish business is considerably smaller than that in the UK, there is a greater potential risk of additional border controls and considerable steps have been taken to minimise disruption to the supply of goods.

The business will maintain continued dialogue with its customers as negotiations develop and the Group will continue to update its risk assessment on a regular basis.



COVID-19

Since the outbreak of COVID-19 in Q1 2020, SIG has continued to monitor the impact of the unfolding situation and has implemented mitigating measures to protect customers, employees and suppliers to act within government guidance.

In responding to the evolving risk of COVID-19, the Board and Executive Leadership Team have identified a number of measures to manage the Group's risks across a range of areas, including liquidity, people, supply chain and regulations. The Group Executive Committee is meeting regularly to provide updates on the situation and to ensure that the actions that have been taken are managing the threat. Finance Directors are also meeting on a regular basis to exchange ideas and resolve issues particularly in relation to cashflow. Additional business continuity plans are in place in each operating company in order for local leadership teams to ensure they are responding quickly and effectively to the local situation. Some of the measures taken to date include:

- Actions to manage the Group's cash requirements such as putting on hold capex-intensive projects, entering negotiations with suppliers on invoice payments and exploring how the Group in each of its jurisdictions can take advantage of governmental support (in the form of government guaranteed loans, deferred payments or grants).
- Temporary closure of its UK and Irish businesses and selected branches of other operating companies in line with local government advice, to protect its people and to conserve cash. In the UK, the business has continued to keep open branches that service projects essential to frontline services in the fight against COVID-19 with staff briefed on appropriate safety measures. In Ireland, the business has continued to supply critical and emergency projects where required. We re-opened the majority of the sites in the UK by mid-May.
- Scenario-planning for a range of scenarios which vary both in time and severity.
- Purchase of additional laptops and VPN licences to support as many as people as possible to work from home. Additional fraud measures have also been put in place as organised crime intensifies its own activity to gain access to SIG systems.

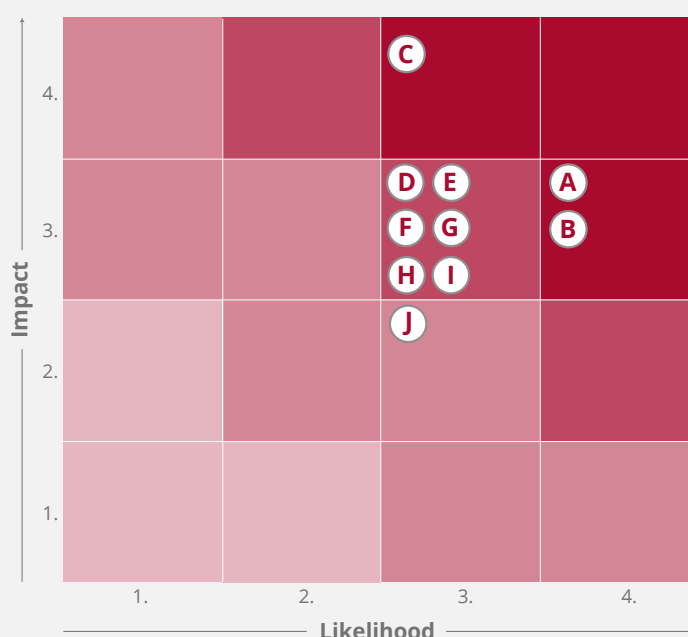
SIG has reviewed its principal risks in light of the pandemic and made adjustments where necessary. For example, the health risk for employees and customers has increased in likelihood. At this stage it is impossible to estimate the impact of the pandemic on the Group. However, SIG continues to model a range of scenarios and refine its contingency plans as the trajectory and severity of the pandemic develops.

Principal risks

The Board monitors 18 risks on the Group Risk Register, which includes the ten principal risks to the Group set out in this Report. These risks, if they materialise, could have a significant impact on the Group's ability to meet its strategic objectives. The assessed net risk scores (likelihood and impact of the risk occurring after taking account of mitigating controls) are outlined in the adjacent matrix and details of the risks, current mitigations and planned improvements are included in the table on the next page.

Principal risks

- | | |
|---|---------------------------------------|
| (A) Access to finance and liquidity | (F) Market downturn |
| (B) Retention of talent | (G) System failure |
| (C) Cyber security | (H) Supplier rebates |
| (D) Delivering the customer experience | (I) Health and safety |
| (E) Business growth | (J) Delivering business change |



Principal risks and uncertainties

Risk title	Description	Mitigations	Actions for 2020
A Access to finance and liquidity 	Failure to secure ongoing access to finance and/ or maximise working capital and cash to support ongoing business and growth strategies.	■ Cash forecasting undertaken to manage short-term liquidity. ■ Budgets set for all areas of the business with accountability for performance established. ■ Key metrics reviewed regularly in management accounts and at management meetings. ■ Borrowing requirements regularly reforecast. ■ Relationship maintained with banks and PP holders through regular communications and presentations. ■ Monitoring conducted over compliance with covenants.	■ Further development of business forecasting capabilities. ■ Enhanced monitoring of cash flow and liquidity forecasting. ■ Regular MD and FD meetings to refresh and implement working capital strategies. ■ Additional monitoring of working capital requirements under COVID-19. ■ Regular discussions with debt providers around loans and banking facilities as necessary.
B Retention of talent 	Failure to attract and retain people with the right skills, drive and capability to re-shape and grow the business.	■ Improved induction process. ■ Engagement survey completed with associated action plan developed. ■ Improved remuneration packages and retention plans for critical roles.	■ Roll out of an overarching improvement plan for recruitment, reward, development and communications. ■ Launch of commitment culture.
C Cyber security 	Internal or external cyber attack could result in system disruption or loss of sensitive data.	■ Training, communications and schedule to ensure employee awareness of risks. ■ Disaster recovery plans in place and secure backups conducted to ensure continuity of service. ■ End point encryption installation.	■ Enhance cyber attack monitoring. ■ Introduce cyber KPIs in to monthly reporting. ■ Acceleration of specific initiatives to address increased cyber risk resulting from COVID-19.
D Delivering the customer experience 	Failure to deliver consistent, high-quality service to customers and / or strengthen relationships with customers.	■ Customer-centric training and development programmes. ■ Customer segmentation analysis. ■ Investment in digitising order-to-delivery processes. ■ Development of loyalty programmes. ■ Customer metrics are reported and monitored regularly in management accounts and at management meetings.	■ Further development of induction and training programme for sales force. ■ Further development of customer satisfaction and net promoter score surveys. ■ Further digitisation of e-commerce platforms and order-to-delivery processes. ■ Enhancements to complaints handling procedures.
E Business growth 	SIG is unable to grow sales and/ or land new market opportunities to grow market share in line with strategy.	■ Growth targets included in budgets for all business areas. ■ Business performance is reported and monitored regularly in management accounts and at management meetings. ■ Bespoke technical offerings and diverse specialist product ranges give access to specialist markets. ■ Sales force innovation and diversification activities. ■ Regular MD and FD meetings to refresh and implement growth strategies.	■ Enhancement of business forecasting capabilities, with increased focus on volumes. ■ Define acquisition target profile and conduct market screening. ■ Development of major account management framework. ■ Ongoing monitoring of COVID-19 pandemic to ensure market forces are accommodated in strategies.

Risk title	Description	Mitigations	Actions for 2020
F Market downturn 	Volatility in the market impacts the Group's ability to accurately forecast and to meet budget and City expectations.	- The Group's geographical diversity across Europe reduces the impact of changes in market conditions in any one country. - Cost reduction plans across the Group to reduce cost base. - Industry based KPIs and KRIs monitored monthly at a Group and operating company level. - Regular and ongoing business performance reviews are conducted.	- Continue to monitor Brexit risk and the impact of COVID-19, scenario plan and develop mitigation plans accordingly. - Further develop KPI and KRI tracking and market modelling functionality to better assess the impact of market changes. - Roll out of a Group wide forecast modelling tool. - Enhance financial sales forecast processes with fuller Group visibility. - Detailed review of operating company and Group forecast process.
G Systems failure 	Systems become heavily customised and outdated and are unable to support critical business activity and decision making.	- New IT strategy approved. - Support from specialised third party experts.	- Implement new HR system in the UK. - Complete systems Cloud migration plan. - Review ERP in SIG France and SIG Germany. - Refresh of business continuity and disaster recovery plans.
H Supplier rebates 	The Group may not be accessing and/or maximising all available rebate income.	- 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.	Full implementation of rebate management software in UK with additional tools in SIG France and SIG Germany.
I Health and safety 	Danger of incident or accident, resulting in injury or loss of life to employees, customers or the general public.	- Health and safety policies and procedures in place and available to all employees. - Well established training programme during induction and on an ongoing basis. - Monitoring and reporting on incidents and investigations into root cause carried out to continually improve processes. - Health and safety inspections completed by independent teams.	Develop and roll out of comprehensive health and safety strategy, which accommodates additional COVID-19 measures.
J Delivering business change 	Failure to deliver the change and growth agenda in an effective and efficient manner, resulting in management stretch, compromised quality and inability to meet growth targets.	- Project Delivery Framework in place for IT enabled projects. - Governance process in place for delivery of major projects. - Transformation Directors appointed in major operating companies.	- Roll out improved agile SIG-wide Project Delivery Framework, with increased accountability and further monitoring of stage gates. - Introduce improved forum for Group-wide project prioritisation, based on benefit and risk. - Continue to prioritise business change projects based on availability of cash throughout the COVID-19 pandemic.

Relevance to strategy

- A leading market position
- High performing people
- Modernised operating model
- Responsible business
- Effective partnerships

Understanding movements in business risks

- Increase
- Decrease
- No change
- New

Sustainability framework

SIG is committed to creating long term sustainable value for our stakeholders. To achieve this goal, we have aligned our operations with the Sustainable Development Goals, providing us with a framework to map against.

Our chosen sustainability framework

The Sustainable Development Goals (SDGs), created by the United Nations (UN), are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to inequality, climate change and responsible consumption and production.

This is the first year SIG have reported against the SDGs. We welcome the framework as it is committed to solving global issues, and these universal principles support our commitment to responsible business operations.

Peace, justice and strong institutions

SIG is committed to ethical trading, human rights, anti-bribery and corruption, as well as tackling modern slavery.

SIG has a number of fundamental principles and values that it believes are the foundation of sound and fair business practice.



Climate action

We set our environmental objectives from our Low Carbon Sustainability policy, which aims to reduce our consumption of fuel, energy, water and waste, thus reducing our environmental impact.



Responsible consumption and production

Where possible in the organisation, we focus on responsible consumption. We aim for high levels of recycling across our business, and our Reduce, Reuse, and Recycle policy supports our approach.



Industry, innovation and infrastructure

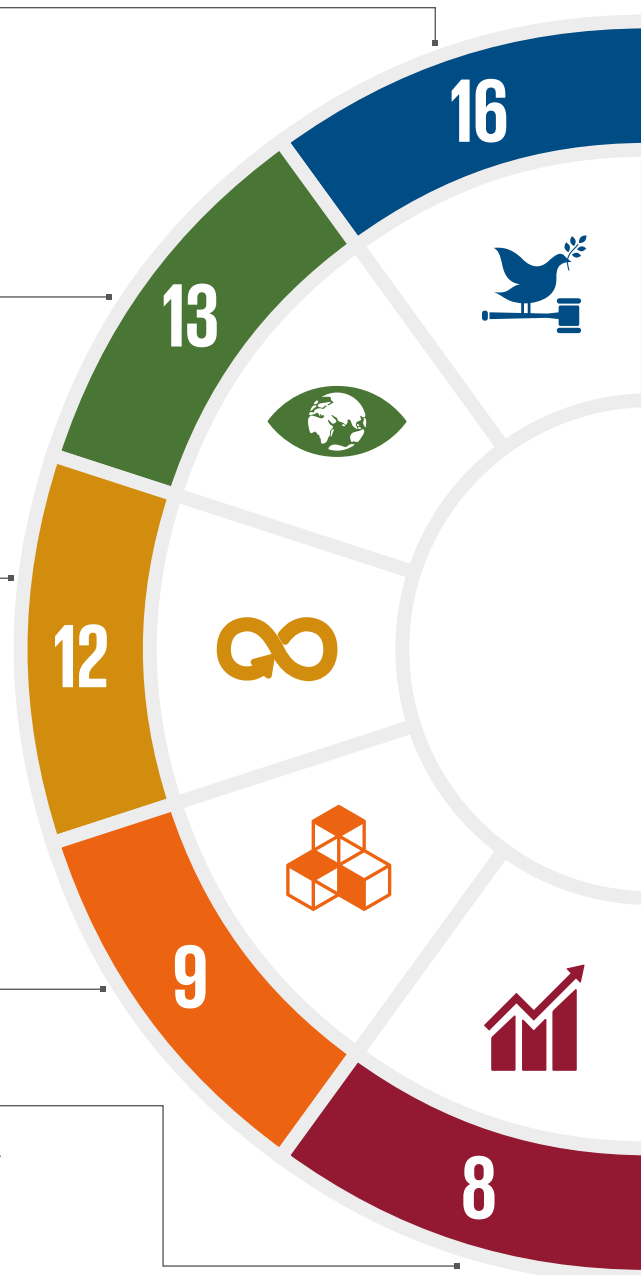
We support industry, innovation and infrastructure through our position as leading supplier of specialist building materials. We support and enable organisations to complete infrastructure projects that have a positive impact upon the society it is created within.



Decent work and economic growth

Through a focus on the long term sustainable success of the organisation, SIG provide decent work and economic growth for our employees and wider society.

Our focus on training and support for our employees enables the long-term sustainability of SIG.

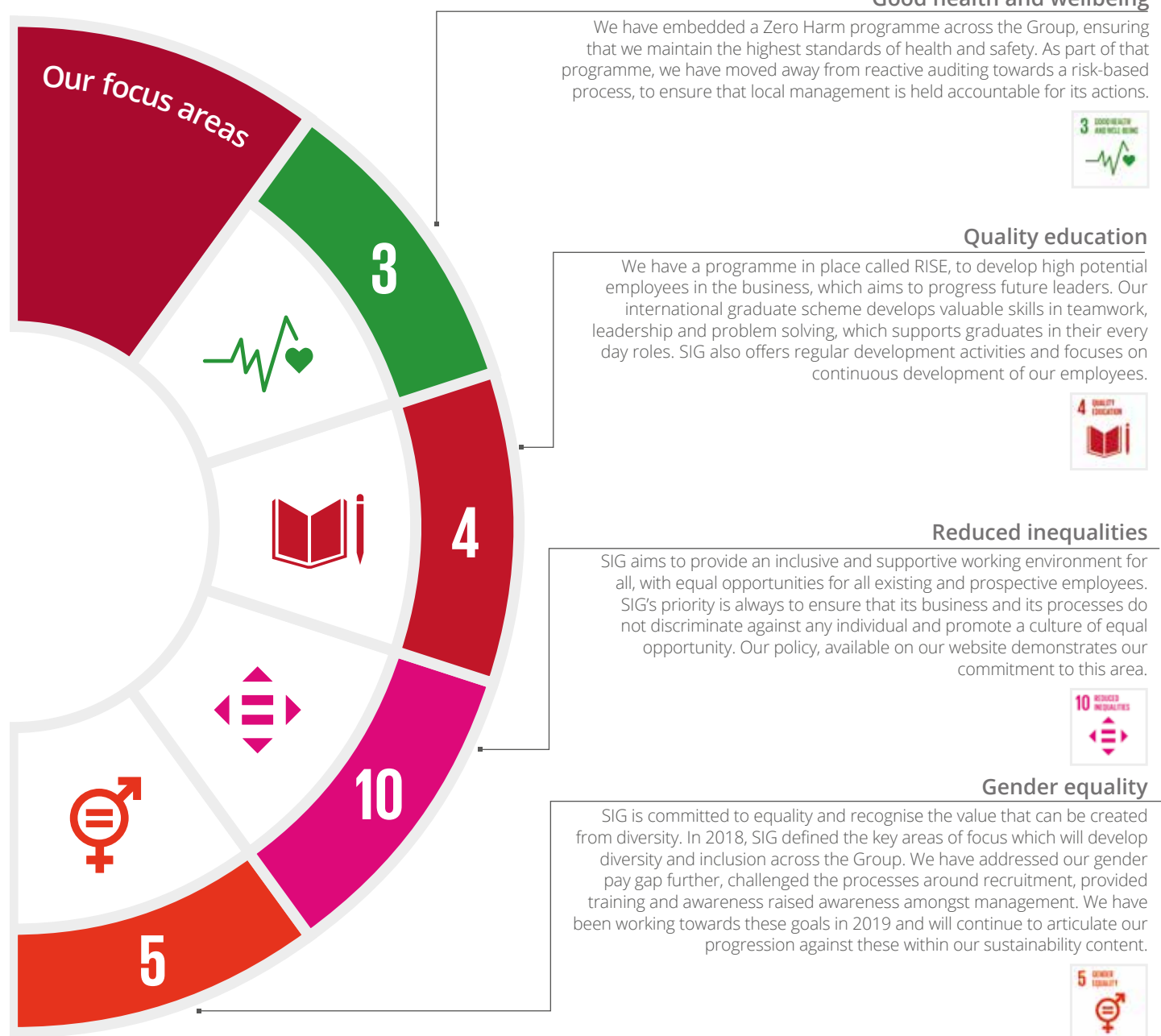


During the year, we reviewed the goals and undertook a mapping exercise to establish our focus areas. We have linked the goals to our sustainability principles and operations.

The SDGs and the application of these by SIG will create a wider business benefit, and by utilising the SDGs we will drive a sustainable agenda.

Our focus areas

3. Good health and well-being
4. Quality education
5. Gender equality
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
12. Responsible consumption and production
13. Climate action
16. Peace, justice and strong institutions



Non-financial information statement

We are required by law to provide additional information and disclosures on non-financial matters, and we recognise the impact of this information and its importance for stakeholders and regulators.

SIG continues to progressively integrate corporate responsibility across the Group, and we are committed to socially responsible business practices for our shareholders, employees, customers and suppliers.

The table below summarises the requirements and where relevant information can be found within the Annual Report and Accounts.

Further information on our sustainability policies and corporate responsibility can be found at www.sigplc.com.

Reporting requirement	Relevant policies and frameworks	Relevant risks	Where to read more
Environmental matters	Low Carbon Sustainability Policy Waste management Health Safety and Environment Policy ISO14001 accreditation	Health and safety	Sustainability: environment, health and safety pages 58 to 61
People and social	Diversity and equal opportunities SIG Code of Conduct Diversity and Inclusion Policy Gender diversity Employee engagement	Retention of talent	Sustainability: principles pages 53 to 54 Sustainability: people pages 55 to 56
Human rights and anti-bribery	Ethical Trading and Human Rights Policy Anti-Bribery and Corruption Policy	Legislative breach (non principal risk)	Sustainability: principles pages 53 to 54

Our business model provides insight into our key activities and how we add value to our stakeholders.

 Read more on page 10

Principal risks and uncertainties are managed through the risk management framework.

 Read more on page 44

Our KPIs enable us to measure the success of our strategic objectives and performance.

 Read more on page 18

 Read more about our specific people and environment KPIs on pages 55 to 61

The section 172(1) Statement is set out on pages 78 to 80 of the Corporate Governance Report (providing information on how the directors have performed their duty to promote the success of the Company) and is incorporated by reference into the Strategic Report



Sustainability:

Principles

Sustainability

SIG recognises its corporate responsibilities towards its shareholders, employees, customers and suppliers and is committed to socially responsible business practice. We are committed to creating long term sustainable value for our stakeholders, and to achieve this goal we have utilised the Sustainable Development Goal framework.

The Group considers policies that include social and environmental issues in its decision making processes and is investing in the development and wellbeing of its people and communities. SIG believes this approach supports the Group in achieving its business goals as well as growing shareholder value.

As a constituent of the FTSE4Good Index of socially responsible companies, SIG is pleased to inform stakeholders of the measures it is taking to continually develop its approach to corporate responsibility, including how it monitors and improves performance reporting.

SIG Code of Conduct

SIG has a Code of Conduct which sets out our ethical standards and expected behaviours from all employees around the Group. The Code provides guidance on how to manage certain situations and where to go for advice and outlines our obligations across a number of business policies, including anti-bribery, corruption, ethical trading and human rights. The Code is supported by our Group and local policies, procedures and guidelines that are designed to protect the business and our employees from legal, financial and reputational risk.

A confidential and independent hotline service is available to all employees so that they can raise any concerns about how the Group conducts its business. SIG believes this is an important resource, which supports a culture of openness throughout the Group. The service is provided by an independent third party with a full investigation being carried out on all matters raised and a report prepared for feedback to the concerned party.

The Code of Conduct can be viewed on the Company's website (www.sigplc.com).

Diversity and equal opportunities

The Group has policies that promote equality and diversity in the workforce as well as prohibiting discrimination in any form. We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. If an employee becomes disabled during our employment, we make every effort to ensure that they can continue in employment with us, by making reasonable adjustments in the workplace and by providing retraining for alternative work where necessary.

Ethical trading and human rights policy

The Ethical Trading and Human Rights Policy covers the main issues that may be encountered in relation to product sourcing and sets out the standards of professionalism and integrity which should be maintained by employees in all Group operations worldwide.



High performing teams

Launching a personal development programme

SIG Poland launched a sales development programme in the year, based on the Kurt Lewin change management model. This has been led through many development forms such as workshops, gamifications, consultations, coaching and mentoring, and has been available to managers and sales employees.

The development programme consisted of three parts, each with separate goals. The first goal was to prepare and self-reflect. The second part of the programme focused on increase of awareness, self-reflection and gathering new knowledge, which included activities such as gamification, sales technique and negotiation training. The third part was focused on increasing team management skills delivered by development and coaching sessions with managers.

As the number of programme participants and their feedback shows, the programme has been a great success and will be continued in subsequent years.



Sustainability:

Principles

The policy sets out standards concerning:

- Safe and fair working conditions for employees;
- Responsible management of social and environmental issues within the Group; and
- Standards in the international supply chain.

SIG promotes human rights through its employment policies and practices, through its supply chain and through the responsible use of its products and services.

Anti-bribery and corruption policy

SIG has a number of fundamental principles that it believes are the foundation of sound and fair business practice, one of which is a zero-tolerance position on bribery and corruption. The Group's Anti-bribery and Corruption Policy clearly sets out the ethical standards required to ensure compliance with legal obligations within the countries in which SIG and its subsidiary companies operate.

Anti-bribery and corruption training is provided to all employees across the Group. This training is provided via our online training resource and includes modules on competition law.

SIG values its reputation for ethical behaviour, financial probity and reliability. It recognises that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its image and reputation.

Its aim, therefore, is to limit its exposure to bribery and corruption by:

- Setting out a clear policy on anti-bribery and corruption.
- Training all employees so that they can recognise and avoid the use of bribery by themselves and others.
- Encouraging employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately.
- Rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resulting prosecution.
- Taking firm and vigorous action against any individual(s) involved in bribery or corruption.

A copy of the Anti-bribery and Corruption Policy is available to view on the Company's website (www.sigplc.com).

Modern Slavery Act 2015

The Group has published its Group Modern Slavery statement in respect of the year ended 31 December 2018 on our website (www.sigplc.com), in line with Home Office guidance. The Group continues to work with its supply chain to ensure there is a zero tolerance policy to slavery. The 2019 statement will be published on our website in compliance with the required deadline.

Payment practices

SIG publishes information about payment practices and reporting as required by the Reporting on Payment Practices and Performance Regulations 2017 in the UK. This is published on a government website <https://check-payment-practices.service.gov.uk>. This report is published every 6 months as per the requirements and the last one was submitted at the end of January for the six months to 31 December 2019.

Links to SDGs



Responsible business

Introducing the Lean philosophy

During the year we introduced the Lean philosophy to all employees at SIG Benelux, with the aim of doing work right the first time to generate as much value as possible. To achieve this, a number of processes were mapped out and employees were trained in how to identify the waste in these processes and which could be removed. This training is the beginning of a continuous improvement cycle within SIG Benelux.

A number of our employees in SIG Benelux have also received training in the Green Belt certification in Kaizen and hold regular improvement boards to optimise processes and solve problems in a sustainable way.



Sustainability:

People

High performing teams

At SIG we strongly believe that our people are our competitive advantage and are key to the delivery of our strategy. Our aim is to develop talent across the business and nurture strong, sustainable and capable teams. We also believe that the underpinning advantage is the development of a strong culture that encourages and empowers employees to maximise their contribution and reach their potential.

Throughout 2019, we have continued to focus on ensuring that we have the right structure, with the right people in the right roles to support the operating model. On these foundations, our focus moves to the further strengthening of our capability through the re-engagement of our people following what has been a significant period of change. In addition to the refining of our people programmes, extensive work was undertaken to define direction of our culture going forward. Further information can be found on our culture programme on page 57.

Diversity and inclusion

We recognise and celebrate the value that a diverse workforce offers. We are committed to developing a working environment that is fair and inclusive, enabling all employees to make their individual, valuable contributions for the benefit of the business. We are also committed to ensuring that we extend this same principle to all our customers, suppliers, business partners and the communities in which we operate.

During the year, we initiated a Diversity and Inclusion programme, in order to assess and develop diversity across the Group. In the first phase, conducted throughout 2019, we focused on mapping our legal requirements globally and defining our actions going forward to ensure compliance.

Our action plan centres around three main objectives:

- To develop diverse and inclusive approaches to attract and secure talent from diverse backgrounds.
- To develop our ways of working to ensure SIG is an inclusive place to work.
- To develop our opportunities to all to enable long term development, progression and succession planning.

As part of this programme of activity, we also created a monthly dashboard of statistics which allows us to track and assess key indicators across a range of demographics in support of developing our approach to diversity across the Group.

In addition, the Group's standards and expectations were further defined and outlined in an updated Diversity and Inclusion Policy. The policy was rolled out in December 2019 across the Group and

was supported by supplementary online training, which was launched to the Board of Directors, Executive Team, senior leaders and subsequently the entire workforce.

Our Diversity and Inclusion Policy can be found at www.sigplc.com.

Gender diversity and pay

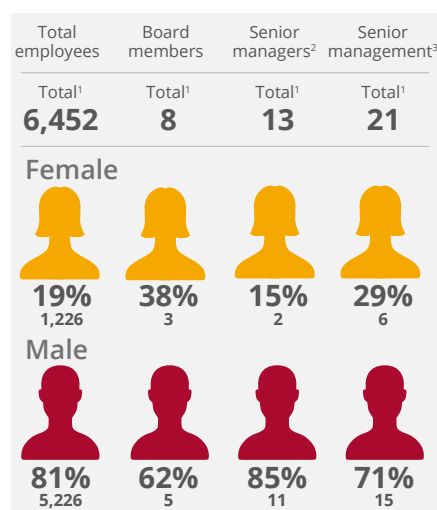
SIG are committed to equality and recognise the value that can be created from diversity. As it operates in the construction industry, SIG has typically attracted a higher population of male employees.

In January 2019, our Leadership team agreed to our Gender Pay action plan. This detailed plan comprises of a number of interventions which all aim to have a positive impact on our Gender Pay Gap and more widely on our diversity across the Group.

Our plan includes:

- Taking steps to ensure that our recruitment processes are robust and inclusive.
- Reviewing of our pay rates and employee benefits to ensure that we appeal to and retain a diverse workforce.
- A range of awareness activities which aim to educate our managers and wider workforce on diversity and inclusion.

We acknowledge that there will never be a nil Gender Pay Gap and recognise that although important, monitoring pay gaps is one of many measures of diversity. SIG's average gender pay gap in 2019 of (6.3)% is substantially lower than the national average of 16.2%, and the average for the industry at 11.9%. This also reflects a significant reduction in the gender pay gap from 2018 5.4%. SIG will continue to take meaningful action towards diversity in 2020 as we build on the positive work undertaken in 2019.



1. Headcount as at 31 December 2019, excluding Air Handling employees
2. Data is as per s.414C(8) of the Companies Act and includes subsidiary Directors
3. Data is as per provision 23 of the UK Corporate Governance Code

Talent development

As part of the Talent Review process, the senior leadership population is assessed in order for us to identify the talent capability and development areas for future potential. We continued to develop the integration with our succession planning process.

In addition, our programme dedicated to developing high potential management level employees in the business, RISE, aims to identify and progress our future senior leaders and support the delivery of our strategic goals. In 2019, due to the high volume of transformational activity occurring across the organisation and the significant change in leadership, we took the opportunity to review the programme to ensure it is refreshed and refocused for a 2020 relaunch. Moving forwards, the programme will consist of five extensive development modules over the course of a 12 month programme, which will include a nine-month language course and a stretch project linked to our business strategy; the programme culminating in a presentation to the Group Executive Committee. Throughout the programme, the participating employees will be given access to one-to-one Executive coaching and an internal mentor, to continue and support their learning within the workplace.

Our International Graduate Programme continues to offer its members the chance to develop valuable skills in learning, teamwork, leadership and problem solving that will help support their work in the business, and provides the business with a consistent pipeline of new talent across a range of functions.

Again, 2019 provided the opportunity for us to review the scheme, and we have restructured the programme in preparation for a 2020 launch. The two year programme offers graduates the opportunity to experience working in a number of different placements across SIG, from Finance, Category Management, Marketing, Corporate Development, Project Management, Operations, Supply Chain to HR. To enable participants to gain as much exposure and experience in each area, they will now complete longer placements of eight month periods, providing more dedicated time to the graduate's learning and to support the business more effectively throughout the transformation of the organisation.

Alongside their placements, the graduates will continue to take part in regular development activities and modules outside of the workplace, supported by our external development partner.

In addition, as we bring senior leaders into the business, it is important that we equip them with the right knowledge and tools

Sustainability:

People



in order for them to perform in their roles quickly and effectively. As we continue to develop the business and improve our ways of working, in conjunction with the Board of Directors, the focus on compliance was reiterated and renewed earlier in the year through the through an extensive review and relaunch of Group-wide compliance policies and the launch of compliance e-learning platform and training to drive awareness, understanding and application of our obligations.

Core compliance modules were launched to all employees throughout the Group, including Code of Conduct awareness, GDPR, Gifts and Hospitality, Anti-Bribery and Corruption, Alcohol and Substance Misuse and a general level of health and safety training. These core modules are then incorporated into every new starter induction programme when joining SIG.

Throughout 2020, as our Group policies continue to be updated, training modules will be created to support the cascade of the policies out across the organisation.

Employee engagement

We continue to develop the ways in which we engage with our employees, and offer two way communication opportunities. Our annual employee engagement survey, SIG Listens, opened in March 2019 and was completed by 70% of employees (2018: 66%) and achieved an engagement index of 65%. The survey was launched online in our key languages, and from the results, we were able to identify four areas of focus for action planning and implementation. Following the completion of the survey, the results and insights were presented to the Board and Executive Team and shared across the Senior Leadership Team, for action planning to take place at local levels. Throughout the remainder of the year, leaders and dedicated teams held focus groups to define the actions to address each area and focused on delivering the identified improvements.

Where possible, the results are compared to the worldwide private sector benchmark to ensure that we continually challenge ourselves to improve. Throughout the year we continued with our senior leadership team engagement, with monthly communication and materials to support in cascading key business messaging throughout the business.

In addition, the results highlighted that our people were eager to understand the vision and future focus of the business, and develop further understanding of how they play a part in the achievement of our goals, which directly influenced the development of a new strategy and culture framework.

Community

In the UK, our Matched Funding initiative allows employees to request charitable donations to match their personal or team fundraising activities in local communities. In 2019, the Group donated £11,000 through this scheme which has benefited a range of local children's, healthcare and community charities. We continue to support our local communities around the Group.

Links to SDGs



Sustainability:

Our culture

Developing our cultural framework

As we look towards the growth of the business, in addition to defining the longer term vision and strategy, the way in which we work and the culture that we promote is equally as important. Defining the next phase of development for our culture is a key step in achieving our goals.

Throughout the year, extensive work took place to define a new strategic vision, purpose statement and supporting culture framework. Moving forward, our newly defined behaviours will drive the consistent and shared actions to drive performance and conduct.

Our actionable behaviours

Working with an external specialist coaching team, the Executive Team undertook a number of two-day sessions to define the behavioural requirements that would enable success.

The Board was provided with regular updates on the development of the cultural framework and behaviours. Input and feedback was provided ahead of the launch of the new culture programme in January 2020.

Implementation in 2020

The launch of the new culture programme began in January 2020 and implementation will take place throughout 2020. The programme will be supported by a full communication and engagement plan across the organisation, and preparation has begun to integrate the framework into our key people processes such as the performance management programme, recruitment, recognition and induction programmes.

In addition, measurement of the adoption will take place throughout the year through a series of pulse surveys and through our quarterly business reviews.

Following the launch of our new culture programme to the senior leadership population in January, a pulse survey was conducted across the Group to gain initial feedback from employees on existing culture traits and thoughts on the newly launched framework.

The results have provided deeper insight into the cultures that have organically developed in each operating company and established a benchmark on which to plan tailored actions and measurement to demonstrate tangible progress.

Our behaviours

Be bold in what you do

We encourage our people to act with ambition and determination, offer and invite challenge to drive action and success, and take decisions and have the courage to do the right thing.

Be flexible and agile

We encourage our people to look towards the future pro-actively and innovatively, leading change through diverse thinking and seeking to understand our markets, customers and competitors, and respond accordingly.

Make a positive difference

We encourage our people to build honest and considerate relationships to set expectations and direction and create commitment, and develop themselves and others to deliver excellence.



Sustainability:

Environment, health and safety

Climate change and sustainability

SIG has held accreditation to the ISO14001 environmental management standard for its UK operations since 2006. This has provided us with a framework for our environmental management system and helped us develop our climate change and sustainability strategy. The Board has also considered the impact of climate change on the Group's business model. Some of our risks and opportunities are detailed later and include:

External

- Political and legal: potential liability or effects of forthcoming new and revised legislation. Regulation and guidance is assessed by the senior management to develop policy.
- Technological changes: we strive to be the market leader in new technologies and advancements in products and materials. This includes green and environmentally sound technology to support suppliers, customers and develop SIG's place in the market.
- Physical risk: the potential impact of more extreme weather on our facilities due to changes in weather patterns is reviewed through our aspects and impact assessments for new and existing premises.

Internal

- Greenhouse gas emissions: we target efficiencies in vehicle fuel consumption, which contributes to 74.7% of our carbon footprint, through vehicle selection, driver training and efficient driving assessment.
- Emissions: our emissions to atmosphere from our manufacturing businesses are minimised by use of water-based solvents where practicable and filtered ventilation systems.

Carbon management

The aim of our Low Carbon Sustainability policy is to minimise the impact of our operating on the environment. We achieve this by minimising our carbon emissions through reductions in energy and fuel consumption and by minimising waste and water consumption.

We measure and report on our carbon footprint in accordance with the Streamlined Energy and Carbon Reporting regulations (SECR) and the accounting process for 2019 will be externally assessed to the ISO 14064-3 standard.

As part of our compliance with the UK Government's statutory Energy Saving Opportunities Scheme (ESOS), we have benefited from energy efficiency audits conducted at seven of our major locations and our transport activities. The energy saving opportunities identified have been considered for the 2020 objectives.

Our carbon management KPIs and performance are externally published through the annual voluntary submission to the Carbon Disclosure Project (CDP).

Through our ongoing consolidation programme, investment in new buildings and refurbishment of our existing buildings we have introduced energy efficient lighting and heating facilities. As a result of this strategy and the progressive upgrading of our road vehicle fleet, our greenhouse gas emissions continue to reduce.

Transport

Emissions from road vehicle fuel consumption makes up 74.7% of the Group's total carbon footprint and is our primary KPI for reduction. Through the introduction of energy efficient vehicles, the continual focus on driver assessment and training and efficient vehicle routing, we continue to achieve annual reductions in emissions.

We have continued to focus on projects designed to maximise the efficient use of delivery vehicles, consolidate our vehicle fleet and through better use of communication technology reduce the miles travelled by colleagues.

This year we have reduced our absolute consumption of road vehicle fuel by 11.4%.

Energy

Carbon emissions from electricity consumption accounted for 11.4% of our Scope 1 and 2 emissions in 2019 (2018: 11.8%). This is our second highest priority for carbon management with a focus on energy efficient choices for new and refurbished facilities, including installing movement and daylight sensor LED lighting systems, efficient heating and cooling systems and efficient hand driers.

We audit our energy consumption and work in close partnership with our external partners to reduce our environmental impact. In 2019 this process was enhanced by the in-depth audits conducted through our ESOS compliance. The opportunities for improvement have been communicated across the Group.

In 2019 our emissions from electricity consumption reduced by 13.0%.



Greenhouse gas (GHG) emissions

We are committed to providing full and accurate data for our carbon footprint, with minimal reliance on estimates. In 2019, 92.8% of information is based on actual data (2018: 93.5%). Estimates are prepared based on agreed and verified accounting processes. We continue to improve our data collection and accounting processes, and the GHG information for the period October 2018 to September 2019 has been verified by Carbon Intelligence to international standard ISO14064-3 to a limited level of assurance.

Our carbon footprint includes emissions for which we are directly responsible such as vehicle and heating fuel (Scope 1) and emissions by third parties from the generation of electricity (Scope 2). We have also disclosed Scope 3 emissions over which the business has limited control, including third party air and rail transportation.

In order to provide the appropriate time and resource to enable more accurate carbon reporting and auditing of the process, our emission accounting period is non-coterminous with the Group's financial year. The current data year is to 30 September 2019.

This year we are pleased to report a decrease of 9.9% in Scope 1 and 2 emissions in the last reporting year. Our overall footprint for Scope 1, 2 and 3 emissions showed a decrease of 9.8% in the last reporting year. Our carbon footprint includes all emission sources as required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 regulations. Emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019 along with Factors from The International Energy Agency (IEA) list for 2019 have been used to calculate our GHG disclosures.

CO₂ emissions – Scope 1 – Direct

	Metric tonnes 2019	Metric tonnes 2018	Metric tonnes 2017
Road vehicle fuel emissions ¹	49,383	55,745	59,997
Plant vehicle fuel emissions ²	4,953	4,910	5,202
Natural gas ³	2,836	2,848	3,047
Coal/coke for heating ⁴	37	56	46
Heating fuels (Kerosene & LPG) ⁵	868	632	689
Total	58,077	64,191	68,981

Data source and collection methods

¹ Fuel cards and direct purchase records in litres converted according to BEIS guidelines.

² Direct purchase records in litres converted according to BEIS guidelines.

³ Consumption in kWh converted according to BEIS guidelines.

⁴ Purchases in tonnes converted according to BEIS guidelines.

⁵ Purchases in litres converted according to BEIS guidelines.

CO₂ emissions – Scope 2 – Indirect

	Metric tonnes 2019	Metric tonnes 2018	Metric tonnes 2017
Electricity ¹	7,455	8,567	10,129

Data source and collection methods

¹ Consumption in kWh converted according to BEIS guidelines.

CO₂ emissions – Scope 3 – Other indirect

	Metric tonnes 2019	Metric tonnes 2018	Metric tonnes 2017
Third-party provided transport (air and rail) ¹	606	567	570

Data source and collection methods

¹ Distance travelled converted according to BEIS guidelines.

Emissions per £m of revenue

	Metric tonnes 2019	Metric tonnes 2018	Metric tonnes 2017
Scope 1	23.8	23.4	24.1
Scope 2	3.0	3.1	3.5
Scopes 1 & 2 as required by GHG Protocol	26.8	26.5	27.6
Scope 3	0.2	0.2	0.2
Scopes 1, 2 & 3	27.0	26.7	27.8

The data relating to CO₂ emissions has been collected, where practicable, from all the Group's material operations and is based on a combination of actual and estimated results where actual data is not available. The 2019 data includes the businesses classified as non-core in the Financial Statements for the year ended 31 December 2019.

Environment

Our environmental management system for the UK operations has been accredited to ISO 14001 standard since 2006. Accreditation is externally verified by Intertek. We operate an integrated health safety and environmental (HSE) Policy, and the Board member responsible for HSE is the CEO. A copy of our HSE Policy is required to be displayed in the local language at each operating branch.

We commit to maintaining appropriate environmental management standards across our operations to meet both our statutory and moral obligations and best practice. Our environmental legal compliance record remains excellent, with no prosecutions or actions from the authorities in 2019.

Our Aspects and Impacts Registers and Corporate Environmental Risk Assessments set out the potential impact that our operations could have on the local and global environment. We regularly risk assess our business against qualitative and quantitative, generic, model and task-specific criteria. Significant risks and progress made to address them are reviewed at Board level.

We maintain integrity of our control measures through our operational audits and inspection programmes. Significant findings are communicated to management and employees.

We maintain continuous improvement through a programme of objectives set at Group, business and local level with regular reviews against key performance indicators (KPIs), including those set out in this report and on our website.

Water consumption

More than 95% of the Group's water consumption is for welfare purposes. Water efficiency is a key requirement for new and refurbished properties and facilities, including dual flush and cistern management systems for toilet facilities.

We continue to identify significant opportunities for water consumption efficiencies through the branch audit and bill validation process.

Minimal water is used in the manufacturing process at our two sites in France and the UK. Both installations maintain water filtering, recycling and reuse practices to minimise any wastage of potable water.

Sustainability:

Environment, health and safety

Waste management

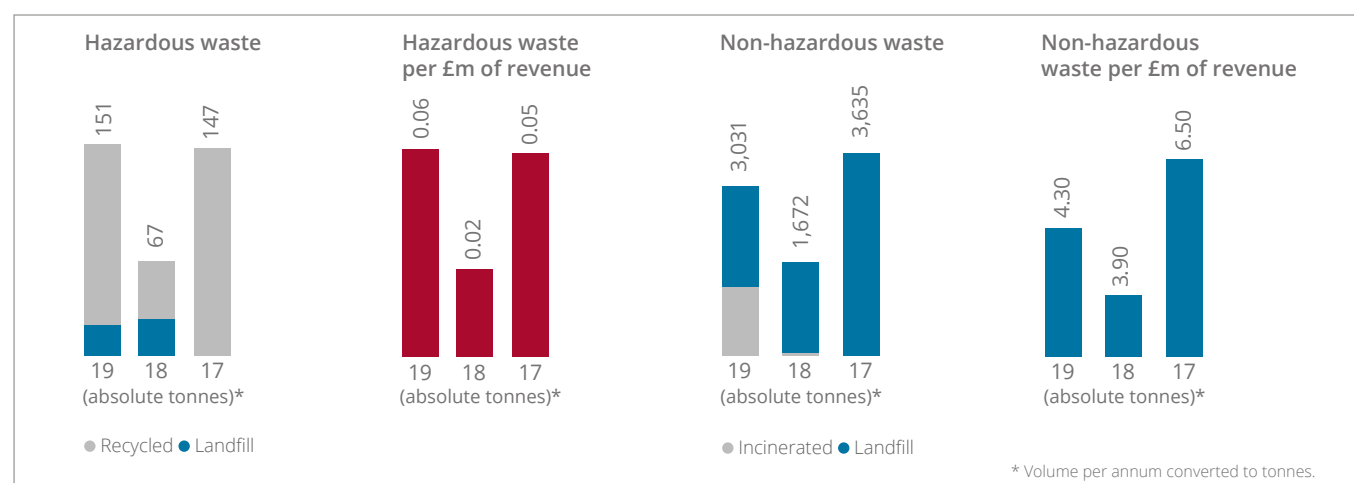
Our aim is to reduce the amount of waste we generate through our operations and reduce the amount we send to landfill. We achieve this by reusing or returning used packaging to our suppliers and encouraging waste segregation and recycling at each of our locations.

Our waste contracts are managed and monitored centrally in each business. Waste bailers and compactors are provided where practicable, to maximise waste segregation and recycling opportunities and minimise storage and welfare hazards.

Office waste is minimised through the adoption of paperless delivery processes, online activity reports, and consolidating printing and photocopying facilities.

As it is difficult to measure and quantify the amount of waste disposed of in a year, the KPI for waste management remains the percentage of waste diverted from landfill.

We are a member of the Valpak compliance scheme and we comply with our commitments under the Producer Responsibility Obligations (Packaging Waste) Regulations.



Responsible business

Health & Safety award

The Royal Society for the Prevention of Accidents (RoSPA) presented us with a fifth consecutive Gold Award. The Gold Standard was achieved for the progress of our Zero Harm health and safety programme.

The RoSPA Awards are highly prestigious, internationally recognised awards and achieving the Gold Standard for a fifth year running is a great endorsement of our programme and our commitment to continually improving health and safety standards.



Other waste diverted from landfill

	Absolute tonnes* 2019	Absolute tonnes* 2018	Absolute tonnes* 2017
WEEE (Waste, Electrical and Electronic Equipment)	0.8	1.0	1.8
Glass	5.1	4.2	0.2
Wood	1,649.2	1,735.0	1,893.0
Metal	1,246.3	1,459.1	870.0
Plasterboard	128.5	293.7	461.0
Paper/cardboard	908.4	723.5	970.0
Plastic	252.3	208.4	295.0
Other	6,358.2	6,167.2	10,643.0
Total	10,548.8	10,592.1	15,134.0

The above data is based on a combination of actual and estimated data.

*Volume per annum converted to tonnes.

Water consumption

	Litres ('000) 2019	Litres ('000) 2018	Litres ('000) 2017
Third-party provided water supply from national network for processes and welfare	89,448	113,306	114,113

The above data is based on a combination of actual and estimated data.

Health and safety

SIG operates an integrated health safety and environmental (HSE) Policy aligned to the ISO 45001 standard with the UK health and safety management system accredited to the standard since 2006 through external verification by Intertek. SIG migrated to ISO 45001 in January 2020.

The Board member responsible for HSE is the CEO who is the signatory to our HSE Policy statement. A copy of which is required to be displayed in the local language at each operating branch.

Accreditation and the development of our Charter for Zero Harm health and safety programme has enabled us to develop our operations to be compliant with legislation, industry standards and best practice and deliver continuous improvement.

Our dedicated HSE professionals assist in delivering the risk assessment and management review programme. Our risk profile is reviewed annually, and informs our HSE Plan.

Our vision is to be the best-in-class for the distribution industry, and through our Zero Harm health and safety management programme we aim to eliminate accidents from our four critical hazards of pedestrian and forklift truck interaction, road travel, work at height, and contact with machinery.

Our objectives to achieve this aim are to improve the standard of traffic management in operational areas, target culture and positive behaviour through management and colleague interactions, improving the management of the outcomes of incidents and learnings and focusing on the common Group standards across all operating companies.

In support of these objectives our 12 'Life Saving Rules' targeting our primary risks are published in five languages and were reissued

across the Group in 2019. We also derive and communicate learning points from hazards and incidents through our online reporting procedure and senior management accident and incident review processes.

Management and worker awareness of their responsibilities, the hazards and risks associated with the operation and safe ways of working is promoted through the delivery of training and communication programmes managed locally in each country. These include bespoke e-learning packages, RoSPA accredited modules, workshops for supervisors and workers, toolbox talks, hazard alerts and safety bulletins.

The number of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulation) equivalent accidents across the Group continues to reduce, down 10.8% since 2018, which was a significant factor in the Group achieving the RoSPA Gold Medal Award for Occupational Health and Safety in 2019. However, the Accident Incident Rate (AIR), which is calculated as injury resulting in over three absence days from work or major injury per 1,000 employees, has increased from 13.1 to 13.4 during the year.

We maintain our zero tolerance approach to anyone being unfit for work due to drugs or alcohol and mandate for testing of individuals subject to the legislative constraints within our operating companies.

Occupational road risk

Driving is among the most hazardous tasks performed by our employees and is one of the critical hazards of our safety management programme. The competence of our drivers and design and condition of our vehicles is crucial to the safety of our drivers and other road users.

We recognise that our drivers act as representatives for our business whilst they are on the road and we promote a culture of safe and courteous driving through our

training programmes. Drivers are assessed for competence and selected through an authorisation and licence check procedure.

We work in partnership with our vehicle designers and manufacturers to develop effective safety features for our vehicles. This and the effective management of the routine maintenance and inspection process is key to vehicle safety.

Our drivers, vehicles and fleet management are audited to ensure business compliance with fleet procedures. Significant issues are communicated to the Board and our insurers.

We adopt road safety schemes, including the voluntary Fleet Operator Recognition Scheme (FORS) scheme. As an active champion of the Construction Logistics and Cyclist Safety Group, we aim to promote the status of vulnerable road users. We consider their Safer Urban Driving courses to be essential to our driver training, and we will continue to work with vehicle manufacturers in their development of solutions to improve visibility towards other road users.

Telematic vehicle management systems are fitted to the Group's fleet of vehicles. Information is downloaded and used to support drivers to improve their standard of driving and fuel efficiency. Strict rules apply to avoid driving distractions including mobile phones and subject to the legislative constraints driver drug and alcohol testing is conducted within the Group.

Links to SDGs



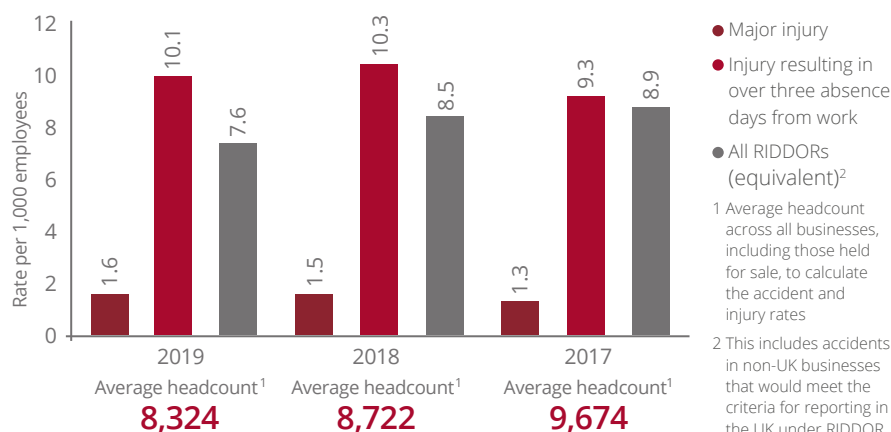
Approval of the Strategic Report

The Strategic Report set out on pages 03 to 61 was approved by the Board of Directors on 29 May 2020 and signed on its behalf by

Steve Francis
Chief Executive Officer
29 May 2020

Kath Kearney-Croft
Chief Financial Officer
29 May 2020

Accidents and incidents – Group





GOVERNANCE

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Chairman's Introduction

Board Membership (during 2019)

Mr A.J. Allner

Non-Executive Chairman

Mr M. Oldersma

Chief Executive Officer
(resigned 24 February 2020)

Mr N.W. Maddock

Chief Financial Officer
(resigned 24 February 2020)

Ms A. Abt

Independent
Non-Executive Director
(retired 12 February 2020)

Ms H.C. Allum (Kate)

Independent
Non-Executive Director
(appointed 1 July 2019)

Ms J.E. Ashdown

Independent Non-Executive
Director (retired 8 May 2019)

Mr I.B. Duncan

Independent
Non-Executive Director

Ms G.D.C. Kent

Independent
Non-Executive Director
(appointed 1 July 2019)

Mr A.C. Lovell

Senior Independent
Non-Executive Director

Mr C.M.P. Ragoucy

Independent Non-Executive
Director (retired 1 July 2019)

Purpose and aims

Promote the long-term sustainable success of the Company and its subsidiaries, generating value for Shareholders and contributing to wider society. The purpose is to enable modern living and working environments in the communities in which we operate. Our vision is to be Europe's leading business distributor of specialist construction products.

Key responsibilities

Establishing the Company's purpose, vision, strategy and behaviours, and satisfying itself that these and its culture are aligned.

Ensuring that all Directors act with integrity, lead by example and promote the desired culture.

Assessing and monitoring culture

Ensuring that the matters set out in section 172 of the Companies Act 2006 are considered in Board discussions and decision making.

Ensuring that the necessary resources are in place for the Company to meet its objectives and assessing the basis on which the Company generates and preserves value over the long-term.

Reviewing whistleblowing arrangements and ensuring that arrangements are in place for proportionate and independent investigation and follow up action.

Terms of reference and matters reserved

During the year the Board developed and adopted terms of reference and revised the matters reserved for its decision.

Both can be found on the Company's website at

www.sigplc.com.

Evaluation

An internal evaluation was conducted for the Board, individual Directors and its Committees in line with the 2018 UK Corporate Governance Code (the "Code"). More details can be found on page 87.



"Your Board is committed to high standards of governance. This is essential as we focus on developing the Group's purpose and vision, building on its leading market positions and returning the business to profitable growth and delivery of the long-term strategy for the future"

Andrew Allner
Chairman

Dear Shareholder,

I am pleased to present SIG's corporate governance report for the financial year ended 31 December 2019. At SIG, we believe that good governance comes from a strong and effective Board, which provides real leadership to the Group and is fully engaged with its workforce and other stakeholders. As an essential part of this commitment, the Group supports high standards in corporate governance. This section of our report outlines how the Board ensures that those high standards are maintained.

Looking back at 2019 it is not easy to say, with hindsight, that your Board has been highly effective. The issues resulting in the decline in performance were discussed at the Board and assurances received from the Executive Directors. The decline in sales became an increasing and urgent concern as the year progressed and action was taken promptly once the full extent of the profit shortfall became apparent. However, your Board is aware that, with hindsight, action could have been taken sooner.

Meinie Oldersma, CEO and Nick Maddock, CFO resigned on 24 February 2020 and we recruited Steve Francis as CEO, with effect from 25 February, who is widely experienced with a strong track record of returning businesses to growth. In addition, Ian Ashton has been appointed as permanent Group CFO with effect from 1 July 2020. Ian is a highly experienced senior executive with a strong track record of driving change and is an extremely valuable addition to the team as we pursue our new strategy for growth.

Ian replaces Kath Kearney-Croft, who assumed the role of Interim

CFO on 25 February 2020.

The Board believes this new leadership brings skills in driving rapid operational performance improvements through strong customer relationships, excellence in customer service and creating highly engaged teams.

The year saw further changes to the Board with the retirement of Janet Ashdown on 8 May and Cyrille Ragoucy on 1 July. On 18 December 2019, we announced the retirement of Andrea Abt with effect from 12 February 2020. During the year, the Board was strengthened with the appointment of two new Non-Executive Directors, Kate Allum and Gillian Kent, in July 2019. They each bring a range of skills and experience which add great value to our Board and will significantly benefit the Company as we focus on returning to profitable growth. Their appointment brought our ratio of female representation on the Board to 37.5%, exceeding the target of 33% female representation set by the Hampton Alexander review on FTSE women leaders. Our aspiration now is to endeavour to maintain a ratio of at least 33% female representation and to have at least one Director of colour by 2024, in line with the Parker Review Committee recommendations. We acknowledge that the Hampton Alexander review target of 33% female representation in our Executive Leadership Team and direct reports to the Executive Leadership Team has not yet been met but our aspiration is to meet that target over the course of the next few years. This will be a key aspect of the focus of our Nominations Committee as it continues its review of succession planning and the promotion of diversity and a diverse pipeline within the business.

In order to bring more industry experience on to the Board, Simon King has been appointed as a Non-Executive Director with effect from 1 July 2020. Simon brings extensive, hands-on experience from a career spanning over 35 years, most recently serving on the Travis Perkins Executive Board and holding the position of Chief Operating Officer for Wickes. Simon's appointment is invaluable in our efforts to build on SIG's leading market positions and return the business back to profitable growth.

Following the retirement of our Company Secretary, Richard Monro, in October 2019 we welcomed a new Company Secretary, Kulbinder Dosanjh, who has been able to review our processes and procedures from a fresh perspective, bringing new ideas and energy to improve some of our existing governance processes.

Compliance with the 2018 UK Corporate Governance Code

The Financial Reporting Council (FRC) published a revised UK Corporate Governance Code (the "Code") in July 2018. The Code can be accessed at www.frc.org.uk. During 2018 and 2019 the Board conducted detailed reviews of the Code requirements and put in place a number of measures to ensure our compliance. Our work has focused on assessing and monitoring our corporate culture ensuring that this is aligned to our evolving Company purpose and to our behaviours and strategy. At all levels of the organisation we have been building on our engagement activities with colleagues and other stakeholders, and the Board have been reviewing and monitoring the framework of engagement. During the year we looked at the structure of governance of the Board and Committees and many of our corporate policies, making sure that all of these are aligned to the Code and to the culture within the business. In particular, we developed new terms of reference for the Board so that we clearly articulate our collective role, responsibilities and duties in ensuring the long-term sustainable success of the business.

Our governance sections over the following pages explain how the



Chairman's Introduction

Group has applied the principles and complied with the provisions of the Code and the work we have undertaken during the year. We also explain how the Board has complied with the duties of Directors under section 172 of the Companies Act 2006. My co-Directors and I take our responsibilities under section 172 very seriously and in undertaking our duties as Directors we are always mindful of the need to ensure that decisions are made for the long-term, that the interests of our various stakeholders are taken into consideration and that our high standards of conduct are maintained.

During 2019 we were fully compliant with the Code except for Provision 38, as pension contribution rates for Executive Directors (15%) were not aligned with those of the wider workforce. As of 25 February 2020, we are fully compliant, as pensions contribution rates for new Executive Directors (5%) are aligned/below those of the wider workforce.

However, we recognise that there are further measures of improvement that we will aim to make in 2020. In particular, we wish to continue to improve on our engagement with colleagues and this will remain a key focus over the next year. In December 2019, we announced the appointment of Kate Allum as designated Non-Executive Director for engagement with the Company's workforce with effect from 1 January 2020. We also have further work to do in embedding our new vision, purpose, culture and required behaviours within the business.

Board evaluation

Our 2018 Board evaluation was externally facilitated by Condign Board Consulting. This year the evaluation has been led by our new Company Secretary. Details of the process concerning this evaluation and its outcome are covered on page 87 of this corporate governance report.

Diversity and inclusion

The Board of SIG acknowledges the importance of diversity in its broadest sense in the boardroom as a driver of Board effectiveness and more generally within our business, and we remain committed to improving inclusion and diversity. Our Board diversity policy was reviewed and updated during the year and is published on the Company's website (www.sigplc.com). We report on our approach in detail in our Nominations Committee Report on page 99.

Governance within SIG

As Chairman, I ensure that we maintain high standards of corporate governance and that we always aspire to improve. The Board is accountable to the Company's Shareholders and overall to its stakeholders for good governance and this Report, the Directors' Remuneration Report on pages 111 to 132, the Audit Committee Report on pages 101 to 110 and the Nominations Committee Report on pages 96 to 100 describe how the principles of good governance set out in the Code are applied within SIG.

The Company's external Auditor, Ernst & Young LLP, is required to review whether the above governance statement reflects the Company's compliance with the provisions of the Code specified for their review by the Listing Rules (as contained within the Financial Conduct Authority's Handbook) and to report if it does not reflect such compliance. No such report has been made.

COVID-19

The Board is monitoring the COVID-19 outbreak and the potential impact on the Company's businesses across the Group. Regular updates are being provided by management and the Board is holding additional meetings to ensure that it is kept updated on the situation on an ongoing basis. The need to preserve the health and safety of our colleagues, customers and suppliers has remained our primary concern during the outbreak. The Board is ensuring that the Group follows all local and national instructions issued by government authorities in its markets to curtail the spread and impact of COVID-19. The Group is keeping the position under regular review in every jurisdiction in which it operates.

The Group's IT infrastructure has been strengthened to allow for as many people to work from home as possible, and where home working is possible, colleagues have been instructed to remain at home. All meetings are now being held by video conference calls, and the Board, the Executive Team and the Senior Leadership Team have held regular video conference and telephone calls to monitor the position. All meetings will continue to be held in this manner until such time that restrictions are eased and lifted.

Where home working is not possible, stringent measures have been put in place to maintain strict hygiene and social distancing rules in each of our locations. Policies are in place in the event that a colleague contracts the virus or has a family member showing symptoms of the virus. Policies and procedures have also been put in place for those that need to care for dependents, for example as a result of school closures.

SIG has committed to do what it can to trade as normally as possible within local government guidelines, allied to the need to preserve the safety of colleagues, customers and suppliers. The Board regularly reviewed the situation and made an announcement on 26 March 2020 regarding the early impact of COVID-19. Following this announcement, large parts of our UK market saw sales fall away rapidly, in common with the broader construction industry. Therefore, the Board concluded and announced on 30 March 2020, that it was necessary and appropriate to temporarily close the majority of our UK operations, specifically the Distribution and Roofing businesses. In addition, the announcement of further restrictions by the Irish Government resulted in the suspension of construction activity in the Republic of Ireland. As a result, all Group trading sites in Ireland also temporarily closed.

However, SIG remained open to service critical and emergency projects, such as for the NHS, energy and food sectors, as well as for safety reasons and to ensure that there was an orderly closure programme.

The trading and governmental measures in other markets in which we operate are diverse and evolving in different ways. Accordingly, our businesses in France, Germany, Benelux and Poland, as well as our Building Solutions business, continue to be open for trade.

The Board and management continuously reviewed Government guidance and measures to support business continuity, as well as market conditions. As demand started to increase across the industry, the Group announced on 30 April 2020 that it commenced re-opening selected sites across its Distribution and Roofing businesses to provide greater support to our customers and offer increased access to our products and services. 15 sites opened across our Distribution business and 20 sites across our Roofing business with the majority of its sites reopened by mid-May.

We have committed to support all our colleagues during this period of temporary closure and ensured that our UK colleagues continued to receive a proportion of their pay during a period of furlough and, in that context, we welcome the introduction of the UK Government's Coronavirus Job Retention Scheme, which will help to support this. Similar Government assistance to retain jobs in Ireland is also welcomed. However, we asked all our UK and Ireland employees to take lower pay during this period and it was therefore also deemed appropriate for all members of the Board to take a pay reduction of up to 50% at this time, and for the Group Executive Leadership Team to take a pay reduction of up to 20% from 1 April 2020. As the majority of sites reopened in mid-May, it was appropriate to re-instate the Executive Directors' pay to 80% (backdated to 1 April 2020) at the same time as colleagues were returning to work on full pay.

Throughout this time, the Board has remained committed to preserving the safety of its employees, customers and suppliers. Where operations continue, Government guidelines are strictly observed to ensure adherence to social distancing, cleaning and hygiene standards.

Independent Review by PwC

As already mentioned on page 25, the Board instigated an independent review through the Group Investigation Committee commissioning PwC to undertake an independent review of the Group's forecasting and monthly management accounts processes in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January Trading Update and market consensus of forecast profit prior to that announcement. The Board takes the findings of the PwC report very seriously. The Company voluntarily notified the FCA of the progress of the PwC review and has shared the PwC report with the FCA. Since SIG's receipt of the PwC report, in order to strengthen the Group's financial forecasting and internal reporting, KPMG has been appointed to assist the Audit Committee in ensuring appropriate improvements are implemented to the Company's financial systems, procedures and controls, including those recommended in the PwC report.

Further details on the actions being taken (including actions taken during the course of the year in relation to cultural changes) are included in the Corporate Governance report on page 90. The Board had already agreed that additional focus was required during 2020 to embed the commitment culture, improve employee engagement and morale. This work would also include the actions arising from the review. Further background on the scope of the PwC review and the actions the Company is implementing in response are set out in the Audit Committee report on page 108.

2020 Annual General Meeting

In light of COVID-19 restrictions, it will not be possible to meet our shareholders at the Annual General Meeting (AGM) on 30 June 2020, therefore, if you have any questions, please email them to cosec@sigplc.com. Your views are still important to us and therefore we will be providing a means for you to be able to listen and ask questions at the meeting using conference call facilities, and the Board looks forward to meeting our shareholders in person at our next shareholder meeting.

Andrew Allner
Chairman
29 May 2020

Compliance with the UK Corporate Governance Code 2018

Our Governance sections set out over the following pages explain how the Group has applied the principles and complied with the provisions of the Code during the financial year ended 31 December 2019. During 2019 we were fully compliant with the Code except for Provision 38, as pension contribution rates for Executive Directors (15%) were not aligned with those of the wider workforce. As of 25 February 2020, we are fully compliant, as pensions contributions rates for new Executive Directors (5%) are aligned/below those of the wider workforce.

1. Board Leadership and Company Purpose

See pages 68 to 81

2. Division of Responsibilities

See pages 82 to 84

3. Composition, Succession and Evaluation

See pages 85 to 86

Nominations Committee Report
See pages 96 to 100

4. Audit, Risk and Internal Control

See pages 89 to 91

Audit Committee Report
See pages 101 to 110

5. Remuneration

Directors' Remuneration Report
See pages 111 to 132

Board of Directors



Andrew Allner BA, FCA, Non-Executive Chairman¹



Appointed as the Non-Executive Chairman on 1 November 2017.

External roles

Andrew is Chairman at Fox Marble Holdings plc and the Shepherd Building Group Limited.

Experience and past roles

Andrew has significant current listed company Board experience as Chairman and as a Non-Executive Director. He was previously Chairman of The Go-Ahead Group plc and Marshalls plc, and a Non-Executive Director at Northgate plc, AZ Electronic Materials SA and CSR plc. Previous executive roles include Group Finance Director of RHM plc and CEO of Enodis plc. He has also held senior executive positions with Dalgety plc, Amersham International plc and Guinness plc.

Key strengths

Substantial Board, strategic, accounting, corporate transactions, international and general management experience.



Steve Francis MA, Chief Executive Officer

Appointed as a Director and the Chief Executive Officer on 25 February 2020.

External roles

Fellow of The Institute of Turnaround.

Experience and past roles

Steve has previously been the Chief Executive Officer of Patisserie Holdings PLC, Tulip Ltd and Danwood Group Holdings Ltd. He was the Chief Financial Officer and subsequently Managing Director of the largest division of Vion (formerly Grampian) Food Group Ltd and Chief Financial Officer and member of the management buy-in team of British Vita plc. He has worked with McKinsey, was a partner at PwC and a banker at Barclays Capital and NatWest Investment/County Bank.

Key strengths

Significant turnaround and leadership experience across a range of multi-site international businesses, considerable executive management experience including strategic consultancy, mergers and acquisitions, corporate finance and banking.



Kath Kearney-Croft MBA, ACMA, Chief Financial Officer

Appointed as a Director and the Chief Financial Officer on 25 February 2020.

External roles

Kath does not have any external roles.

Experience and past roles

Prior to joining SIG, Kath was Group Finance Director of the Vitec Group. Prior to this she held a number of financial leadership roles at Rexam PLC and was Group Finance Director prior to its acquisition by Ball Corporation Inc. in July 2016. She also previously held a number of operational finance roles in the UK and US at The BOC Group plc. Kath is a chartered management accountant and holds an MBA from Alliance Manchester Business School.

Key strengths

Highly commercial with a broad global experience in a series of financial leadership roles. A strong track record of relationship building and engagement.

Key:

A Audit Committee

R Remuneration Committee

N Nominations Committee

Chair of Committee

I Independent

¹ The chairman was independent on appointment

Meinie Oldersma and Nick Maddock were Executive Directors during the financial year. They resigned as Directors and as Chief Executive Officer and Chief Financial Officer respectively on 24 February 2020.

Janet Ashdown, Cyrille Ragoucy and Andrea Abt were Non-Executive Directors during the financial year. They stepped down from the Board on 8 May 2019, 1 July 2019 and 12 February 2020 respectively.



Kate Allum BSc Econ, Non-Executive Director



Appointed as a Non-Executive Director and the Chair of the Remuneration Committee on 1 July 2019.

External roles

Kate holds Non-Executive Director roles at Republic of Ireland Origin Enterprises plc, Cranswick plc and Stock Spirits Group PLC. She is Chair of the Remuneration Committee of both Origin Enterprises plc and Cranswick plc.

Experience and past roles

Kate's previous positions include being Chief Executive of Cedo Limited and of First Milk Limited. Prior to that, she was Head of European Supply Chain at McDonald's Restaurants Limited.

Key strengths

Strong supply chain, culture, retail, B2B and people management across a broad range of businesses.



Ian Duncan MA, ACA, Non-Executive Director



Appointed as a Non-Executive Director on 1 January 2017 and the Chair of the Audit Committee on 31 March 2017.

External roles

Ian is Senior Independent Non-Executive Director and Chair of the Audit Committee of Bodycote plc and a Non-Executive Director and Chair of the Audit Committee of Babcock International plc.

Experience and past roles

Having developed a portfolio career since 2010, Ian was previously a Non-Executive Director and Chair of the Audit Committee at WANDisco plc and Fiberweb plc. Ian's last executive role was as Group Finance Director of the Royal Mail Group plc.

Key strengths

Extensive financial and change management experience (including recent and relevant financial experience).



Gillian Kent BA, CIM Diploma in Marketing, Non-Executive Director



Appointed as a Non-Executive Director on 1 July 2019.

External roles

Gillian holds Non-Executive Director roles at Mothercare plc, Ascential plc, NAHL Group plc and with three private companies, Portswigger Ltd, KR Group and Howsy Limited.

Experience and past roles

Gillian has had a broad executive career including being Chief Executive of real estate portal Propertyfinder until its acquisition by Zoopla, and 15 years with Microsoft including three years as Managing Director of MSN UK. Gillian was a Non-Executive Director of Pendragon PLC until April 2019.

Key strengths

Strong commercial, customer and digital experience across a broad range of businesses.



Alan Lovell MA, FCA, Senior Independent Non-Executive Director



Appointed as a Non-Executive Director and the Senior Independent Director on 1 August 2018.

External roles

Alan is Non-Executive Chairman of Safestyle UK plc, Interserve and Progressive Energy Limited.

Experience and past roles

Alan has previously been Chief Executive Officer of six companies: Tamar Energy Limited, Infinis plc, Jarvis plc, Dunlop Slazenger Group Ltd, Costain Group plc and Conder Group plc. Alan was also previously Chairman of Sepura plc, Flowgroup plc and Chair of the Consumer Council for Water.

Key strengths

Significant listed company Board experience. Extensive construction industry and turnaround experience in the UK and Europe.

Corporate Governance Report

Board Leadership and Company Purpose

Board activities

An overview of the Board's key activities during the year is provided below.

Strategy and financing



- Strategic reviews in July and September 2019 including receiving presentations from senior leaders and updates from external advisers, considering the IT and digital strategy, divestment of the Air Handling and Business Solutions businesses and the status of the Group transformation
- Received ongoing updates from the operating company Managing Directors on their transformation plans
- Received in depth briefings on SIG Germany, SIG France and UK Exteriors from the relevant Managing Directors
- Agreed the investment in a new SAP ERP system for France and Germany and considered in detail the associated governance reporting processes
- Approved the payment of a final dividend (for the year ended 31 December 2018) and interim dividend (2019) to Shareholders
- Regularly reviewed the Group's financial position
- Reviewed proposals for a new target operating model
- Reviewed transformation governance and control and progress on Group transformation projects
- Approved the new strategic vision, purpose and behaviours for the business
- Reviewed the development of a digital strategy for the business
- Approved the proposal for an optimum logistics network exiting from legacy sites and consolidating into a single distribution centre in West London
- Approved the sale of the Group's German raised access flooring manufacturing business (see page 29)
- Approved the sale of the Air Handling division (see pages 29 and 71)

Risk management and internal control



- Regularly reviewed the Group's principal risks and considered emerging risks and scenarios
- Focused on the risks arising from Brexit and in particular a 'no deal' exit
- Reviewed cyber security within the Group with specialist support from KPMG
- Received updates from the Audit Committee Chair on the key areas discussed
- Received monthly reports on health and safety matters
- Received regular reports on internal control from the Chief Financial Officer

Link to strategy:

-  A leading market position
-  High performing teams
-  Modernised operating model
-  Responsible business
-  Effective partnerships

Stakeholder engagement



- Analysed key stakeholders and existing methods of engagement
- Considered analyst feedback following the announcement of the Company's full year results on 8 March 2019, the interims and Trading Updates
- Met Shareholders at the Annual General Meeting (AGM) held in May 2019 and General Meeting (GM) in December 2019
- Received regular investor relations reports
- Approved the data sets to be submitted to the Board to enable it to monitor culture on a continuing basis
- Received an analysis of the employee survey conducted in March 2019
- Considered how the transformation was being delivered in UK Distribution by reference to customer value, customer service and operational efficiency, with the focus for 2019 to include improved purchasing and pricing
- Considered customer categories and issues within UK Distribution and UK Exteriors
- Considered initiatives for collaborative working with suppliers in UK Distribution
- Reviewed the 2019 HR strategy for UK Distribution, including proposals for engagement with colleagues
- Appointed Ms Allum as the designated Non-Executive Director for workforce engagement
- Reviewed the agenda and plan for the SLT Leadership Conference held in January 2020

Governance



- Reviewed and monitored the new requirements arising from the 2018 UK Corporate Governance Code introduced on 1 January 2019 and progress against the action plan
- Reviewed the report from Condign Board Consulting on Board effectiveness
- Regularly received feedback from site visits made by Directors
- Agreed a revised Board diversity policy
- Reviewed talent and succession planning following Nominations Committee assessment
- Approved a revised schedule of matters reserved for the Board
- Approved updated terms of reference for all Committees
- Developed and approved terms of reference for the Board
- Evaluated the performance of the Board, its Committees and all Directors facilitated internally and agreed areas of priority for 2020

Corporate reporting and performance monitoring



- Regularly reviewed the Group's KPIs (see pages 18 and 19)
- Reviewed the 2019 full year forecast and outcome
- Reviewed the rolling forecast against the approved 2019 budget
- Received updates from the chairs of the Audit, Nominations and Remuneration Committees on the key areas discussed
- Conducted a review of the Company's viability over the next three-year period
- Approved the year end (2018) and interim results (2019)
- Approved the release of trading updates in January, May, July and October
- Reviewed the 2018 Annual Report and Accounts

Board attendance at meetings

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nominations Committees during the year to 31 December 2019:

	Scheduled Board (9 meetings) ¹	Additional Board (4 meetings)	Audit (7 meetings)	Remuneration (5 meetings)	Nominations (4 meetings)
A. Abt ²	8	3	6	5	4
H.C. (Kate) Allum ³	5	0	5	3	3
A.J. Allner	9	4	N/A	N/A	4
J.E. Ashdown ⁴	3	3	1	2	1
I.B. Duncan	9	4	7	5	4
G.D.C. Kent ³	5	1	5	3	3
A.C. Lovell	9	4	7	5	4
N.W. Maddock	9	4	N/A	N/A	N/A
M. Oldersma ⁵	8	4	N/A	N/A	N/A
C.M.P. Ragoucy ⁶	3	3	2	2	1

¹ There were four unscheduled Board meetings in 2019 listed as additional Board meetings above. The attendance at all the meetings is detailed above.

² Ms A. Abt was unable to attend the meeting in July 2019 due to prior commitments. She provided comments for both this meeting and the ad-hoc meeting in January 2019 that she was unable to attend.

³ Ms H.C. (Kate) Allum and Ms G.D.C. Kent were both appointed to the Board on 1 July 2019 and attended all scheduled meetings which they were entitled to attend.

⁴ Ms J.E. Ashdown resigned from the Board on 8 May 2019.

⁵ Mr M. Oldersma did not attend the meeting in December 2019 as he was on a leave of absence as announced by the Company on 18 December 2019.

⁶ Mr C.M.P. Ragoucy resigned from the Board on 1 July 2019.

This table only shows those meetings which each Director attended as a member rather than as an invitee. Where "N/A" appears in the table the Director listed is not a member of the Committee although may have attended the meetings, for example the Chairman attended all 7 Audit Committee meetings. Directors do not participate in meetings when matters relating to them are discussed.

The Chairman also holds meetings with the Non-Executive Directors without the Executive Directors present. During 2019 at least four such meetings were held. The Senior Independent Director also meets with the other independent Non-Executive Directors without the Chairman present, in particular when the performance of the Chairman is being considered. During 2019 this meeting was held in November 2019. All Directors attended the 2019 AGM and were available to answer any questions raised by the Shareholders. Directors who were available also attended the General Meeting on 23 December 2019 to answer any questions on the disposal of Air Handling.

Directors' conflicts

Each Director has a duty under the Companies Act 2006 (the Act) to avoid any situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Provision 7 of the Code also requires the Board to take action to identify and manage conflicts of interest, including those resulting from significant shareholdings and to ensure that the influence of third parties does not compromise or override independent judgement. This duty is in addition to the obligation that they owe to the Company to disclose to the Board any transaction or arrangement under consideration by the Company in which they have, or can have, a direct or indirect interest. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's Articles of Association permit and Shareholders have approved appropriate amendments.

Procedures have been put in place for the disclosure by Directors of any such conflicts and also for the consideration and authorisation of any conflicts by the Board. These procedures allow for the imposition of limits or conditions by the Board when authorising any conflict, if they think this is appropriate. These procedures have been applied during the year and are included as a regular item for consideration by the Board at its meetings. The Board believes that the procedures established to deal with conflicts of interest are operating effectively. As part of the review of conflicts this year,

Directors have confirmed that they have no connection with Lygon Group, the external search consultancy used for the appointment of Ms Allum and Ms Kent. Directors have also confirmed they have no connection with Savannah Group, the external search firm used for the appointment of Mr Francis, other than they are also used for other senior executive appointments.

From January 2020 all Directors are, in addition, required to complete a gifts and hospitality form on a quarterly basis confirming receipt of gifts or hospitality provided as a result of their directorship of the Company.

The Board is aware of the other commitments of its Directors and is satisfied that these do not conflict with their duties as Directors of the Company and that the influence of third parties does not compromise or override their independent judgment.

Corporate Governance Report

Culture and purpose

The Board considers that the Group operates a risk-aware culture with an open style of communication which seeks to identify early problems and issues wherever possible. Where issues are identified, the Board endeavours to take action to remedy any areas of concern.

Annual employee survey

The Board began a detailed review of the culture within the business with a survey of employee engagement. This was launched in March 2019. ORC International (a specialist global engagement consultancy) supported production of the survey questions. These were designed to elicit an understanding of the extent to which employees consider that engagement within the business is working well and whether workforce policies and practices are consistent with the Company's values and aligned to promote a healthy culture. Questions included "I am proud to work for SIG", "I would recommend SIG's products and services", "SIG inspires me to 'go the extra mile'", "I believe the company values support the culture of SIG", "I think SIG cares about my health and wellbeing" and "I have a good understanding of the mission and goals of the organisation".



The survey identified that wellbeing is having the largest impact on engagement for employees at SIG with those serving the longest being less likely to believe that SIG cares for their health and wellbeing. The top driver for employees is being able to strike the right balance between work and home life with many employees working long hours. The survey results showed that employees understood their expected behaviours and work contribution, but less so the mission and goals. Whilst staff were satisfied with their jobs making good use of their skills and abilities, they were less satisfied with the opportunities for job related training and career development.

Focus following survey

Following the results of the survey the Executive Leadership Team and the Board agreed that the key strategic focus areas for 2019 would be (1) Health and Safety – making sure employees all feel supported and able to get the most out of working for SIG, (2) Purpose and the Why – making sure all employees are aware of the direction of the business and how they contribute to its success, (3) Customer Focus – making sure everyone is equipped to deliver the best customer service and (4) the Future/My Future – making sure everyone is aware of the direction of the business and have the opportunity to develop our skills and potential to support the change.

Focus on data

During the course of the year the Board identified the data sets which it would need to review to monitor culture and engagement within the business. Using the guidelines produced by the FRC it agreed that it would receive regular reports on the following:

- training data;
- recruitment;
- exit interviews;
- reward;
- promotion decisions;
- use of non-disclosure agreements;
- whistleblowing data;
- employee surveys;
- Board interaction with senior management and workforce;
- health and safety data, including near misses;
- promptness in payments to suppliers; and
- attitudes to regulators, internal audit and employees.

The Board agreed that a composite report analysing the agreed data sets would be provided to the Board annually and that an interim update would also be provided on the annual employee survey.

The Board receives regular reports as a matter of its regular routine business items each meeting on turnover and absenteeism rates, recruitment, whistleblowing data and health and safety data including near misses. It also receives reports from individual Board members and Managing Directors on their meetings with employees. The Board also received feedback following the launch of the Commitment Culture programme at the SLT conference held in January 2020.

Work on a new SIG purpose, vision and behaviours

The Board, with the assistance of members of the Executive Committee, commenced work during the year on articulating a new SIG purpose and vision, and reviewing SIG's culture and behaviours. The revised purpose agreed by the Board is articulated as "To enable modern living and working environments in the communities in which we operate."

Work on a commitment culture

Throughout the year, extensive work took place to define a supporting culture framework. Moving forward, our newly defined behaviours will drive the consistent and shared actions to drive performance and conduct. The launch and implementation of the new culture programme began in January 2020 and will take place throughout 2020.

The commitment culture is a culture driven by a clear sense of purpose with clearly defined behaviours that underpin it. According to research by Damian Hughes, Professor of Organisational Psychology and Change for Manchester Metropolitan University, organisations who build a culture based on employees are more likely to succeed.

The SIG behaviours have been articulated as “Be bold in what you do”, “Be flexible and agile” and “Make a positive difference”. Read more on page 57.

Engagement with colleagues

The Board agreed a communication strategy for engaging with colleagues on the new vision, purpose, culture and behaviours to ensure that this would have the necessary ‘buy in’ and understanding within the business.

Focus groups were held with cross functional teams from across the business to review and understand how the behaviours might become embedded within the business. Taking account of the feedback from the focus groups, the revised organisational culture and behaviours were then defined and launched into the business in January 2020 via the SLT business conference and operating company roadshows. The SLT conference also provided an ideal opportunity for Kate Allum, the designated Non-Executive Director for workforce engagement, to set out her plans for engagement with the workforce, see more about this on page 76.

Further work

Following the launch of the new purpose, vision and culture, revised induction materials and performance management materials will be used to embed the purpose, vision, culture and behaviours in performance management moving forward.

The Board is aware from its regular reports that retention figures require improvement and in certain areas there is low morale after three years of transformation within the business. The Board recognises that there is further work to be undertaken to improve culture, morale and engagement within the business and embed the commitment culture and align it to the new vision and purpose. This will be an important area of focus for the Board during 2020 and the Board will be closely monitoring key data sets to ensure that the necessary improvements are made to the culture and to monitor the behaviours rolled out to the Group to set the appropriate tone from the top. Other actions the Company is implementing as a result of the PwC report are set out on page 108 of the Audit Committee Report.

Following his appointment, Steve Francis, the CEO, has also commenced an in-depth review of customer, supplier and employee feedback based upon structured interviews with customers and suppliers, and feedback from employees at branch roadshows. Pricing and loss of key relationships are raised as key issues for customers whilst customer focus and product range are highlighted by suppliers. Feedback from employees also highlights a need for increased focus on building customer relationships and service provision. The CEO will be closely monitoring actions being taken to resolve these issues during 2020.

Case study



The SLT conference January 2020

Our annual Senior Leadership conference in January 2020 was well attended by 80 of our senior leaders from each of our operating companies in the UK and Ireland, France, Germany, Benelux and Poland. The conference provided the Executive Leadership Team a chance to discuss opportunities, risks and challenges in the operating companies and provided a forum for any questions to be raised. In addition, a new commitment culture programme was launched, including the new behaviour framework.

Separate workshops explored how the business enablers could be strengthened, through developing our ways of working, focussing on the engagement and performance of our people and driving our health and safety goal of ‘Zero Harm’ with real passion and commitment. The sessions also provided the opportunity for our senior leaders to define the implementation of our commitment culture and take ownership in driving our leading behaviours in all areas of the business.

The feedback from the conference was extremely positive with 100% of those attending feeling that they understood the commitment culture framework. Colleagues found that the conference was “energising and a great re-set for 2020”, “a commitment building event”, and “a perfect platform to launch the behaviours”. A full change and communications plan will be delivered throughout 2020, supporting leaders as they work to integrate our new culture framework into everyday life at SIG.



Corporate Governance Report

Workforce engagement

At the beginning of the year under review, the Board considered how it might enhance its engagement with the workforce and ensure full participation from the workforce. The Board agreed that all Directors should be focused on engagement with the workforce to ensure all Directors could hear first-hand the views of colleagues as well as gain a deeper knowledge of the business rather than allocating responsibility to one designated Non-Executive Director, having a formal workforce advisory panel or appointing a member of the workforce to the Board. It developed a framework for engagement as well as agreeing that Board meetings would be rotated by location with meetings being held away from the London office and at least one Board meeting being held in Europe. During 2019, Board meetings have been held in Paris, Southampton and Munich and on those occasions the Board ensures that it meets collectively with local management and other colleagues and that it has the opportunity to visit a site. As well as their collective visits to sites in Paris, Southampton and Munich, each of the Directors has also visited at least two sites during the course of the year (see schedule on page 75) and attended divisional and Group management conferences whenever possible.

The annual SLT conference took place in January 2019 and the former CEO and CFO also hosted the Group's first 'Town Hall' in Sheffield which was very well attended. In addition, individual operating companies held their annual conferences during the year. More details on colleague engagement activities in each operating company are set out in the schedule below.

In order to ensure that workforce policies and practices are consistent with the Company's purpose and behaviours and support its long-term sustainable success, we committed during the year to update a number of our most important policies and procedures. In October 2019, the Company published to all employees and contractors a full suite of updated policies. These include our health and safety procedures, GDPR, our code of conduct, anti-bribery and corruption, our alcohol and substance misuse policy and gifts and hospitality policy. Alongside the updated policies, videos were produced guiding

our employees and contractors on the requirements. All employees, including the Board and contractors were then asked to complete an online compliance training module covering each of the policies. Completion of the modules is tracked with follow up reminders being issued to ensure that training is completed.

Additionally, to ensure the voice of our employees is heard, we canvass employee views through our engagement survey, SIG Listens, and present the results to our employees via our local communication channels. For 2020, we plan on giving our workforce more meaningful communication and greater contact with our Directors, through Q&As, town hall meetings and focused initiatives derived from the results of the employee surveys.

The Directors consider that whilst workforce engagement improved during the year, more could be done and to this end the Board agreed that it would allocate responsibility for workforce engagement to a Non-Executive Director. In December 2019 we announced the appointment of Ms Kate Allum as Non-Executive Director responsible for workforce engagement with effect from 1 January 2020. With the assistance of the Company Secretary, Ms Allum is planning to hold a number of round table sessions with colleagues and further details are provided in the case study on page 76 and more about the SLT conference is included on page 73. During 2020, the Board will continue to rotate meetings and had agreed to visit sites in Manchester, Dublin and Hanau, Germany, however as a result of COVID-19, the visit to Manchester scheduled for May could not go ahead. Once lockdown is lifted the Board will seek to re-instate the remaining visits and all Directors will endeavour to continue their individual site visits to listen to feedback from colleagues and continually increase their knowledge of the business.

The Company is committed to investing in and rewarding its workforce. It operates a sharesave scheme, provides regular training opportunities, recognises achievements through the Values in Practice recognition programme and enables flexible working arrangements. Further information about the Company's talent development programmes is provided on page 55.

Operating companies across the Group are also engaged in a number of activities involving employees, details of which follow:

UK Distribution	   
UK Exteriors	    
Ireland	   
Corporate	  
Benelux	  
Germany	    
France	   
Poland	   
Air Handling	  

Key:

-  Newsletters, bulletins and personal briefings
-  Sales communication
-  Annual roadshows, town halls and conferences
-  People – annual and quarterly performance appraisals, VIP award, employee focus groups and charity days
-  Social engagements
-  Workers council meetings
-  Branch manager meetings
-  Cross functional forums

Case study

Andrew Allner

Visit to Bobigny and Malakoff, France

As Chairman, prior to COVID-19 I had planned to visit each of our major operating companies at least once a year. The purpose of these visits is to spend time with the operating company Managing Directors, members of the local management team and colleagues at all levels in the organisation. This lets me learn about our operations, see how strategy is being implemented on the ground and hear first-hand about the opportunities, risks and challenges the business faces.

In November 2019, following our Group Board meeting in Munich, I visited our French business. I went to one of our branches, Bobigny in North East Paris, and Malakoff, where the French management team are based. I spent time with Julien Monteiro, our French business Managing Director, met colleagues from the Bobigny branch and held an open round table discussion with the French management team.

At Bobigny I was able to see for myself the health and safety issues around the movement of forklift trucks on site and discuss with management actions taken and planned to improve the health and safety culture and environment.

I was very pleased to see the strong customer focus in the business, to hear that we were gaining market share and that implementation of our target operating model is proceeding cautiously so as not to impact adversely on customer service. It was also encouraging to learn that Paris is an attractive market for us and there are good opportunities coming through.

With the management team we spent time comparing the France Distribution and France Exteriors businesses, which are very different and require different core competencies to be successful.

We talked about our SAP IT project, the governance and decision making process, and the critical importance of getting the upfront planning right. I was able to take back some useful feedback for the Group project team. In addition, I learnt more about the cyber attack in France earlier in the year and some important lessons for us.

Other discussions and questions focused on confidence in delivering the 2019 forecast, the 2020 budget process, growth opportunities, morale and sustainability.

This was my third visit to the French business and I came away feeling that we had a strong management team and were making good progress in improving the business.

Andrew Allner



Board visits to sites during 2019

All

Paris
Munich
Southampton

Andrea Abt

Kentish Town
Stratford

Andrew Allner

Dudley
Birmingham, Soho Hill
Tyseley
Ruislip
Heathrow
Ash Vale, Paris
Krakow
Hanau-Steinheim

Kate Allum

Aberdeen
Ireland
Dundee

Ian Duncan

High Wycombe
Tyseley

Alan Lovell

Heathrow
Ruislip
Dresden
Hanau-Steinheim

Gillian Kent

Heathrow
Ruislip
Valor Park
Wokingham



Corporate Governance Report

Case study



Kate Allum

“I am looking forward to meeting as many people working for SIG as possible. I’d like to understand what they value about working for SIG and, importantly, what they think we can improve.”

After joining the SIG Board in July 2019, I was delighted to be appointed as the Non-Executive Director responsible for workforce engagement from January 2020.

Aside from our obligations as part of the Corporate Governance Code, colleague engagement is a key focus in the strategy going forward, to ensure that our workforce is fully engaged in driving towards achieving the vision and strategy. Building upon the engagement activity that has taken place over the last 12 months, including a group-wide employee engagement survey, this is another opportunity to open a further channel of communication between the Board and colleagues across the organisation over and above the site visits.

I attended the Senior Leadership conference in January 2020 and ran a focus group to introduce my role and the plan to meet with people working at all levels in the organisation. It was explained to the Senior Leadership Team (SLT) that the aim was to hold planning sessions with colleagues from the majority of the operating companies and would welcome their help to establish these initial sessions.

With the help of SLT members, a schedule of dates was agreed in March and April 2020 to hold a number of planning sessions around the business to understand what was important to our employees, and which topics they would want to discuss. During the first quarter of 2020, the intention was to visit sites in the UK, France, Germany, Poland, Benelux and Ireland, to hold meetings with small groups of employees, with representation from a cross section of functions and levels in the business.

By holding small informal meetings, the aim had been to encourage people to be open and transparent about the topics of most interest. However, due to the COVID-19 crisis these sessions were unable to go ahead.

Therefore, when the lockdown is lifted, the engagement sessions will be re-instated as soon as possible, and if face to face sessions cannot be held, video conferencing will be used allowing me the opportunity to also outline in a more personal way the vision and strategy for the business and how the Board undertakes its responsibilities.

The aim is to make sure that the views and experiences of people working for SIG are brought back into the boardroom so we can ensure that we take these into account in our decision making. Ultimately, the Board will be in a better position to evaluate the impact of any proposals and developments on the workforce. Additionally, it will also facilitate discussions with the Executive Directors on any actions that they may need to take to make SIG a really great business.

Of course, our plans for engagement with the workforce will only truly work if any follow-on actions or outcomes and any Board plans which may have consequences for the workforce are reported back. The Board is committed to ensuring that this is done.

Additionally, I am pleased to be appointed as the Board’s Whistleblowing champion (with effect from 27 April 2020) and will be agreeing a written remit and ensuring a robust plan is in place to further enhance awareness and effectiveness of the current whistleblowing arrangements. This role complements my role as the designated Director for workforce engagement.



Corporate Governance Report

Section 172 and Stakeholder Engagement

The Directors consider that they have performed their fiduciary duty, as stipulated under section 172 of the Companies Act 2006 in good faith to promote the success of the Company for the benefit of its members as a whole. They have taken into consideration, amongst other matters:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster relationships with suppliers, customers and others;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

How the Directors have applied their section 172 duties

The Board has considered its key stakeholders and the methods of engagement with each of those stakeholders, both at Board level and across the business. It receives regular reports from management to enable it to monitor the quality and effectiveness of the arrangements for stakeholder engagement. Specific examples of the way in which the Directors have performed their fiduciary duty under section 172 are provided in relation to the disposal of the Air Handling business as well as the Board's actions and decisions during COVID-19. The Board has approved a programme of training to ensure that in preparing proposals for Board consideration, managers are aware of the section 172 requirements in Director decision making, ensuring that Directors will have the assurance that all relevant stakeholder interests and other relevant matters, are being set out for their consideration. As indicated on page 86 the Board as a whole also received training from Herbert Smith Freehills LLP.

Details of stakeholders, primary methods of engagement, why Directors consider engagement to be important, issues raised by stakeholders and actions taken as a result of the engagement are detailed opposite.



Shareholders

Why we engage

The Directors consider that Shareholders' views are important as part of their decision-making process and welcome discussions with them in particular in relation to strategy, remuneration and governance.

Engagement activities

Annual and interim reports, announcements, AGM and general meetings, roadshows, analyst presentations, individual meetings with Directors.

Issues raised

- Support for strategy of transformation
- Encouragement for continuing debt reduction, including through disposal of businesses
- Encouragement for continuing profit improvement
- Concern over weaker market conditions
- Concern over deterioration in sales, especially in the UK

Actions taken subsequently

- Feedback reflected in emerging strategy, focus on core operations and developing investor communications



Colleagues

Why we engage

The Directors consider that a commitment culture, underpinned by defined behaviours with a clear vision and purpose for the future, is vital for the future growth of the business and that engagement with the workforce is key to success of the business.

Engagement activities

Group communication cascades, SLT broadcasts for onward transmission, individual business communications (newsletters), individual business roadshows, employee engagement surveys, annual wider leadership management conference. See more on page 73.

Issues raised

- Reward and target setting
- Knowledge drain with high churn
- Appetite for longer term vision and strategy
- Investment in health and safety
- Investment in branches
- Communication and visibility of leadership
- Systems and processes
- Target operating model
- Induction

Actions taken subsequently

- Reward structures simplified
- Additional internal and external support provided to facilitate cultural improvement
- Investments made in training and development of staff
- Establishment and communication of a purpose, culture and vision for the Company
- Investments in health and safety approved
- Refurbishment of branches in SIG Roofing approved
- Relocation of branches in Germany, Poland, Netherlands and France
- Investments in new target operating model
- New CIO recruited, ERP SAP project initiated, increased investment in IT and data and end-to-end processes
- Communications improved with comprehensive employee engagement plan and greater Board visibility at branches and conferences
- Induction process improved
- Appointed Ms Allum as designated Non-Executive Director for workforce engagement



Customers

Why we engage

The profitability of the business is underpinned by providing effective partnerships with customers, so understanding their needs and requirements is extremely important.

Engagement activities

Website, dedicated customer relationship manager for larger customers, reward scheme. Structured direct calls to obtain feedback.

Issues raised

- Issues around stock, fulfilment and pricing
- Lack of quality in end-to-end processes and therefore delivery
- Positive reception in technology advances
- Openness to partner in new ways of working together
- Lack of regular contact and staff turnover/loss of key relationships

Actions taken subsequently

- Customer service has been and continues to be prioritised
- Complaints followed up by CEO
- Steps being taken to improve service and delivery
- Increased focus on customer relationships especially during site consolidations and other major change activities
- Issues around stock, fulfilment and pricing being addressed
- Digital implementation underway
- More e-commerce focus in certain parts of the Group



Suppliers

Why we engage

The Directors understand that SIG adds value by operating as the supply chain partner of choice.

Engagement activities

Dedicated category manager responsible for relationship, top 60 suppliers invited to attend and exhibit at bi-annual sales event, regular (quarterly) meetings with top 20 suppliers. Structured interviews to obtain feedback.

Issues raised

- Supportive but concerns over loss of sales to SIG
- Expressed dissatisfaction with routes to market and complicated product portfolio management
- Loss of local engagement
- Perceived lack of adding value to the supply chain

Actions taken subsequently

- Routes to market improved
- Improvements made to sales and marketing functions
- New target operating model implementation
- SAP ERP development commenced
- Structured recovery plans in place with robust stocking policy in place
- Ongoing interactions and communications on digitising the business



Bankers

Why we engage

The Directors recognise the value of working in partnership with our bankers to ensure that we have the necessary financial capital and resilience.

Engagement activities

Regular trading updates, face to face meetings with the Group Treasurer, covenant returns.

Issues raised

- Support for strategy of transformation
- Encouragement for continuing debt reduction, including through disposal of businesses
- Encouragement for continuing profit improvement
- Concern over weaker market conditions
- Concern over deterioration in sales, especially in the UK
- Appetite for reduction in revolving credit facility commitments

Actions taken subsequently

- Increased the pace of change
- Feedback reflected in emerging strategy and developing lender communications
- Planning to make interim reduction in revolving credit facility commitments, pending fuller review of financing structure in 2020

Corporate Governance Report



Pension scheme members and trustees

Why we engage

The Directors understand the importance of keeping pension scheme trustees and members advised and consulted on significant developments.

Engagement activities

Newsletter, circulation of annual accounts and dialogue between the Company and the Chair of the Pension Trustees.

Issues raised

- Dialogue welcomed. Members keen to maintain ongoing communication around implications for Company's covenant of transformational change and business disposals (particularly Air Handling).

Actions taken subsequently

- Maintaining ongoing dialogue



Local community

Why we engage

The Directors appreciate that close relationships with communities where the business operates will foster the long-term success of the business.

Engagement activities

Charitable events, consultation around activities impacting the local neighbourhood, engagement with the University of Bath to support final year student project, work experience facilitated, DIY SOS support given for materials for TV show, materials provided for charity projects.

Issues raised

- Positive feedback around the level of engagement
- Appreciation for support given

Actions taken subsequently

- Continuing support



Government

Why we engage

Regular engagement with government and regulatory bodies is important to ensure that the strategy remains appropriate and that the Company is operating appropriately.

Engagement activities

Engagement with DVLA (road safety), lobbying as a member of the Consumer Protection Association (CPA), input into insulation and quality standards. Occasional contact with FRC and FCA in relation to regulatory matters.

Issues raised

- Company performance not consistent
- Value proposition not always understood

Actions taken subsequently

- Routes to market improved
- Ongoing dialogue

The Company recognises the importance of communicating with its Shareholders, including its employee Shareholders, to ensure that its strategy and performance is understood. This is achieved principally through the Annual Report and Accounts and the AGM, which all Directors attend.

The CEO and CFO are primarily responsible for direct investor relations. The Board is kept informed of investors' views through distribution and regular discussion of analysts' and brokers' briefings and a summary of investor opinion feedback. In addition, feedback from major Shareholders is reported to the Board by the Chairman and the CFO and discussed at its meetings. Formal presentations are made to institutional Shareholders following the announcement of the Company's annual and interim results.

Following the Company's trading update in October 2019, when the Group reported lower underlying profitability for the full year than previous expectations, the CEO and CFO updated major Shareholders on medium term financial targets and the plans to achieve these targets. The CFO also updated major shareholders following the Trading Update in January 2020.

Each year, the Chairman offers one-to-one meetings with SIG's largest Shareholders. The Chairman has held a number of discussions with SIG's large institutional Shareholders during the year. His meetings with Shareholders have enabled him to understand their views on governance and performance against the strategy of the business.

Contact is also maintained, where appropriate, with Shareholders to discuss overall remuneration plans and policies. The Chairman and the Senior Independent Director are available to discuss governance

and strategy with major Shareholders if requested, and both are available for contact with individual Shareholders should any specific areas of concern or enquiry be raised. The Chair of the Audit Committee and the Chair of the Remuneration Committee are also available for contact with Shareholders should there be any matters raised which are relevant to their area of responsibility.

Throughout the year, the Company responds to correspondence received from Shareholders on a wide range of issues and also participates in a number of surveys and questionnaires submitted by a variety of investor research bodies. Although the other Non-Executive Directors are not at present asked to meet the Company's Shareholders, they regularly review the presentations of the annual and interim results. The Chairman also ensures that the Board as a whole has a clear understanding of the views of Shareholders and a regular report is provided by the CFO on investor relations at each Board meeting.

The AGM notice of meeting is sent to Shareholders at least 21 days before the meeting. The Company provides a facility for Shareholders to vote electronically and the form of proxy provides Shareholders with the option of withholding their vote on a resolution if they so wish. At the AGM in June 2020 Shareholders will be asked to vote on a poll, rather than a show of hands, following best practice. The Company Secretary ensures that votes are properly received and recorded. Details of the proxies lodged on all resolutions and of all abstentions are published on the Company's website immediately after the AGM.

Examples of how the Directors have applied their section 172 duties

Air Handling disposal

In considering the potential sale of the Air Handling business, the Directors had regard to their duties under section 172 of the Act. They considered the interests of a number of different stakeholders, maintaining the Company's reputation for high standards of business conduct, relevant risks and mitigation before weighing up whether the sale would lead to the success of the Company in the longer term. They considered the interests of different stakeholders in the following manner:



Shareholders

Development of a longer-term business case and case for the disposal, planning for value creation, maximising proceeds and determining the best use of the proceeds. Shareholders consulted and feedback considered by the Board



Analysts and brokers

Commentary considered by the Board which included the impact of the disposal on the balance sheet and the Company's net debt position



Colleagues

Communication plan for engagement, motivation and information sharing
Consultation with the French works council and no job losses on disposal
Consideration of the impact on share incentive arrangements and the treatment of participating employees on disposal



Customers

Planning for best practice processes including centralised pricing and salesforce effectiveness and recognising issues raised by customers such as stock availability. Adoption of a webshop model to provide complimentary services across the network, opening of three new branches in under-represented locations



Suppliers

Alignment of terms and centralised procurement
More focus on the core business enabling better management of supplier relationships



Pension trustees

Engaged and consulted

Risks and mitigation

Value deterioration pending sale mitigated by robust planning and consideration of alternative measures.

COVID-19

During the COVID-19 pandemic, the Board has met more frequently (bi-monthly) and considered the needs of all stakeholders as the situation unfolded and the long-term success of the Company. Management was initially meeting on a daily basis and moved to bi-weekly, feedback on these meetings was being provided to the Board on an ongoing basis. The Board regularly reviewed the position keeping at the forefront of their mind the need to preserve the safety of colleagues, suppliers and customers. In making any decisions, the Board also considered maintaining the Company's reputation for high standards of business conduct as well as its success in the longer term.

Stakeholders and matters considered during the decision-making process:

- Health and wellbeing of colleagues, customers and suppliers
- Government guidance and support available
- Shareholders
- Banks and lenders
- The local community

Summary of actions taken as a result of COVID-19 as at the date of this report are as follows:

- Instigated home working and enhanced the IT capability by purchasing additional laptops and VPN licences to facilitate as many people as possible to work from home. Additional fraud measures were put in place as organised crime intensified its own activity to gain access to SIG systems. Moved all meetings to video conference calls.
- Enforced and adhered to the government's strict hygiene, social distancing and cleaning standards in all countries where branches/sites remained open.
- Temporarily closed the majority of UK and Ireland operations but remained open to service critical and emergency projects only, such as for the NHS, energy and food sectors, and to ensure that there was an orderly closure programme. Reopened the majority of sites by mid-May.
- Furloughed circa 2,070 colleagues but committed to maintain a proportion of pay. Colleagues voluntarily took a pay reduction of up to 20% and the Board agreed to take up to 50% from 1 April 2020 for 3 months until 30 June 2020. In mid-May when colleagues returned to work on full pay the CEO and CFO were reinstated to 80% from 1 April 2020.
- In the UK, helplines have been set up so colleagues can get free advice and support on mental health, financial and legal issues.
- Engagement with some of the Company's major Shareholders by the Chairman on the impact of the crisis and the steps it has taken as a result. Announced that the Company would not be declaring a final dividend for 2019, nor to consider any return to Shareholders from the proceeds of the recent Air Handling disposal.
- Engagement with customers and suppliers by operating companies to discuss the market environment, their needs/ concerns and stock demand and availability.
- The Board received updates from its financial advisors, lawyers and brokers.
- Group Risk has designed and rolled out a crisis response checklist to each operating company. The checklist comprises a set of short, medium and long-term risks with activities for consideration by management. Each operating company has been able to use the schedule to ensure it has coverage of the fuller spectrum of risks and to prompt consideration of additional activity, especially in relation to changes in response by governments.
- The Board also regularly monitored the liquidity of the Group and put in place strengthened cash control measures. The Group has been able to preserve its liquidity position and the Group remained in dialogue with its lending group in order to release additional liquidity as required.
- SIG also made use of tax relief, as well as accessing other available government measures.
- For more information on COVID-19 risks and mitigating actions see page 47.

Corporate Governance Report

Division of Responsibilities

Board and Committees

The Board has delegated certain responsibilities to its principal Committees. Each of the Committees operates under written terms of reference which are consistent with current best practice. The terms of reference of each of the Committees were reviewed and updated by the Board during the year and can be found on the Company's website (www.sigplc.com). The Board also appoints Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve the preliminary and interim results announcements and the disposal of the Air Handling Division to France Air.

The Board

- Promotes the long-term sustainable success of the Company and its subsidiaries, generating value for Shareholders and contributing to wider society.
- Establishes the Company's purpose, vision and strategy and satisfying itself that these and its culture are aligned.
- Assesses and monitors culture and behaviours.
- Ensures that the matters set out in section 172 of the Companies Act 2006 are considered in Board discussions and decision making.
- Ensures that all Directors act with integrity, lead by example and promote the desired culture.
- Ensures that the necessary resources are in place for the Company to meet its objectives and assesses the basis on which the Company generates and preserves value over the long-term.
- Reviews whistleblowing arrangements, ensuring that arrangements are in place for proportionate and independent investigation and follow up action.



Audit Committee

Monitors the integrity of financial reporting, the performance of the external Auditor and reviews the effectiveness of the Group's systems of internal control and related compliance activities.

The Committee comprises only independent Non-Executive Directors. The Chair of the Committee attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 101 to 110.



Nominations Committee

Regularly reviews the structure, size and composition of the Board and oversees the development of a diverse pipeline for orderly succession to the Board and senior executive positions. Working with HR, takes an active role in setting and meeting diversity objectives and strategies for the Company as a whole.

The Committee comprises the Chairman and the independent Non-Executive Directors. The CEO was a member of the Committee until 8 May 2019. The meetings of the Committee are chaired by the Chairman. The Chairman of the Committee attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 96 to 100.



Remuneration Committee

Agrees with the Board the framework or broad policy of remuneration for the Chairman, Executive Directors and senior executives, and sets their remuneration and reviews remuneration policies across the Group ensuring the alignment of workforce remuneration and incentives with the Group's culture and strategy.

The Committee comprises four independent Non-Executive Directors and the Chairman, (from 1 January 2020) who was independent on appointment. The Chair of the Committee attends the AGM to respond to any shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 111 to 132.



Executive Leadership Team Committee

The Committee addresses operational issues and is responsible for implementing Group strategy and policies, day-to-day management and monitoring performance. The Committee met 11 times during the year. Members include those individuals listed on page 84.

Board roles

Each of the Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The Chairman was assessed by the Board as being independent on appointment. The composition of the Board is such that it includes an appropriate combination of Executive and independent Non-Executive Directors and no one individual or group of individuals dominates the Board's decision making. The roles of the Chairman and Chief Executive Officer are separate and clearly defined and are undertaken by different individuals ensuring that there is a clear division of responsibilities between the leadership of the Board and the executive leadership. More details of the roles and responsibilities can be found on the company's website at www.sigplc.com.

Chairman

Leading the Board, responsible for its overall effectiveness in directing the Company.

Shaping the culture in the boardroom, ensuring that all Directors, particularly the Non-Executive Directors, make an effective contribution.

Chief Executive Officer

Responsible for proposing and then delivering the strategy approved by the Board.

Responsible for setting an example to the Company's workforce, for communicating to them the expectations in respect of the Company's culture and for ensuring that operational policies and practices drive appropriate behaviour.

Senior independent Director

Available for approach by (or representations from) Shareholders, where communications through the Chairman or Executive Directors may not seem appropriate.

Leads the evaluation of the Chairman's performance at least once a year, meeting with the Non-Executive Directors, and without the Chairman being present.

Non-Executive Directors

Appointed for their wide-ranging experience and backgrounds.

They each provide constructive challenge, strategic guidance and specialist advice, holding management and individual Executive Directors to account against agreed performance objectives.

Group Company Secretary

Independent adviser to the Board.

Ensures Board procedures are followed, and decisions implemented.

Ensures best practice governance arrangements are followed.

Corporate Governance Report

Division of Responsibilities

Executive Leadership Team as at 29 May 2020



Steve Francis
Chief Executive Officer

Seasoned CEO in turbulent times.

Key career highlights

- CEO, Patisserie Holdings PLC
- CEO, Tulip Ltd
- CEO, Danwood Group Holdings Ltd



Ronald Hoozemans
Managing Director Germany and Benelux

Over 15 years' experience in leadership across the construction and healthcare industry

Key career highlights

- Managing Director, Mediq
- Managing Director, Nutrica Advanced Medical Nutrition (Danone)
- Operating Director, Nutrica



Philip Johns
Managing Director SIG UK

Over 30 years' experience in the construction industry specialising in merchandising and distribution.

Key career highlights

- Chief Commercial Officer, IBMG Group
- CEO, MKM Building Supplies
- Managing Director, SIGE (2006 – 2015)
- Joined SIG in 1987



Kath Kearney-Croft
Chief Financial Officer

Over 20 years' experience in the finance industry, broad international global experience in a series of financial leadership roles in market leading industrial and manufacturing companies.

Key career highlights

- Group Finance Director, Vitec Group plc.
- Group Finance Director, Rexam plc
- Director Group Planning & Finance, Rexam plc



Julien Monteiro
Managing Director France

Over 12 years' global experience in the specialist industrial distribution industry.

Key career highlights

- Managing Director, France, Brammer Group
- Business Director and Sales Director, Nacco Materials Group



Marcin Szczygiel
Managing Director Poland

Over 21 years' experience in the specialist construction distribution industry.

Key career highlights

- Managing Director for SIG Poland since 1999
- Managing Director, Sitaco
- Sales and Marketing Director, Isover Poland



Kevin Windle
Managing Director Ireland

Over 20 years' experience in finance leadership roles in the building merchandising industry.

Key career highlights

- Finance Director, SIG Ireland until 2019
- EMEA Finance Director, Glanbia Performance Nutrition
- Finance Director, Grafton Merchandising ROI



Kulbinder Dosanjh
Group Company Secretary

Over 20 years' global experience in business administration across both public and private companies.

Key career highlights

- Group Company Secretary, Royal Mail
- Group Company Secretary, British Airways



Clare Taylor
Group Human Resources Director

Over 20 years' experience in global HR leadership roles across manufacturing and distribution industries.

Key career highlights

- Group HR Director, Scapa
- Commercial HR Director, Ideal Standard International
- Senior Global HR roles with Smith & Nephew plc and SSL International plc



Andrew Watkins
Group General Counsel

Over 17 years' experience in legal counsel across both public and private companies.

Key career highlights

- General Counsel, Hyve Group
- General Counsel and Company Secretary, Ebiquity plc
- General Counsel, Adapt Services Ltd
- Partner, Trowers and Hamlin LLP

Corporate Governance Report

Composition, Succession and Evaluation

Time commitments

The Board has satisfied itself that there is no compromise to the independence of those Directors who have other appointments in outside entities. The Board considers that each of the Non-Executive Directors brings their own senior level of experience and expertise, and that the balance between non-executive and executive representation encourages healthy independent challenge to the Executive Directors and senior management. Prior to their appointment, Directors are required to disclose their significant other appointments and the Board is satisfied that each of the Non-Executive Directors can dedicate sufficient time to their role and responsibilities. Directors are aware that they must not take on additional external appointments without the prior approval of the Board. During 2019, approval was given to Mr Lovell prior to him taking up the role of Chairman of Interserve and Progressive Energy Limited in July 2019. Approval was also given to Mr Allner prior to him taking up the role of Chairman of Shepherd Building Group Ltd in January 2020. The Executive Directors do not have any FTSE company Non-Executive Director appointments or other significant appointments.

The Nominations Committee regularly reviews the other commitments of Directors on appointment, on any proposal for re-appointment and following any change in roles to ensure that the Directors have sufficient time to undertake their role and responsibilities towards the Company.

Information and support

To enable the Board to perform its duties efficiently and effectively, all Directors have full access to all relevant information and to the services of the Company Secretary, whose responsibility it is to ensure that Board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the Board. There is an agreed procedure whereby Directors wishing to take independent legal advice in the furtherance of their duties may do so at the Company's expense.

The Company Secretary is responsible for ensuring that Board policies and processes are followed including the formal minuting of any unresolved concerns that any Director may have in connection with the operation of the Company. During the year there were no such unresolved issues. Further, on resignation, if a Non-Executive Director had any such concerns, the Chairman would invite him/her to provide a written statement for circulation to the Board.

The Board and its Committees are provided with sufficient resources to undertake their duties. Appropriate training is available to all Directors on appointment and on an ongoing basis as required.

The Group has operated a paperless meeting system for the Board, its Committees and the Executive Committee for a number of years and currently uses Diligent software. Using an electronic system for meeting packs supports our online drive across the Group and is consistent with reducing the impact of our operations on the environment.

The Board receives papers circulated through the Diligent portal in advance of each Board meeting as well as information between Board meetings on matters such as analyst and shareholder reports and flash results. There is also a separate 'Reading Room' within the Diligent portal where Directors are able to access information such as corporate policies, the Articles of Association, Group and organisational structure, Board dates and contact details.

The Company Secretary attends all Board meetings and is at hand at all times to answer questions or offer independent advice or expertise to Directors, should that be required.

Composition and succession

During the year, two new Directors, Ms Allum and Ms Kent, joined the Board replacing Ms Ashdown and Mr Ragoucy. Lygon Group was

appointed to assist with the recruitment process which was led by the Nominations Committee. As already stated, two new Executive Directors, Mr Francis and Ms Kearney-Croft, joined the Board replacing Mr Oldersma and Mr Maddock respectively. The Savannah Group was appointed to assist with the interim Chief Executive position and Lygon Group assisted with the permanent search of the aforementioned role. Further details of this process, which the Board regards as formal, rigorous and transparent, are included on pages 97 to 98.

The Board has also focused during the year on ensuring that succession plans for the Board and senior management are robust and that there is a pipeline of capable management in place. The HR Director carried out talent and succession planning reviews during May. These were calibrated by the Executive Leadership Team with some gaps in succession planning identified. The results were then reviewed and discussed by the Nominations Committee and the Board in July 2019 and it was agreed that our high potential leadership development programme (RISE) will be reinstated for leaders within the organisation together with action plans to address gaps in succession planning viewed as critical. RISE will commence in 2020. Further details about the RISE programme are provided on page 55.

In addition to this programme, to support and improve the diversity of our talent pipelines into senior leadership roles, a programme will be created specifically focused on women in leadership throughout SIG. This programme will focus on female leaders throughout the organisation in order to develop their capability and potential to progress into senior leadership and executive roles with confidence. A mentoring programme is also being created, which will see individuals from the Executive Leadership Team and other senior leaders trained to be effective mentors, both for the RISE programme and the women in leadership programme.

Election and re-election of Directors

Under the Articles of Association, all Directors are subject to election at the AGM immediately following their appointment and to re-election every three years. However, in accordance with the Code, all Directors will seek election or re-election at the Company's AGM each year. In accordance with Provision 18, the Board should set out the skills and experience that each director has, and why their contribution is and continues to be important to the Company's long-term sustainable success. The Board believes the success of the Company going forward will be achieved by a new 2020 strategy of returning to profitable growth by maintaining a leading market position, with a modernised operating model, effective partnerships with customers and suppliers, developing high performing people and being a responsible business. The contribution of the whole Board is essential in delivering the new strategy with a number of very experienced Non-Executive Directors and Executive Directors. The new Executive Directors have expertise in driving rapid operational and performance improvements and restoring profitable growth. The Chairman has considerable board and general management experience with an in-depth understanding of corporate governance. Mr Lovell has extensive construction sector experience in the Group's key markets, the UK, Ireland and Europe as well as turnaround expertise. Ms Allum brings extensive people and change management experience which is extremely important in her two additional board roles (workforce engagement and whistleblowing champion) and driving the people agenda. Mr Duncan brings extensive financial and change management experience which will help to enhance the financial performance and measurement within the Company. Ms Kent brings valuable perspective in the development of ecommerce and software businesses and building product markets and brands, which will be hugely important in driving innovation and digitising our business. Therefore, to enable Shareholders to make an informed decision, the 2020 notice of AGM includes biographical details and a more detailed statement as to why the Company believes that the Directors should be elected/re-elected.

Corporate Governance Report

Composition, Succession and Evaluation

It is the view of the Board that each of the Non-Executive Directors standing for election or re-election brings considerable management experience and an independent perspective to the Board's discussions, and is considered to be independent of management and free from any relationship or circumstance that could affect, or appear to affect, the exercise of their independent judgement.

The Chairman intends to confirm at the AGM that, as confirmed by the 2019 Board evaluation process, the performance of each individual continues to be effective, that each Director acts with integrity, leads by example, promotes the desired culture and demonstrates commitment to the role.

The terms of the Directors' service contracts are disclosed in the Directors' Remuneration Report on page 132. Full details of directors' remuneration, interests in the share capital of the Company and of share options held are set out on page 131 in the Directors' Remuneration Report.

Directors' service contracts and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office and will be available at the 2020 AGM.

Skills and experience

The Board evaluation review process detailed on pages 87 to 88 identified that the Board encompasses a wide range and combination of different skills, experience and knowledge, ranging from accounting to sales and marketing to digital. The Board decided that they would seek to enhance the Board in 2020 with the appointment of an additional Non-Executive Director who would bring more industry sector experience. More details can be found on page 65.

Training and induction

The Chairman regularly reviews and agrees with each Director their training and development needs. During the year, a number of the Directors attended training courses and seminars on various subjects, including those that the Chairman had identified as being

areas where training would increase the knowledge and effectiveness of the Director. The Board as a whole received training from Herbert Smith Freehills LLP regarding corporate governance developments and Directors' duties under sections 171 to 177 of the Companies Act 2006. The Board receives regular presentations from advisors and senior management on a range of topical issues such as data governance and class 1 transactions and responsibilities.

As part of the roll out of updated corporate policies mentioned on page 74, the Board undertook the online compliance training to enhance their awareness of the various requirements of our corporate policies. The Directors also report to the Board on any other training undertaken and a schedule of Director training is kept by the Company Secretary.

On appointment, Directors receive a full induction to the Company. This involves meetings with each of the Board members, members of the Executive Committee, visits to a number of branch locations and receipt of a full pack of corporate materials including corporate policies and procedures, details of insurance, financial framework and Shareholders. The programme ensures that they are fully briefed on current key Board topic areas, the Company strategy, vision and structure, stakeholder engagement activities, Group operations, finance and the industry.

All Directors participated in a special training event in December 2019 when PwC, the Company's appointed remuneration consultants, updated the Directors on the latest developments in remuneration and reporting.

Diversity Policy

Whilst succession within the organisation is based on objective performance criteria, the Board recognises that diversity of gender, social and ethnic backgrounds and cognitive and personal strengths are hugely important to the success of the organisation and a key focus of the Nominations Committee working with the HR team will be to develop diversity within the organisation going forward. In relation to Board succession planning, the Board recently reviewed and updated its Board diversity policy and reviewed the Board succession plan. The Board diversity policy is available on the Company's website (www.sigplc.com). Further details can be found on page 99.

Induction undertaken with Kate Allum and Gillian Kent



"The induction provided me with a good understanding of the business from day one. Talking first hand to branch colleagues was particularly insightful."

Gillian Kent



"The induction provided me with all the resources I needed to start in my role. It was a well managed and informative process."

Kate Allum

Meetings with Board and key members of management team covering:

- Key Board topics
- Long-term strategy
- New vision, purpose and culture
- Group operations, finance and performance
- Industry and stakeholder engagement
- Key people and succession plans

Meeting with Company Secretary covering:

- Use of Diligent portal
- Structure of Board and Committees
- Governance framework
- Group structure and history

Branch visits:

as set out on page 75.

Corporate Governance Report

Board Evaluation

The effectiveness of the Board and its Committees and the skills, experience and diversity of our Directors are vital to the long-term sustainable success of the Company. During the year the Board undertook an evaluation process to assess its performance, that of its three principal Committees (Audit, Remuneration and Nominations) and individual Directors.

Process

The Company Secretary, together with the Chairman, prepared a questionnaire which was made available to Directors through the Board portal. Directors were asked about the performance of the Board, the Audit, Remuneration and Nominations Committees and individual Directors. The Board was asked to confirm whether the Chairman promotes relationships and open communication both inside and outside the boardroom between Non-Executive Directors and the Executive Team. They were also asked to consider what further could be done to promote and encourage equal contribution, candid discussion and critical thinking in the boardroom.

Skills matrix

At the same time, Directors completed a matrix detailing their skills and experience covering a number of different areas including stakeholder and workforce engagement, technology/digital, health and safety, treasury management, accounting, international, property management and corporate transactions. Responses were collated,

in an unattributed manner, into a report produced by the Company Secretary. The report was then circulated to the Chairman and Board members and was discussed in detail by the Board at its meeting in December 2019. The Chairman also held individual one-to-one discussions with each of the Directors to discuss their individual performance and appraisal.

Assessment of Chairman's performance

The Non-Executive Directors, chaired by the Senior Independent Director, Alan Lovell, met without the Chairman present to assess his performance, taking into account the views of the Executive Directors. Following his conversations with other Board members, the Senior Independent Director then met with the Chairman to review his performance. Overall, Directors considered that the Chairman demonstrated objective judgement and promoted a culture of openness and debate within the boardroom, facilitating the contribution of all of the Non-Executive Directors.

Progress with 2019 priorities

As part of the review process the Board considered the results of the effectiveness review undertaken by Condign Board Consulting in 2018 and the progress made against Board priorities in 2019.

The progress against the 2019 priorities can be summarised as follows:

2019 priorities and progress

1

Board administration and business knowledge

Greater discipline and rigour is required around the preparation and maintenance of the Board's planning calendar, including topics to be discussed; attendance and presentations by management below Executive Director level; attendance by third parties; Board site visits; and training events. The planning calendar should be regularly updated and used as a means to ensure the Board is getting the assurance required from others within the organisation and outside and that the Non-Executive Directors have a good feel for the business and hear the views of employees.

Progress

Progress has been made to improve the rigour and discipline around Board administration. During the year, a new General Counsel and a Company Secretary have been appointed. Training events have been held for the Board and Board members have undertaken several individual site visits during the year to understand the business and ascertain employee views.

There have been several opportunities for the Board to engage collectively with employees with visits to Pantin in Paris, the roofing and distribution branches in Southampton and the Eching branch in Munich.

2

More strategic focus

Greater clarity around the Group's strategic planning process is required. The current work to develop a purpose, vision, and strategy for individual businesses (both in the UK and Europe) needs to be brought to a conclusion, as does the work on the Group's longer term corporate strategy, together with a list of strategic agenda issues to be incorporated into the Board planning process at the appropriate time.

Progress

The Board's focus on strategy has improved during the year. A strategy Director was appointed to drive the Group's strategic planning with dedicated meetings being held to discuss strategic issues including:

- Portfolio management;
- Digital;
- Future growth;
- Purpose, culture and values/behaviours;
- IT;
- Roll out of new ERP systems;
- Data; and
- Organisational capability.

Corporate Governance Report

Board Evaluation

Current effectiveness and priorities for 2020

The review of effectiveness in 2019 identified the following as key areas of strength and key areas of priority for the Board during 2020:

Key strengths

- 1 The Board continues to operate effectively and to a high standard**

The Chairman leads the Board well and sets a good tone at meetings, encouraging equal participation. Relationships amongst Board members are constructive, open and candid. The new Directors appointed during the year have added new skills and insights particularly around people, digital and culture.
- 2 Purpose, vision, strategic direction understood and supported**

The Board has spent time on articulating the Group's purpose, vision and culture. Adequate time was spent on the strategy, where the Board was broadly supportive and understood the strategy. The ability and capability of management to execute the strategy was broadly effective but much more focus was required to make a significant difference to improving the performance. The Board's understanding of the business has improved as a result of the numerous site visits and listening to colleague feedback.
- 3 Robust Board information and governance**

The Board has made good progress with governance, for example, by reviewing and updating the matters reserved for the Board and Board diversity policy. Board papers and support around meetings has improved. The Board is receiving better information and being kept up to date on key governance matters.
- 4 Board Committees are all considered to be operating effectively**

The Committees are generally considered to be effectively chaired and managed. The Board considers the Committees are effective at dealing with matters delegated to them. In particular, the Audit Committee is rated highly for leadership, its relationship with management, external advisers and identifying and evaluating risks. The Remuneration Committee is effective in setting and reviewing the remuneration framework and policy for Executive Directors and other senior managers. The new Chair has made a good start in ensuring everyone understands reward arrangements in the Group.

Board priorities for 2020

- 1 Culture**

Although good progress has been made, more could be achieved in embedding the culture across the organisation and setting the tone from the top. Steps have been taken to develop a dashboard to monitor culture which could be enhanced further in 2020. More will be done to embed the commitment culture and behaviours throughout the Group with the Board setting the 'tone from the top'.
- 2 Composition, talent and succession**

Although the Board has been enhanced significantly during the year with two new Non-Executive Director appointments, the plan would be to enhance the composition further in 2020. Two new Executive Directors have joined given that the essential restructuring of the Group had largely been completed, the Board believed that it was time for a new leadership team, with skills in driving rapid operational performance improvements through strong customer relationships, excellence in customer service and creating highly engaged teams. The Board through the Nominations Committee would focus more on talent, capability and succession of the Managing Directors of the operating companies and their direct reports. Improve the recruitment, retention of talent and support the Company's diversity and inclusion aims.
- 3 Employee and stakeholder engagement**

More information and debate around people issues. The appointment of a designated Non-Executive Director for workforce engagement should formalise the process and assist the Board to gain a deeper understanding of colleague feedback. Continue with Board visits and meetings with the management teams of the operating companies in addition to engaging more with suppliers and customers. Develop more understanding of who they are, ensure effective understanding of their views and develop KPIs/dashboard to monitor progress.
- 4 Board information and support**

To continue to improve the rigour and discipline around Board information and support. Ensure papers are concise, distributed in a timely and user-friendly manner through the digital portal. Continue embedding the arrangements developed as a result of the Code. Develop more robust procedures around Board and Committee meetings.
- 5 Environment and sustainability strategy**

Whilst SIG plc had again been recognised as a constituent member of the FTSE4 Good Index Series demonstrating strong environmental, social and governance practices, there is a need for further clarity on the Group's priorities around environmental, social and governance and sustainability matters and the rationale behind the direction of travel.

Corporate Governance Report

Audit, Risk and Internal Control

Risk management and internal control

The Board has ultimate responsibility for the Group's risk management and system of internal control and for reviewing its effectiveness. It establishes the structure for risk management, sets strategic objectives, sets the risk appetite and ensures that risk management and internal control structure and frameworks are robust. The Board delegates responsibility to the Audit Committee to consider the adequacy of the risk management and internal control framework and to agree the risk-based internal audit programme. The Executive Committee has responsibility for ensuring that risk management is embedded into all processes and for ensuring that risk profile is in line with the approved risk appetite. Local Controls Managers support process owners to develop controls and to test their effectiveness. Group Internal Audit is responsible for providing independent assurance on the quality of the risk management processes, developing a risk-based internal audit programme and providing independent assurance to the Board and the Audit Committee that controls in place are designed appropriately and operating effectively.

The Group Internal Audit function comprises of an in-house team supported by a co-source arrangement with KPMG LLP who provide input on specialist areas. BDO LLP have also been retained for advisory work on controls for management. The Board regularly reviews the need for the Group Internal Audit function and the effectiveness of the co-source arrangement.

Information on audit can be found in the Audit Committee Report on pages 101 to 107.

Key elements of ongoing process for risk management and internal control

The key elements of the existing systems for risk management and internal control, in accordance with the FRC's Guidance on Risk Management and Internal Control and Related Financial and Business Reporting (September 2014) (FRC's Guidance), are as follows:

Risk management

- The documented Group risk management framework, approved by the Audit Committee, provides an overview of the agreed risk management processes within the Group and gives practical guidance to operating companies and individual functions on the management of risk. Essentially it is a toolkit to help manage strategic, financial, operating and compliance risk. The Group risk management framework is supported by a simple pack of slides (Managing Your Risks) which helps management to explain the risk management system to their teams. The Group Risk and Internal Audit teams support with practical assistance where required. The Group risk management framework was updated during the year and formally issued to leadership teams in February 2019.
- In accordance with the Group risk management framework, operating companies and central function leadership teams maintain their own local risk registers.
- The Board maintains an overall Group risk register, the content of which is determined and assessed through regular input from the Audit Committee. A review of the Group's principal risks and how it manages or mitigates them is presented in the Strategic Report on pages 44 to 49.

- The Group risk register contains the principal risks faced by the Group and assesses the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). It outlines the current controls in place to mitigate the risk and any further actions required to bring the risk to within risk appetite. Each Group risk is owned by a member of the Executive Leadership Team and sponsored by either the Chief Executive or Chief Financial Officer. New and emerging risks are identified through horizon scanning, review of relevant media publications, external insights, risk workshops held with management teams and discussion with senior management and external advisers. Once identified, emerging risks are assessed by identifying and mapping out the core elements of the risk, identifying owners for each element in the operating companies, holding workshops with risk owners to assess the level of risk, identifying potential mitigating actions that reduce the impact of the risk and seeking external guidance if required. Potential emerging risks are monitored and assessed at least twice a year by the Audit Committee and Board for their relevance and significance.

The Board regularly assesses the Group's emerging and principal risks and considers that its assessment is robust.

Internal control

Key control activities include:

- A defined organisation structure with levels of approval governed by the Group Delegation of Authority policy. This was updated in January 2020 to accommodate changes in operating models and organisational structures across the Group.
- In light of the changes to business practices as an impact of COVID-19, there was a further tightening of approval levels for the payment of invoices relating to non-trade, government payments and capex projects. CFO approval was also required for any new capex projects over a value of £100,000.
- Clear responsibilities on the part of financial management for the maintenance of good financial controls and the production and review of detailed, accurate and timely financial management information.
- A comprehensive system of financial reporting which includes an annual process for operating company budgets to be approved by the CEO.
- In-depth reviews of operating company performance completed with the CEO and CFO attending local management meetings to discuss any significant changes and adverse variances against budget.
- Monthly provision to the Board of relevant, accurate and timely information including relevant key performance indicators.
- The Key Controls Framework (KCF) launched in 2018 utilised across the Group setting out 33 control assertions across a number of entity-level, financial, operational and IT control areas against which operating companies are required to self-certify on a quarterly basis using a RAG rating. Design and implementation of the KCF control by leaders in the business represents the first line of defence in the organisation. They rely on the Group / operating company Controls Managers, the second line of defence, to advise on controls and to test these on a rolling basis. Group Internal Audit, as the third line of defence, provides independent assurance over those controls. This self-certification process is reported to the Audit Committee on a quarterly basis. The KCF was updated in quarter one in 2019. The three lines of the defence model is addressed in further detail in the Strategic Report at page 44, and further detail in relation to the KCF is provided in the Audit Committee Report at page 106.

Corporate Governance Report

Audit, Risk and Internal Control

- The KCF self-certifications received from operating companies as at 31 March 2020 have been reviewed to understand the potential heightening of risk due to COVID-19 and its impact on working practices, i.e. relocation of staff and inaccessibility of some locations. This review also looked to understand the measures implemented across the Group to ensure an adequate and appropriate level of control.
- The interim measures implemented include a communication with suppliers and additional support provided by the UK Shared Service Centre to ensure that supplier invoices are received and processed in a timely manner in light of branch closures and a review of customer credit limits to reflect the uncertainty around cash collections from customers and to mitigate the risk of bad debts. Some customer credit limits have been set to zero and therefore customers are required to make advance payments before orders can be raised.
- Regular monthly reports on risk management, KCF and internal controls at each Board and Audit Committee meeting from the CFO.
- Regular cash and treasury reporting to the CFO and periodic reporting to the Board on the Group's tax and treasury position. Since COVID-19 the Board has been reviewing regular cash forecasts at every meeting.
- Any significant issues or control weaknesses identified are reported to the Executive Committee, Audit Committee and the Board.
- The overall internal controls framework is regularly monitored by the Audit Committee on behalf of the Board to ensure continuous improvement.
- A structured and approved programme of audits undertaken by Group Internal Audit, including regular visits to and interaction with the operating companies across the Group. The implementation of recommended actions is monitored as part of a continuous programme of improvement. The Group Internal Audit Manual approved by the Audit Committee in March 2019 was not updated during the year, as the overall methodology for identifying audits, testing and reporting on controls was working effectively. A Group internal Audit Effectiveness survey had been conducted in January 2020 for the year ended 31 December 2019 and further details can be found in Audit Committee Report on page 109.

Developments in 2019:

The following developments were made during the year:

- Introduction of formal policies including a Group Balance Sheet Reconciliation and Review Policy; Group Month-End Reporting Policy; Group Period-End Framework; and operating company Month-End Checklist.
- Development and monitoring of control improvement plans for all operating companies which are, in part, an output of the KCF quarterly self-certification process, with all actions being monitored through 4Action, the Group's action-tracking software to ensure actions are being tracked and closed.
- Hiring of additional resource to achieve a step change in the control environment in the UK.
- A controls remediation dashboard introduced as a regular report to the Audit Committee which sets out progress against control weakness identified by the External Auditor, Group Internal Auditor and KCF reviews.

- Introduction of the documentation of the operating companies' controls against a set of standardised risk schedules for key processes (Risk and Control Matrices (RACMs)), such as supplier rebates or bank and cash controls. These RACMs provide the structure for further controls improvement and basis for detailed controls testing by the Group Controls Team and Group Internal Audit.

COVID-19 controls

Due to the impact of the global COVID-19 crisis, the Board and Executive Committee took swift action to put in place a number of new controls to comply with governmental advice, protect the business and its people and mitigate against the risks arising from remote working. These include:

- Improved governance arrangements initially through daily Executive Leadership Team calls (moved to bi-weekly) to identify and resolve common issues in order to build resilience. Instigation of bi-monthly Board meetings. Operating company leadership teams also met several times a week to respond to local issues.
- Strengthening of cyber security controls through acceleration of plans to defend against the increased risk of phishing attacks.
- Measures in place in branches to protect employees, customers and suppliers from risk of infection. Head office locations were closed with many employees working remotely.
- Introduction of a homeworking policy to ensure the safety and well-being of employees working remotely.

In addition to these new measures, finance teams have focused on improving the accuracy of weekly cash forecasting and the limits on the Delegation of Authority have been decreased so that payments are authorised at more senior levels. Controls have also been strengthened over customer credit limits.

Financial reporting

- In addition to the general internal controls and risk management processes described on pages 89 to 91, the Group also has specific systems and controls to govern the financial reporting process and preparation of the Annual Report and Accounts.
- These systems include clear policies and the procedures for ensuring that the Group's financial reporting processes and the preparation of its Financial Statements comply with all relevant reporting requirements.
- The policies and procedures are comprehensively detailed in the Group Finance Manual, which is used by all businesses in the preparation of their results.
- Financial reporting control requirements are also set out in the Group Finance Manual, which is regularly updated to include changes to accounting and reporting policies such as IFRS 16.

Independent Review by PwC

As already mentioned on page 25, the Board instigated an independent review through the Group Investigation Committee commissioning PwC to undertake an independent review of the Group's forecasting and monthly management accounts processes in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January Trading Update and market consensus of forecast profit prior to that announcement. The Board takes the findings of the PwC report very seriously. The Company voluntarily notified the FCA of the progress of the PwC report and has shared the PwC report with the FCA. Since SIG's receipt of the PwC report, in order to strengthen the Group's financial forecasting and internal reporting, KPMG has been appointed to assist the Audit Committee in ensuring appropriate improvements are implemented to the Company's financial systems, procedures and controls recommended in the PwC report.

Further details on the actions being taken (including actions taken during the course of the year in relation to cultural changes) are included in the Corporate Governance report on pages 72 to 76. The Board had already agreed that additional focus was required during 2020 to embed the commitment culture, improve employee engagement and morale. This work would also include the actions arising from the review. Further background on the scope of the PwC review and the actions the Company is implementing in response are set out in the Audit Committee report on page 108.

Annual assessment of the effectiveness of systems of risk management and internal control systems

During 2019, the Board conducted a review of the effectiveness of the Group's system of risk management and internal controls. This review covered all controls including operational, compliance and risk management procedures, as well as financial controls.

To complete the review, the Board and Audit Committee requested, received and reviewed reports from the Director of Risk and Internal Audit (including from the in-house team and expert co-source partner KPMG), the CFO and the external Auditor.

As noted on page 25 of the Strategic Report in relation to the PwC Report, the Board was not fully sighted of all of the risks to the full year profit forecast in 2019, however it considers that it is taking the appropriate steps to improve forecasting controls and the culture within which they operate. The approach to improving culture is outlined in this section on pages 72 to 76 and the action plan in relation to PwC's findings as well as the Group's approach to its continued focus on controls is given in the Audit Committee section on pages 106 to 108.

Other improvements in internal controls have been identified throughout the year and action plans devised and put in place. Progress towards completion of actions is regularly monitored by management and the Board.

Save as identified by the PwC Report and the findings which are being addressed, the Board considers that the information that it receives is sufficient to enable it to review the effectiveness of the Group's risk management and internal controls in accordance with the FRC's Guidance. The Board considers that the framework of controls in place is effective and enables risk to be assessed and managed. The Board also considers its risk management and internal control processes provide it with the assurance that all of the necessary resources are in place for the Company to meet its objectives and to measure performance against them for 2019 and up to and including the date of this report.

Directors' Report Disclosures Substantial shareholdings

At the date of approval of the 2019 Annual Report and Accounts, the Company had received notification of the following shareholdings in its issued share capital pursuant to the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority as at 31 December 2019 and 29 May 2020. Information provided by the Company pursuant to the DTRs is publicly available via the regulatory information services and on the Company's website.

Shareholder	Interests disclosed to the Company as at 31 December 2019	%	Nature of holding as per disclosure	Interests disclosed to the Company as at 29 May 2020	%	Interests disclosed to the Company as at 29 May 2020
Ninety One UK Ltd	67,650,791	11.43	Indirect interest	0		
Coltrane Asset Management	71,678,000	12.11	Equity CFD	N/A		
IKO Enterprises Limited	40,539,710	6.854	Direct interest (4.5235%) Indirect interest (2.3305%)	87,379,710	14.77	Direct interest (13.0428%) Indirect interest (1.7284%)
Tameside MBC re Greater Manchester Pension Fund	29,692,260	5.02	Direct interest	29,263,059	4.95	Direct interest (4.95%)
Templeton Investment Counsel LLC	29,358,556	4.96	Direct interest	29,358,556	4.96	Indirect interest
Artemis Investment Management LLP	28,820,324	4.87	23,005,522	28,820,324	4.87	Indirect interest
Massachusetts Financial Services Company	26,799,365	4.53	Indirect interest	26,799,365	4.53	Indirect interest
Schroder Investment Management Limited	23,005,522	3.89	Indirect interest	23,005,522	3.89	Indirect interest
Norges Bank	19,786,142	3.34	Direct interest (3.03%) Shares on loan (right to recall) (0.32%)	18,046,028	2.83	Direct interest (2.64%) Shares on loan (right to recall) (0.19%)
Aberforth Partners LLP				38,723,309	6.55	Indirect interest
Goldman Sachs International				34,049,953	5.76	Indirect interest (0.01%) Securities lending (2.47%) Swap (2.32%) CFD (0.96%)
JP Morgan Securities plc				44,445,536	7.52	Indirect interest (2.98%) Right to recall (3.38%) Cash-settled equity swap (1.15%)

Corporate Governance Report

Whistleblowing

The Group has in place a Whistleblowing Policy under which employees may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters. A copy of this policy is available on the Company's website (www.sigplc.com).

The Company also has in place a confidential hotline which is available to all of the Group's employees and provides a facility for them to bring matters to management's attention on a confidential basis. The hotline is provided by an independent third party. During 2019 these systems were operational throughout the Group.

A full investigation is carried out on all matters raised and a report is prepared for feedback to the complainant. Where a whistleblowing report has been investigated, an update is provided to the Audit Committee as part of the Director of Risk and Internal Audit's report.

The Company Secretary also reports to the Board each month on reports made under the policy and the state of ongoing investigations and conclusions reached. During 2019 Group employees used this system to raise concerns about a number of separate issues, all of which were appropriately responded to. Additionally, following recommendations from the PwC report, the Board has appointed Ms Allum as the Board Whistleblowing champion (with effect from 27 April 2020) and will agree a written remit and ensuring a robust plan is in place to further enhance awareness and effectiveness of the current whistleblowing arrangements. This role complements her role as the designated Director for workplace engagement.

Statement of the Directors on the disclosure of information to the Auditor

The Directors who held office at the date of approval of the Directors' Report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each Director has taken all steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Going concern

The going concern statement can be found on page 42 of the Strategic Report.

Viability statement

The viability statement can be found on pages 40 to 41 of the Strategic Report.

Independent Auditor

On the recommendation of the Audit Committee (see page 110), in accordance with section 489 of the Companies Act 2006, resolutions are to be proposed at the AGM for the re-appointment of Ernst & Young LLP as Auditor of the Company and to authorise the Audit Committee to fix its remuneration. The remuneration of the Auditor for the year ended 31 December 2019 is fully disclosed in note 4 to the Financial Statements on page 164.

Publication of annual report and notice of AGM

Shareholders are to note that the SIG plc Annual Report 2019 together with the notice convening the AGM have been published on the Company's website (www.sigplc.com). If Shareholders have elected to receive Shareholder correspondence in hard copy, then the annual report and notice convening the AGM will be distributed to them.

Principal activity

The principal activity of the Group is the supply of specialist products to construction and related markets in the UK, Ireland and Mainland Europe. The main product sectors supplied during the year are insulation and interiors, roofing and exteriors and air handling.

The Chairman's Statement and Strategic Report on pages 4 to 5 contain a review of these activities and comment on the future outlook and developments. The financial risk management objectives, policies and key performance indicators of the Company are also set out in the Strategic Report.

Political donations

It is the Group's policy not to make political donations and no political donations were made during the year (2018: £nil).

Details of the Group's policies in relation to Corporate Governance are disclosed on pages 53 to 56.

Group results and dividends

The consolidated income statement for the year ended 31 December 2019 is shown on page 136. The movement in Group reserves during the year is shown on page 139 in the consolidated statement of changes in equity. Segmental information is set out in note 1a to the financial statements on pages 157 to 160.

The Company announced on 26 March 2020 that in light of COVID-19, the Board has taken the decision not to declare a final dividend for the year (2018: 2.5p), recognising that this is in the best interest of preserving the Group's liquidity position. With an interim dividend of 1.25p (2018: 1.25p) per share having been paid in November 2019, this gives a total dividend for the year of 1.25p (2018: 3.75p) per share.

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are detailed in the Strategic Report on pages 58 to 60 of the Sustainability Report.

Employees

Details of the Group's policies in relation to employees (including disabled employees) are disclosed in the Sustainability Report on pages 53 to 56. Further information on employee engagement and consultation can be found in the Strategic report on page 56 and the Corporate Governance report on page 72.

Stakeholder engagement

Further information on stakeholder engagement, including on our business relationships with suppliers, customers and others, can be found in the corporate governance report on pages 78 to 81.

Post balance sheet events

Details of post balance sheet events are included in Note 34 on page 216 of the Financial Statements.

Related party transactions

Except as disclosed in Note 31 to the financial statements on page 207 and except for Directors' service contracts, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in the periods in which any Director is or was materially interested.

Directors' and officers' liability insurance and indemnities

The Company purchases liability insurance cover for Directors and officers of the Company and its subsidiaries, which gives appropriate cover for any legal action brought against them. The Company has also provided an indemnity which was in force during the financial year for its Directors to the extent permitted by the law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly.

No claims or qualifying indemnity provisions and no qualifying pension scheme indemnity provisions have been made either during the year or by the date of approval of this Directors' Report.

Financial instruments

Information on the Group's financial risk management objectives and policies on the exposure of the Group to relevant risks arising from financial instruments is set out on pages 38 to 39 and in Note 20 to the financial statements on pages 185 to 191.

Future developments

Possible future developments are disclosed in our strategy 2020 section of the Strategic report on page 16 to 17.

Acquisitions and disposals

Details of acquisitions made, and businesses identified for sale or closure are covered in Note 15 on page 181 and Note 11 on page 172 of the financial statements.

Group companies

A full list of group companies (and their registered office addresses) is disclosed on pages 242 to 243.

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10p each. At 31 December 2019, the Company had a called up share capital of 591,556,982 ordinary shares of 10p each (2018: 591,556,982).

During the year ended 31 December 2019, options were exercised pursuant to the Company's share option schemes. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. Details of outstanding options under the Group's employee and executive schemes are set out in Note 14 on pages 240 to 241, which also contains details of options granted over unissued share capital.

Rights attaching to shares

The rights attaching to the ordinary shares are defined in the Company's Articles of Association. The Articles of Association may be changed by special resolution of the Company. A Shareholder whose name appears on the Company's Register of Members can choose whether their shares are evidenced by share certificates (i.e. in certificated form) or held in electronic (i.e. uncertificated) form in CREST (the electronic settlement system in the UK).

Subject to any restrictions below, Shareholders may attend any general meeting of the Company and, on a show of hands, every Shareholder (or their representative) who is present at a general meeting has one vote on each resolution and, on a poll, every Shareholder (or their representative) who is present has one vote on each resolution for every ordinary share of which they are the registered Shareholder.

A resolution put to the vote of a general meeting is decided on a show of hands unless before or on the declaration of the result of a vote on a show of hands, a poll is demanded by the Chairman of the meeting, or by at least five Shareholders (or their representatives) present in person and having the right to vote, or by any Shareholders (or their representatives) present in person having at least 10% of the total voting rights of all Shareholders, or by any Shareholders (or their representatives) present in person holding ordinary shares in which an aggregate sum has been paid up of at least one-tenth of the total sum paid up on all ordinary shares.

Shareholders can declare final dividends by passing an ordinary resolution, but the amount of such dividends cannot exceed the amount recommended by the Board. The Board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide provided the distributable profits of the Company justify such payment. The Board may, if authorised by an ordinary resolution of the Shareholders, offer any Shareholder the right to elect to receive new ordinary shares, which will be credited as fully paid, instead of their cash dividend.

Any dividend which has not been claimed for 12 years after it became due for payment will be forfeited and will then belong to the Company, unless the Directors decide otherwise.

If the Company is wound up, the liquidator can, with the sanction of an extraordinary resolution passed by the Shareholders, divide among the Shareholders all or any part of the assets of the Company and he/she can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members. No Shareholders can be compelled to accept any asset which would give them a liability.

Under the Company's Share Incentive Plan (the "SIP"), the SIP trustee holds shares on behalf of employee participants. In accordance with the SIP trust deed and rules, the SIP trustee must act in accordance with any directions given by a SIP participant in respect of their SIP shares. In the absence of any such directions from a SIP participant the SIP trustee will not take any action in respect of SIP shares.

Under the SIG employee benefit trust (the "EBT"), the EBT trustee holds shares on behalf of employee participants, to be used for the settlement of awards granted under the Company's incentive plans. The EBT trustee has, under the trust deed establishing the EBT, waived all rights to vote in respect of any shares held in the EBT, except any shares participants own beneficially, in respect of which it will invite participants to direct how the trustee shall act in relation to the shares held on their behalf. The number of shares held in the EBT on 29 May 2020 was 152,197. The EBT trustee has also waived dividends on shares held in the EBT.

Further information relating to the change of control provisions under the Company's incentive plans appears within the Remuneration Policy available on the Company's website.

Corporate Governance Report

Voting at general meetings

Any form of proxy sent by the Company to Shareholders in relation to any general meeting must be delivered to the Company, whether in written form or in electronic form, no less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

The Board may determine that the Shareholder is not entitled to exercise any right conferred by being a Shareholder if they or any person with an interest in shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and they or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered.

These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 Notice, whichever is the earlier.

Transfer of shares

The Board may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless: (i) the instrument of transfer is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board accompanied by a certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfer of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

Variation of rights

If at any time the capital of the Company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either:

- (i) with the written consent of the holders of at least 75% in nominal value of the issued shares of the class; or
- (ii) with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

The Company can issue new shares and attach any rights to them. If there is no restriction by special rights attaching to existing shares, rights attaching to new shares can take priority over the rights of existing shares, or the new shares and the existing shares are deemed to be varied (unless the rights expressly allow it) by a reduction of paid up capital, or if another share of that same class is issued and ranks in priority for payment of dividend, or in respect of capital or more favourable voting rights.

Election and re-election of Directors

The Company may, by ordinary resolution, of which special notice has been given in accordance with the Companies Act, remove any Director before the expiration of their period of office. The office of a Director shall be vacated if:

- (i) They cease to be a Director by virtue of any provision of law or is removed pursuant to the Company's Articles of Association or he/she becomes prohibited by law from being a Director;
- (ii) They become bankrupt or compounds with their creditors generally;
- (iii) They become of unsound mind or a patient for any purpose of any statute relating to mental health and the Board resolves that their office is vacated;
- (iv) They resign;
- (v) They fail to attend Board meetings for six consecutive months without leave of absence from the Board and the Board resolves that their office is vacated;
- (vi) Their appointment terminates in accordance with the provisions of the Company's Articles;
- (vii) They are dismissed from executive office;
- (viii) They are convicted of an indictable offence and the Directors resolve that it is undesirable in the interests of the Company that they remain a Director; or
- (ix) The conduct of the Director is the subject of an investigation and the Directors resolve that it is undesirable in the interests of the Company that they remain a Director.

The Board may, from time to time, appoint one or more Directors as Managing Director or to fulfil any other executive function within the Company for such term, remuneration and other conditions of appointment as it may determine, and it may revoke such appointment (subject to the provisions of the Companies Act).

Agreements with employees and significant agreements (contracts of significance)

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

The Company's banking arrangements are terminable upon a change of control of the Company. Certain other indebtedness becomes repayable if a change of control leads to a downgrade in the credit rating of the Company. Bank consent is required for any major acquisition or disposal of assets.

Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the current open market value of the Group's interests in land and buildings.

CREST

The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

2020 Interim Report

Current regulations permit the Company not to send hard copies of its Interim Reports to Shareholders and therefore the Company intends to publish its Interim Report only on its website at www.sigplc.com.

Authority to purchase own ordinary shares

Shareholders' authority for the purchase by the Company of 59,155,698 of its own shares existed at the end of the year. The Company has made no purchases of its own ordinary shares pursuant to this authority. The Company will seek to renew this authority at the 2020 AGM, in line with institutional shareholder guidelines.

Authority to allot ordinary shares

Shareholders' authority to allot ordinary shares up to an aggregate nominal amount of £39,437,132 existed at the end of the year. The Company has not issued any ordinary shares pursuant to this authority. The Company will seek to renew this authority at the 2020 AGM, in line with institutional shareholder guidelines.

During the year ended 31 December 2019, no options were exercised pursuant to the Company's share option schemes, resulting in the allotment of no new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. Details of outstanding options under the Group's employee and executive schemes are set out in Note 14 on pages 240 to 241 which also contains details of options granted over unissued share capital.

Fair, balanced and understandable

The Directors have a responsibility for preparing the 2019 Annual Report and Accounts and for making certain confirmations concerning it. In accordance with provision 27 of the Code, the Board has reviewed the contents of this year's Annual Report and Accounts and it considers that the Annual Report and Accounts, taken as a whole is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's position, performance, business model and strategy. More information can be found in the Audit Committee Report on page 110.

Cautionary statement

The cautionary statement can be found on page 43 of the Strategic Report.

Content of Directors' Report

The Corporate Governance Report (including the Board biographies), which can be found on pages 68 to 69, the Audit Committee Report on pages 101 to 110, the Nominations Committee Report on pages 96 to 100, and the Directors' Responsibility Statement on page 133 are incorporated by reference and form part of this Directors' Report. The Directors' Report, together with the Directors' Remuneration Report on pages 111 to 132 fulfils the requirements of the Corporate Governance Statement for the purposes of DTR 7.2.6.

The Board has prepared a Strategic Report (including the Business review) which provides an overview of the development and performance of the Company's business in the year ended 31 December 2019 and its position at the end of the year, and which covers likely future developments in the business of the Company and Group. The Sustainability Report forms part of the Strategic Report.

For the purposes of compliance with DTR 4.1.8R, the required content of the Management Report can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4R can be found in the following locations:

Section	Topic	Location
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Remuneration Committee Report, page 119
(5)	Waiver of emoluments by a Director	Not applicable
(6)	Waiver of future emoluments by a Director	Remuneration Committee Report, page 118
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Item (7) in relation to major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Not applicable
(11)	Provision of services by a controlling Shareholder	Not applicable
(12)	Shareholder waivers of dividends	Not applicable
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling Shareholders	Not applicable

SIG has been mindful of the best practice guidance published by Defra and other bodies in relation to environmental, community and social KPIs when drafting the Strategic Report. The Board has also considered social, environmental and ethical risks, in line with the best practice recommendations of the Association of British Insurers. Management, led by the CEO, has responsibility for identifying and managing such risks, which are discussed extensively in this Annual Report and Accounts.

All the information cross-referenced is hereby incorporated by reference into this Directors' Report.

Approval of the Directors' Report

The Directors' Report set out on pages 91 to 95 was approved by the Board of Directors on 29 May 2020 and signed on its behalf by the Company Secretary, Kulbinder Dosanjh.

Kulbinder Dosanjh

Company Secretary

29 May 2020

Nominations Committee Report

“The Committee understands the importance of its role in ensuring the Board contains the right mix of skills and experience to support the business strategy.”

Andrew Allner, Chairman of the Nominations Committee



Committee Membership (during 2019)

Mr A.J. Allner¹

Chairman

Mr M. Oldersma

Chief Executive Officer
(until 8 May 2019)

Ms A. Abt

Independent
Non-Executive Director
(resigned 12 February 2020)

Ms H.C. Allum (Kate)

Independent
Non-Executive Director
(appointed 1 July 2019)

Ms J.E. Ashdown

Independent Non-Executive
Director (resigned 8 May
2019)

Mr I.B. Duncan

Independent
Non-Executive Director

Ms G.D.C. Kent

Independent
Non-Executive Director
(appointed 1 July 2019)

Mr A.C. Lovell

Senior Independent
Non-Executive Director

Mr C.M.P. Ragoucy

Independent Non-Executive
Director (resigned 1 July
2019)

¹ Independent on appointment

Purpose and aims

To lead the process for Board appointments, ensure plans are in place for orderly succession to both Board and senior management positions and oversee the development of a diverse pipeline for succession.

The Committee aims to maintain the appropriate balance of skills, knowledge, experience, diversity and independence of the Board and its Committees to ensure their continued effectiveness.

Key responsibilities

- To review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and in the light of future challenges affecting the business.
- To make recommendations to the Board with regard to any changes; to ensure that plans are in place for the orderly succession and development of Directors and other senior executives and to oversee the development of a diverse pipeline for succession.
- Working with the Group HR Director, to take an active role in setting and meeting diversity objectives and strategies for the Group as a whole.

Terms of reference

During the year the Board adopted revised terms of reference. These can be found on the Company's website at www.sigplc.com.

Evaluation

An internal evaluation was conducted for the Committee in line with the Code. More details can be found on page 87.

Dear Shareholder,

I am pleased to present SIG's Nominations Committee Report for the financial year ended 31 December 2019 on behalf of the Board.

The composition of the Nominations Committee meets with the requirements of the Code but, in line with good practice, membership is reviewed annually and as a result it was agreed that following the AGM on 8 May 2019 Mr Oldersma would no longer be a member of the Committee.

During 2019, the Committee dealt with the recruitment of two new Non-Executive Directors and I was delighted to welcome Ms H.C. (Kate) Allum and Ms G.D.C. Kent to the Board on 1 July 2019. Ms Allum replaced Ms Ashdown as chair of the Remuneration Committee. Ms J.E. Ashdown retired from the Board as a Non-Executive Director and Chair of the Remuneration Committee on 8 May 2019 and Mr C.M.P. Ragoucy retired from the Board on 1 July 2019. On 18 December 2019 we also announced the retirement of Ms A. Abt with effect from 12 February 2020.

During 2020, the Committee also dealt with the resignation of the Executive Directors, Mr M. Oldersma and Mr N. Maddock on 24 February 2020 as well as the recruitment of two new Executive Directors, Mr S.R. Francis and Ms K.H.M. Kearney-Croft for an initial period until 31 December 2019. We announced on 24 April 2020 that Mr Francis would become the Chief Executive on a permanent basis. Further detail on our recruitment process is provided later in this report.

In addition, Ian Ashton has been appointed as permanent Group CFO with effect from 1 July 2020. Ian is a highly experienced senior executive with a strong track record of driving change and is an extremely valuable addition to the team as we pursue our new strategy for growth. Ian replaces Kath Kearney-Croft, who assumed the role of Interim CFO on 25 February 2020.

In order to bring more industry experience on to the Board, Simon King has been appointed as a Non-Executive Director with effect from 1 July 2020. Simon brings extensive, hands-on experience from a career spanning over 35 years, most recently serving on the Travis Perkins Executive Board and holding the position of Chief Operating Officer for Wickes. Simon's appointment is invaluable in our efforts to build on SIG's leading market positions and return the business back to profitable growth.

In line with best practice the Committee recommended to the Board my appointment to the Remuneration Committee to ensure adequate Board oversight effective from 1 January 2020.

The Committee's work for 2020 will be primarily focused on succession planning and oversight of the Group's talent development and diversity strategy and objectives.

Andrew Allner

Chair of the Nominations Committee
29 May 2020

Meetings and membership

During the year the Committee met on four occasions. The quorum is three members, the majority of whom must be independent Non-Executive Directors. Members of the Committee are not involved in matters affecting their own position.

As at 31 December 2019, the Committee comprised of the Chairman and the five independent Non-Executive Directors of the Company. The Chief Executive Officer was a member of the Committee during the early part of 2019, but, in line with the best practice, stepped down from the Committee following the AGM on 8 May 2019.

Board succession planning

The Nominations Committee gives full consideration to succession planning for Directors, both Non-Executive and Executive, and other senior management of the Company in the course of its work, taking into account the challenges and opportunities facing the Company and determining what skills, knowledge and expertise will thus be required on the Board in the future. During the year, the Committee also reviewed the senior management succession plans and leadership development but recognise that development of a talent pipeline (including diversity) required more focus in 2020.

In anticipation of the retirement from the Board of Ms J.E. Ashdown and Mr C.M.P. Ragoucy it was appropriate to review the composition, structure, skills and diversity of the Board. The appointment of Ms Allum and Ms Kent has enhanced female diversity on our Board and the Committee is confident that their skills, knowledge and expertise will be of great benefit to the business as it delivers its strategic goals and priorities. Prior to proceeding with the appointment of Ms Allum and Ms Kent, their other appointments were explored to ensure that they would be able to devote the necessary time and commitment to Board matters and the Committee is confident that their other commitments will not prevent them from so doing. Ms Allum and Ms Kent will offer themselves for election at the 2020 Annual General Meeting.

In making recommendations for the annual re-election of the Chairman and Non-Executive Directors, the Committee considers the skills, knowledge, experience, independence and also the time commitments of each Director to ensure that they have sufficient time to fulfil their responsibilities to the business.

Following feedback, during 2019, the Chairman significantly reduced his external commitments. Following his retirement as Chairman and Non-Executive Director of The Go-Ahead Group plc, he retains his Chairmanship of Fox Marble Holdings plc. However, as a small company traded on AIM, his time commitments in respect of Fox Marble Holdings plc are relatively low. With effect from 1 January 2020 he also became Chairman of Shepherd Building Group Ltd, which, as a private company, means his time commitments are again not as extensive. Additionally, the Chairman has also demonstrated a significant time commitment to SIG during the year through his involvement in the appointment of two new Non-Executive Directors and his engagement with key Shareholders during a difficult period of trading for the Group. He has also been able to provide increased levels of support to the former Chief Financial Officer and the Executive Team during the leave of absence of the former Chief Executive Officer, as announced on 18 December 2019. Additionally, he has also made himself available to provide extra support (where required) to the two new Executive Directors, Mr Francis and Ms Kearney-Croft appointed on 25 February 2020 as well as during the COVID-19 crisis along with all other Board members.

At the end of 2019, the Committee considered a proposal to appoint Ms Allum as the designated Non-Executive Director with responsibility for workforce engagement. The Committee gave very careful consideration to this proposal, reviewing the necessary time commitment for undertaking that responsibility and Ms Allum's

other commitments and responsibilities outside of the Company. Having weighed up those considerations it was the Committee's view that Ms Allum would have sufficient time to undertake the additional workload and the Committee therefore recommended the appointment to the Board. In addition, Ms Allum has also been appointed as the Board's whistleblowing champion with effect from 27 April 2020 which will complement her role as the designated Non-Executive Director for workforce engagement.

The Committee also considered the re-appointment of Mr I.B. Duncan. Mr Duncan was originally appointed on 1 January 2017 for an initial three year term until the conclusion of the 2020 Annual General Meeting. Having considered his other time commitments, the Committee recommended his re-appointment to the Board for a further three year term until January 2023.

Taking into account the above and having considered the time commitments of the other Non-Executive Directors, in addition to the Board evaluation review process detailed on page 87, the Committee and the Board have confirmed they are satisfied that both the Chairman and the other Non-Executive Directors have sufficient time and the necessary skills and experience to fulfil our responsibilities to the business.

All Directors will accordingly be put forward for election or re-election at the 2020 AGM.

Board recruitment

In general terms, when considering candidates for appointment as Directors of the Company, the Nominations Committee, in conjunction with the Board, drafts a detailed job specification and candidate profile. In drafting this, consideration would be given to the existing experience, knowledge and background of Board members as well as the strategic and business objectives of the Group.

Once a detailed specification has been agreed with the Board, the Committee would then work with an appropriate external search and selection agency to identify candidates of the appropriate calibre and with whom an initial candidate shortlist could be agreed. The consultants are required to work to a specification that includes the strong desirability of producing a full list of candidates who meet the essential criteria, whilst reflecting the benefits of diversity. The Board will only engage such consultants who are signed up to the voluntary code of conduct on gender diversity on corporate boards.

Shortlisted candidates would then be invited to interview with members of the Committee and, if recommended by the Committee, would ordinarily be invited to meet the entire Board before any decision is taken relating to the appointment.

The process during the year under review, in connection with the appointments of Ms H.C. (Kate) Allum and Ms G.D.C. Kent, is described in detail on page 98.

The process for the appointment of Mr S.R. Francis was broadly the same, the Savannah Group was involved in leading the search for an interim CEO. Lygon Group was engaged to lead the search process for a permanent CEO, both producing a short-list of candidates matching the required skills. Interviews for the interim candidates were held on this occasion with the Chairman and the Senior Independent Director. Both firms have signed up to the Executive Search Firms' Voluntary Code of Conduct. Lygon Group does not have any other connections with the Company whereas the Savannah Group has been employed for senior executive appointments.

Mr Francis and Ms Kearney-Croft will offer themselves for election at the 2020 Annual General Meeting.

Nominations Committee Report

Key activities during 2019

- Recommendation of appointment of Ms Allum and Ms Kent as Non-Executive Directors
- Review of Board and senior management succession plans and leadership development
- Approval of updated Committee terms of reference taking into account the Committee's wider responsibilities under the Code, for recommendation to the Board
- Review of Board skills analysis
- Review of diversity policy and diversity more broadly within the Group
- Review and updating of Board diversity and inclusion policy and recommendation to the Board
- Recommendation of appointment of Ms Allum as designated Non-Executive Director responsible for workforce engagement, including reviewing her other time commitments
- Recommendation of re-appointment of Mr Duncan at the end of his initial three term of office, including reviewing his other time commitments
- Recommendation of appointment of Mr Allner as member of Remuneration Committee
- Recommendation for re-election of Directors at 2019 AGM
- Review of Committee evaluation report and agreed areas of focus for 2020

Areas of focus in 2020

- Structure and composition of the Board and its Committees, taking account of succession planning for the Board, Directors' other time commitments and the skills, knowledge and experience of Directors
- Diversity initiatives within the Group and progress in achieving diversity objectives
- Talent management within the Group and succession planning for senior executives, taking into account Group strategy and the challenges and opportunities facing the Group

Process for recruitment of two additional Non-Executive Directors

The objective

In anticipation of the retirement of Ms Ashdown and Mr Ragoucy during 2019, our objective was to recruit two new Non-Executive Directors, one of whom would be appointed to act as chair of the Remuneration Committee.

The brief

We constructed a detailed brief for recruitment consultants, including a detailed candidate profile and job specification, identifying the skills required of the new Non-Executive Directors, having regard to the balance of skills, knowledge and experience of existing Board members and the strategy and future challenges and objectives of the business. The importance we place on diversity within our Board was stressed within the brief.

The engagement

Lygon Group were engaged to lead the search process. They have no other connection to the Group and are signatories to the Lord Davies' Voluntary Code of Conduct for Executive search firms promoting diversity in recruitment. Diversity within our Board was stressed within the brief.

The search

The Chairman and Chief Executive Officer reviewed a 'long list', prepared by Lygon Group, of potential candidates whose skills matched the criteria within the brief. The 'long list' contained a high proportion of female candidates. Thereafter a 'short list' of candidates was prepared containing only women.

The interviews

Interviews were held with the Chairman and the Chief Executive Officer. The final two candidates then met with members of the Committee and following the receipt of suitable references, were thereafter recommended to the Board for appointment.

The induction

A structured and tailored induction took place for both of the newly appointed Directors. Details of the induction are included on page 86.

Diversity

Within the Board

The Board acknowledges the importance of diversity in its broadest sense in the boardroom as a driver of board effectiveness. The Board recognises that gender, ethnic, social and cultural diversity of Boards are significant aspects of diversity and acknowledges the role that women and those of different ethnic, social and cultural backgrounds with the right skills, experience, cognitive and personal strengths can play in contributing to diversity of perspective in the boardroom.

The policy on Board diversity was reviewed and updated by the Board during the year and is available on the Company's website (www.sigplc.com). An example of how the Board diversity policy was implemented during 2019 is the process that led to the appointment of the two new Non-Executives, diversity was key element in the brief provided to the search firm which resulted in a short list that contained only women. The Board recognises that gender diversity is a significant aspect of diversity and acknowledges the Hampton-Alexander Review recommendations which aim to increase the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 company boards by 2020. The Board also notes the recommendations of the Parker Review on ethnic diversity on UK boards. The Board intends to endeavour to maintain female representation of at least 33% and aspires to achieve the recommendation of the Parker Review Committee to have at least one Director of colour by 2024.

The Committee will continue to consider diversity when recommending any future Board appointments.

Within the Group

The Committee continues to monitor diversity and inclusion more widely within the Group and particularly at senior management level. Information on the gender balance of senior management and their direct reports is on page 55.

During the year, the Committee initiated a review of the Company's approach to diversity and inclusion to understand where activity needs to be increased and the efforts being undertaken to further promote diversity across the Group.

As part of that review, the Committee reviewed statistics analysing roles, functions and geographical areas within the UK businesses enabling it to assess where particular groups are under-represented. During 2020 it will extend this review to Group businesses outside of the UK. It agreed a plan for 2020 to further promote diversity and inclusion across the Group which includes further work on recruitment processes, reviewing pay and award processes to ensure they are applied equitably, training in unconscious bias, implementation of a new applicant tracking system and the introduction of targets for both applicants and appointed employees.

The Committee also agreed the terms of an updated Group diversity and inclusion policy defining the Group's standards and expectations. The updated policy was issued to employees in December 2019 and can be found at www.sigplc.com. Further details can be found on page 53.

The Committee also noted that the new commitment culture programme approved by the Board and launched in January 2020 includes behaviours designed to foster a commitment to diversity and inclusion. These behavioural expectations will be integrated into key people processes such as the performance management, recruitment, recognition, and induction programmes. Further details of the culture programme can be found on page 57.



Nominations Committee Report

Committee performance

As part of corporate governance, the Committee reviews its own performance annually and considers what improvements can be made. The Committee's performance and effectiveness was reviewed in November 2019 as part of the annual evaluation of the Board and Committee effectiveness which was undertaken by the Company Secretary and further details can be found on page 87. The questionnaire focused on the following key areas: (1) the effectiveness of the Committee in managing talent and succession planning for the Executive Directors and senior management; and (2) the performance of the Committee Chair.

The Committee was rated as reasonably effective in managing talent and succession for the Executive Directors and senior management, but members considered that more focus is required. The leadership of the Committee was rated as effective.

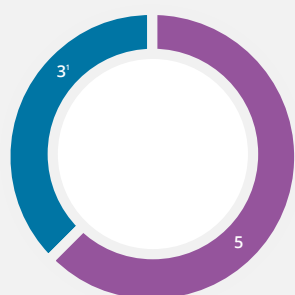
Following this review the Committee determined that during 2020 it would:

- prioritise succession planning for the Board and senior leadership team
- review talent management and capability of the Managing Directors of the operating companies and their direct reports and others within the senior leadership team
- develop a diverse pipeline for the senior leadership team.

Directors' tenure (as at 31 December 2019)

	2015	2016	2017	2018	2019	
Andrea Abt						4 years 9 months
Andrew Allner						2 years 2 months
Kate Allum						6 months
Ian Duncan						3 years
Gillian Kent						6 months
Alan Lovell						1 year 5 months
Meinie Oldersma						2 years 9 months
Nick Maddock						2 years 11 months

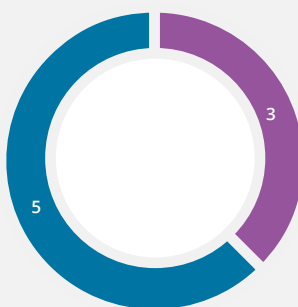
Independence of Directors as at 31 December 2019



● Independent ● Not Independent

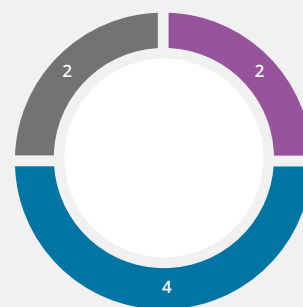
¹ The Chairman was independent on appointment

Board Gender Diversity as at 31 December 2019



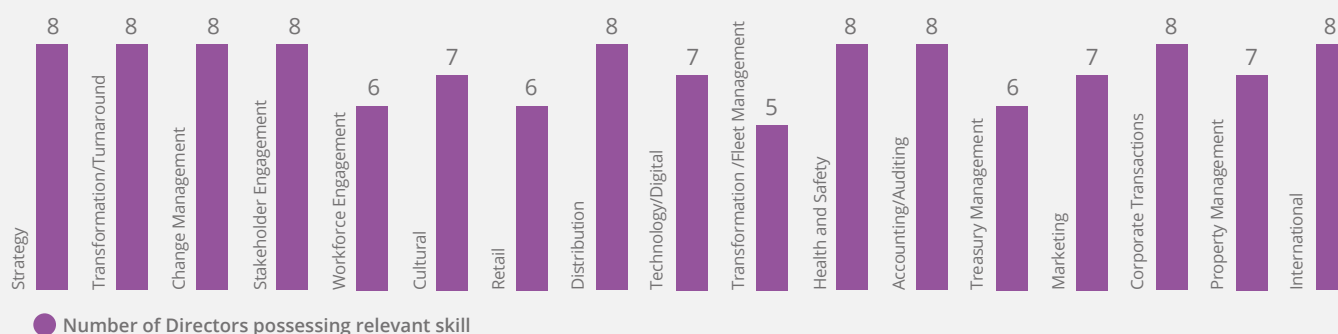
● Female ● Male

Age of Directors as at 31 December 2019



● 40-50 ● 50-60 ● 60-70

Summary of Directors' Skills as at 31 December 2019



● Number of Directors possessing relevant skill

Audit Committee Report

Committee Membership (during 2019)

Mr I.B. Duncan

Chairman

Ms A. Abt

Independent

Non-Executive Director

(resigned 12 February 2020)

Ms H.C. Allum (Kate)

Independent

Non-Executive Director

(appointed 1 July 2019)

Ms J.E. Ashdown

Independent Non-Executive

Director (resigned 8 May 2019)

Mr A.C. Lovell

Senior Independent

Non-Executive Director

Ms G.D.C. Kent

Independent

Non-Executive Director

(appointed 1 July 2019)

Mr C.M.P. Ragoucy

Independent Non-Executive

Director (resigned 1 July 2019)



“Progress has been made in strengthening the control environment although deficiencies highlighted by the PwC report will require focus during 2020.”

Ian Duncan

Chair of the Audit Committee

Purpose and aims

To provide effective oversight and governance over the financial integrity of the Group's financial reporting to ensure that the interests of the Company's Shareholders are protected at all times.

To make recommendations on the reporting, control, risk management and compliance aspects of the Directors' and Group's responsibilities, providing independent monitoring, guidance and challenge to executive management in these areas.

The Committee's aim is to ensure high standards of corporate and regulatory reporting, an appropriate control environment, a robust risk management framework and effective compliance monitoring. The Committee believes that excellence in these areas enhances the effectiveness and reduces the risks of the business.

Key responsibilities

- The accounting principles, practices and policies applied in, and the integrity of, the Group's Financial Statements.
- The adequacy and effectiveness of the internal control environment.
- The effectiveness of the Group's internal audit function.
- The appointment, independence, effectiveness and remuneration of the Group's external Auditor, including the policy on non-audit services.
- The conduct of any tender process for the Group's external Auditor.
- External financial reporting and associated announcements, including significant financial reporting judgement contained in them.
- The Group's risk management systems, processes and performance.
- The Group's compliance with the audit related provisions of the UK Corporate Governance Code.

Terms of reference

During the year the Board adopted revised terms of reference. These can be found on the Company's website www.sigplc.com.

Evaluation

An internal evaluation was conducted for the Committee in line with the Code. More details can be found on page 87.

Dear Shareholder,

I am pleased to present SIG's Audit Committee report for the financial year ended 31 December 2019 on behalf of the Board.

The Committee has continued to focus this year on the Group's internal control environment. Progress was made last year in strengthening the control environment in place, with enhanced levels of review and strengthening of the controls framework, which has received a positive response from management.

During 2019 our priorities have included:

- the control observations highlighted by the external Auditor, in particular the weaknesses in the UK balance sheet reconciliation process, which has been an area of considerable remedial focus;
- further standardisation of financial reporting procedures of the business;
- the provision of improved guidance around the reporting of accounting judgements; and
- the extension of controls improvement into smaller operating units and branches.

The Committee has worked to ensure that:

- a review of finance resource within each operating company has been conducted so that investment in talent is made within the business to enable adequate focus to be placed on controls. In particular, the Group Risk and Internal Audit function has been strengthened through the recruitment of experienced auditors and continued use of a co-source arrangement with KPMG LLP for targeted subject specialist input;
- the approach to planning has been revised and audits are now more clearly aligned to risks identified on the Group risk register. A new tracking tool has been introduced to ensure that actions to address control weaknesses are completed. The Group Risk and Internal Audit function reports regularly to the Board and to the Audit Committee;
- a revised Group internal audit plan has been agreed to provide greater assurance over controls relating to core processes in the larger operating companies;

Audit Committee Report

- the business continues to self-assess the control environment using the Key Controls Framework (KCF) developed in 2018. This framework is being supported by detailed control frameworks underpinned by detailed risk and control matrices;
- the businesses have also taken a remedial approach to controls improvement, bringing together different streams of actions and remedial activity identified by internal and external sources to provide a more robust basis for controls reliance;
- risk management and a risk aware culture is embedded in daily activities through the introduction of a Group risk management framework developed to articulate the Group's risk strategy and provide a consistent means and common language for managing risk on a daily basis. A new process, specifically for highlighting emerging risks, has been introduced as part of the risk management framework. We report further on emerging risks identified during the year on page 45;
- the risks relating to the delivery of the new SAP ERP system in France and Germany were being managed effectively; and
- the cyber environment in the Group is more robust after the cyber attack in France in April 2019. Following an expert third party investigation of control failure, a plan to improve controls has been designed and implemented.

Although going concern is a matter for the whole Board (see page 42), a review is made by the Audit Committee of the Group's headroom under its covenants and undrawn facilities in relation to the Group's financial forecasts and sensitivity analysis.

The Committee has sought to ensure that the audit process with the external Auditor, Ernst & Young LLP, is conducted and managed smoothly and efficiently, that there is collaborative communication and engagement between management and the external Auditor and that required information is provided in a timely fashion to enable appropriate audit evidence to be compiled.

The Audit Quality Review Team of the FRC wrote to the Chair of the Audit Committee setting out the scope of its review into Ernst & Young's audit of the financial statements for the year ended 31 December 2018, its principal findings and the actions which the Auditors proposed to take in response. The review raised some important matters and the Audit Committee considered the FRC's report and discussed the proposed actions with Ernst & Young, noting in particular the planned enhancements to audit work in the areas of oversight of the significant French Components, fraud risk response and assessments and goodwill impairment assessment. The Committee received feedback from across the Group that Ernst & Young have sought to more fully involve management in identification of audit risks and audit planning, and have challenged management and undertaken more extensive testing following the FRC's review. A resolution to reappoint Ernst & Young as the Group's Auditor will be put to the forthcoming Annual General Meeting. An assessment of both the external audit process and the external Auditor for the year ended 31 December 2019 will be undertaken in the latter half of 2020.

During the year, the Company received requests for information from the Conduct Committee of the Financial Reporting Council (FRC) following its review of the 2018 Annual Report and Accounts. Principally the information required related to the partnership arrangement for pension funding, the settlement of amounts payable for the previous purchases of businesses and the measurement and disclosure of recoverable amounts of cash generating units. We welcomed the review and in correspondence with the FRC addressed areas relating to classification of cash flows, discount rates used in goodwill impairment and goodwill sensitivity disclosures. We also provided an undertaking to include the following in the 2019 Annual Report and Accounts: additional information in relation to the asset backed funding

arrangement for the UK pension scheme, disclosure of the pre-tax discount rate used in goodwill impairment calculations rather than the post-tax rate; and clarification of the selection of cash generating units (CGUs) covered by the sensitivity analysis. The FRC's role is not to verify the information provided but to consider compliance with the reporting requirements, therefore, the review process does not provide assurance that the 2019 Annual Report and Accounts are correct in all material respects.

As a consequence of the FRC review, (which is now closed) we identified the need for a prior year restatement to previously reported numbers.

As stated previously in the Strategic Report and Corporate Governance Report, an independent review was undertaken by PwC, the actions taken to date (including actions taken during the course of the year in relation to cultural changes) are included in the Corporate Governance Report on page 72 to 76. Further background on the scope of the PwC review and the actions the Company is implementing in response are set out in this report on page 108.

The Company has complied during the financial year ended 31 December 2019 with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 that are applicable to it.

Ian Duncan
Chair of the Audit Committee
29 May 2020



Key activities during 2019¹



March

- Review of going concern basis of accounting and viability statement
- Review of material audit issues and judgements
- Review of new accounting standard IFRS 16 (lease accounting)
- Group Internal Audit Manual approval
- Group risk management framework approved
- KCF updated
- Review of 2018 audit process and results
- Review of Audit Committee report
- Review of the 2018 external Auditor report
- Review of the 2018 Annual Report (including fair, balanced and understandable) and preliminary results announcement and recommendation to re-appoint Ernst & Young LLP as external Auditor
- Review of procedures for confirming disclosures of information to the auditors
- GDPR compliance review

Spotlight Risk Review:

- Brexit and pricing management

June

- Internal audit plan for H2 2019 and revised 2019 Group Internal audit plan
- 2019 external audit plan and approval of 2018 external audit fee
- Internal controls improvement plan
- Annual Senior Accounting Officer review
- Group and emerging risk registers
- Controls remediation dashboard proposal
- KCF overview and initial assessment by operating companies
- Report of external Auditor
- Review of finance resource
- Consideration of additional review procedures at half year following cyber attack in France

Spotlight Risk Review:

- Working capital

July

- Gifts and hospitality compliance follow up
- Approach to risk appetite (engagement of KPMG to develop)
- Brexit risk
- Review of performance and effectiveness of external Auditor
- Forecast half year outturn and issues and material audit judgements for the half year
- New accounting standard IFRS 16
- Going concern
- Internal controls update and review of monthly controls action dashboard
- Report of the external Auditor for the period ended 30 June 2019

September²

- Review of draft 2019 interim results and presentation
- Review of remaining outstanding audit review areas
- IFRS 16, goodwill and intangible assets impairment review
- Review of going concern basis of accounting
- Review of the external Auditor's interim review report
- Review of letter from FRC regarding information in relation to 2018 Annual Report and Accounts and draft response
- Ernst & Young LLP audit planning report
- Review of 2019 Ernst & Young LLP audit fee and delegation to Chair and CFO to approve

Spotlight Risk Review:

- SAP ERP Review
- Review of Committee terms of reference (November)

December

- Internal audit 2019 plan update, audit outcomes and 2020 proposed plan
- Review external Auditor planning report for year-end audit
- Impairment review of goodwill and intangibles
- SAP ERP system assurance review
- Review of accounting changes and new disclosure requirements for 2019
- Review of going concern
- Proposal for annual internal audit effectiveness review
- Group-wide KCF self-certification report
- Assessment of governance provisions for risk and control

Spotlight Risk Review:

- Cyber risk

At every main meeting the Audit Committee also considers:

- Report of the Chief Financial Officer
- Report of the external Auditor
- Report of the Director of Risk and Internal Audit, updating on risk, internal audit and controls
- Minutes and actions from previous meetings

¹ Seven meetings were held during the year, in November the Committee met to review its Terms of Reference.

² Two meetings were held in September

Audit Committee Report

Audit Committee membership

The Board considers that each member of the Committee was throughout the year, and remains, independent and there are no circumstances which are likely to impair, or could impair, their independence according to the factors set out in the Code or otherwise. The knowledge and experience of the Committee members means that the Committee as a whole is competent in the sector in which the Company operates. Mr I.B. Duncan, as Chair of the Committee, is a chartered accountant and has recent and relevant financial experience for the purposes of the Code.

Attendance by individual members of the Committee is disclosed in the table on page 71. The Committee Chair regularly invites senior company executives to attend meetings of the Committee to discuss or present specific items, and in particular the former Chief Financial Officer, Mr N.W. Maddock, attended all of the meetings in 2019. The external Auditor and the Director of Risk and Internal Audit also attended all meetings of the Committee in 2019 and have direct access to the Committee Chair.

The Committee meets regularly with the external Auditor and the Director of Risk and Internal Audit without the Executive Directors being present and the Committee Chairman also meets with the external Auditor and the Director of Risk and Internal Audit in advance of Committee meetings.

Audit Committee structure

The Committee operates under written terms of reference which can be found on the Company's website (www.sigplc.com). They are reviewed annually by the Committee and changes are recommended to the Board for approval. The terms of reference were reviewed and updated in November 2019 to ensure consistency with the Code.

The Committee has in its terms of reference the power to engage outside advisers and to obtain its own independent external advice at the Company's expense, should it be deemed necessary. During 2019 the Committee engaged the services of KPMG LLP to provide advice on the Company's approach to risk appetite. KPMG LLP also support the Group's internal audit function providing specialist support with targeted audits such as the governance, project and change management assurance in relation to the upgrading of the UK's enterprise resource planning (ERP) system.

The Chair of the Committee reports to the subsequent meeting of the Board on the key issues covered by the Committee, identifying any matters on which it considers that action or improvement is needed, and makes recommendations on the steps to be taken.

Audit Committee evaluation

As part of corporate governance, the Committee reviews its own performance annually and considers where improvements can be made. The Committee's performance and effectiveness was reviewed in November 2019 as part of the review of Board and Committee effectiveness conducted by the Company Secretary, further details are on pages 87 to 88. The questionnaire focused on the following key areas: (1) the Audit Committee's ability to understand and give appropriate consideration to internal control testing conducted by management; (2) the ability of the Board in identifying and evaluating significant risks; (3) Leadership of the Audit Committee; and (4) the Audit Committee's relationship with the Director of Risk and Internal Audit and with the external Auditors.

The Committee was rated highly in all areas and therefore the Committee could conclude that it is being effectively chaired and managed. The strengths of the Committee were considered to be:

- **Leadership** – the Chair of the Committee plays a strong role and extracts the salient points making sure the Committee focuses on what is important.
- **Relationships** – the Committee has an effective relationship with the Director of Risk and Internal Audit and with the external Auditors.

It was agreed that the key priorities for 2020 should be the continued focus on assurance, insight and implementation of ERP system as well as the continued coverage of key internal controls including balance sheet reconciliations and rebate administration. An additional priority is the implementation of the risk & control matrices (RACMs), which supplement controls improvements in the operating companies. The Committee will monitor the implementation of the improvements recommended in the PwC and KPMG reports.

Meetings

The Committee meets regularly throughout the year, with seven meetings being held during 2019 along with the audit close meeting. The audit close meeting is normally held in the early part of the year following the year end, however this was done later than planned in light of COVID-19 and the delay to the publication of the 2019 results. In addition, a further meeting was held at the end of April 2020 to review the progress of the audit. Its agenda is linked to events in the Company's financial calendar. Key matters considered at meetings of the Audit Committee during the year are listed on page 103.

Significant financial judgements

The Committee considered a number of significant issues during the year. These related to areas requiring management to exercise particular judgement or a high degree of estimation. The Committee assesses whether the judgements and estimates made by management are reasonable and appropriate. The issues and how they were addressed by the Committee are set out below:

Key financial reporting and significant financial judgements considered in relation to the financial statements		How the issue was addressed by the Committee
Going concern basis and viability statement	The Group is required to assess if it has access to sufficient resources to continue as a going concern and assess the period of viability.	The Committee reviewed management's assessment of going concern and long-term viability with consideration of forecast cash flows, including sensitivity to COVID-19 and sales improvement plans. The Committee considered the forecasts together with the proposed equity raise and debt facility arrangements and recommended approval of the viability statement.
Discontinued operations	Following the announcement on 7 October 2019 to sell the Air Handling and Building Solutions businesses, the Committee considered the accounting treatment and presentation of those businesses in the financial statements.	The Committee ensured that there was a robust process for ensuring that the Air Handling business meets the criteria of IFRS 5 'non-current assets held for sale and discontinued operations' and that it may also be classified as non-core. It also considered that the classification of the Building Solutions business as non-core within Other items in the consolidated income statement was appropriate.
Recognition and measurement of supplier rebate income	Procedures and controls are in place to ensure that the reporting, reviewing and accounting for supplier rebate income is properly managed and that supplier rebates are recognised appropriately in the Group Financial Statements.	The Committee considered the adequacy of work performed in the year to strengthen the way in which the recoverability of supplier rebates is controlled, including the internal review processes and the technology introduced to assist in the calculation of supplier rebate income.
Carrying value of goodwill and intangible assets	The carrying value of goodwill and intangible assets is systematically reviewed at each mid-year point and at year end. The Group estimates a recoverable amount for each individual cash generating unit based on forecast revenues, operating margins and appropriate discount rate risk adjusted where appropriate.	The Committee considered the appropriateness of the assumptions including the carrying value of the assumptions used and the sensitivity analysis performed, with specific focus being given to UK Distribution, UK Exteriors and France Exteriors (Lariviere). The Committee considered it appropriate to impair the goodwill by £89.6m across UK Distribution and France Exteriors (Lariviere).
Capitalisation of business project costs	Key business projects include the implementation of SAP ERP system in Germany and France, the implementation of a new payroll and HR system and the development of a SIG digital platform.	The Committee considered the costs of IT/business projects within the business and concluded that the capitalisation treatment should be undertaken where appropriate for SAP ERP system and the HR system. The investment in SIG digital was considered more appropriate to be expenses in Other items.
IFRS 16	IFRS 16 is effective for the first time for the 2019 financial year. Adjustments and disclosures required on transition at 1 January 2019 were recognised in the 2019 interim financial statements.	The Committee considered the adjustments and disclosures required on transition at 1 January 2019 which had been recognised in the interim financial statements and audited. The Committee considered that it was appropriate for these to remain the same in the Group Financial Statements.
Disclosure of other items	The Committee gave careful consideration to the judgements made in the separate disclosure of Other items. In particular, the Committee sought to ensure that the treatment followed consistent principles and that reporting in the Group Financial Statements is suitably clear and understandable.	The Committee considered the nature of items included/excluded within/from Other items, including the presentation of property profits and consider that the split between underlying profit and Other items is appropriate.

Audit Committee Report

Financial Reporting Council review and prior year restatements

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

Control deficiency

Internal control issues are presented to and discussed at every Audit Committee and reported to each Board meeting and an active focus on them has been continued throughout the year. The controls remediation dashboard received as a regular report to the Audit Committee allows the Committee to identify and assess progress against any control weaknesses identified by the external Auditor, through the audit process or the KCF.

One significant control deficiency was identified during the 2018 external audit, relating to the balance sheet reconciliation process in the UK. A determined focus during the year has been to improve the balance sheet reconciliations with BDO also providing support and assistance with this process. Significant improvement has been made in the ownership of the process with fewer reconciling items when compared to 2018.

In addition to the internal controls improvement plan endorsed by the Audit Committee in June 2019, which is discussed in further detail later in this report, detailed control frameworks developed during the year underpin the key assertions in the KCF, comprising Group-wide risk schedules and operating company specific RACMs. These frameworks now ensure that ownership of specific controls sits with identified individuals, increasing accountability and improving both control awareness and control implementation across the Group. In particular, detailed frameworks for cash management, supplier rebates and financial close have been developed to map controls against the Group risks schedules and a programme of testing against the cash management and supplier rebate control frameworks has been completed across the Group. Testing of further RACMs is planned.

KCF self-certifications are received from all operating companies and all control improvement actions are logged on 4Action, the Group's action-tracking software. The results are presented to the Board in summary form and reviewed by the Committee on a quarterly basis.

All high priority actions and overdue actions are reported through the controls action dashboard at monthly Executive Committee meetings and through regular reporting to the Audit Committee.

New controls managers have been and continue to be recruited in the main operating companies to further develop and strengthen their local controls. The Group Internal Audit team has been strengthened to help implement and monitor the local controls.

Going concern and longer-term viability

The Group is subject to financial covenants related to its committed bank facilities and private placement notes as set out on page 42. The Group had net debt of £162.8m at 31 December 2019 and reported a covenant leverage of 2.1x for the period against the covenant maximum of 3.0x.

The Committee reviewed management's assessment of going concern and long-term viability with consideration of forecast cash flows, including sensitivity to COVID-19 and sales improvement plans. The Committee considered the forecasts together with the proposed equity raise and debt facility arrangements and recommended approval of the viability statement.

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

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

The Committee considered the likelihood of a positive outcome and believe it is appropriate to prepare the financial statements on a going concern basis, together with approval of the viability statement.

Corporate culture

The Committee considered measures undertaken to transform the culture of the business in 2018 including strengthening of the senior management team and removal of historic working silos and hierarchy. During 2019, the Committee endorsed further actions to ensure that the necessary resources were in place to improve controls. A permanent Group Head of Internal Audit was appointed in April 2019 and additional internal audit managers were appointed during the year. During 2019, the resource in the finance team and UK shared service centre had been increased to enable focus on the control environment. The Committee endorsed the strengthening of both of these teams and the importance of building a strong and sustainable senior leadership team. Since the introduction of the new executive management team the quality and expertise of the finance team had been enhanced further and will continue to be progressed during 2020.

Oversight of risk management and internal controls

The Audit Committee has responsibility for reviewing the adequacy and effectiveness of the Group's risk management systems. The Committee receives reports from the Director of Risk and Internal Audit on key issues in relation to the Group's risk management systems and processes at every meeting. These updates include commentary on risk appetite, emerging risks, significant changes to risk scores (and actions) and significant changes to the risk management framework itself. All Group risks are assessed systematically against the 4x4 risk matrix, as part of the Group's risk management framework and an assurance mapping exercise is completed to identify assurance gaps for principal risks. Any risk where the net score is above the agreed risk appetite has an action plan documented to bring the risk within appetite and a review of the completion of these action plans is reported annually to the Committee.

The process for identifying, assessing and reporting on emerging risks was reviewed by the Committee in June 2019. Any potential emerging risks are included in a tracker and, where required, assessed in more detail and added to the Group risk register for regular review and updating. At its meeting in June 2019 the Committee agreed that digital disruption was an emerging risk and would be added to the Group risk register. Subsequently at its meeting in December 2019, a potential emerging risk was identified that Group operations might be impacted by new regulations on environmental standards. This risk will be re-evaluated in 2020.



Audit Committee Report

The Board reviews the Group risks twice yearly for the level of and type of risk, suitability of controls to manage those risks and the actions planned to bring net risk to within appetite. The overall risk appetite is reviewed for the Group at the half and full year. Group risks feed into the creation of the Group's internal audit plan. Specific spotlight Group risks (such as relating to working capital or cyber security) are presented quarterly to the Audit Committee and followed with a report to the Board as well as being included in the CFO's Board report. Further detail in respect of risk management processes and assurance is provided separately on page 89.

The Committee considered a report from the Director of Risk and Internal Audit in relation to Provision 29 of the UK Corporate Governance Code assessing the effectiveness of risk management and internal controls in December 2019. The Committee noted that whilst a number of improvements are ongoing, new actions will be required to ensure best practice compliance. These include documentation of financial risk and fraud risk assessments and improvement in general IT controls. The Committee approved the proposal to formalise Group financial and fraud risk assessment, to ensure that process documentation is assessed in all audits, to document general IT controls for in scope systems with clear ownership at Group and operating company level and to include general IT controls within the Group Internal Audit Plan in 2020.

The Committee also has responsibility for reviewing the adequacy and effectiveness of the Group's internal control systems. Reports on the findings of the Internal Audit's reviews, investigations and management agreed actions are provided at every meeting. The Committee also approves the group internal audit plan each year and receives regular reports on progress with completing the plan and any issues arising.

In June 2019 the Committee approved a plan to develop the framework of internal controls. This focused on three streams of activity. Firstly, detailed controls frameworks, including a 'top down' holistic approach to structured controls development, expanding the KCF into a series of supporting controls frameworks, underpinned by Group standard risk schedules and detailed RACMs in each operating company. Secondly controls remediation, including a 'bottom up' remedial approach to controls improvement, bringing together and tracking different streams of actions and remedial activity identified by internal and external sources. Thirdly, longer-term operating model and system improvements. Further detail in respect of internal control systems is provided separately on pages 89 and 90.

KPMG has been appointed to work with the Audit Committee to implement appropriate improvements to the Company's financial systems, procedures and controls, some of which were observed and recommended in the PwC report.

PwC report

As outlined on page 25 of the Strategic Report PwC were commissioned to undertake an independent review of the communication and level of explanation of the Group's underlying financial forecasts and the associated risks and opportunities in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January Trading Update and market consensus of forecast profit prior to that announcement. Following a thorough and detailed review of internal documents and interviews with relevant employees, PwC delivered its confidential written report to the Company on 21 April 2020.

The PwC report made recommendations as they relate to the Groups' processes, controls and wider organisational environment in relation to four key areas linked to their findings.

The actions the Company is taking to implement the recommendations are as follows:

- **A strengthening of forecasting processes in Group Finance through deployment of a new forecasting tool to increase transparency and accountability.** KPMG have been appointed to review in detail the forecasting policy, process and controls at Group level and remedial actions are expected to be recommended by them which the Group will implement, overseen by the Audit Committee.
- **Better availability and consistency of data.** The Board now receives daily sales information against phrased forecasts in order to understand Group performance within the month. Further enhancements are planned, specifically full visibility of operating company risks and sight of any added overlays.
- **A continued embedding of the Group's new commitment to a culture where people are encouraged to be bold and 'call out' behaviours which are not consistent with the expectations of the Group.** The new senior management team are committed to drive through necessary changes and set the right 'tone from the top'. The management style of members of the Executive team will also be evaluated annually through anonymous 360 degree feedback in order to identify if and where the tone needs to improve.
- **A refreshed approach to whistleblowing through appointment of a Board-level whistleblowing champion.** A new Board whistleblowing champion has been appointed and a simplified and more accessible whistleblowing policy has been drafted. All employees will receive training with more targeted input for specific functions/individuals. There will be improved reporting of whistleblowing incidents and trend analysis of such incidents to the Board.

The Audit Committee will track these actions, and the further recommendations expected from KPMG, through the Group's standard process to ensure that they are delivered fully.

COVID-19

In response to the COVID-19 pandemic, Group Risk has designed and rolled out a crisis response checklist to each operating company. The checklist comprises a set of short, medium and long-term risks with activities for consideration by management. Each operating company has been able to use the schedule to ensure it has coverage of the fuller spectrum of risks and to prompt consideration of additional activity, especially in relation to changes in response by governments. The focus of the checklist has included key areas such as liquidity and finance, supply chain, health and safety and cyber risk. The checklist has been updated on a weekly basis. The Group's principal risks have also been re-evaluated, with a new risk for access to finance and an increase in net rating for existing risks such as market downturn and health and safety. Further details can be found on page 47.

Group Internal Audit has targeted testing on payment controls (including analytics for fraudulent payments), cyber security and general IT Controls and maintained a focus on key financial controls such as balance sheet reconciliations. The Group Internal Audit plan has been kept under review and adjusted to take into account the effects of the pandemic with the audit process being adapted to the restrictions remaining in place for the remainder of 2020. Group Internal Audit has continued to take advice from professional services firms on how best to adapt its audit plan to the pandemic. Details of changes to the control environment are given on pages 47 to 49.

Oversight of Internal Audit

The internal audit function provides independent assurance to senior management and the Board on the adequacy and effectiveness of SIG's risk management framework. Internal audit forms an independent and objective assessment as to whether risks have been adequately identified, adequate internal controls are in place to manage those risks, and those controls are working effectively. The capability of the internal audit function was improved in the year through the appointment of a permanent Head of Internal Audit and additional, appropriately qualified resource. KPMG LLP continue to provide additional co-sourced support to the Group to cover specialist areas.

The results of all assignments have been presented to the Audit Committee during the year. Areas of weakness identified during the year result in a detailed action plan and a follow-up audit check to establish that actions had been completed appropriately.

The Committee agreed the process for the evaluation of the performance of the Group's internal audit function in December 2019. A questionnaire tailored for participants would be used and the survey was completed in January 2020. The questionnaire was sent to the Committee, Executive Directors, Managing Directors and Finance Directors of the operating companies, the external Auditors, and other key individuals in functional areas. The Director of Risk and Internal Audit and Group Head of Internal Audit was also asked to complete a questionnaire by way of self-assessment. The evaluation confirmed that the internal audit function was competent, adds value, reports on the right things, maintains its independence, provides a broad range of assurance and is effective overall. However, a few areas of focus for 2020 were agreed by the Committee as follows:

- Internal audit reports should be provided in a timelier fashion, setting out improved themes and trends as well as including a scale rating; and
- The actions resulting from internal audit recommendations should be achievable within a required timeframe.



Audit Committee Report

Oversight of External Auditor

Ernst & Young LLP were appointed as the Group's Auditor in July 2018 following a tender process initiated in May 2018. Shareholders formally approved their appointment at the May 2019 Annual General Meeting. There is no intention to conduct any re-tendering exercise currently, but this will be reviewed annually, taking into account the performance and effectiveness of the Auditor, as assessed by the Committee.

External Auditor performance evaluation

An evaluation of the performance and effectiveness of the external Auditor was conducted by the Committee in July 2019 through the use of a questionnaire issued to operating company Finance Directors and members of the Group finance team for completion. The questionnaire comprised 38 questions covering different topics ranging from performance, communication, governance and efficiency. Individuals were asked to evaluate the external Auditor's performance on a scale of 1 to 5 where 1 was very unsatisfied and 5 was very satisfied. The external Auditor performance and effectiveness was rated highest in terms of governance, independence and firm reputation and lowest in terms of fees. Planning and communication were raised as areas for improvement. The Committee having reviewed the performance and effectiveness of the external Auditor, were satisfied with the independence, objectivity, expertise, resources and general effectiveness of Ernst & Young LLP, and that the Group was subjected to a rigorous audit process.

External Auditor independence assessment

The Board is aware of the need to maintain an appropriate degree of independence and objectivity on the part of the Group's external Auditor.

The external Auditor reports to the Committee each year on the actions taken to comply with professional and regulatory requirements and best practice designed to ensure its independence, including the rotation of key members of the external audit team. Ernst & Young LLP has formally confirmed its independence to the Board in respect of the period covered by these Financial Statements.

Policy on non-audit services

The Group has an agreed policy with regard to the provision of audit and non-audit services by the external Auditor, which was operated throughout 2019. The policy is based on the principle that they should undertake non-audit services only where they are the most appropriate and cost-effective provider of the service, and where the provision of non-audit services does not impair, and could not be reasonably perceived to impair, the external auditor's independence and objectivity. It categorises such services as auditor-permitted services, auditor-excluded services and auditor-authorised services. The fees permissible for non-audit services should not exceed 70% of the average audit fees paid to the Group's external auditor in the last three consecutive financial years. The policy was not changed during 2019 and will be reviewed during 2020 and can be viewed on the Company's website (www.sigplc.com). It defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any auditor-authorised services. In all cases, any instruction must be pre-approved by the CFO and the Audit Committee Chair before the external Auditors are engaged. The external Auditor cannot be engaged to perform any assignment where the output is then subject to their review as external Auditor. The Committee regularly reviews an analysis of all services provided by the external Auditor. The policy and the external Auditor's fees are reviewed and set annually by the Committee and are approved by the Board.

The total fees payable by the Group to its external Auditor for non-audit services in 2019 were £0.2m, primarily the Interim Review (2018: £0.4m). The total fees payable to the external Auditor for audit services in respect of the same period were £2.3m (2018: £1.6m). The ratio of audit to non-audit fee was 11.5:1. Details of each non-audit service and reasons for using the Group's external Auditor are provided in Note 4 to the Financial Statements on page 164.

A full breakdown of external Auditor fees are disclosed in Note 4 to the Financial Statements on page 164.

Resolution to re-appoint External Auditor

The Committee recommends, and the Board agrees, that a resolution for the re-appointment of Ernst & Young LLP as Auditor of the Company for a further year will be proposed at the 2020 Annual General Meeting.

Fair, balanced and understandable

The Board had the opportunity to review early drafts of the Annual Report and Accounts and provided input. Following which the Committee has reviewed the contents of this year's Annual Report and Accounts and advised the Board that, in its view, the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information to enable Shareholders to assess the position and performance, strategy and business model of the Company.

In reaching this conclusion the Committee has considered the following:

- The preparation of the Annual Report is a collaborative process between Finance, Legal, Company Secretariat, Human Resources and Communications functions within SIG, ensuring the appropriate professional input to each section. External guidance and advice is sought where appropriate.
- The coordination and project management is undertaken by a central team to ensure consistency and completeness of the document.
- An extensive review process is undertaken, both internally and through the use of external advisers.
- A final draft is reviewed by the Audit Committee members prior to consideration by the Board.

Ian Duncan

Chair of the Audit Committee

29 May 2020

Directors' Remuneration Report

Committee Membership (during 2019)

Ms H.C. Allum (Kate)

Chair (from 1 July 2019)

Ms A. Abt

Independent Non-Executive Director (retired 12 February 2020)

Ms J.E. Ashdown

Independent Non-Executive Director (retired from the Board and as Chair on 8 May 2019)

Mr I.B. Duncan

Independent Non-Executive Director

Ms G.D.C. Kent

Independent Non-Executive Director (appointed 1 July 2019)

Mr A.C. Lovell

Senior Independent Non-Executive Director

Mr C.M.P. Ragoucy

Independent Non-Executive Director (retired 1 July 2019)

Purpose and aims

To provide effective oversight and governance over the integrity of the Group's remuneration arrangements for senior executives to ensure that the interests of the Company's Shareholders are protected at all times.

The Committee's aim is to ensure that remuneration arrangements support the strategic aims of the Company and enable the recruitment, motivation and retention of senior leaders to deliver sustainable long term performance in line with the purpose and culture of the business.

Key responsibilities

- Determining the Remuneration Policy for the Chairman, Executive Directors and Senior Executives;
- Setting the remuneration of the Chairman, Executive Directors and Senior Executives;
- Designing executive remuneration to link rewards to corporate and individual performance, ensuring performance related elements are transparent, stretching and rigorously applied;
- Ensuring that failure is not rewarded and that steps are always taken to mitigate loss on termination, within contractual obligations;
- Reviewing remuneration trends across the Group; and
- Approving the terms of and recommending grants under the Group's incentive plans.

Terms of reference

During the year the Board adopted revised terms of reference. These can be found on the Company's website at www.sigplc.com.

Evaluation

An internal evaluation was conducted for the Committee in line with the Code. More details can be found on page 87.



"Our Remuneration Policy approved by Shareholders in 2018 aligns our executive remuneration arrangements with our focus on the long-term success of the Company and sustained total Shareholder return."

Kate Allum

Chair of the Remuneration Committee

Dear Shareholder,

On behalf of my colleagues on the Remuneration Committee (the 'Committee') and the Board, I am pleased to present SIG's Directors' Remuneration Report for the financial year ended 31 December 2019.

I joined the Board of SIG on 1 July 2019 succeeding Ms Ashdown as Chair of the Committee. It was pleasing to find that overall our Remuneration Policy was working well, however it has become apparent that as we move forward with the strategy of returning to profitable growth, ongoing focus is required on how to incentivise the Executive Directors and senior management to achieve longer term sustainable value for the business.

In December 2019, we announced my appointment as the Non-Executive Director responsible for workforce engagement with effect from 1 January 2020. I consider this responsibility to be very well aligned with my role as the Chair of the Committee.

As indicated in the Nominations Committee Report, in line with best practice and to ensure adequate Board oversight, our Chairman became a member of the Committee with effect from 1 January 2020.

Last year Ms Ashdown explained that our Remuneration Policy was approved by Shareholders at a General Meeting of the Company on 7 November 2018. This included the new SIG plc Bonus Plan (the 'Bonus Plan') and the SIG 2018 Long Term Incentive Plan (the 'LTIP'). This year I report on how we have applied the Remuneration Policy during 2019 and our key focus and priorities for 2020, which includes consulting with Shareholders on the structure of the Long Term Incentive Plan for our Executive Directors following our 2019 full year results announcement.

Directors' Remuneration Report

Departures

M. Oldersma (CEO) resigned on 24 February 2020. He received no bonus for 2019 and his LTIP awards lapsed on cessation of employment. No loss of office payments were made. He was paid salary and benefits for his contractual notice period.

N.W. Maddock (CFO) resigned on 24 February 2020. He received no bonus for 2019 and his LTIP awards lapsed on cessation of employment. No loss of office payments were made. He was paid salary and benefits for his contractual notice period.

Appointments

The following were appointed Executive Directors and their remuneration determined in accordance with our Remuneration Policy:

Name	Steve Francis	Kath Kearney-Croft
Role	CEO	CFO
Base Salary	£540,000	£371,000
Employer Pension Contribution	5%	5%
Maximum Annual Bonus Potential	150% ¹	100%
Maximum LTIP Award	Under review	n/a
Buy-outs	None	None
Notice period	6 months	Fixed term contract until 31 December 2020

¹ There will be special arrangements for 2020 which will be subject to Shareholder consultation.

COVID-19

We have committed to support all our colleagues during the period of temporary closure of our business due to COVID-19. We have ensured that our UK colleagues continued to receive a proportion of their pay during a period of furlough and, in that context, we welcome the introduction of the UK Government's Coronavirus Job Retention Scheme, which will help to support this. Similar Government assistance to retain jobs in Ireland is also welcome.

However, we asked our UK and Ireland employees to take lower pay during this period, and it was therefore deemed appropriate for all members of the Board to take a pay reduction of up to 50% at this time, with effect from 1 April 2020 for a period of three months until 30 June 2020. The Company announced on 30 April that the majority of sites in the UK would be open by mid-May, therefore, the Executive Directors' pay was reinstated to 80% from 1 April 2020 in line with colleagues returning to work.

The following table summarises the key components of executive remuneration and the decisions made by the Committee:-

Element of Remuneration	Committee Decision	Rationale
2019 bonus	To consider bonus in the normal manner with no adjustment for COVID-19.	■ The Company considered bonuses for all eligible employees. ■ The performance conditions were not satisfied, and no bonus was payable to the Executive Directors.
2020 salary increases	No salary increases were made for the Executive Directors. As set out above the CEO and CFO have chosen to reduce their salaries by up to 50% from 1 April 2020 for 3 months until 30 June 2020. CEO and CFO salaries were re-instated to 80% in mid-May (backdated to 1 April 2020) in line with colleagues returning to work on full pay.	■ Both the Executive Directors were new appointments.
2020 bonus	The Committee has determined: ■ To review the performance conditions to ensure they remain appropriate. ■ To maintain the current maximum bonus potential. ■ To build in sufficient flexibility to ensure the bonus outcomes are fair to all stakeholders.	■ The Committee recognises the challenge of operating the Bonus Plan in the current circumstances of the Company and the general environment. ■ The Committee will take into account factors such as the position of employees, Shareholders and Government assistance provided to the Company when exercising its discretion to depart from any formulaic application of the bonus performance conditions.
2017 LTIP vesting	The Committee is intending to allow the 2017 LTIP award to vest without adjustment in 2020. The performance conditions will not be met and therefore the 2017 LTIP award will not vest.	■ The 2017 LTIP measures performance over three years and therefore has only been marginally impacted by COVID-19. ■ The value of the shares on vesting will reflect the share price experience of our Shareholders.
2020 Long-Term Incentive Awards	■ The Committee is actively consulting with Shareholders around the appropriate structure of long-term incentives for the Executive Directors. ■ Details of the proposals will be contained in the relevant Notice of Meeting when the incentive arrangements and associated Remuneration Policy will be put to Shareholders for approval.	■ The rationale for the proposed incentives and associated Remuneration Policy will be set out in full in the relevant Notice of Meeting.

Committee's remit

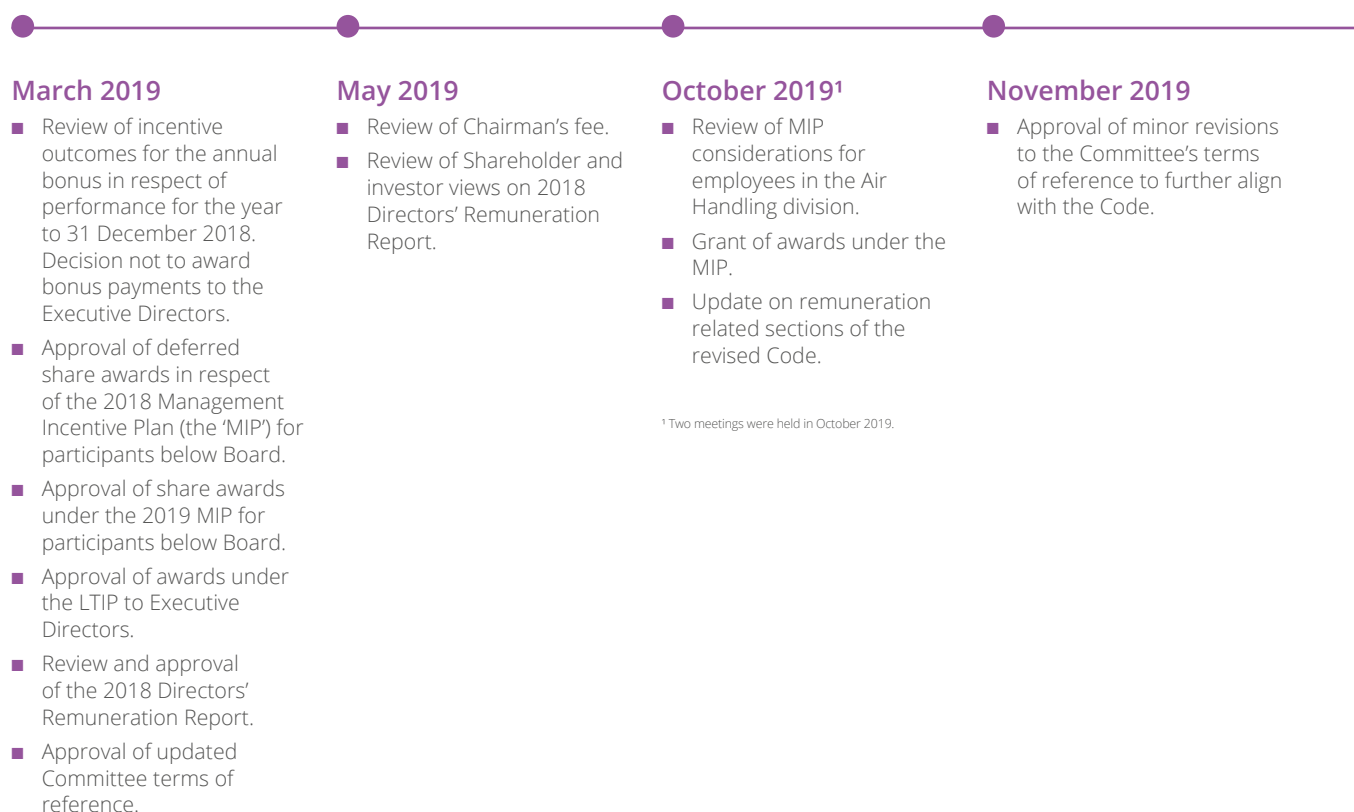
In line with the Code, the Committee updated its terms of reference to not only include the setting of remuneration of senior management but also to formally take into account in our decision making process wider workforce policies and remuneration, the risk appetite of the Group and the alignment of the Remuneration Policy to the Group's purpose, culture and long-term strategy. Many of the principles underpinning the Code were already present in our remuneration frameworks and the Committee will continue to review how the developing corporate governance and remuneration environment, in particular the 2018 changes to the Code, might be reflected in the way the Committee operates.

Where is this information?

Sections	Page	Sections	Page
Annual statement from the Chair of the Committee	111	Fairness, diversity and wider workforce considerations	122
Remuneration report at a glance	116	How do we cascade remuneration through the Company?	125
What is our Remuneration Policy?	118	How did we implement the Remuneration Policy in 2019 and how will we in 2020?	118 to 120
Additional context on our Executive Directors' pay	121	Additional information	131

Key activities during 2019

The Committee meets regularly throughout the year with five meetings being held during 2019. The agenda is linked to remuneration requirements and the following key agenda items were addressed:



In addition, the Committee's appointed remuneration consultants, PwC LLP, gave a briefing to Committee members in December 2019. This provided the Committee with additional guidance on the considerations to be taken into account when setting executive remuneration, new or additional corporate governance matters the Committee will need to be aware of going forward and Shareholder reaction following the annual general meetings (AGM's) of other listed companies during 2019.

Directors' Remuneration Report

Remuneration Committee evaluation

As part of good corporate governance, the Committee reviews its own performance annually and considers where improvements can be made. The Committee's performance and effectiveness was reviewed in November 2019 as part of the review of Board and Committee effectiveness conducted by the Company Secretary. The questionnaire focused on the following key areas:

- (1) the effectiveness of the Committee in setting and reviewing the remuneration framework and policy for Executive Directors and other senior executives;
- (2) the effectiveness of the Committee in aligning the remuneration framework and policies to the delivery of the Company's strategy and long-term performance and driving behaviours consistent with the Company's purpose, values and strategy;
- (3) whether when considering the remuneration framework, the Committee has the appropriate risk appetite to support the Company's aims;
- (4) leadership of the Committee's; and
- (5) the Committee's relationship with the Group HR Director and external advisors.

The Committee was broadly rated as satisfactory/effective in all areas. With regard to leadership, the Chair of the Committee was new to the role but had made an excellent start. The relationship with the Group HR Director and external advisors was rated satisfactory or above. The Committee could therefore conclude that it was effective in dealing with the matters delegated by the Board.

It was agreed that the key areas of priority for 2020 could be broadly summarised as follows:

- Remuneration to link more to purpose, culture and strategy and driving the behaviours which support this, whilst ensuring there was an appropriate balance between long and short-term priorities;
- Motivation and retention of Executive Directors, senior management and key employees in the absence of any bonuses/LTIPs for three years; and
- More emphasis on broader workforce pay and their views in line with the Code.

Who supports the Committee?

Internal

During the year, we sought internal support from the CEO, CFO and Group HR Director, whose attendance at Committee meetings was by invitation from the Committee Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of the senior management team. The Company Secretary also attended each meeting as Secretary to the Committee. No director or individual was present for any discussions that related directly to their own remuneration.

External

PwC LLP were appointed in 2018 by the Committee following a tender process as external remuneration consultants to the Committee and continued in this capacity throughout 2019.

PwC attended Committee meetings as required and provided advice on remuneration for Executive Directors, analysis on all elements of the Remuneration Policy and provided regular market and best practice updates. PwC reports directly to the Committee Chair and is signatory to, and abides by, the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com). During the financial year PwC LLP also provided advice relating to Corporate and Employment Tax, Transfer Pricing and Strategy Consulting. The Committee is

satisfied that the advice it received from PwC LLP is independent and objective. PwC's fees for the year were charged on a time and materials basis and totalled £55,500 in respect of 2019 (2018: £45,000). PwC has no connections with individual Directors, but the Company does use PwC services in other parts of the business.

Compliance statement

This Report, prepared by the Committee on behalf of the Board, has been prepared in accordance with the provisions of the Companies Act 2006 (the Act), the Listing Rules of the Financial Conduct Authority, the Large and Medium-sized Companies and Groups (Financial Statements and Reports) (Amendment) Regulations 2013 and the Companies (Miscellaneous Reporting) Regulations 2018. The Act requires the Auditor to report to the Company's Shareholders on the audited information within this report and to state whether, in their opinion, those parts of the report have been prepared in accordance with the Act. The Auditor's opinion is set out on page 226 and those aspects of the report that have been subject to audit are clearly marked.

It is considered that throughout the year under review the Company has complied with the governance rules and best practice provisions applicable to UK-listed companies.

2019 performance

Financial highlights

- Underlying gross margin up 60 bps
- Implementation of IFRS 16 from 1 January 2019 has had no economic impact on the Group but has materially changed some of the Group's reported financial information. In order to allow clearer comparisons with 2018, the Group has presented key financial information for 2019 on both a pre and post IFRS 16 basis
- Operating costs, pre IFRS 16, lower by £6.0m (1.2%), reflecting the adoption of functional operating models, reduction in footprint and continued cost discipline
- Underlying profit before tax (including businesses held for sale), pre IFRS 16, of £41.9m (2018: £74.5m), consistent with previous guidance. Underlying profit before tax, post IFRS 16, of £15.6m (2018: £52.2m)
- Statutory loss before tax from continuing operations of £112.7m (2018: profit before tax of £10.3m), reflecting £128.3m of Other items, including £90.9m of impairments
- Net debt, pre IFRS 16, at year end of £162.8m (2018: £189.4m) and covenant leverage of 2.1x

Operational highlights

- Underlying revenue decline of 9.0%, impacted by market share losses in UK and Germany due to poor execution of transformation initiatives which the Board believes disconnected the business from its customers, suppliers and its front-line colleagues
- The Group's other operating companies recorded continued steady performance, with like-for-like revenues up 1.4%
- Good operating progress made through the further development of new technologies, e-commerce and increased functionalisation

Please see the Chairman's statement on pages 04 to 05 for further information. It is against this background that the Committee has made its decisions on remuneration for 2019.

2019 bonus

The bonus performance conditions for 2019 (see page 118) were:

- 50% PBT;
- 50% ROCE;
- Any bonus is subject to a health and safety gateway which has to be met before any bonus can be earned.

2017 LTIP out-turn

Mr M. Oldersma was appointed to the Board as CEO on 3 April 2017 and Mr N.W. Maddock as CFO on 1 February 2017. Therefore, the first LTIP awards granted to both Executive Directors in 2017 were due to vest in early 2020 based on performance over the three years to 31 December 2019. The table below sets out how the Company performed against the performance conditions and the resulting vesting level.

2017 LTIP out-turn

	Weighting (%)	Actual	Threshold ¹	Maximum ¹	Outcome (% salary)	CEO Actual £'000	CFO Actual £'000
Underlying EPS	33.3%	3.5p	31.0p	38.0p	0	0	0
ROCE	66.6%	6.1%	10%	13.5%	0	0	0
Total						0	0

¹ Award between Threshold (0%) and Maximum (100%) on a straight line basis

The performance conditions were not met and therefore no 2017 LTIP awards will vest. The Committee exercised no discretion in determining the vesting and no adjustment was made to reflect share price performance. The Committee felt that the formulaic outcome accurately reflected the underlying performance of the business over the period.

Application of Policy

The Committee has now granted two LTIP awards under the Remuneration Policy. The second award was granted on 21 March 2019 (key terms are summarised in the "AT A GLANCE" section on page 116 with full details provided on Remuneration on page 118).

The Bonus Plan was operated for the first time in respect of the 2019 financial year and the Committee is comfortable that the Remuneration Policy has been applied as intended (key terms of the Bonus Plan are summarised in the "AT A GLANCE" section on page 116). In addition, the Committee is satisfied that the Policy operated as intended for the year being reported on.

The Policy approved by Shareholders in November 2018 included many features in line with the updated Code, for example the Committee has discretion to adjust Bonus Plan and LTIP outcomes if it believes they are not a fair and accurate reflection of business performance. In addition, during 2019 the Committee determined that it would make further changes in relation to the operation of the Policy, and how it reports on remuneration to align with the Code and revised investor body guidelines which included the following:

- The Committee approved a post-employment shareholding requirement for the Executive Directors of two years in respect of the full minimum shareholding requirement which applies during employment.
- The Committee is aware of the Code requirement in relation to the alignment of executive pensions with the wider workforce. Therefore, on an ongoing basis the pension contributions for all Executive Directors are lower than the contribution made by employees into the Group personal pension plan.

Wider workforce considerations

SIG is committed to creating an inclusive working environment and rewarding our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions.

We believe that employees throughout the Company should be able to share in the success of the Company and in 2005 we introduced a Share Incentive Plan (the 'SIP') for this purpose to our UK employees. We also believe that employees should have the opportunity to save for their futures and to this end we operate pension saving mechanisms for all employees across the Group.

As part of our commitment to fairness, we have set out information on our wider workforce pay conditions, our CEO to employee pay ratio, and our gender pay statistics (see page 126). Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

During the first quarter of 2020, a number of round table sessions had been scheduled around the business to understand what was important to our colleagues and which topics they would like to discuss. These sessions would have also provided the opportunity for me to explain how executive remuneration aligns with wider Company pay policy, how this Committee operates, the extent to which any discretion is applied to remuneration outcomes, giving the reasons why and the opportunity for any questions on the Directors' Remuneration Report and in particular on the fairness, diversity and wider workforce considerations section. Unfortunately, in light of COVID-19, it has not been possible to meet with colleagues. This will be resumed when we are through the lockdown; if face to face sessions cannot be held, video conferencing will be used, as I am keen to understand the issues which are important to our colleagues and feed their views back to the Board.

Shareholders

We engaged extensively with Shareholders during 2018 on the development of our Remuneration Policy which was then approved by our Shareholders in November 2018.

The Committee is actively consulting with Shareholders around the appropriate structure of long-term incentives for the Executive Directors. Details of the proposals will be contained in the relevant Notice of Meeting when the incentive arrangements and associated Remuneration Policy will be put to Shareholders for approval.

In light of COVID-19 restrictions, it will not be possible to meet our Shareholders at the AGM on 30 June 2020, therefore if you have any questions, please email them to cossec@sigplc.com.

I am also available to discuss any remuneration issues our other stakeholders may wish to discuss with me.

Kate Allum

Chair of the Remuneration Committee

29 May 2020

Directors' Remuneration Report

Annual statement

AT A GLANCE

Voting outcomes

The following table shows the results of the advisory vote on the 2018 Directors' Remuneration Report at the AGM held on 8 May 2019 and the results of the binding vote on the Remuneration Policy at the General Meeting held on 7 November 2018:

		For	Against	Total votes cast ¹	Votes withheld
2019 Directors' Remuneration Report	Total number of votes % of votes cast	437,156,494 93.94%	28,216,246 6.06%	465,372,740 100%	28,841,803
Current Directors' Remuneration Policy	Total number of votes % of votes cast	454,060,422 85.45%	77,305,353 14.55%	531,365,775 100%	204,667

¹ The total votes cast is the for and against votes, a vote withheld is not a vote in law and not counted in this total.

SIG executive pay

The Directors' Remuneration Report is colour coded as follows: -		Business context 2019 out turns against KPIs	
SIG Executive pay Components of Remuneration	Salary	KPI and Out turn	Like-for-Like Sales
	Pension		Return on Sales
	Benefits		ROCE
	Bonus		Headline Financial Leverage
	Long-Term Incentive Plan		Accident Incident Rate
	Shareholding Ownership Requirements		

How do our incentive performance measures align to our strategy?

In executing our strategy, we aim to create value and positive outcomes for our Shareholders and all other stakeholders. We continually consider the performance measures we use for our incentives to ensure they support the delivery of our strategy.

Our strategic priorities

Strong positions in our core markets: as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products.

Partner of choice: We add value as the supply chain partner of choice for specialist building materials across Europe.

Experienced and passionate workforce: We have a capable and experienced team, committed to partnership with our customers and suppliers and with a strong focus on health and safety.

Creating long-term value: through delivery of the operational and financial transformation of our businesses.

Our key performance indicators

Like-for-Like sales Return on sales ROCE Headline financial leverage Accident incident rate

Annual bonus

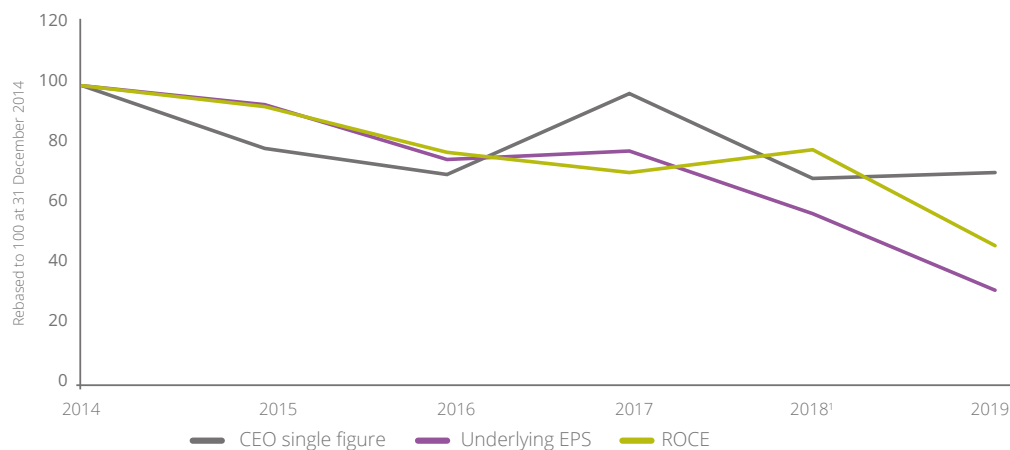
Measures	Link to strategy	Link to KPIs
PBT	Focus on growth in sales and returns	✓
	Key measure of organic growth	
	Linked to Shareholder value	
ROCE	Focus on operational efficiency	✓
	Focus on sustainable investment	
	Linked to Shareholder value	
Health and safety	All employees, customers and suppliers should be able to work in a safely managed environment across every part of the SIG Group	✓

Long-Term Incentives

Measures	Link to strategy	Link to KPIs
Absolute Total Shareholder Return (TSR)	Linked to the delivery of long-term shareholder value/dividend strategy	✓
Relative TSR	Focus on outperformance of the market	✓
ROCE	Focus on operational efficiency	✓
	Focus on sustainable investment	
	Linked to Shareholder value	
Shareholding guidelines	Linked to Shareholder value	✓

Long term performance

The following charts show the single figure of remuneration for 2014 to 2019 compared to the Company's EPS and ROCE over the same period (rebased to 100 as at 31 December 2014). The charts demonstrate a strong correlation between Company performance demonstrated by these measures and the remuneration paid to our Executive Directors.



¹ The 2018 EPS has been restated.

Remuneration in respect of 2019

What did our Executive Directors earn during the year?

Mr M. Oldersma		Mr N.W. Maddock	
Salary:	£577,000	Salary:	£371,000
Pension allowance:	£86,550	Pension allowance:	£55,650
Benefits:	£24,435	Benefits:	£21,406

2017 Awards

Executive Director	Date of grant	Shares subject to award	Market price at date of award	Face value at date of award	Face value at date of award (% of salary)
Mr M. Oldersma	24 April 2017	954,003	117.4p	£1,120,000	200% ¹
Mr N.W. Maddock	24 April 2017	459,965	117.4p	£540,000	150%

No discretion was exercised by the Committee in respect of the 2017 LTIP.

2017 LTIP out-turn								
Performance condition	Weighting	Actual	Threshold (25% vesting)	Maximum (100% vesting)	Outcome (% maximum)	Outcome (No. of shares vesting)	CEO Actual £'000	CFO Actual £'000
EPS (cumulative basis)	33.3%	3.5p	31.0p	38.0p	0%	0	0	0
ROCE (average basis)	66.7%	6.1%	10%	13.5%	0%	0	0	0
				Total	0%	0	0	0

Directors' Remuneration Report

Annual statement

In 2019, the maximum potential bonus opportunity for Mr M. Oldersma (CEO) was £865,000 (150% of salary) and for Mr N.W. Maddock (CFO) £556,500 (150% of salary). No discretion on the outcome was exercised by the Committee in respect of the 2019 bonus.

2019 Bonus out-turn								
Performance condition	Weighting	Actual	Threshold (30% payable)	Target (65% payable)	Maximum (100% payable)	Outcome (% salary)	CEO Actual £'000	CFO Actual £'000
PBT	50%	£15.6m	£90m	£105m	£120m	0	0	0
ROCE	50%	6.1%	12.2%	13.9%	15.6%	0	0	0
Health & Safety gateway		Met						
Total							0	0

What is our Remuneration Policy?

In this section we provide a summary of the key elements of the Remuneration Policy for Executive Directors approved by Shareholders at our 2018 General Meeting on 7 November 2018. In addition, we have set out how the Policy was operated in 2019 and how it is intended that the Policy is to be operated in 2020. You can find the full current Remuneration Policy in the Company's Notice of General Meeting dated 15 October 2018 at www.sigplc.com/investors/information-for-shareholders/agm-notices-and-results.

It should be noted that the Executive Directors employed during 2019, M. Oldersma (CEO) and N.W. Maddock (CFO) resigned on 24 February 2020. Therefore, the remuneration in 2020 relates to Steve Francis (the new CEO) and Kath Kearney-Croft (the new CFO).

The Company's policy is to provide remuneration packages that fairly reward the Executive Directors for the contribution they make to the business and that are appropriately competitive to attract, retain and motivate Executive Directors and senior managers of the right calibre. A significant proportion of remuneration takes the form of variable pay, which is linked to the achievement of specific and stretching targets that align with the creation of Shareholder value and the Company's strategic goals.

Element and link to strategy	Period over which earned	How we implemented the Policy in 2019	How we will implement the Policy in 2020
Salary To attract and retain talent in the labour market in which the Executive Director is employed. It is anticipated that salary increases will generally be in line with the general employee population.	2019	Executive Director salaries for 2019 were as follows: ■ CEO – £577,000 ■ CFO – £371,000 Salary increases were 1.5% in 2019, in line with inflation and increases for UK employees generally.	Executive Director salaries for 2020 are as follows: ■ CEO - £540,000 ■ CFO - £371,000 In light of COVID-19, the Company announced on 30 March 2020 that all Board members would be take a 50% reduction in pay with effect from 1 April 2020 until 30 June 2020, re-instated to 80% for Executive Directors from mid-May (backdated to 1 April 2020) in line with colleagues returning to work on full pay. The general employee base salary increase was 1.5%.
Pension To provide retirement benefits that are appropriately competitive within the relevant labour market.	2019	The maximum Company contribution or pension allowance is 15% of salary. When recruiting or promoting new Executive Directors the Committee will aim at aligning the pension contribution to be provided to those of employees.	From 1 January to 25 February, Executive Directors received 15% of pension allowance. From 25 February, the new Executive Directors received 5% of pension allowance which is below the wider workforce employee contribution.

Element and link to strategy	Period over which earned	How we implemented the Policy in 2019	How we will implement the Policy in 2020
Benefits To provide benefits that are appropriately competitive within the relevant labour market. Benefits include (but are not limited to) a company car, life assurance, medical and permanent health insurance. Benefits are reviewed annually, and their value is not pensionable.	2019	Benefits may vary by role. The cost of benefits may vary as a result of factors outside the Company's control (e.g. increases in healthcare insurance premiums), though it is not anticipated that the cost of benefits will exceed £35,000 per annum per Executive Director over the term of the Policy.	No change.
Annual bonus Bonus operation for 2019 and 2020 ■ 2/3rds payable in cash up to a maximum of 66% of salary; ■ 1/3rd payable in shares up to 100% of salary; ■ 100% of any bonus above 100% of salary deferred in shares; ■ All shares deferred for 3 years and subject to continued employment; ■ 2 year holding period following vesting for deferred shares.	2019 – 2022 deferral period 2022 – 2024 holding period	Maximum opportunity in 2019 was as follows: ■ CEO – 150% of base salary ■ CFO – 150% of base salary The performance measures were: ■ EPS (50%) ■ ROCE (50%) Any bonus is subject to a health and safety gateway which must be met before any bonus can be earned. See page 118 for bonus outcomes for 2019.	Maximum opportunity in 2020 will be as follows: ■ CEO – 150% of base salary ■ CFO – 150% of base salary The performance measures are being reviewed for 2020 and will be provided when the revised Policy is put to Shareholders at a General Meeting of the Company.
Long-Term Incentive Plan Maximum initial award 200% of salary with the ability to increase by a multiple of 1.5x for exceptional performance giving an overall maximum of 300%; 3-year performance period; 2 year holding period.	2019 – 2022 performance period 2022 – 2025 holding period	LTIP Award granted in 2019 was as follows: ■ CEO – Initial Award 200% of base salary with (multiplier 300%) ■ CFO – Initial Award 200% of base salary with (multiplier 300%) Performance conditions: Initial Award: ■ Median TSR compared to the FTSE 250 or no award capable of vesting ■ ROCE of 10% p.a. or no award capable of vesting ■ Vesting based on absolute TSR growth 8% p.a. (25% of the award vests) full vesting at 14% p.a. Multiplier: ■ Upper quartile TSR compared to the FTSE 250 or no award capable of vesting ■ ROCE of 12.5% p.a. or no award capable vesting ■ Initial Award multiplied by 1x for absolute TSR growth of 14% p.a. or below with a multiplier of 1.5x for 18% p.a. See page 117 for further details of the 2019 LTIP grant.	The Committee is currently consulting with Shareholders on a new LTIP which will be put to Shareholders at a General Meeting.

Directors' Remuneration Report

Annual statement

Element and link to strategy	Period over which earned	How we implemented the Policy in 2019	How we will implement the Policy in 2020
Share ownership requirements To further align Executive Directors' interests with those of Shareholders, the Company has established the principle of requiring Executive Directors to build up and maintain a beneficial holding of shares in the Company. It is expected that this should be achieved within five years of the approval of the new Policy. In addition, there is an intervening check in the shareholding requirement that at two years from the adoption of the new Policy, Executive Directors should hold 100% of salary in shares.	n/a	Share ownership requirements: ■ CEO – 300% of base salary ■ CFO – 300% of base salary	Share ownership requirements: The share ownership requirements will now apply for two years post cessation.
Chairman and NED fees To attract and retain NEDs of the highest calibre with experience relevant to the Company. It is anticipated that increases to Chairman and NED fee levels will typically be in line with market levels of fee inflation.	2019	Fees were increased in May 2019 in line with the general increase for employees of 1.5% to the following: ■ Chairman £218,255 ■ NED Fee £60,900 ■ Senior Independent Director £10,000 (no change) ■ Committee Chair £12,000 (no change) ■ Audit Committee Chair £12,000 (no change) For actual fees paid during the year please refer to the single figure table on page 130.	The Board would ordinarily review NED fees in May 2020, taking in to account any increase agreed with the general workforce, however this will be deferred to September 2020. In light of COVID-19, the Company announced on 30 March 2020 that all Board members would be taking a 50% reduction in fees with effect from 1 April 2020 for a period of three months until 30 June 2020.

What is our 2019 single figure compared to our Policy?

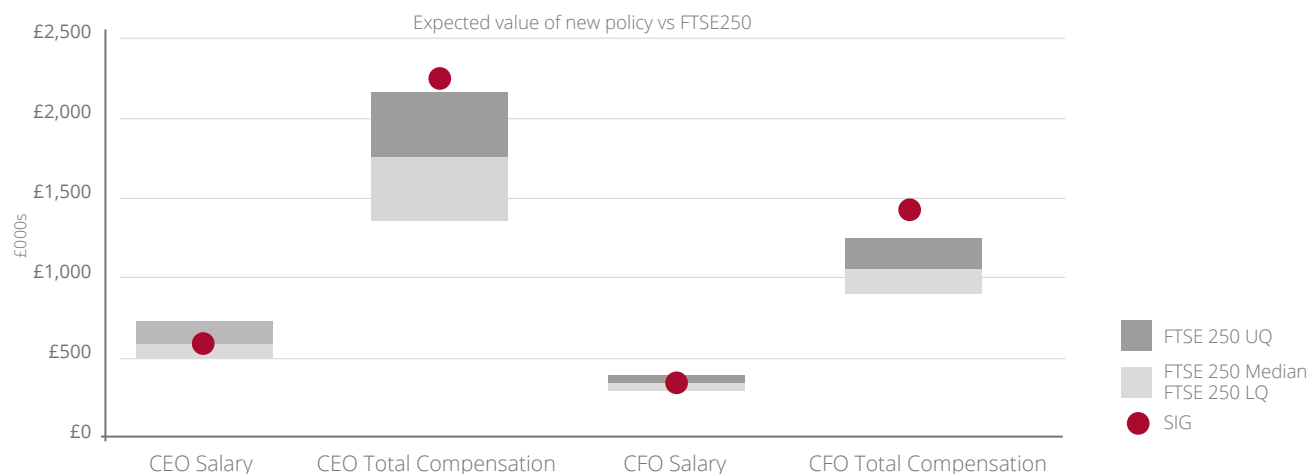
When Shareholders approved our Remuneration Policy in 2018, we set out scenarios for the potential remuneration to be earned by our Executive Directors under the Policy for various performance assumptions. We have set out the actual single figure of remuneration for the Executive Directors for 2019 against these scenarios to demonstrate how the actual remuneration paid lines up with our Policy.



Additional context to our Executive Director's pay

How does our target total compensation compare to our peers?

The following chart shows the relative position of salary and target total compensation for our Executive Directors in role during 2019 compared to our peers.



When we set the target total compensation for the Executive Directors, one of the factors the Committee considers is the competitive market for our Executive Directors, which we believe is the FTSE 250, and the size of the Company compared to these peers.

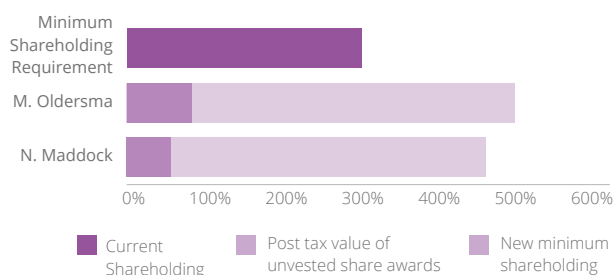
The chart demonstrates the Committee's policy of ensuring that salary and benefits are set at or below the market level with the incentives allowing an overall above market positioning when the Company has performed.

Directors' Remuneration Report

Directors' remuneration policy

What is our minimum share ownership requirement, and has it been met?

The intention was that the Executive Directors would meet the minimum share ownership requirements by November 2020, given its relatively recent adoption (refer to page 120). The table shows the shareholding values as at 31 December 2019 of the Executives Directors employed during the year.



Fairness, diversity and wider workforce considerations

Working at SIG

Over the past year, the Company has placed a greater focus on making SIG a great place to work through increased openness and inclusivity. This Report aims to demonstrate this through not only our reward offering but through the overall employee experience. In making decisions on reward, the Committee considers wider workforce remuneration and conditions, and we believe that it is important to be transparent about the link between the two.

As part of our commitment to fairness, we have included in this section more information on:

- The Committee's remit
- Remuneration principles
- Wider workforce pay conditions
- Our UK gender pay statistics
- Remuneration and alignment with performance

The Committee's remit

The Committee's remit extends down to Executives Directors and senior management for which it recommends and monitors the level and structure of remuneration. In addition, in this section, we provide context to our Director pay by explaining our employee policies and our approach to fairness, including whether the approach to executive remuneration is consistent and the incentives operated by the Company are aligned to its culture and strategy.

The Committee ensures that pay is fair throughout the Company and makes decisions in relation to the structure of executive pay in the context of the wider workforce remuneration and the cascade of incentives throughout the business.

Remuneration principles

Our reward strategy is designed to support and reinforce SIG's purpose, vision, culture and behaviours and to reward all of our employees for delivering against our strategic objectives. The principles that we have developed apply across the Group.

Alignment and fairness

In action

- Clear and appropriate governance structures are in place for decision making at all levels.
- Remuneration programmes and processes are run fairly, with integrity and are supported with clear communication to individuals.
- Pay arrangements are fair and equitable across the Group.

Rewarding contribution and performance

In action

- Performance is assessed against the behaviours required to support our commitment culture.
- Incentive plans reward the delivery of our business strategy, targets are appropriately stretching, and objectives are focused on value creation.
- Performance measures are reviewed regularly, personal and strategic objectives are accurately assessed, and targets are set relative to strategic priorities.

Transparency and participation

In action

- There is a focus on effectively communicating remuneration decisions through stakeholder engagement.
- Incentive and benefits plans are clear, simple and understood by participants to maximise engagement.

The Code requires the Committee to determine the Policy and practices for Executive Directors in line with a number of factors set out in Provision 40, and further details on our remuneration principles and how we have addressed the requirements are set out below:

Alignment of the current Policy to the provisions of the Code	
Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's strategy measured through KPIs which are used for the Bonus Plan and LTIP. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid.
Simplicity	The Company operates a UK market standard approach to remuneration which is familiar to all stakeholders.
Risk	The Policy includes the following: ■ Setting defined limits on the maximum awards which can be earned; ■ Requiring the deferral of a substantial proportion of the incentives in shares for a material period of time, helping to ensure that the performance earning the award was sustainable, and thereby discouraging short-term behaviours; ■ Aligning the performance conditions with the agreed strategy of the Company; ■ Ensuring a focus on long-term sustainable performance through the LTIP; and ■ Ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes, especially if it appears that the behaviours giving rise to the awards are inappropriate or that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability	Shareholders were given full information on the potential values which could be earned under the Company's incentive plans on their approval. In addition, all the checks and balances set out above under 'Risk' were disclosed at the time of Shareholder approval.
Proportionality	The Company's incentive plans clearly reward the successful implementation of the strategy, and through deferral and measurement of performance over a number of years ensure that the Executive Directors have a strong drive to ensure that the performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the incentive plans if they do not reflect underlying business performance.
Alignment to culture	The focus on ownership and long-term sustainable performance is also a key part of the Company's culture, this is reflected in the level of deferral required on incentives. In addition, the measures used for the incentive plans are measures used to determine the success of the implementation of the strategy.

Directors' Remuneration Report

Directors' remuneration policy

Wider workforce pay conditions

Delivery of our strategy depends on our success in attracting and recruiting an engaged workforce that have the right skills and demonstrate the right behaviours to make a valuable contribution to our business. The Board as a whole are focused on workforce engagement and the Committee specifically has oversight of workforce pay, policies and incentives to ensure that they are aligned to Remuneration Policy.

In order to do this, the Committee receives a report annually from the Company setting out key details of remuneration across the Group.

Overall, for 2019 we observed a structured and balanced approach to reward. Clearly the levels of remuneration and the types offered will vary across the Company depending on the employee's level of seniority, country of operation and role. There are minimal exceptions to standard local practices across the Group and robust governance structures can be evidenced. The Committee is not looking for a homogeneous approach; however, when conducting its review it is paying particular attention to:

- Whether the element of remuneration is consistent with the Company Remuneration Principles (see page 122);
- If there are differences, they are objectively justifiable; and
- If the approach seems fair and equitable in the context of other employees.

Summary of the remuneration structure for employees:

Pay Element	Pay Element	Executive Directors
Salary	We conduct an annual pay review for all employees. In setting the budget consider many factors such as market rates, economic context, business performance and affordability.	Salary increases are considered in the context of the wider workforce review and performance of the Company.
Pensions and benefits	We offer market-aligned benefits packages reflecting normal practice in each country in which we operate. Where appropriate, we offer benefit choices to our employees.	When recruiting or promoting new Executive Directors the Committee aims to align the pension contribution to be provided to those of employees. Benefits are aligned to the Senior Leadership Team in the country of operation.
Bonus Plan	Just over half of our workforce (55%) participate in a cash bonus. The performance factors differ depending on the role, level and country of operation.	Annual bonus of 150% of base salary 2/3rds payable in cash up to of 100% of salary; 1/3rd payable in shares up to 100% of salary and all bonus in excess of 100% of salary paid in shares.
LTIP	No LTIPs in operation for the wider workforce.	Maximum Initial Award 200% of salary with the ability to increase by a multiple of 1.5x for exceptional performance giving an overall maximum of 300%; 3-year performance period; 2 year holding period.
SIP	All UK employees are invited to participate in the SIP.	Executive Directors are invited to participate in the SIP.
MIP	The Senior Leadership Team are invited to participate in the MIP with performance measures aligned to Executive Director bonuses. Awards are a combination of cash, restricted share awards and deferred awards.	Executive Directors do not participate in the MIP.

The Committee has the authority to ask for additional information from the Company in order to carry out its responsibilities.

Once the Committee has conducted its review of the wider workforce remuneration and incentives it considers the approach applied to the remuneration of the Executive Directors and Senior Management. In particular, the Committee is focused on whether, within the framework set out above, the approach to the remuneration of the Executive Directors and Senior Management is consistent with that applied to the wider workforce.

Incentives

The majority of our employees have the ability to share in the success of the Company through incentive compensation. In line with market practice the level of incentive compensation and whether it is paid solely in cash or in a mixture of cash and deferred shares depends on the level of seniority of employee. The incentive approach applied to the Executive Directors aligns with the wider Company policy on incentives, which is to have a higher percentage of at-risk performance pay with seniority of the role, and to increase the amount of incentive deferred, provided in equity and / or measured over the longer term for roles with greater seniority.

The following table shows the cascade of incentives throughout the Company.

Competitive pay and cascade of remuneration

Eligibility	Number of employees covered	Remuneration element	Purpose
Executive Directors	2	LTIP	The LTIP reinforces the delivery of long-term creation of value.
		Shareholding guidelines (as a % of salary)	Supports alignment of Executive Director interests with Shareholders.
Management and Senior Directors	54	MIP	The MIP drives performance of key management personnel with measures aligned to Executive Director bonuses cascaded through our operating businesses. Awards are a combination of cash, restricted share awards and deferred awards.
All employees	6,452	Salary	Salaries are set to reflect market value of the role, and to aid recruitment and retention. Employees who are not on a training rate of pay (such as apprentices) receive at least the National Minimum Wage. We also monitor closely the rates of pay of people who are training with us to make sure they remain fair and competitive.
		Pension	The Group has pension saving mechanisms for all employees.
		Benefits	All employees are eligible to participate in their local benefits schemes which are designed to support a positive work-life balance.
		SIP	The SIP encourages wider ownership of SIG shares across the UK workforce, which ensures that the interests of employees remain firmly aligned with those of Shareholders.

- Employee numbers as at 31 December 2019, excluding the Air Handling division headcount.
- Equity participation is offered to all UK employees of the Company through the SIP and to Senior Management through the MIP, each of which involves the award of shares.
- In line with the Company's wider policy on pay, all UK employees are eligible for enrolment in a company defined contribution pension arrangement. The current UK standard contribution is 12.5% of salary (7.5% employer and 5% employee). Pension contributions for the new Executive Directors are lower than the employee contribution in the Group Personal Pension Plan.
- In line with the wider Company policy on pay, the Company offers life assurance cover for death in service to all its UK employees. The minimum lump sum benefit for all employees is 2x annual basic salary. Other benefits such as private medical cover are offered according to the level of seniority of the role in line with market practice.
- Executive Directors are required to adhere to minimum shareholding guidelines.

In summary the Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. Further, that in the Committee's opinion the approach to executive remuneration aligns with the wider Company pay policy and that there are no anomalies specific to the Executive Directors.

Directors' Remuneration Report

Directors' remuneration policy

Our gender pay statistics

The UK Government Equalities Office legislation requires employers with more than 250 employees to disclose annually information on their gender pay gap. The third disclosure of the pay gap will be based on amounts paid in the April 2019 payroll. The bonus gap will be based on incentives paid in the year to 31 March 2019.

The mean gender pay gap at SIG (SIG Trading) is (6.3%) (2018: 5.4%) which is significantly lower than the UK average at 16.9%.

The main reasons for this change are an increase in the proportion of female employees who are amongst the highest paid together with a relatively small number of changes at senior levels. These two factors have had a significant impact and we are proud that gender is not a barrier to undertaking senior roles at SIG.



More information can be found in our 2019 Gender Pay Gap Report published on www.sigplc.com.

Further information on our Diversity and Inclusion Plan can be found on page 55.

Remuneration and alignment with performance

CEO pay ratio

Our CEO to employee pay ratios for 2019 are set out in the table below:

Financial Year	Method Used	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	Option B (Gender Pay data)	32:1	28:1	20:1

For 2019, the Company has used Option B given the availability of data. The Company feels that using gender pay data ensures that these individuals are reasonably representative of pay levels at the 25th, 50th and 75th percentiles. We have determined the individuals at the 25th, 50th and 75th percentiles as at 23 December 2019.

	2019				2018			
	CEO	25th	50th	75th	CEO	25th	50th	75th
Basic salary	577,000	19,759	23,696	31,842	568,400	19,000	22,593	30,907
Benefits	24,435	89	53	383	23,867	85	655	182
Pension	86,550	1,482	711	2,388	85,260	1,425	1,694	2,318
Bonus Plan	–	–	–	–	0	0	0	0
LTIP	–	–	–	–	0	0	0	0
Total Pay	687,985	21,330	24,460	34,613	677,527	20,510	24,942	33,407

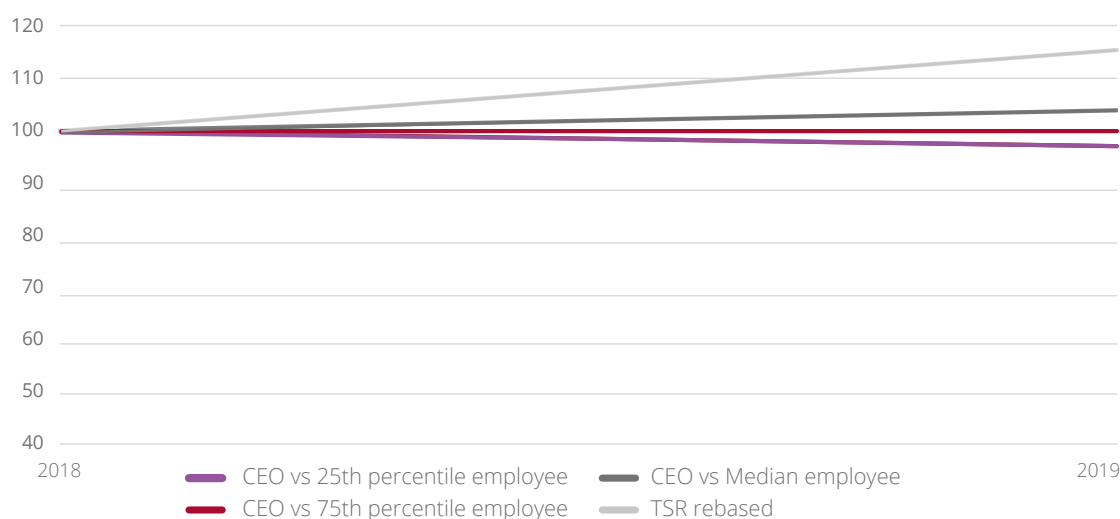
In determining the quartile figures the hourly rates were annualised using the same number of contractual hours as the CEO. One UK employee with the relevant annual salary was then chosen for each quartile and the single total remuneration figure was calculated for them to compare to the CEO.

For the purpose of the calculations the following elements of pay were included for all employees:

- Annual basic salary
- Private medical insurance value
- Car/car allowance
- Employer pension contribution
- Bonus earned in the year in question
- LTIP value
- MIP value
- Group Life Assurance value
- Group Income Protection value
- Employer Share Incentive Plan (SIP) Contribution

No pay elements were omitted or adjusted to calculate CEO pay. Non-guaranteed overtime was omitted for employees due to its variable nature.

We set out below a table showing changes in the ratios over time, in the future as further data is built up, we will introduce a chart tracking CEO to employee pay ratios alongside SIG's TSR performance from 2018 onwards when we first disclosed the ratios.



Financial Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	B	32:1	28:1	20:1
2018	B	33:1	27:1	20:1

The Committee continues to be committed to ensuring that CEO pay is commensurate with performance. In 2018 and the 2019 the ratios have been relatively stable as a result of nil incentive outcomes. However, in the future we are expecting there to be significant volatility in this ratio over time and we believe that this will be caused by the following:

- Our CEO pay is made up of a higher proportion of incentive pay than that of our employees, in line with the expectations of our Shareholders. This introduces a higher degree of variability in pay each year which affects the ratio. The value of long-term incentives which measure performance over three years is disclosed in pay in the year it vests, again impacting the ratio for that year.
- Long-term incentives are provided in shares, and therefore an increase in share price over the three years magnifies the impact of a long-term incentive award vesting in a year.
- We recognise that the ratio is driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the CEO and wider workforce.
- Where the structure of remuneration is similar, as for the Executive Committee and the CEO, the ratio is much more stable over time.

CEO pay in the last 10 years

This table shows how pay for the CEO role has changed in the last 10 years.

Year	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2016 £'000	2017 £'000	2017 £'000	2018 £'000	2019 £'000
Incumbent	C.J. Davies	C.J. Davies	C.J. Davies	C.J. Davies ¹	S.R. Mitchell ²	S.R. Mitchell	S.R. Mitchell	S.R. Mitchell ⁴	M. Ewell ⁵	M. Ewell	M. Oldersma ⁶	M. Oldersma	M. Oldersma
Single figure of remuneration	1,087	1,065	1,024	1,031	987	968	765	581	100	150	794	677	688
% of max annual bonus earned	54	96	54	50	60.5	57	0 ³	n/a	n/a	n/a	70	0	0
% of max LTIP awards vesting	0	0	0	0	n/a	n/a	19.5	n/a	n/a	n/a	n/a	n/a	0

¹ The figures shown pertain to the period 1 January 2013 to 31 December 2013 (includes remuneration in lieu of salary, pension and other benefits after 1 March 2013).

² Mr S.R. Mitchell was appointed to the Board on 10 December 2012 and became the CEO on 1 March 2013. The 2013 figure pertains to the period 1 January 2013 to 31 December 2013.

³ Mr S.R. Mitchell took the decision to waive his entitlement to the 2015 annual bonus.

⁴ Mr S.R. Mitchell stepped down as CEO with effect from 11 November 2016, and his remuneration relates to the period served. He did not receive a bonus for 2016, and his outstanding LTIP awards lapsed.

⁵ Mr M. Ewell was appointed as Interim CEO with effect from 11 November 2016 and stepped down on 31 March 2017. He continued as an Executive Director until 20 April 2017, and his remuneration relates to the period served as CEO. Mr M. Ewell did not participate in any Group incentive schemes.

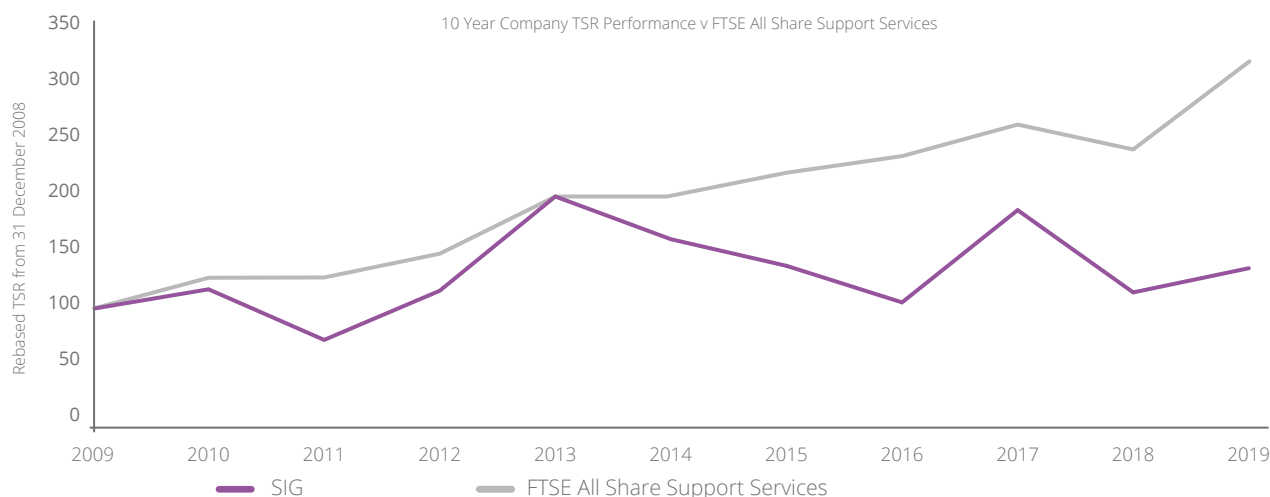
⁶ Mr M. Oldersma was appointed CEO on 3 April 2017. The 2017 figure pertains to the period 3 April 2017 to 31 December 2017.

Directors' Remuneration Report

Directors' remuneration policy

Total Shareholder Return

The graph below shows the Company's (TSR) performance (share price plus dividends paid) compared with the performance of the FTSE All Share Support Services Index over the ten-year period to 31 December 2019. This index has been selected because the Company believes that the constituent companies comprising the FTSE All Share Support Services Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors to SIG.



Percentage change in Director's remuneration

The table below shows how the percentage change in each Director's salary/fees, benefits and bonus between 2019 and 2018 compared with the percentage change in the average of each of those components of pay for the UK-based employees of the Group as a whole. Disclosure for all Directors in addition to the CEO has been added this year in line with new requirements under the EU Shareholder Rights Directive II and over time a five-year comparison will be built up.

	Salary/fee £'000		Percentage change	Taxable benefits £'000		Percentage change	Bonus ¹ £'000		Percentage change
	2019	2018	%	2019	2018	%	2019	2018	%
M. Oldersma (CEO)	577	568	1.5	24	24	0	0	0	0
N.W. Maddock (CFO)	371	365	1.5	21	21	0	0	0	0
A.J. Allner (Chairman)	217	202	7.7	-	-	-	-	-	-
A. Abt	60	56	7.6	-	-	-	-	-	-
I.B. Duncan	73	68	7.3	-	-	-	-	-	-
A.C. Lovell ² (SID)	71	70	0.8	-	-	-	-	-	-
K. Allum ³	73	-	-	-	-	-	-	-	-
G. Kent ³	61	-	-	-	-	-	-	-	-
UK total pay	89,804	96,441	(6.9)	4,393	4,998	(12.1)	2,713	2,898	(6.4)
Number of employees	2,865	3,286	(12.8)	2,865	3,286	(12.8)	2,865	3,286	(12.8)
Average per employee	31.2	29.3	6.5	1.5	1.5 ⁴	2.6	1.0	0.9	11.1

¹ The bonus figures are for UK-based employees who participate in a bonus arrangement.

² Mr. A.C. Lovell was appointed a Non-Executive Director (NED) and Senior Independent Director on 1 August 2018. His 2018 fees are presented on an annual basis for comparative purposes.

³ Ms. K. Allum & Ms. G. Kent were appointed as NED's on 1 July 2019, so no fee changes are available for this year. The fees are presented on an annual basis for comparative purposes.

⁴ The 2018 total taxable benefit and average per employee has been restated.

The Committee monitors the changes year-on-year between our Executive Director pay and average employee pay, shown in the table. As per our policy, salary increases applied to Executive Directors will typically be in line with those of the wider workforce.

Annual Report on remuneration

The following section provides details of how SIG's 2018 Remuneration Policy was implemented during the financial year ended 31 December 2019.

Single total figure of remuneration for Executive Directors (AUDITED)

The table below sets out the single total figure of remuneration received by each Executive Director for the year to 31 December 2019 and the prior year:

Executive Director		Base salary ¹ £'000	Taxable benefits ² £'000	LTIP ³ £'000	Annual bonus ⁴ £'000	Pension ⁵ £'000	Other ⁶ £'000	Total remuneration £'000	Total fixed remuneration £'000	Total variable remuneration £'000
Mr M. Oldersma	2019	577	24	0	0	87	0	688	688	0
	2018	568	24	0	0	85	0	677	677	0
Mr N.W. Maddock	2019	371	21	0	0	56	0.2	448	448	0
	2018	365	21	0	0	55	0.2	441	441	0

The figures in the table above have been calculated as follows:

1. Base salary: amount earned for the year.
2. Benefits: include, but are not limited to, company car (£15,000) or car allowance and private medical insurance, life assurance, income protection.
3. LTIP: There is no vesting in respect of either 2018 or 2019.
4. Annual bonus: payment for performance during the year (including any deferred portion). The bonus is calculated as a percentage of base salary. No bonus was due as the performance measures were not achieved.
5. Pension: the Company's pension contribution during the year of 15% of salary, an amount of which was paid by salary supplement.
6. Other: includes SIP, value based on the face value of matching shares at grant. As per HMRC guidance, there are no performance measures relating to the SIP.

Total single figure of remuneration	CEO £'000	CFO £'000
2019	688	448
2018	677	441
2017	794	626

2018 LTIP: 2019 Awards (AUDITED)

On 21 March 2019, Mr M. Oldersma and Mr N.W. Maddock were granted awards in the form of nil-cost options under the LTIP of 1,192,148 and 766,528 shares respectively; details are provided in the table below. The three-year period over which performance will be measured will be 21 March 2019 to 21 March 2022. See page 119 for details of the performance conditions.

Executive Director	Date of grant	% of award for minimum performance	Shares subject to award	Market price at date of award ¹	Face value at date of award	Face value at date of award (% of salary)
Mr M. Oldersma	21 March 2019	25%	1,192,148	145.7p	£1,736,959	300%
Mr N.W. Maddock	21 March 2019	25%	766,528	145.7p	£1,116,831	300%

^{7. 1} The closing share price on 20 March 2019 was used to calculate the number of shares subject to award.

It should be noted that the 2019 LTIP awards lapsed on the cessation of employment of Mr M. Oldersma and Mr N.W. Maddock on 24 February 2020.

No Directors exercised any share options during the year such that the aggregate gain on exercise was nil.

Directors' Remuneration Report

Directors' remuneration policy

Single total figure of remuneration for NED's (AUDITED)

The table below sets out the single total figure of remuneration received by each NED for services rendered to the Company as a NED for the year to 31 December 2019 and the prior year:

NED	Base fee		Committee Chair / Senior Independent Director fees		Additional Advisory Board fees		Total fees	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	2019	2018	2019	2018	2019	2018	2019	2018
Mr A.J. Allner (Chairman)	217	202	-	-	-	-	217	202
Ms A. Abt	61	56	-	-	-	-	61	56
Mr I.B. Duncan ¹	61	56	12	12	-	-	73	68
Mr A.C. Lovell ²	61	25	10	4	-	-	71	29
Ms K. Allum ³	30	-	6	-	-	-	36	-
Ms G. Kent ⁴	30	-	-	-	-	-	30	-
Ms J.E. Ashdown ⁵	21	56	4	11	-	-	25	67
Mr C.M.P. Ragoucy ⁵	30	25	-	-	-	-	30	25
Mr M. Ewell ⁷	-	31	-	3	-	-	-	34
Mr C.V. Geoghegan ⁸	-	9	-	1	-	-	-	10

¹ Mr I.B. Duncan was appointed Chair of the Audit Committee with effect from 1 April 2017.

² Mr A.C. Lovell was appointed a NED and Senior Independent Director on 1 August 2018.

³ Ms K. Allum was appointed as a NED on 1 July 2019.

⁴ Ms G. Kent was appointed as a NED and Chair of the Remuneration Committee on 1 July 2019.

⁵ Ms J.E. Ashdown retired as a Director and Chair of the Remuneration Committee on 8 May 2019.

⁶ Mr C.M.P. Ragoucy was appointed a NED on 1 August 2018 and retired from this role on 30 June 2019.

⁷ Mr M. Ewell retired as a NED and the Senior Independent Director (a position he held since Mr C.V. Geoghegan's retirement on 9 March 2018) on 31 July 2018.

⁸ Mr C.V. Geoghegan retired as a NED and the Senior Independent Director on 9 March 2018.

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buybacks) from the financial year ended 31 December 2018 to the financial year ended 31 December 2019.

	2019£m	2018 £m	% change
Distribution to Shareholders	22.2	22.2	0%
Employee remuneration*	268.2	305.6	(12.2)%

*Continuing operations employee remuneration.

The Company announced on 26 March 2020 that, in light of COVID-19, the Directors would not be declaring a dividend for the year ended 31 December 2019, (2018: 2.50p).

Directors' interests in SIG shares (AUDITED)

The interests of the Directors in office during the year to 31 December 2019, and their families, in the ordinary shares of the Company at the dates below were as follows:

	Shares held		Nil-cost options held			Shareholding required (% basic salary) ¹	Current shareholding as a % of basic salary	Requirement met ²
	Owned outright or vested	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to deferral			
Mr M. Oldersma	371,388	–	–	3,640,629	70,476	300	79	No
Mr N.W. Maddock	153,751	–	–	2,187,228	56,924	300	51	No
Ms A. Abt	8,500	–	–	–	–	–	–	–
Mr A.J. Allner	53,954	–	–	–	–	–	–	–
Ms K. Allum ³	0	–	–	–	–	–	–	–
Ms J.E. Ashdown ⁴	44,450	–	–	–	–	–	–	–
Mr I.B. Duncan	0	–	–	–	–	–	–	–
Ms G. Kent ³	0	–	–	–	–	–	–	–
Mr A.C. Lovell	20,000	–	–	–	–	–	–	–
Mr C.M.P. Ragoucy ⁵	0	–	–	–	–	–	–	–

¹ Executive Directors are expected to achieve target shareholding within 5 years of appointment.

² Based on SIG share price of 123p as at 31 December 2019. Note that both the Executive Directors were appointed in 2017, consequently they have not yet built up the required holding.

³ Ms K. Allum and Ms G. Kent were appointed as Directors on 1 July 2019.

⁴ Ms J.E. Ashdown retired as a Director on 8 May 2019.

⁵ Mr C.M.P. Ragoucy was appointed as a Director on 1 August 2018 and retired as a Director on 30 June 2019.

There have been no changes to shareholdings between 1 January 2020 and 21 May 2020, namely that on 15 January 2020 and 17 February 2020 Mr N.W. Maddock acquired a further 157 and 164 shares, respectively, under the SIP. There have been no other changes to shareholdings of the Directors in office during that time.

The market price of shares at 31 December 2019 was 123p and the range during 2019 was 99p to 151p.

There were no options exercised by the Directors in 2019 (2018: nil).

It should be noted that rights to unvested shares lapsed on the cessation of employment of Mr M. Oldersma and Mr N.W. Maddock on 24 February 2020.

External directorships

During 2019 Mr M. Oldersma held an external directorship of Oldersma Management & Consultancy Ltd which is a personal services company.

Additional information

The following table sets out the additional information required in the Annual Report on Remuneration and where relevant its location:

Element	Information / Page
Annual bonus in respect of 2019 (Audited)	See page 118
LTIP: 2017 awards (Audited)	See page 117
Payments for loss of office	None
Payment to former Directors	None
Implementation of Remuneration Policy in 2020	See pages 118 to 120
Percentage change in CEO remuneration	See page 127
TSR performance graph	See page 128

Directors' Remuneration Report

Directors' remuneration policy

Executive Director service contracts

Executive Directors have service agreements with an indefinite term, and which are terminable by either the Group or the Executive Director on six months' notice in the case of the CEO and on 12 months' notice in the case of the CEO.

Executive Director	Date of service contract	Termination date
Mr N.W. Maddock	6 October 2016	25 February 2021
Mr M. Oldersma	13 March 2017	25 August 2020

NEDs

The NEDs including the Chairman, do not have service contracts. The Company's policy is that NEDs are appointed for specific terms of three years unless otherwise terminated earlier in accordance with the Articles of Association or by, and at the discretion of, either party upon three months' written notice. NED appointments are reviewed at the end of each three-year term. NEDs will normally be expected to serve two three-year terms, although the Board may invite them to serve for an additional period.

NED letters of appointment are available to view at the Company's registered office.

Summary details of terms and notice periods for NEDs are included below:

NED	Date of current letter of appointment	Effective date of appointment	Expiry of current term
Mr A.J. Allner	10 October 2017	1 November 2017	November 2023
Ms A. Abt ³	5 March 2015	12 March 2015	May 2021
Mr I.B. Duncan	9 December 2016	1 January 2017	January 2023
Mr A.C. Lovell	28 June 2018	1 August 2018	May 2021
Ms K. Allum	5 June 2019	1 July 2019	May 2022
Ms G. Kent	5 June 2019	1 July 2019	May 2022
Ms J.E. Ashdown ¹	3 April 2017	11 July 2011	n/a
Mr C.M.P. Ragoucy ²	28 June 2018	1 August 2018	n/a

¹ Ms J.E. Ashdown retired as a Director on 8 May 2019

² Mr C.M.P. Ragoucy retired as a Director on 1 July 2019

³ Ms A. Abt retired as a Director on 12 February 2020

Approval of the Directors' Remuneration Report

The Directors' Remuneration Report set out on pages 111 to 132 was approved by the Board of Directors on 29 May 2020 and signed on its behalf by Kate Allum, Chair of the Remuneration Committee.

Kate Allum

Chair of the Remuneration Committee

29 May 2020

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for that period.

In preparing the Parent Company Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Group at that time and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 29 May 2020 and is signed on its behalf by:

Steve Francis
Chief Executive Officer
29 May 2020

Kath Kearney-Croft
Chief Financial Officer
29 May 2020



FINANCIALS



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Consolidated Income Statement

for the year ended 31 December 2019

	Note	Underlying* 2019 £m	Other items** 2019 £m	Total 2019 £m	Underlying* 2018^ Restated^^ £m	Other items** 2018^ Restated^^ £m	Total 2018^ Restated^^ £m
Continuing operations							
Revenue	1	2,084.7	75.9	2,160.6	2,290.4	141.4	2,431.8
Cost of sales		(1,545.5)	(56.0)	(1,601.5)	(1,711.8)	(101.4)	(1,813.2)
Gross profit		539.2	19.9	559.1	578.6	40.0	618.6
Other operating expenses	2	(499.6)	(147.4)	(647.0)	(511.7)	(80.7)	(592.4)
Operating profit/(loss)		39.6	(127.5)	(87.9)	66.9	(40.7)	26.2
Finance income	3	0.5	–	0.5	0.5	–	0.5
Finance costs	3	(24.5)	(0.8)	(25.3)	(15.2)	(1.2)	(16.4)
Profit/(loss) before tax from continuing operations	4	15.6	(128.3)	(112.7)	52.2	(41.9)	10.3
Income tax (expense)/credit	6	(15.9)	4.5	(11.4)	(14.4)	8.2	(6.2)
Profit/(loss) after tax from continuing operations		(0.3)	(123.8)	(124.1)	37.8	(33.7)	4.1
Discontinued operations							
Profit/(loss) after tax from discontinued operations	12	–	(0.4)	(0.4)	–	13.8	13.8
Profit/(loss) after tax for the year		(0.3)	(124.2)	(124.5)	37.8	(19.9)	17.9
Attributable to:							
Equity holders of the Company		(0.3)	(124.2)	(124.5)	37.4	(19.9)	17.5
Non-controlling interests		–	–	–	0.4	–	0.4
Earnings/(loss) per share							
Basic and diluted earnings/(loss) per share	8			(21.0)p			3.0p
Basic and diluted earnings/(loss) per share from continuing operations	8			(21.0)p			0.6p

^ The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See the Statement of Significant Accounting Policies for further details.

^^ The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 12 for further details.

* Underlying represents the results before Other items. See the Statement of Significant Accounting Policies for further details.

** Other items relate to the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, investment in omnichannel retailing, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of Other items and the effect of changes in taxation rates. Other items have been disclosed separately in order to give an indication of the underlying earnings of the Group. Further details can be found in Note 2 and within the Statement of Significant Accounting Policies on page 147.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Income Statement.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Note	2019 £m	2018 [^] £m
Profit/(loss) after tax		(124.5)	17.9
Items that will not subsequently be reclassified to the Consolidated Income Statement:			
Remeasurement of defined benefit pension liability	30c	(1.8)	0.1
Deferred tax movement associated with remeasurement of defined benefit pension liability	24	(6.6)	0.1
Current tax movement associated with remeasurement of defined benefit pension liability	6	0.4	–
		(8.0)	0.2
Items that may subsequently be reclassified to the Consolidated Income Statement:			
Exchange difference on retranslation of foreign currency goodwill and intangibles		(7.4)	1.3
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)		(16.1)	(0.6)
Exchange and fair value movements associated with borrowings and derivative financial instruments		10.9	1.8
Tax credit on fair value movements arising on borrowings and derivative financial instruments		(2.1)	(0.4)
Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations		(0.1)	–
Gains and losses on cash flow hedges		0.4	2.0
Transfer to profit and loss on cash flow hedges		0.9	(0.7)
		(13.5)	3.4
Other comprehensive income/(expense)		(21.5)	3.6
Total comprehensive income/(expense)		(146.0)	21.5
Attributable to:			
Equity holders of the Company		(146.0)	21.1
Non-controlling interests		–	0.4
		(146.0)	21.5

[^] The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See the Statement of Significant Accounting Policies for further details.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Statement of Comprehensive Income.

Consolidated Balance Sheet

as at 31 December 2019

	Note	2019 £m	2018 [^] £m
Non-current assets			
Property, plant and equipment	10	58.6	105.4
Right-of-use assets	25	255.2	–
Goodwill	13	159.0	293.9
Intangible assets	14	42.3	46.2
Lease receivables	25	4.4	–
Deferred tax assets	24	4.4	14.6
Derivative financial instruments	20	1.7	1.9
Deferred consideration	20	–	0.7
		525.6	462.7
Current assets			
Inventories	16	156.5	207.2
Lease receivables	25	0.8	–
Trade and other receivables	17	294.7	477.7
Contract assets	17	–	1.8
Current tax assets	17	0.9	5.5
Derivative financial instruments	20	0.9	–
Deferred consideration	20	–	0.8
Cash at bank and on hand	20	110.0	83.3
Assets classified as held for sale	11	258.4	1.9
		822.2	778.2
Total assets		1,347.8	1,240.9
Current liabilities			
Trade and other payables	18	327.4	428.3
Contract liabilities	18	–	1.6
Lease liabilities	18	51.5	3.2
Bank overdrafts	18	–	4.5
Bank loans	18	99.6	56.5
Private placement notes	18	175.5	–
Loan notes and deferred consideration	18	–	0.9
Other financial liabilities	18	1.5	1.1
Derivative financial instruments	18	0.2	0.3
Current tax liabilities	18	3.7	4.9
Provisions	18	6.7	11.0
Liabilities directly associated with assets classified as held for sale	11	115.7	–
		781.8	512.3
Non-current liabilities			
Lease liabilities	19	224.1	20.2
Private placement notes	19	–	185.6
Derivative financial instruments	19	1.9	3.8
Other financial liabilities	19	1.4	–
Deferred tax liabilities	24	–	1.4
Other payables	19	1.0	5.6
Retirement benefit obligations	30c	24.8	28.7
Provisions	19	18.6	20.4
		271.8	265.7
Total liabilities		1,053.6	778.0
Net assets		294.2	462.9
Capital and reserves			
Called up share capital	26	59.2	59.2
Share premium account		447.3	447.3
Capital redemption reserve		0.3	0.3
Share option reserve		1.8	1.7
Hedging and translation reserves		10.2	21.7
Cost of hedging reserve		0.3	1.0
Retained losses		(224.9)	(68.3)
Attributable to equity holders of the Company		294.2	462.9
Non-controlling interests		–	–
Total equity		294.2	462.9

[^] The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See the Statement of Significant Accounting Policies for further details.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Balance Sheet.

The Financial Statements were approved by the Board of Directors on 29 May 2020 and signed on its behalf by:

Steve Francis
Director

Kath Kearney-Croft
Director

Registered in England: 00998314

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

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

[^] The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See the Statement of Significant Accounting Policies for further details.

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

The hedging and translation reserves represents movements in the Consolidated Balance Sheet as a result of movements in exchange rates and movements in the fair value of cash flow hedges which are taken directly to reserves as detailed in the Statement of Significant Accounting Policies on page 152. Amounts have been reclassified during the year to clarify the effects of hedging between retained(losses)/profits and the cash flow hedging reserve and to separately identify the cash flow hedging reserve and foreign currency retranslation reserve. See Note 20 for further details.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Statement of Changes in Equity.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Note	2019 £m	2018 [^] Restated £m
Net cash flow from operating activities			
Cash generated from operating activities	27	166.0	103.6
Income tax paid		(10.8)	(14.0)
Net cash generated from operating activities		155.2	89.6
Cash flows from investing activities			
Finance income received		0.6	1.0
Purchase of property, plant and equipment and computer software		(34.5)	(22.7)
Proceeds from sale of property, plant and equipment		7.6	5.1
Settlement of amounts payable for previous purchases of businesses not dependent on vendors remaining within the business		-	(11.2)
Net cash flow arising on the sale of businesses	11	8.4	35.8
Net cash generated from investing activities		(17.9)	8.0
Cash flows from financing activities			
Finance costs paid		(25.1)	(14.1)
Repayment of lease liabilities		(59.9)	(1.5)
Acquisition of non-controlling interests		(0.9)	(2.5)
Repayment of loans/settlement of derivative financial instruments		-	(57.1)
Loans drawn down		42.4	-
Dividends paid to equity holders of the Company	7	(22.2)	(22.2)
Dividends paid to non-controlling interest		-	(0.3)
Net cash used in financing activities		(65.7)	(97.7)
Increase/(decrease) in cash and cash equivalents in the year	28	71.6	(0.1)
Cash and cash equivalents at beginning of the year	29	78.8	78.6
Effect of foreign exchange rate changes	29	(5.3)	0.3
Cash and cash equivalents at end of the year*	29	145.1	78.8

[^] The Group has initially applied IFRS 16 "Leases" using the modified retrospective method. Under this method, the comparative information is not restated. See the Statement of Significant Accounting Policies for further details.

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

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

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Cash Flow Statement.

Statement of significant accounting policies

The significant accounting policies adopted in this Annual Report and Accounts for the year ended 31 December 2019 are set out below.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), and therefore the Financial Statements comply with Article 4 of the EU IAS Regulation.

The Financial Statements have been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Financial Statements have been prepared on a going concern basis as set out on page 42.

Going concern

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

During 2019, the Directors announced the proposed sale of the Group's Air Handling division to France Air for an enterprise value of €222.7m (£187.0m¹) to strengthen the balance sheet and reduce working capital facilities. The sale completed on 31 January 2020 with net cash proceeds of €180.9m (£151.9m¹) being partly used to manage the Group's working capital, including providing liquidity over the short term to support the Group's business through the COVID-19 uncertainty.

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

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

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

- An equity issuance timetable including receipt of proceeds of an amount of at least £100m by no later than 29th July 2020;
- An extension of the maturity of the RCF in order to meet the Group's on-going working capital requirements;
- A new covenant package which will support an equity raise;
- Dividend restrictions until leverage reaches certain levels;
- An event of default if the Group's equity raising fails and/or related key milestones are not reached, triggering a requirement for the Group to present an alternative deleveraging plan for consideration by the RCF lenders and private placement

noteholders. A deleveraging plan could result in, without limitation and if the consent of the RCF lenders and private placement noteholders is obtained, potential disposals or a merger or acquisition transaction to ensure an acceptable deleveraging of the Group's Balance Sheet; and

- Opportunity to explore additional Government funding facilities both in the UK and in Europe to further support the Group.

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

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

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

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

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

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

If an equity raise in line with the above-mentioned timing is not successful, then the Group will have to take mitigating actions, including further discussions with the RCF lenders and the private placement noteholders regarding the basis upon which they may be willing to continue to support the Group (including the need

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

Statement of Significant Accounting Policies

for covenant waivers and access to further liquidity). Alternatives could include the option to conduct a post-summer equity raise (if available) or further disposals of assets (such as the disposal of one or more of the Group's operating businesses to facilitate a reduction of the Group's outstanding indebtedness) or a merger or acquisition transaction involving the Company (in each case if the consent of the RCF lenders and private placement noteholders is obtained). There remains the possibility of other investors interested in buying the company's shares outright should an alternative funding scenario be required.

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

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

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

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

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

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

The following subsidiaries of the Company are entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies: Building Systems Limited (registered number: 07976470) and Metecho Limited (registered number: 06464338). The qualifying partnership, The SIG 2018 Scottish Limited Partnership, which is included in these consolidated financial statements, is entitled to exemption from the requirements of Regulations 4 to 6 of Part 2 of The Partnerships (Accounts) Regulations 2008 in relation to preparation and audit of annual financial statements of the partnership.

The Group is committed to managing its capital structure to ensure that entities in the Group are able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Further details can be found on page 37.

Prior year restatements

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

New standards, interpretations and amendments adopted

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

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

IFRS 16 “Leases”

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

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

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

a) The Group's leasing activities

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

b) How leases are accounted for

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

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

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

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

i) Definition of a lease

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

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

ii) Lease term

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

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

iii) Variable lease payments

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

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

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

iv) Asset restoration costs

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

Statement of Significant Accounting Policies

v) Finance leases

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

vi) Exemptions

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

c) Practical expedients applied

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

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

d) Adjustments recognised on adoption

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

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

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

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

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

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

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

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

e) Impact for the period

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

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

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

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

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

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

Statement of Significant Accounting Policies

Other amendments

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

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

i) IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

New standards, amendments and interpretations not yet adopted

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

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and each of its subsidiary undertakings after eliminating all significant intercompany transactions and balances. The results of subsidiary undertakings acquired or sold are consolidated for the periods from or to the date on which control passed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Shareholders of the Company.

Profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the previous carrying amount of the net assets (including goodwill and intangible assets) of the businesses.

One business has been classified as a discontinued operation in 2019 as it represents a separate major line of business of the Group and therefore meets the disclosure criteria under International Accounting Standards. Other businesses classified as non-core in 2019 or 2018 are included within continuing operations. In order to give an indication of the underlying earnings of the Group the results of these businesses have been included within Other items in the Consolidated Income Statement. The comparatives for the year ended 31 December 2018 have been re-analysed to present net operating profits of £4.3m attributable to businesses classified as non-core during 2019 within Other items.

Goodwill and business combinations

All business combinations are accounted for by applying the purchase method. Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets (including intangible assets) and liabilities of the business acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs') expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Right-of-use assets recognised on adoption of IFRS 16 are included in the carrying amount of the CGU, with cash flows and discount rates adapted accordingly to calculate value in use on a consistent basis. An impairment loss recognised on goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of remaining goodwill relating to the entity disposed of is included in the determination of any profit or loss on disposal.

Goodwill recorded in foreign currencies is retranslated at each period end. Any movements in the carrying value of goodwill as a result of foreign exchange rate movements are recognised in the Consolidated Statement of Comprehensive Income.

Any excess of the fair value of net assets over consideration arising on an acquisition is recognised immediately in the Consolidated Income Statement.

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair values less costs to sell. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A disposal group qualifies as a discontinued operation if it is a component of an entity that has either been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 12. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency and converted at actual exchange rates at the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Consolidated Income Statement.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at that date.

On consolidation, assets and liabilities of overseas subsidiary undertakings are translated into Sterling at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated into Sterling at the average rate of exchange for the year as an approximation where actual rates do not fluctuate significantly.

Exchange differences arising on translation of the opening net assets and results of overseas operations, and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the Consolidated Statement of Comprehensive Income.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to the Consolidated Income Statement.

Consolidated Income Statement disclosure

Income statement items are presented in the middle column of the Consolidated Income Statement entitled Other Items where they are significant in size and nature, 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.

Items classified as Other items are as follows:

■ Costs related to acquisitions

The Group has made a number of acquisitions in previous years. There are a number of specific costs relating to these acquisitions which make comparison of performance of the businesses and segments difficult. Therefore the following items are recorded as Other items to provide a more comparable view of the businesses and enhance the clarity of the performance of the Group and its businesses to the readers of the Financial Statements. The Group has grown both organically with the development of new operating subsidiaries and through acquisition. However, there is significant inconsistency between the accounting treatment of the goodwill and intangibles associated with the acquisition of businesses and those generated internally. On an unadjusted basis, a business acquired under IFRS 3 would report substantially lower operating profits and a lower return on capital than a business acquired prior to the introduction of IFRS 3 and also to those businesses which have been developed by the Group, thus making comparison of performance of the businesses and segments difficult:

- (i) amortisation of intangible assets acquired through business combinations;
- (ii) expenses related to contingent consideration required to be treated as remuneration for acquired businesses;
- (iii) costs and credits arising from the re-estimation of deferred and contingent consideration payable in respect of acquisitions; and
- (iv) costs related to the acquisition of businesses.

■ Impairment charges

Impairment charges related to non-current assets are non-cash items and tend to be significant in size. The presentation of these as Other items further enhances the understanding of the ongoing performance of the Group. Impairments of property, intangible assets and other tangible fixed assets are included in Other items if related to a fundamental restructuring project or other fundamental project. Other impairments are included in underlying results.

Statement of Significant Accounting Policies

■ Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges

The gain or loss on the sale or closure of businesses tends to be significant in size and irregular in nature and is related to businesses that will not be part of the continuing group. The gain or loss on the sale or closure of these businesses is therefore included within Other items.

■ Net operating losses attributable to businesses identified as non-core

Operating results from businesses identified as non-core do not form part of the ongoing trading activities of the Group and they are therefore recorded separately in Other items in order to enhance the understanding of the ongoing financial performance of the Group and its businesses. 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 business by 31 December 2019. The presentation is applied retrospectively, so businesses classified as non-core subsequent to the period end before the Financial Statements are signed are included in the Other items column in the reporting period, and prior year comparatives are restated for businesses identified as non-core subsequent to signing of the prior year Annual Report and Accounts.

■ Net restructuring costs

Restructuring costs are classified as Other items if they relate to a fundamental change in the organisational structure of the Group or a fundamental change in the operating model of a business within the Group. Costs may include redundancy, property closure costs and consultancy costs, which are significant in size and will not be incurred under the ongoing structure or operating model of the Group. These costs are therefore recorded as Other items in order to provide a better understanding of the ongoing financial performance of the Group. Careful consideration is applied by management in assessing whether these costs relate to fundamental restructuring and changing the structure and operating model of the business as opposed to costs incurred in the normal course of business.

■ Costs incurred in connection with the agreed disposal of the Air Handling business

Costs incurred in the year in connection with the agreed disposal of the Air Handling business, which is classified as a discontinued operation in 2019, are significant in size and do not relate to the ongoing trading activities of the Group. These costs are included within Other items but are presented with the results of the Air Handling business within the profit after tax from discontinued operations in order to provide a better understanding of the ongoing financial performance of the Group.

■ Investment in omnichannel retailing

Costs incurred in the year in relation to the Group's investment in developing an omnichannel retailing platform have been included within "Other items" as they are significant in size and do not relate to the ongoing trading activities of the Group.

■ Other specific items

Other specific items are recorded in Other items where they do not form part of the underlying trading activities of the Group in order to enhance the understanding of the financial performance of the Group. This includes, for example, profit on sale of property not related to ongoing operations (ie. related to a branch or business closure) or property sold as part of a fundamental restructuring programme. Profit on the sale of property in connection with branch or office moves in the normal course of business is included within underlying results. A full breakdown of other specific items is included in Note 2 to the Consolidated Financial Statements.

■ Other items within finance income and finance costs

The unwinding of provision discounting for provisions that have been included as Other items is included within Other items consistent with the classification of the provision. Other provision discounting is included within underlying finance costs.

■ Taxation

The taxation effect of Other items, the effect of the change in rates of taxation on deferred tax and tax adjustments in respect of previous years' Other items are shown within Other items in order to enhance the understanding of the underlying tax position of the Group.

The prior year comparatives have been reclassified to include in Other items the revenue, results and associated taxation of businesses that have been identified as non-core since the signing of the 2018 Financial Statements.

Revenue 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.

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. Standard payment terms vary across the different businesses but generally range from 8 to 60 days from end of month. The amount of revenue recognised is impacted by the following:

Volume rebates

The Group provides retrospective volume rebates to certain customers, which give rise to variable consideration.

The Group estimates the expected volume rebates using an expected value approach based on expected volumes and thresholds in the contracts. The Group then applies the requirements on constraining estimates of variable consideration and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Expected volume rebates due to customers are recognised as a reduction to trade receivables.

Early settlement discounts

Early settlement discounts are estimated using the expected value approach based on past experience and are 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.

b) Construction contracts

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

i) 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 as this reflects the progress towards satisfaction of the performance obligation.

ii) *Contracts for provision of industrial services*

The Group's Ireland segment provides industrial painting, coating and repair services. Revenue from these contracts is recognised over time, as the entity's performance enhances a customer-controlled asset, using an output method to measure progress towards completion, based on agreed rates and/or valuation schedules agreed with the customer which confirm the amounts invoiced each month, depending on individual contract terms.

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, 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. Invoices are raised as the contract progresses based on agreed milestones, rates or valuation schedules depending on the terms of individual contracts, with subsequent payment in accordance with agreed payment terms.

iii) *Manufacture and installation of roofing systems (2018 only)*

There is considered to be one performance obligation, being the installation of the roofing system. Revenue is recognised over time on a milestone basis, as appropriate terms are included in the contract to confirm entitlement to payment for performance to date. The business carrying out these contracts was sold in December 2018 and this revenue stream is not relevant going forwards.

c) **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.

Supplier rebates

Supplier rebate income is significant to the Group's result, with a substantial proportion of purchases covered by rebate agreements.

Some supplier rebate agreements are non-coterminous with the Group's financial year, and firm confirmation of amounts due may not be received until six months after the balance sheet date.

Where the Group relies on estimates, these are made with reference to contracts or other agreements, management forecasts and detailed operational workbooks. Supplier rebate income estimates are regularly reviewed by senior management.

Outstanding amounts at the balance sheet date are included in trade payables when the Group has the right to offset against amounts owing to the supplier and therefore settles on a net basis, in line with IAS 32 criteria. Where the supplier rebates are not netted off the amounts owing to that supplier, the outstanding amount is included within prepayments and accrued income. The carrying value of inventory is reduced by the associated amount where the inventory has yet to be sold at the balance sheet date.

Operating profit

Operating profit is stated after charging distribution costs, selling and marketing costs and administrative expenses, but before finance income and finance costs.

Taxation

Income tax on the profit or loss for the periods presented comprises both current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated Statement of Comprehensive Income or the Statement of Changes in Equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

In accordance with IAS 12, the following temporary differences are not provided for:

- goodwill not deductible for taxation purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; or
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Equity settled share based payments are measured at fair value at the date of grant based on the Group's estimate of the number of shares that will eventually vest. The fair value determined is then expensed in the Consolidated Income Statement on a straight-line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured using the Black-Scholes or Monte Carlo option pricing model as appropriate.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

For equity-settled share options, at each balance sheet date the Group revises its estimate of the number of share options expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Consolidated Income Statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Statement of Significant Accounting Policies

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Intangible assets

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. The Group recognises two types of intangible asset: acquired and purchased. Acquired intangible assets arise as a result of applying IFRS 3 "Business Combinations" which requires the separate recognition of intangible assets from goodwill on all business combinations. Purchased intangible assets relate primarily to software that is separable from any associated hardware.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

	Amortisation period	Current estimate of useful life
Customer relationships	Life of the relationship	7 years
Non-compete contracts	Life of the contract	3 years
Computer software	Useful life of the software	3-10 years

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

Property, plant and equipment

Property, plant and equipment is shown at original cost to the Group less accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost less the estimated residual value of property, plant and equipment on a straight-line basis over their estimated useful lives as follows:

	Current estimate of useful life
Freehold buildings	50 years
Leasehold buildings	Period of lease
Plant and machinery (including motor vehicles)	3-8 years or length of lease

Freehold land is not depreciated.

Residual values, which are based on market rates, are reassessed annually.

Assets in the course of construction are carried at cost, with depreciation charged on the same basis as all other assets once those assets are ready for their intended use.

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition the Group has chosen to apply the cost model. Investment properties are therefore recognised at cost and depreciated over the useful life and are impaired when appropriate in accordance with IAS 16 "Property, plant and equipment".

Transfers are made to or from investment property only when there is a change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases and hire purchase agreements

For the year ended 31 December 2019, leases and hire purchase agreements are recognised in accordance with IFRS 16 "Leases" as described in the section "New standards, interpretations and amendments adopted". This section also describes the changes as a result of adopting the new standard in the current year. The new standard has been applied using the modified retrospective approach and accordingly the comparative information for the year ended 31 December 2018 has not been restated.

The policy applied for the year ended 31 December 2018 is as follows:

The cost of assets held under finance leases and hire purchase agreements is capitalised with an equivalent liability categorised as appropriate under current liabilities or non-current liabilities. The asset is depreciated over the shorter of the lease term or its useful life.

Rentals under finance leases and hire purchase agreements are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The finance costs are charged in arriving at profit before tax.

Rentals under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost (including an appropriate proportion of attributable overheads, supplier rebates and discounts) and net realisable value. The cost formula used in measuring inventories is either a weighted average cost, or a first in first out basis, depending on the most appropriate method for each particular business. Most businesses use weighted average, with the exception of Poland and Ireland where first in first out is used.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Consolidated Cash Flow Statement.

Cash held but not available for use by the Group is disclosed as restricted cash within Note 20.

Financial assets

Financial assets are classified as either financial assets subsequently measured at amortised cost, fair value through profit and loss ("FVPL") or fair value through other comprehensive income ("FVOCI").

The classification at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

The Group measures financial assets at amortised cost if both the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets are all measured at amortised cost, except for derivative financial instruments.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets include trade receivables, deferred consideration and cash and cash equivalents.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments held at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables and contract assets, the Group applies the standard's simplified approach and calculates 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.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are factored out to banks and other financial institutions without recourse to the Group are derecognised at the point of factoring as the risks and rewards of the receivables have been fully transferred. In assessing whether the receivables qualify for derecognition the Group has considered the receivables and receivable insurance contracts as two separate units of account. Therefore the insurance is not included as part of the derecognition assessment on the basis that the insurance is not similar to the receivables. The Group has elected to recognise cash inflows from the sale of factored receivables as an operating cash flow.

Financial liabilities

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities, except for derivative financial instruments (see below), are recognised initially at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

When determining the fair value of financial liabilities, the expected future cash flows are discounted using an appropriate interest rate.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Statement of Significant Accounting Policies

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Balance Sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts, and cross-currency swaps to hedge its exposure to foreign currency exchange and interest rate risks arising from operational and financing activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, any derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are classified as non-current assets or non-current liabilities if the remaining maturity of the derivatives is more than 12 months and they are not expected to be otherwise realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivative financial instruments are recognised immediately at fair value. Subsequent to their initial recognition, derivative financial instruments are then stated at their fair value. The fair value of derivative financial instruments is derived from “mark-to-market” valuations obtained from the Group’s relationship banks.

Unless hedge accounting is achieved, the gain or loss on remeasurement to fair value is recognised immediately and is included as part of finance income or finance costs, together with other fair value gains and losses on derivative financial instruments, within Other items in the Consolidated Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting, or when the Group revokes the hedging relationship. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement in the period.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probably forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of the hedge relationship the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, along with its risk management objectives and its strategy for undertaking the hedging transaction.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is recognised in the Consolidated Income Statement within Other items. The change in the fair value of the hedging instrument is also recognised in the Consolidated Income Statement within Other items.

Cash flow hedges

The effective part of any gain or loss on the hedging instrument is recognised directly in the Consolidated Statement of Comprehensive Income in the cash flow hedging reserve. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the Consolidated Statement of Comprehensive Income are reclassified into the Consolidated Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Consolidated Income Statement.

For cash flow hedges, the ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within Other items in the Consolidated Income Statement. The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve.

Hedges of net investment in foreign operations

The portion of any gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in the Consolidated Statement of Comprehensive Income. The ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within Other items within the Consolidated Income Statement. Gains and losses deferred in the foreign currency translation reserve are recognised immediately in the Consolidated Income Statement when foreign operations are disposed of.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Leasehold dilapidations

Provisions are recognised in relation to contractual obligations to reinstate leasehold properties to their original state of repair. The provision is calculated based on both the liability to rectify or reinstate leasehold improvements and modifications carried out on the inception of the lease, recognised on inception with a corresponding fixed asset, and the liability to rectify general wear and tear which is recognised as incurred over the life of the lease.

Pension schemes

SIG operates six defined benefit pension schemes. The Group's net obligation in respect of these defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in both current and prior periods. That benefit is discounted using an appropriate discount rate to determine its present value and the fair value of any plan assets is deducted.

Where the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated Income Statement, at the earlier of when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits.

The full service cost of the pension schemes is charged to operating profit. Net interest costs on defined benefit pension schemes are recognised in the Consolidated Income Statement. Discretionary contributions made by employees or third parties reduce service costs upon payment of these contributions into the plan.

Any actuarial gain or loss arising is charged through the Consolidated Statement of Comprehensive Income and comprises the difference between the expected returns on assets and those actually achieved, any changes in the actuarial assumptions for demographics and any changes in the financial assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within non-current assets in the Consolidated Balance Sheet.

For defined contribution schemes the amount charged to the Consolidated Income Statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within either accruals or prepayments in the Consolidated Balance Sheet.

Dividends

Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Financial Statements until they have been approved by the Shareholders at the Annual General Meeting.

Segment reporting

In accordance with IFRS 8 "Operating Segments", the Group identifies its reportable segments based on the components of the business on which financial information is regularly reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about how resources are allocated. For SIG, the CODM is considered to be the Executive Committee. During the year the Group has changed the way in which information is presented and reviewed by the CODM in respect of the French operations which is now reported as two segments France Distribution (LiTT) and France Exteriors (Larivière) to reflect the line of business analysis of Specialist Distribution and Roofing Merchanting. The Group's reported operating segments are UK Distribution, UK Exteriors, Ireland, France Distribution (LiTT), France Exteriors (Larivière), Germany (WeGo/VTi), Benelux and Poland. The Group has also re-presented the analysis of operating segments by line of business between Specialist Distribution and Roofing Merchanting, previously grouped as UK & Ireland and Mainland Europe, to better reflect the strategic direction of the Group. Air Handling was previously a reported operating segment but has been classified as a discontinued operation in 2019. Prior year comparatives have been restated to be consistent with the current year presentation.

Statement of Significant Accounting Policies

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described on pages 141 to 153, the Directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the change takes place if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have had a significant effect on the amounts recognised in the Financial Statements. The judgements involving estimations are dealt with separately below.

Classification of Other items in the Consolidated Income Statement

As described in the Statement of Significant Accounting Policies, certain items are presented in the separate column of the Consolidated Income Statement entitled Other items where they are significant in size or nature, 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. Operating results from businesses identified as non-core (see Note 33 of the Financial Statements) do not form part of the ongoing trading activities of the Group and are therefore also recorded separately in Other items in order to enhance the understanding of the ongoing financial performance of the Group. The nature and amounts of the items included in Other items, together with the overall impact on the results for the year, is disclosed in Note 2 of the Financial Statements.

Discontinued operations and assets held for sale

On 7 October 2019 the Group announced the sale of the Air Handling and Building Solutions businesses. The sale of the Air Handling business completed on 31st January 2020. The business is considered to meet the criteria to be classified as held for sale at 31 December 2019 on the basis that a sale has been agreed and is considered highly probable, which is confirmed by completion of the sale subsequent to the year end. The Air Handling business is also considered to meet the definition of a discontinued operation as it is a major line of business of the Group. The results of the business are therefore presented separately on the face of the Consolidated Income Statement. Further information on the discontinued operation is included in Note 12 of the Financial Statements.

The sale of the Building Solutions business was conditional upon the approval of the UK Competition & Markets Authority ("CMA"). Completion was considered highly probable at the balance sheet date and the business is therefore recognised as held for sale at 31 December 2019. The business is not considered to meet the definition of a discontinued operation as it is not a major line of business of the Group. On 21 May 2020 it was announced that the parties have agreed to terminate the sale agreement as terms could not be agreed for the extension of the agreement to enable the completion of the CMA investigation, and the disposal will no longer proceed. This is a non-adjusting post balance sheet event and the business remains classified as held for sale at the balance sheet date. Further information is included in Note 11 and Note 34 of the Financial Statements.

Determining the lease term in accordance with IFRS 16

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease, considering all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or terminate. The Group has a number of property leases with automatic right of renewal after the initial expiry date, with no specific renewal term. The Group applies judgement in determining the appropriate renewal period to include in the lease term, considering all relevant factors including past experience, overall property strategy and specific circumstances regarding individual properties where appropriate. Refer to Note 25 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Presentation of private placement debt

At 31 December 2019, private placement notes of £175.5m have been reclassified as a currently liability on the balance sheet because the covenant test of consolidated net worth at 31 December 2019 is below the threshold of £400m (see Note 33h of the Consolidated Financial Statements). From an accounting perspective at the balance sheet date the Company did not have an unconditional right to defer settlement of the liability for at least 12 months. Therefore, as required by IAS 1 "Presentation of financial statements", the entire private placement notes balance is presented as a current liability at 31 December 2019. Under the terms of the private placement note agreement no event of default arose and testing of the covenant as at 31 December 2019 has been waived and thus the notes did not become repayable or capable of being declared immediately due and payable, hence as at 31 December 2019 the only contractual requirement to repay the debt in the next twelve months is the scheduled loan repayment in October 2020.

Key sources of estimation uncertainty

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities within the next financial year are detailed below.

Rebates receivable

Supplier rebate income is significant to the Group's result, with a substantial proportion of purchases covered by rebate agreements. Supplier rebate income affects the recorded value of cost of sales, trade payables, trade and other receivables, and inventories. The amounts payable under rebate agreements are often subject to negotiation after the balance sheet date. A number of agreements are non-coterminous with the Group's financial year, requiring estimation over the level of future purchases and sales. At the balance sheet date the Directors estimate the amount of rebate that will become payable by and due to the Group under these agreements based upon prices, volumes and product mix. The Group has recognised income from supplier rebates of £245.2m from continuing operations for the year ended 31 December 2019 (2018: £314.2m). At 31 December 2019 trade payables is presented net of £38.0m (2018: £52.8m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement, and included within prepayments and accrued income is £42.4m (2018: £59.3m) due in relation to supplier rebates where there is no

right to offset against trade payable balances. The majority of these balances now relate to agreements which are coterminous with the financial year end and therefore this reduces the level of estimation involved. Based on experience in the current year, the amount received is not expected to vary from the amount recorded by more than £1.0m.

Post-employment benefits

The Group operates six defined benefit pension schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 "Employee Benefits". As detailed within the Statement of Significant Accounting Policies on page 153, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated Statement of Comprehensive Income.

For all defined benefit pension schemes, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality. Management considers the key assumption to be the discount rate applied. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds excluding university bonds. If the discount rate were to be increased/decreased by 0.1%, this would decrease/increase the Group's gross pension scheme deficit by £3.1m as disclosed in Note 30c. At 31 December 2019 the Group's retirement benefit obligations were £24.8m (2018: £28.7m).

Impairment of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that an impairment may be required.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated, including all related assets. The key estimates made in the value in use calculation are those regarding discount rates, sales growth rates, and expected changes to selling prices and direct costs to reflect the operational gearing of the business. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group.

For the majority of the CGUs, the Group performs goodwill impairment reviews by forecasting cash flows based upon the following year's budget, which anticipates sales growth, and a projection of cash flows based upon industry growth expectations (1.5%-3.4%) over a further period of four years. Where detailed three to five year forecasts for a CGU have been prepared and approved by the Board, which can include higher growth rates or varied results reflecting specific economic factors, these are used in preparing cash flow forecasts for impairment review purposes. After this period, the sales growth applied to the cash flow forecasts and operating profit growth is no more than 2.7% in perpetuity. The discount rates applied to all CGUs represent pre-tax rates.

Assumptions regarding sales and operating profit growth, gross margin, and discount rate are considered to be the key areas of estimation in the impairment review process, and appropriate sensitivities have been performed and disclosed in Note 13.

Impairments are allocated initially against the value of any goodwill and intangible assets held within a CGU, with any remaining impairment applied to property, plant and equipment on a pro rata basis.

The carrying amount of relevant non-current assets at 31 December 2019 is £515.1m (2018: £445.5m) including right-of-use assets recognised in accordance with IFRS 16 at 31 December 2019. The most recent results of the impairment review process are disclosed in Note 13. An impairment charge of £89.6m has been recognised in relation to two CGUs, UK Distribution and France Exteriors

(Larivière). The carrying value of non-current assets associated with the Group's other CGU's is considered supportable. Whilst the Directors consider the assumptions used in the impairment review to be realistic, if actual results are different from expectations then it is possible that the value of goodwill included in the Consolidated Balance Sheet could become impaired further. The remaining carrying value of goodwill after recognition of the impairment charge is £159.0m. Sensitivities are disclosed in Note 13. These indicate reasonably possible scenarios which could lead to further impairment.

Provisions against receivables

At 31 December 2019 the Group has recognised trade receivables with a carrying value of £223.6m (2018: £384.3m). The Group recognises an allowance for expected credit losses (ECLs) in relation to trade receivables. 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. Changes in the economic environment or customer-specific circumstances could have an impact on the recoverability of amounts included on the Consolidated Balance Sheet at 31 December 2019. The total allowance for expected credit losses recorded at 31 December 2019 is £19.5m (2018: £31.4m). The bad debt to sales ratio of the Group has varied by up to 0.1% over recent periods, therefore this gives an indication that the bad debt experience could vary by c.£5m. Further detail on trade receivables and the allowance for expected credit losses recognised is disclosed in Note 17.

Dilapidations provisions

The Group has a significant number of leasehold properties with contractual obligations to reinstate the properties to their original state of repair at the end of the lease contract. The Group has recognised a provision of £21.8m at 31 December 2019 (2018: £20.9m) in relation to this obligation (see Note 23). The total provision includes both the estimated cost of rectifying or reinstating leasehold modifications and improvements carried out, which is recognised at the inception of the lease with a corresponding asset recognised in fixed assets and depreciated over the term of the lease, together with the estimated cost of rectifying general wear and tear which is recognised as incurred over the life of the lease. Estimates are based on a combination of a sample of assessments by third party independent property surveyors, internal assessments by the Group's property experts and previous settlement history. Whilst the Directors consider the estimates to be reasonable based on latest available information, actual amounts payable could be different to the amount provided depending on specific circumstances of individual properties and counterparties at the expiry of each lease contract. The amount payable is not expected to be materially different to the amount provided in the following year but there could be a material adjustment over a longer timescale. The provision is reassessed each year on the basis of latest information, which could also result in a change in the value of the provision year on year of up to c.10% based on past experience.

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore requires estimation when no observable rates are available, such as for subsidiaries that do not enter into financing transactions. The Group estimates the IBR using observable inputs, such as market interest rates, when available and is required to make certain entity-specific estimates, such as the subsidiary's stand-alone credit rating.

Notes to the Financial Statements

1 Revenue and segmental information

Revenue

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

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

* Revenue attributable to businesses identified as non-core: £15.7m relates to interiors and £60.2m to exteriors product types.

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

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

^{^^} The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 12 for further details.

* Revenue attributable to businesses identified as non-core: £78.5m to interiors and £62.9m relates to exteriors product types.

Segmental Information

a) Segmental analysis

	Specialist Distribution							Roofing Merchandising			Eliminations £m	Total £m
	UK Distribution £m	Ireland £m	France Distribution (LiTT) £m	Germany (WeGo/ VTi) £m	Poland £m	Benelux £m	Total £m	UK Exteriors £m	France Exteriors (Larivière) £m	Total £m		
2019												
Revenue												
Underlying revenue	534.3	94.9	184.5	381.5	156.1	103.0	1,454.3	288.2	342.2	630.4	-	2,084.7
Revenue attributable to businesses identified as non-core	1.2	-	-	14.5	-	-	15.7	58.3	1.9	60.2	-	75.9
Inter-segment revenue [^]	11.9	-	0.1	1.0	-	0.1	13.1	9.1	0.2	9.3	(22.4)	-
Total revenue	547.4	94.9	184.6	397.0	156.1	103.1	1,483.1	355.6	344.3	699.9	(22.4)	2,160.6
Result												
Segment result before Other items	7.9	6.8	11.2	4.4	4.3	5.2	39.8	8.9	8.6	17.5	-	57.3
Amortisation of acquired intangibles	(0.9)	-	-	-	-	(0.2)	(1.1)	(4.4)	(0.7)	(5.1)	-	(6.2)
Impairment charges	(58.2)	-	-	-	-	-	(58.2)	(0.5)	(32.2)	(32.7)	-	(90.9)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	(0.9)	(1.8)	-	6.0	-	-	3.3	(1.6)	(1.6)	(3.2)	-	0.1
Net operating losses attributable to businesses identified as non-core (Note 11)	(0.8)	-	-	0.8	-	-	-	2.9	(0.9)	2.0	-	2.0
Net restructuring costs	(10.2)	-	-	(6.6)	-	(0.2)	(17.0)	(8.0)	(2.1)	(10.1)	-	(27.1)
Other specific items	0.2	(0.3)	-	(0.1)	-	-	(0.2)	-	(0.2)	(0.2)	-	(0.4)
Segment operating profit/(loss)	(62.9)	4.7	11.2	4.5	4.3	4.8	(33.4)	(2.7)	(29.1)	(31.8)	-	(65.2)
Parent Company costs												(17.7)
Investment in omnichannel retailing												(5.7)
Movement in fair value of forward currency option												0.7
Operating loss												(87.9)
Net finance costs before Other items												(24.0)
Non-underlying finance costs												(0.8)
Net fair value losses on derivative financial instruments												-
Unwinding of provision discounting												-
Loss before tax and discontinued operations												(112.7)
Income tax expense												(11.4)
Profit from discontinued operations												(0.4)
Non-controlling interests												-
Loss for the year												(124.5)

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

Notes to the Financial Statements

2018 (Restated) ^{^^}	Specialist Distribution							Roofing Merchanting			Eliminations £m	Total £m
	UK Distribution £m	Ireland £m	France Distribution (LiTT) £m	Germany (WeGo/ VTi) £m	Poland £m	Benelux £m	Total £m	UK Exteriors £m	France Exteriors (Larivière) £m	Total £m		
Revenue												
Underlying revenue	680.1	99.9	175.4	403.4	156.6	108.4	1,623.8	321.9	344.7	666.6	–	2,290.4
Revenue attributable to businesses identified as non-core	51.5	3.5	–	23.5	–	–	78.5	60.2	2.7	62.9	–	141.4
Inter-segment revenue [^]	10.2	0.6	–	0.2	–	0.3	11.3	3.7	9.5	13.2	(24.5)	–
Total revenue	741.8	104.0	175.4	427.1	156.6	108.7	1,713.6	385.8	356.9	742.7	(24.5)	2,431.8
Result												
Segment result before Other items	23.0	6.1	8.6	7.6	3.3	4.5	53.1	13.8	13.2	27.0	–	80.1
Amortisation of acquired intangibles	(0.9)	(0.4)	–	–	–	(0.2)	(1.5)	(4.8)	(0.6)	(5.4)	–	(6.9)
Impairment charges	(3.9)	–	–	(0.1)	–	–	(4.0)	–	–	–	–	(4.0)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	(1.8)	0.4	–	(0.1)	–	–	(1.5)	(4.8)	–	(4.8)	–	(6.3)
Net operating losses attributable to businesses identified as non-core (Note 11)	4.0	(2.0)	–	1.2	–	–	3.2	3.0	(0.7)	2.3	–	5.5
Net restructuring costs	(10.1)	(0.4)	–	(6.0)	–	(1.2)	(17.7)	(7.7)	(2.3)	(10.0)	–	(27.7)
Other specific items	(0.5)	–	–	–	–	(0.1)	(0.6)	–	(0.7)	(0.7)	–	(1.3)
Segment operating profit/(loss)	9.8	3.7	8.6	2.6	3.3	3.0	31.0	(0.5)	8.9	8.4	–	39.4
Parent Company costs												(13.2)
Operating profit												26.2
Net finance costs before Other items												(14.7)
Non-underlying finance costs												(0.7)
Net fair value losses on derivative financial instruments												(0.3)
Unwinding of provision discounting												(0.2)
Profit before tax and discontinued operations												10.3
Income tax expense												(6.2)
Profit from discontinued operations												13.8
Non-controlling interests												(0.4)
Profit for the year												17.5

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

^{^^} The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 12 for further details.

2019	Specialist Distribution							Roofing Merchanding			Total £m
	UK Distribution £m	Ireland £m	France Distribution (LITT) £m	Germany (WeGo/ VTi) £m	Poland £m	Benelux £m	Total £m	UK Exteriors £m	France Exteriors (Larivière) £m	Total £m	
Balance sheet											
Assets											
Segment assets	268.3	56.0	57.5	154.0	66.5	51.6	653.9	204.1	211.1	415.2	1,069.1
Unallocated assets:											
Right-of-use assets											2.9
Property, plant and equipment											0.4
Derivative financial instruments											2.6
Cash and cash equivalents											(3.6)
Deferred tax assets											4.4
Assets held for sale (Note 11)											258.4
Other assets											13.6
Consolidated total assets											1,347.8
Liabilities											
Segment liabilities	196.9	36.1	54.8	96.4	35.7	16.4	436.3	83.5	97.4	180.9	617.2
Unallocated liabilities:											
Private placement notes											175.5
Bank loans											99.6
Derivative financial instruments											2.1
Liabilities held for sale (Note 11)											115.7
Other liabilities											43.5
Consolidated total liabilities											1,053.6
Other segment information											
Capital expenditure on:											
Property, plant and equipment	2.4	0.7	0.8	1.3	2.2	0.3	7.7	6.5	0.9	7.4	15.1
Computer software	5.1	0.4	–	0.1	–	–	5.6	1.2	–	1.2	6.8
Goodwill and intangible assets (excluding computer software)	–	–	–	–	–	–	–	–	–	–	–
Non-cash expenditure:											
Depreciation	19.1	2.8	5.2	13.8	3.5	2.4	46.8	10.6	10.0	20.6	67.4
Impairment of right-of-use assets	0.5	–	–	–	–	–	0.5	0.5	0.5	1.0	1.5
Impairment of property, plant and equipment and computer software	0.9	–	–	–	–	–	0.9	–	–	–	0.9
Amortisation of acquired intangibles and computer software	3.5	–	–	0.1	0.1	0.2	3.9	4.5	0.7	5.2	9.1
Impairment of goodwill and intangibles (excluding computer software)	57.4	–	–	–	–	–	57.4	–	33.3	33.3	90.7

Notes to the Financial Statements

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

b) Geographic information

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

Country	2019 Non-current assets £m	2018 Non-current assets £m
United Kingdom	283.4	248.6
Ireland	15.7	2.8
France	112.0	124.3
Germany	66.2	14.4
Poland	14.2	6.3
Benelux	23.4	49.1
Total underlying	514.9	445.5
Attributable to businesses identified as non-core	0.2	–
Attributable to businesses held for sale (Note 11)	112.9	–
Total	628.0	445.5

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

2 Other operating expenses

a) Analysis of other operating expenses

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

Notes to the Financial Statements

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 (as explained in the Statement of Accounting Policies):

	2019			2018 (Restated)		
	Other items £m	Tax impact £m	Tax impact %	Other items £m	Tax impact £m	Tax impact %
Amortisation of acquired intangibles (Note 1a)	(6.2)	1.4	(22.6)	(6.9)	1.4	(20.3)
Impairment charges [^]	(90.9)	0.2	(0.2)	(4.0)	–	–
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	0.1	(0.8)	(800.0)	(6.3)	1.3	(20.6)
Net operating profits/(losses) attributable to businesses identified as non-core (Note 11)	2.0	(0.4)	(20.0)	5.5	(1.0)	(18.2)
Net restructuring costs ^{^^}	(27.1)	4.4	(16.2)	(27.7)	6.3	(22.7)
Investment in omnichannel retailing	(5.7)	–	–	–	–	–
Other specific items [*]	0.3	–	–	(1.3)	(0.2)	15.4
Impact on operating profit/(loss)	(127.5)	4.8	(3.8)	(40.7)	7.8	(19.2)
Non-underlying finance costs	(0.8)	0.1	(12.5)	(0.7)	0.1	(14.3)
Net fair value losses on derivative financial instruments	–	–	–	(0.3)	0.1	(33.3)
Unwinding of provision discounting	–	–	–	(0.2)	–	–
Impact on profit/(loss) before tax	(128.3)	4.9	(3.8)	(41.9)	8.0	(19.1)
Effect of change in rate on deferred tax	–	–	–	–	0.3	–
Other tax adjustments in respect of previous years	–	(0.4)	–	–	(0.1)	–
Impact on profit/(loss) after tax	(128.3)	4.5	(3.5)	(41.9)	8.2	(19.6)

[^] Impairment charges comprises £89.6m related to goodwill (Note 13), £0.3m software (Note 14) and £1.0m right-of-use assets (Note 25).

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

^{*} Other specific items comprises the following:

	2019 £m	2018 Restated £m
Movement in fair value of forward currency option not hedged	0.7	–
Costs in relation to the cyber attack in France	(0.6)	–
GMP equalisation (Note 30c)	–	(1.0)
Other specific items	0.2	(0.3)
Total other specific items	0.3	(1.3)

The 2018 results have been restated in order to present the Air Handling business as a discontinued operation. See Note 12 for further details.

3 Finance income and finance costs

	2019			2018 (Restated)		
	Underlying £m	Other items £m	Total £m	Underlying £m	Other items £m	Total £m
Finance income						
Interest on bank deposits	0.5	–	0.5	0.5	–	0.5
Total finance income	0.5	–	0.5	0.5	–	0.5
Finance costs						
On bank loans, overdrafts and other associated items [^]	5.5	–	5.5	6.9	–	6.9
On private placement notes	6.9	–	6.9	6.8	–	6.8
On obligations under lease contracts	11.6	0.8	12.4	0.7	0.7	1.4
Total interest expense	24.0	0.8	24.8	14.4	0.7	15.1
Net finance charge on defined benefit pension schemes	0.5	–	0.5	0.5	–	0.5
Unwinding of provision discounting	–	–	–	–	0.2	0.2
Fair value losses on derivative financial instruments [*]	–	–	–	0.3	0.3	0.6
Total finance costs	24.5	0.8	25.3	15.2	1.2	16.4
Net finance costs	24.0	0.8	24.8	14.7	1.2	15.9

[^] Other associated items includes the amortisation of arrangement fees of £0.7m (2018: £0.9m).

^{*} Fair value losses on derivative financial instruments before Other items includes £nil (2018: £0.3m) relating to the recycling of amounts previously recorded in reserves in respect of two interest rate derivative contracts cancelled in 2015 as part of the ongoing management of the Group's interest rate hedging policy. Included within Other items is £nil (2018: £0.3m) relating to the recycling of amounts previously recorded in reserves in respect of interest rate derivative contracts cancelled following the Group's equity issuance in 2009. 2018 is the last year these losses are recognised as the amounts have now been fully recycled.

Notes to the Financial Statements

4 Profit/(loss) before tax

	2019 £m	2018 Restated £m
Profit/(loss) before tax is stated after crediting:		
Net increase in provision for inventories	0.9	5.7
Gains on disposal of property, plant and equipment	1.4	6.3
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	0.1	–
Net operating profits attributable to businesses identified as non-core (Note 11)	2.0	5.5
Other specific items (Note 2)	0.9	–
And after charging:		
Cost of inventories recognised as an expense	2,116.8	2,488.2
Depreciation of property, plant and equipment:		
– owned	13.1	12.7
– held under finance lease agreements	–	3.3
Depreciation of right-of-use assets	54.4	–
Amortisation of acquired intangibles	6.2	8.9
Amortisation of computer software	3.9	3.8
Operating lease rentals:		
– land and buildings	0.8	47.7
– plant and machinery	0.6	18.6
Auditor remuneration for audit services	2.1	1.4
Non-audit fees	0.2	0.4
Net increase in provision for receivables (Note 17)	2.7	4.3
Foreign exchange rate (gains)/losses	(1.3)	0.1
Fair value losses on derivative financial instruments	–	0.6
Unwinding of provision discounting	–	0.2
Impairment charges (Note 2)	90.9	4.0
	–	6.3
Net restructuring costs (Note 2)	27.1	27.7
Other specific items (Note 2)	0.6	1.3
Staff costs excluding contingent consideration treated as remuneration (Note 5)	268.2	305.6

A more detailed analysis of Auditor remuneration is provided below (continuing operations):

	2019 £m	2018 Restated £m
Fees payable to the Company's Auditor and their associates for the audit of the Company and Group Financial Statements	0.6	0.4
Fees payable to the Company's Auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	1.5	1.0
Total audit fees (continuing operations)	2.1	1.4
– Audit-related assurance services (including interim review)^	0.2	0.4
– Other services^	–	–
Total non-audit fees	0.2	0.4
Total fees	2.3	1.8

^ The audit-related assurance services in the current year relate to the interim review, it is usual practice for a company's Auditor to perform this work. In the prior year these related to the interim review and grant claim assurance work.

The Audit Committee Report on pages 101 and 110 provides an explanation of how Auditor objectivity and independence is safeguarded when non-audit services are provided by the Auditor.

5 Staff costs

Particulars of employees (including Directors) are shown below:

	2019 £m	2018 Restated £m
Employee costs during the year amounted to:		
Wages and salaries	217.5	253.3
Social security costs	42.3	44.9
IFRS 2 share option charge	0.1	0.4
Pension costs (Note 30c)	6.5	7.0
Redundancy costs	1.8	–
Total staff costs excluding contingent consideration	268.2	305.6

In addition to the above, redundancy and related staff costs of £9.5m (2018: £11.5m) have been included within Other items (Note 2).

Of the pension costs noted above, a charge of £0.2m (2018: £0.1m) relates to defined benefit schemes and a charge of £6.3m (2018: £6.9m) relates to defined contribution schemes. See Note 30c for more details.

The average monthly number of persons employed by the Group during the year was as follows:

	2019 Number	2018 Restated Number
Production	170	302
Distribution	2,555	2,641
Sales	2,686	2,976
Administration	1,660	1,549
Total	7,071	7,468

The average numbers above include 282 staff that were employed in businesses classified as non-core (2018: 412).

Directors' emoluments

Details of the individual Directors' emoluments are given in the Directors' Remuneration Report on page 117.

The employee costs shown above include the following emoluments in respect of Directors of the Company:

	2019 £m	2018 £m
Directors' remuneration (excluding IFRS 2 share option charge)	1.7	1.6
Directors' compensation for loss of office	–	–
Total	1.7	1.6

6 Income tax

The income tax expense comprises:

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

Notes to the Financial Statements

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

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

	2019		2018 (Restated)	
	£m	%	£m	%
Profit/(loss) before tax from continuing operations	(112.7)		10.3	
Profit/(loss) before tax from discontinued operations (Note 12)	3.8		18.2	
Profit/(loss) before tax	(108.9)		28.5	
Expected tax charge/(credit)	(23.2)	21.3	8.8	30.9
Factors affecting the income tax expense for the year:				
- expenses not deductible for tax purposes^	7.5	(6.9)	3.5	12.3
- non-taxable income*	(4.5)	4.1	(3.7)	(13.0)
- impairment and disposal charges not deductible for tax purposes**	22.4	(20.6)	2.7	9.5
- deductible temporary differences not recognised for deferred tax purposes	10.5	(9.6)	0.3	1.1
- losses utilised not previously recognised for deferred tax purposes	-	-	(0.6)	(2.1)
- other adjustments in respect of previous years	3.7	(3.4)	(0.2)	(0.7)
- tax on branch profits	0.1	(0.1)	0.1	0.4
- effect of change in rate on deferred tax	(0.9)	0.8	(0.3)	(1.1)
Total income tax expense	15.6	(14.3)	10.6	37.2
Income tax expense reported in the consolidated income statement	11.4		6.2	
Income tax attributable to a discontinued operation (Note 12)	4.2		4.4	
	15.6		10.6	

^ The majority of the Group's expenses that are not deductible for tax purposes are in relation to the divestments of businesses, internal restructuring and impairments of property.

* The majority of the Group's non-taxable income relates to the divestments of businesses.

** During the year the Group incurred impairment charges of £90.3m in relation to goodwill (as set out in Note 13) which are not deductible for tax purposes.

The effective tax rate for the Group on the total loss before tax of £108.9m is negative 14.3% (2018: 37.2%). The effective tax charge for the Group on profit before tax excluding 'other items' of £19.4m is 103.3% (2018: 26.3%) which comprises a tax charge of 95.8% (2018: 26.6%) in respect of current year profits and a tax charge of 7.5% (2018: credit of 0.3%) in respect of prior years. The increased current year rate is predominantly due to unrecognised deferred tax assets (see Note 24) and expenses not deductible for tax purposes.

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

- the mix of profits and losses between the tax jurisdictions in which the Group operates; in particular the tax rates in France, Germany and Belgium are relatively high when compared to the UK and so a higher proportion of profits in these jurisdictions could result in a higher Group tax charge;
- the impact of non-deductible expenditure and non-taxable income;
- agreement of open tax computations with the respective tax authorities; and
- the recognition or utilisation (with corresponding reduction in cash tax payments) of unrecognised deferred tax assets (see Note 24).

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

In addition to the amounts charged to the Consolidated Income Statement, the following amounts in relation to taxes have been recognised in the Consolidated Statement of Comprehensive Income:

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

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

7 Dividends

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

At 31 December 2019 the Company has negative distributable reserves of £158.4m as set out in Note 14 of the Company Financial Statements. Before the Group seeks to recommence its dividend payments it will be required to review its medium term plan and distributable reserves position. The Directors intend to carry out a review of the structure of the Group during the coming year in order to remedy this and optimise existing reserves.

8 Earnings/(loss) per share

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

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

	Basic and diluted before Other items	
	2019 £m	2018 Restated £m
Profit/(loss) after tax from continuing operations	(124.1)	4.1
Non-controlling interests	–	(0.4)
Add back:		
Other items (Note 2)	123.8	33.7
Profit/(loss) attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations before other items	(0.3)	37.4

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

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

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

Notes to the Financial Statements

9 Share-based payments

The Group had four share-based payment schemes in existence during the year ended 31 December 2019 (2018: four). The Group recognised a total charge of £0.1m (2018: £0.4m) in the year relating to share-based payment transactions with a corresponding entry to the share option reserve. The weighted average fair value of each option granted in the year was 103p (2018: 73p). Details of each of the schemes are provided below.

a) Long Term Incentive Plan ('LTIP')

Under the 2017 LTIP policy, Executive Directors can be awarded an annual grant of nil paid share options up to a maximum value of 200% of base salary.

There were 1,413,968 LTIP awards in 2017. The criteria and vesting conditions of the LTIP options are as follows:

	2017 Awards	
	EPS	ROCE
Weighting of criteria	33%	67%
Vesting conditions:		
- Does not vest	<31p	<10.0%
- Vests proportionately	31p - 38p	10.0% - 13.5%
- Vests in full	≥38p	≥13.5%
Proportion that vests at entry level	0%	0%
Exercise period	3 - 10 years*	

* The 2017 awards vest after three years and are then subject to a further two year holding period.

The right to exercise options terminates upon the employee ceasing to hold office with the Group, subject to certain exceptions and the discretion of the Board.

On 8 November 2018, the new 2018 Long Term Incentive Plan was approved ('2018 LTIP'). Under this plan Executive Directors can be awarded an annual grant of nil paid shares, with a maximum initial award of 200% and a potential multiplier on vesting of up to 300% of base salary.

There were 2,455,213 2018 LTIP awards in 2018 (on a maximum awards basis). The initial award will vest at the end of a three year performance period provided that the director remains employed at that date and the primary performance conditions are satisfied. The two primary performance conditions are median TSR performance against the FTSE 250 and average Return on Capital Employed ("ROCE") of 10% per annum over the three year period. Once these gateways have been achieved, the vesting of the initial award is determined based on the Company's absolute TSR performance as shown below. In 2019, 1,958,676 awards were granted under the 2018 LTIP. The primary performance conditions are consistent with the 2018 awards but with an average ROCE gateway of 10.3% over the three year period. Once the ROCE and relative TSR gateways have been achieved, the vesting of the initial award is determined based on the Company's absolute TSR performance as follows:

	2018 LTIP	
	2019 Awards	2018 Awards
	Absolute TSR growth:	
Vesting level of initial award:		
- Does not vest	Below 8% p.a.	Below 8% p.a.
- Vests proportionately (25%)	8% p.a.	8% p.a.
- Vests in full	14% p.a. or above	14% p.a. or above
Straight line vesting between 8% p.a. and 14% p.a.		
Exercise period	3 - 10 years*	3 - 10 years*

* The awards vest after three years and are then subject to a further two year holding period.

LTIP options

	2019		2018	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At 1 January	3,869,181	0.0	3,198,249	0.0
Granted during the year	1,958,676	0.0	2,455,213	0.0
Exercised during the year (Note 26)	-	0.0	(8,747)	0.0
Lapsed during the year	-	0.0	(1,775,534)	0.0
At 31 December	5,827,857	0.0	3,869,181	0.0

Of the above share options outstanding at the end of the year nil (2018: nil) are exercisable at 31 December 2019. The options outstanding at 31 December 2019 had a weighted average exercise price of nil p (2018: nil p) and a weighted average remaining contractual life of 1.6 years (2018: 2.3 years). In the year, nil (2018: 8,747) options were exercised. The weighted average share price as at the date of exercise of these options was n/a (2018: 106p).

The assumptions used in the models used to calculate the fair value of the LTIP options are as follows:

	2019 LTIP Award (21 March 2019)	2018 Award (8 November 2018)	2017 Award (24 April 2017)
Share price (on date of official grant)	145p	116p	117p
Exercise price	0.0p	0.0p	0.0p
Expected volatility	36.3%	36.1%	41.8%
Actual life	3-5 years	3-5 years	3-5 years
Risk free rate	0.7%	0.9%	1.1%
Dividend yield	0.0%	0.0%	3.4%
Model used	Monte Carlo	Monte Carlo	Black Scholes
Expected percentage options exercised versus granted at date of grant	100%	100%	50%
Revised expectation of percentage of options to be exercised as at 31 December 2019	0%	0%	0%

The weighted average fair value of LTIP options granted during the year, on a maximum number of awards basis, was 59p (2018: 34p). The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected percentage of total options exercised is based on the Directors' best estimate for the effects of behavioural considerations.

b) Management Incentive Plan ('MIP')

On 16 May 2018 the Management Incentive Plan ('MIP') was approved. Under this Plan, senior leadership and wider leadership team members can be awarded an annual grant of restricted and deferred share options up to a certain percentage of base salary. Restricted share options have no performance conditions other than the employee remaining in employment for the three year vesting period. The deferred share options are formally granted 12 months after the granting of the restricted share options, with the number of options granted based on the achievement of certain performance criteria for the relevant financial year. The deferred share options vest after a further two years provided the employee remains in employment. The vesting period for both options is considered to be the three years from the granting of the restricted share options as this is the date on which both parties have a shared understanding of the terms and conditions of the arrangement. There were 2,287,530 awards of restricted and deferred shares in 2019 (2018: 1,529,155).

The criteria and vesting conditions of the MIP deferred share options granted in 2019 are as follows:

	2019 Awards		
	Local EBIT and ROCE	Group PBT	Group ROCE
Weighting of criteria	50%	25%	25%
Vesting conditions:			
- Does not vest	Various*	<£90.0m	<12.2%
- Vests proportionately	Various*	£90.0m - 120.0m	12.2% - 15.6%
- Vests in full	Various*	≥120.0m	≥15.6%
Proportion that vests at entry level	25%	25%	25%
Exercise period	3 - 10 years	3 - 10 years	3 - 10 years

* There are different local targets for EBIT and ROCE for different businesses within the Group based on local budgets

Notes to the Financial Statements

The criteria and vesting conditions of the MIP deferred share options granted in 2018 are as follows:

	2018 Awards		
	Local EBIT and ROCE	Group PBT	Group ROCE
Weighting of criteria	50%	25%	25%
Vesting conditions:			
- Does not vest	Various*	<£85.5m	<11.5%
- Vests proportionately	Various*	£85.5m - 94.5m	11.5% - 12.5%
- Vests in full	Various*	≥£94.5m	≥12.5%
Proportion that vests at entry level	25%	25%	25%
Exercise period	3 - 10 years	3 - 10 years	3 - 10 years

* There are different local targets for EBIT and ROCE for different businesses within the Group based on local budgets

MIP options

	2019		2018	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At 1 January	1,529,155	0.0	–	–
Granted during the year	2,287,530	0.0	1,529,155	0.00
Lapsed during the year	(2,016,666)	0.0	–	–
At 31 December	1,800,019	0.0	1,529,155	0.00

Of the above share options outstanding at the end of the year nil (2018: nil) are exercisable at 31 December 2019. The options outstanding at 31 December 2019 had a weighted average exercise price of nil p (2018: nil) and a weighted average remaining contractual life of 1.8 years (2018: 2.4). In the year, no options were exercised.

The assumptions used in the Black-Scholes model in relation to the MIP options are as follows:

	2019 MIP Awards		2018 MIP Awards	
	9 October 2019	20 March 2019	1 October 2018	15 May 2018
Share price (on date of official grant)	101p	145p	129p	138p
Exercise price	–	–	–	–
Expected volatility	32.5%	35.5%	37.1%	38.4%
Actual life	3 years	3 years	3 years	3 years
Risk free rate	0.3%	0.7%	0.9%	1.1%
Dividend	3.7%	3.4%	3.4%	3.4%
Expected percentage options exercised versus granted at date of grant	94%	94%	94%	96%
Revised expectation of percentage of options to be exercised as at 31 December 2019	94%	70%	94%	63%

The weighted average fair value of MIP options granted during the year was 141p (2018: 135p). The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected percentage of total options exercised is based on the Directors' best estimate for the effects of behavioural considerations.

c) Share Incentive Plan ('SIP')

The SIP is offered to UK employees. The SIP is a HM Revenue & Customs approved scheme and operates by inviting participants, including Executive Directors, to purchase shares in the Company in a tax efficient manner on a monthly basis. The Company gives one matching share for each share purchased by the employee up to a maximum of £20 each month. No performance criteria are attached to these matching shares, other than to avoid forfeiture the participants must remain within the plan for a minimum of two years. In 2019, 46,822 (2018: 69,619) matching shares were granted during the year. Given the nature of the scheme, the fair value of the matching shares equates to the cost of the Company acquiring these shares.

10 Property, plant and equipment

The movements in the year and the preceding year were as follows:

	Land and buildings		Plant and machinery £m	Total £m
	Freehold £m	Leasehold properties £m		
Cost				
At 1 January 2018	39.6	65.3	205.1	310.0
Exchange differences	0.3	0.2	0.8	1.3
Additions	1.6	5.9	12.5	20.0
Reclassified as held for sale	(1.9)	–	–	(1.9)
Reclassifications	4.7	1.5	(6.7)	(0.5)
Disposals	(1.4)	(3.1)	(24.5)	(29.0)
At 31 December 2018	42.9	69.8	187.2	299.9
Impact of adoption of IFRS 16	–	(9.2)	(20.6)	(29.8)
Adjusted balance at 1 January 2019	42.9	60.6	166.6	270.1
Exchange differences	(2.8)	(1.5)	(5.8)	(10.1)
Additions	2.6	3.1	11.4	17.1
Reclassified as held for sale	(11.6)	(3.0)	(42.8)	(57.4)
Reclassifications	11.1	(1.5)	38.3	47.9
Disposals	(0.4)	(0.4)	(19.1)	(19.9)
At 31 December 2019	41.8	57.3	148.6	247.7
Accumulated depreciation and impairment				
At 1 January 2018	14.0	29.8	148.1	191.9
Charge for the year	0.9	3.6	15.2	19.7
Impairment charges	–	3.2	0.2	3.4
Exchange differences	0.2	0.1	0.7	1.0
Reclassifications	4.2	4.8	(9.0)	–
Disposals	(1.6)	(1.6)	(18.3)	(21.5)
At 31 December 2018	17.7	39.9	136.9	194.5
Impact of adoption of IFRS 16	–	(0.6)	(11.3)	(11.9)
Adjusted balance at 1 January 2019	17.7	39.3	125.6	182.6
Charge for the year	1.0	2.7	11.5	15.2
Impairment charges	–	0.6	–	0.6
Exchange differences	(1.3)	(1.2)	(4.6)	(7.1)
Reclassifications	9.3	1.3	37.7	48.3
Reclassified as held for sale	(4.7)	(2.0)	(29.3)	(36.0)
Disposals	(0.2)	(0.3)	(14.0)	(14.5)
At 31 December 2019	21.8	40.4	126.9	189.1
Net book value				
At 31 December 2019	20.0	16.9	21.7	58.6
At 31 December 2018	25.2	29.9	50.3	105.4

The net book value of leasehold properties at 31 December 2018 included an amount of £9.7m and the net book value of plant and machinery included an amount of £9.6m in respect of assets held under finance lease contracts.

Leasehold properties includes properties held under finance lease contracts at 31 December 2018 and leasehold improvements. Also included is a property held under a lease which is classified as an investment property as it is no longer being occupied for use by the Group. The Group has chosen to account for investment property using the cost model. £nil has been recognised in rental income and £nil (2018: £2.8m) incurred in Other items during the year due to impairment of the asset. The property is being depreciated on a straight-line basis over the term of the lease (25 years). The property had a cost of £4.2m, accumulated depreciation of £0.3m and impairment of £2.8m on transfer to investment property and at the end of 2018. The fair value of the investment property at 31 December 2019 is estimated to be £1.1m (2018: £1.1m) based on future expected rental returns. No independent third party valuation has been carried out.

At 31 December 2019, tangible fixed assets with a net book value of £21.3m have been transferred to assets held for sale in connection with the disposal of the Air Handling and Building Solutions businesses (see Note 11).

At 31 December 2018, land in Germany previously included within freehold land and buildings with net book value of £1.9m was classified as an asset held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" as it was being marketed for sale and expected to be sold during 2019. The sale completed in April 2020.

Included within plant and machinery additions are assets in the course of construction of £nil (2018: £nil).

Of the £3.4m impairment charges in 2018, £2.8m on leasehold properties is attributable to an asset no longer being held for use within the business. The remaining impairment charges related to impairments of assets due to the restructuring within the UK SIG Distribution business.

Notes to the Financial Statements

11 Divestments and exit of non-core businesses

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

Businesses disposed during the year

WeGo FloorTec

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

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

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

Disposal groups held for sale

Building Solutions

On 7 October 2019, the Group announced the sale of Building Solutions (National) Limited ("Building Solutions"), a subsidiary of SIG Trading Limited, for proceeds of £37.5m. At 31 December 2019 the assets and liabilities are classified as held for sale on the Consolidated Balance Sheet, as shown below. Costs of £1.6m in relation to the disposal are included in Other items in the Consolidated Income Statement. See Note 34 for further information regarding the sale.

Air Handling

On 7 October 2019, the Group announced that it had agreed a sale of the Air Handling business and the sale completed on 31 January 2020. This business is a major line of business of the Group and is therefore classified as a discontinued operation. See Note 12 for further details.

Total assets and liabilities held for sale at 31 December 2019 comprise the following:

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

Prior year divestments

GRM

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

IBSL

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

Building Systems

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

VJ Technology

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

Roofspace

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

Proteus

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

Other

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

Notes to the Financial Statements

Other business closures

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

Maury

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

SIG Cut Solutions

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

Commercial Drainage

As disclosed in the 2018 Annual Report and Accounts, the Group announced the closure of its Commercial Drainage business, part of the UK Distribution segment. All assets are held at recoverable value and the operating losses for the year have been included in Other items in the Consolidated Income Statement. £0.9m of costs have also been incurred in 2019 and included in Other items.

Middle East

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

Contribution to revenue and operating loss

The results of the above businesses for the current and prior periods have been disclosed within Other items in the Consolidated Income Statement in order to provide an indication of the underlying earnings of the Group. The revenue and net operating profit/(loss) of the non-core businesses for the years ended 31 December 2019 and 31 December 2018 are as follows:

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

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

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

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

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

12 Discontinued operations

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

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

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

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

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

Amounts included in accumulated OCI are as follows:

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

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

	2019 £m	2018 £m
Operating	26.5	10.5
Investing	(5.1)	(1.1)
Financing	(9.4)	(15.4)
Net cash (outflow)/inflow	12.0	(6.0)

Earnings per share:

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

13 Goodwill

	£m
Cost	
At 1 January 2018	503.8
Business disposed	(24.5)
Adjustments in respect of prior period acquisitions	(3.7)
At 31 December 2018	475.6
Business disposed	(0.3)
Reclassified as held for sale	(37.2)
Exchange differences	(24.5)
At 31 December 2019	413.6
Accumulated impairment losses	
At 1 January 2018	191.6
Business disposed	(5.0)
Exchange differences	(4.9)
At 31 December 2018	181.7
Impairment charges	90.3
Exchange differences	(17.4)
At 31 December 2019	254.6
Net book value	
At 31 December 2019	159.0
At 31 December 2018	293.9

Goodwill acquired in a business combination is allocated at the date of acquisition to the Cash Generating Units ('CGUs') that are expected to benefit from that business combination. The Group currently has 9 CGUs (2018: 9). Consistent with the reportable segments disclosed in Note 1, the Air Handling CGU now includes the Ouest Isol business in France (previously part of the France CGU) and SK Sales in the UK (previously part of the UK Distribution CGU) and the goodwill associated with these businesses of £4.3m and £0.3m respectively has been transferred to the Air Handling CGU. The 2018 analysis of the carrying value below has been restated to present on a consistent basis with 2019.

Summary analysis

The carrying value of goodwill in respect of all CGUs is set below. These are fully supported by either value in use calculations in the year or the fair value less cost to sell for CGUs held for sale, as explained below.

	2019 £m	2018 £m
UK Distribution	33.5	90.9
UK Exteriors	68.2	68.2
Building Solutions	-	11.0
France Exteriors (Larivière)	35.1	72.1
France Distribution (LITT)	5.2	5.6
Germany (WeGo/VTi)	2.4	2.9
Poland	1.2	1.2
Air Handling	-	27.8
Benelux	13.4	14.2
Total goodwill	159.0	293.9

Impairment review process

The Group tests goodwill and the associated intangible assets and property, plant and equipment of CGUs annually for impairment, or more frequently if there are indications that an impairment may be required.

The Air Handling and Building Solutions CGUs are classified as held for sale at 31 December 2019. The carrying value of these CGUs is fully supported by the fair value less costs to sell based on agreed sales proceeds. The fair value measurement for both CGUs is categorised within level 1 of the fair value hierarchy as it is based on agreed enterprise value for the businesses as included in the sale and purchase agreements.

The recoverable amounts of the other CGUs are determined from value in use calculations. The key assumptions for these calculations are those regarding discount rates, sales growth, gross margin and operating profit growth rates. These assumptions have been revised in the year in light of the current economic environment. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC), with adjustments made to factor in the amount and timing of future tax flows in order to reflect a pre-tax discount rate. In respect of the other assumptions, external data and management's best estimates are applied as described below. The 2019 impairment review is carried out before considering the impact of the COVID-19 pandemic on the forecast results as this is a non-adjusting post balance sheet event.

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For all the CGUs where the recoverable amount is determined from value in use, the Group performs impairment reviews by forecasting cash flows based upon the following year's budget, which anticipates sales growth based on management's best estimates and external data (construction PMI data and construction market growth forecasts), and gross margin assumptions based on management's best estimates and previous experience, and a projection of sales and cash flows based upon country specific inflation expectations (0%-3.4%) over a further period of four years. For four of the major CGUs, more detailed three to five-year forecasts have been prepared, including higher growth rates or varied results reflecting specific economic factors, and these are used in preparing cash flow forecasts for impairment review purposes. The forecasts used in the annual impairment reviews have been prepared taking into account current economic conditions before the impact of COVID-19. After this period, the long term country specific inflation rate is applied to the cash flow forecasts in perpetuity.

The key assumptions used for each CGU are shown in the table below.

2019 impairment review results

In the prior year, a goodwill impairment charge of £1.0m was recognised in relation to the wind down of the Metecho businesses and £5.0m was recognised in relation to the post year end disposal of the GRM and IBSL businesses.

The results of the 2019 impairment review indicated that the carrying value of goodwill associated with the UK Distribution and France Exteriors (Larivière) CGUs was no longer supportable. Challenging market conditions and an ongoing deterioration during the year in the level of construction activity in key markets in the UK and continued review of the forecasts for the Larivière business compared to actual results has led to the lowering of expectations in the future sales and profitability of these two CGUs. As a result, a goodwill impairment charge of £57.4m in UK Distribution and £32.2m in France Exteriors (Larivière) has been recognised. Both CGUs are reportable segments as disclosed in Note 1, and the charge has been included within Other items in the Consolidated income statement. The recoverable amount of the UK Distribution CGUs is £161.7m and France Exteriors (Larivière) is £104.5m, both based on value in use calculations. An impairment charge of £0.7m has also been recognised in relation to the Maury business, part of the Larivière CGU, based on fair value less cost to sell, as the business is in the process of being sold or closed. The charge is included within 'Profits and loss on the agreed sale or closure of non-core businesses and associated impairment charges' within Other items in the Consolidated income statement. The goodwill has been impaired in full as no value is expected to be obtained for this (categorised within Level 3 of the fair value hierarchy). The carrying value of all other CGUs remains supportable.

Sensitivity analysis

A number of sensitivities have been performed on the Group's CGUs to highlight the changes in market conditions that would lead to the value in use equalling the carrying value. The table below sets out the amount that each assumption would have to change by, all other assumptions remaining the same, for the carrying value of goodwill, intangible assets and property, plant and equipment to equal recoverable amount for each CGU. In the prior year the disclosure included the information for only the more significant and/or sensitive CGUs. UK Distribution and France Exteriors (Larivière) have been impaired to recoverable amount based on the assumptions applied, therefore any change in a key assumption would cause further impairment of the carrying value of goodwill for these two CGUs. Separate analysis is provided below of the key assumptions applied in the calculation of recoverable amount and the additional impairment that could arise from a reasonably possible change in assumption.

2019

	Headroom*	Like-for-like market volume growth (%)		Pre-tax discount rate (%)		Gross margin (%)		Long-term operating profit growth rate (average % per annum)	
		Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount
UK Exteriors	£20.4m	(0.1)	(2.4)	9.9	1.4	29.3	(0.6)	2.0	(3.4)
France Distribution (LIT)	£92.8m	0.1	(19.9)	9.9	41.2	28.0	(4.7)	1.7	(180.3)
Germany (WeGo/VTi)	£10.5m	0.5	(1.2)	10.0	1.3	27.4	(0.3)	2.1	(1.5)
Poland	£22.4m	0.7	(8.0)	10.2	10.3	20.3	(1.3)	2.7	(30.8)
Benelux	£26.7m	0.6	(11.1)	10.5	21.1	24.8	(2.2)	1.9	(8.5)

* compared to carrying value of goodwill, intangible assets and property, plant and equipment

2018

		Like-for-like market volume (average % per annum)		Pre tax discount rate (%)		Gross margin (%)		Long-term operating profit growth rate (average % per annum)	
	Headroom*	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount	Assumption used in value in use calculation	Change required for carrying value to equal recoverable amount
UK Distribution	£175.8m	2.0	(11.7)	11.4	11.5	25.1	(2.4)	2.0	(18.3)
UK Exteriors	£48.5m	(0.2)	(5.9)	11.5	4.4	29.6	(1.5)	2.0	(5.3)
Building Solutions	£26.2m	14.5	(15.0)	11.4	10.4	28.7	(3.6)	2.0	(15.8)
France Exteriors (Larivière)	£33.5m	1.7	(4.1)	10.6	2.6	24.9	(0.8)	1.9	(2.7)
Germany (WeGo/ VTi)	£38.9m	2.7	(3.2)	10.5	7.6	28.0	(0.8)	2.0	(7.8)

* compared to carrying value of goodwill, intangible assets and property, plant and equipment

Of the above sensitivities, management considers the % changes in revenue growth and gross margin to be reasonably possible for the UK Exteriors and Germany (WeGo/VTi) CGUs, which would lead to an impairment of goodwill of £20.4m for UK Exteriors and £2.9m for Germany. The other % changes in assumptions shown above are not considered to be reasonably possible scenarios (prior to the impact of COVID-19), but this additional voluntary information over and above that required by IAS36 has been included in order to provide a full picture of the level of headroom and sensitivity to changes in assumptions for each CGU.

The above assumption for sales growth relates to the forecasts for 2020. For UK Exteriors and Germany (WeGo/VTi) CGUs the detailed forecasts for 2021 and 2022 include further sales growth, with other assumptions remaining consistent with the above. For UK Exteriors the forecasts include further revenue growth from 2020 of 6.2% in 2021 and 6.3% in 2022. If the sales growth in 2021 is reduced to 4.4% this would cause the recoverable amount of the CGU to equal carrying value. For Germany (WeGo/VTi) revenue growth of 3.3% and 6.8% is included for 2021 and 2022. If the revenue growth in 2021 is only 2.3%, this would cause the recoverable amount of the CGU to equal carrying amount. These changes in revenue growth assumptions are considered to be reasonably possible scenarios.

UK Distribution and France Exteriors (Larivière)

The table below sets out the key assumptions used in the value in use calculation and the additional impairment that could arise from a reasonably possible change in each of the key assumptions:

2019

	UK Distribution			France Exteriors (Larivière)		
	Assumption used in value in use calculation (%)	Reasonably possible change in assumption (%)	Additional impairment caused by reasonably possible change (%)	Assumption used in value in use calculation (%)	Reasonably possible change in assumption (%)	Additional impairment caused by reasonably possible change (%)
Like-for-like market volume growth	(12.6)	(2.0)	20.7	3.3	(2.0)	12.8
Pre tax discount rate	10.9	1.0	17.1	11.0	1.0	12.9
Gross margin	22.7	(0.3)	14.3	23.4	(0.3)	8.2
Long-term operating profit growth rate (average % per annum)	2.0	(0.2)	2.6	1.7	(0.2)	2.0

The above assumption for sales growth relates to the forecasts for 2020. For UK Distribution the forecasts include further revenue growth of 16.8% in 2021 and 14.4% in 2022 following a year of a reduced revenue base in 2020. If sales growth of only 12.9% is achieved from budget 2020 to 2021 this would cause the remaining value of goodwill of £33.5m to be fully impaired. For France Exteriors (Larivière), the forecast revenue growth included is 1.2% for 2021 and 1.5% for 2022. If no revenue growth is included for 2021 this would result in additional impairment of £16.4m. These are considered reasonably possible scenarios.

The Group continues to monitor the potential impact of Brexit. The major areas of potential exposure are considered to be declining market conditions and heightened border restrictions which may disrupt the supply of goods for the UK and Ireland businesses. Sensitivities in relation to sales growth assumptions are covered in the information above.

Subsequent to the year end the UK and global economy has been impacted significantly by the onset of the COVID-19 pandemic. This will have an impact on the actual financial results of the Group for 2020, in particular in the UK and Ireland where government restrictions resulted in the temporary closure of the majority of trading sites during April and May, and with reduced trading in certain other CGUs. The impact on forecast results has not been reflected in the assessment above and further impairments may arise as a result of this.

The Board has actively reviewed the forecasts associated with the CGUs noting the assumptions used, the sensitivity analysis performed and the ability of the businesses to adapt to challenging economic environments in which they operate, and is satisfied that no further impairments are necessary at 31 December 2019.

Notes to the Financial Statements

14 Intangible assets

The intangible assets presented below relate to acquired intangibles that arise as a result of applying IFRS 3 "Business Combinations" (which requires the separate recognition of acquired intangibles from goodwill) and computer software which is recognised separately from associated hardware.

	Customer relationships £m	Non-compete clauses £m	Computer software £m	Total £m
Cost				
At 1 January 2018	242.3	12.1	53.6	308.0
Additions	–	–	5.3	5.3
Disposals	(13.0)	(0.4)	(0.7)	(14.1)
Transfers	–	–	0.5	0.5
Exchange differences	(1.2)	–	–	(1.2)
At 31 December 2018	228.1	11.7	58.7	298.5
Additions	–	–	17.5	17.5
Disposals	(0.1)	–	(0.2)	(0.3)
Reclassifications	–	–	(3.7)	(3.7)
Exchange differences	–	–	(1.1)	(1.1)
Assets transferred to held for sale (Note 11)	(38.9)	–	(4.7)	(43.6)
At 31 December 2019	189.1	11.7	66.5	267.3
Amortisation				
At 1 January 2018	201.1	12.1	37.8	251.0
Charge for the year	8.9	–	4.4	13.3
Impairment charges	–	–	1.1	1.1
Disposals	(10.5)	(0.4)	(0.3)	(11.2)
Reclassifications	–	–	(0.5)	(0.5)
Exchange differences	(1.2)	–	(0.2)	(1.4)
At 31 December 2018	198.3	11.7	42.3	252.3
Charge for the year	8.1	–	4.5	12.6
Impairment charges	0.4	–	0.3	0.7
Disposals	–	–	(0.1)	(0.1)
Reclassifications	–	–	(4.9)	(4.9)
Exchange differences	0.3	–	(0.8)	(0.5)
Assets transferred to held for sale (Note 11)	(31.9)	–	(3.2)	(35.1)
At 31 December 2019	175.2	11.7	38.1	225.0
Net book value				
At 31 December 2019	13.9	–	28.4	42.3
At 31 December 2018	29.8	–	16.4	46.2

Amortisation of acquired intangibles is included in the Consolidated Income Statement as part of operating expenses and is classified within Other items.

The weighted average amortisation period for each category of intangible asset is disclosed in the Statement of Significant Accounting Policies on page 150.

Included within computer software additions are assets in the course of construction of £11.1m (2018: £nil).

The impairment charge in relation to customer relationships in 2019 relates to the impairment of intangible assets associated with the Maury business which is classified as non-core and is included within 'Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges' within Other items (see Note 11). The impairment of computer software relates to the SK Sales business which has been sold as part of the Air Handling business and is included in 'Impairment charges' within Other items. The computer software impairment charge in the prior year was in relation to the TM1 data warehouse which is no longer being used due to the IT digital change strategy and in relation to reduced utilisation of the UK ERP following some business disposals.

15 Acquisitions

The Group has not made any business acquisitions during 2019 or 2018.

During 2018 £17.2m was paid as settlement of amounts payable for previous purchases of businesses. This included the £17.0m deferred consideration at 31 December 2017 and £0.2m exchange movements on this during the year. £6.0m of this is included as an operating cashflow in 2018 as it related to consideration dependent on vendors remaining within the business, as noted in the Statement of Significant Accounting Policies.

On 12 April 2018 the Group acquired the non-controlling interest of the Bulgaria Air Handling business for total consideration of £6.2m, comprising £2.5m cash, £2.9m in relation to property transferred as part of the transaction and £0.9m contingent on the results of the business for the period to 31 December 2018. £0.9m was included within deferred consideration at 31 December 2018 as the performance criteria have been met. This was paid during 2019 and included as a financing cash flow in the Consolidated Cash Flow Statement.

Consideration dependent on vendors remaining within the business

Amounts which may be paid to the vendors of recent acquisitions who are employed by the Group and are contingent upon the vendors remaining within the business are, as required by IFRS 3, treated as remuneration and charged to the Consolidated Income Statement as earned. There were no such amounts paid during 2019 and no amounts outstanding at 31 December 2019.

	2019 £m	2018 £m
At 1 January	-	-
New amounts accrued	-	0.9
Interest accrued	-	-
Amounts paid	-	-
Accruals released	-	-
Transferred to deferred consideration	-	(0.8)
Exchange differences	-	(0.1)
At 31 December	-	-

16 Inventories

	2019 £m	2018 £m
Raw materials and consumables	-	3.2
Work in progress	0.3	0.7
Finished goods and goods for resale	156.2	203.3
At 31 December	156.5	207.2

The estimated replacement cost of inventories is not materially different from the balance sheet value stated above.

Notes to the Financial Statements

17 Trade and other receivables

	2019 £m	2019 £m
Trade receivables	226.4	384.3
VAT	6.8	9.3
Other receivables	4.4	9.2
Prepayments and accrued income	57.1	74.9
Trade and other receivables	294.7	477.7
Contract assets	–	1.8
Lease receivables	0.8	–
Current tax assets	0.9	5.5
Assets classified as held for sale (Note 11)	258.4	1.9
Total receivables	554.8	486.9

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on made-to-order products.

Included within prepayments and accrued income is £42.4m (2018: £59.3m) due in relation to supplier rebates where there is no right to offset against trade payable balances. The remainder of the balance relates to prepayments.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The average credit period on sale of goods and services for underlying operations on a constant currency basis is 42 days (2018: 44 days).

Trade receivables are stated net of allowance for estimated credit losses and provisions for sales credit notes and customer rebates. An allowance has been made for estimated credit losses from trade receivables and contract assets of £19.5m at 31 December 2019 (2018: £31.4m). The allowance for credit losses has reduced during the year in line with significantly reduced trade receivables.

Movement in the allowance for expected credit losses

	2019 £m	2018 £m
At 1 January	(31.4)	(41.1)
Utilised	8.9	15.6
Unused amounts released to the Consolidated Income Statement	8.3	9.4
Classified as held for sale (Note 11)	4.0	–
Charged to the Consolidated Income Statement	(10.5)	(14.6)
Exchange differences	1.2	(0.7)
At 31 December	(19.5)	(31.4)

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The expected loss rates have been assessed by each operating segment and are based on the payment profiles of sales over a period prior to 31 December 2019, the availability of credit insurance and the historical credit losses experiences within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables and any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and makes a provision for impairment accordingly. In calculating expected credit losses, a loss is either a debt written off or overdue by more than 12 to 24 months depending on the business and/or expected likelihood of recovery. Debts are generally written off following official notice of insolvency, conclusion of legal proceedings or when there is no reasonable expectation of recovery.

The concentration of credit risk is limited due to the customer base being large and unrelated. The Directors therefore believe that no further credit provision is required in excess of the allowance for doubtful debts.

31 December 2019

	Days past due				Total £m
	< 30 days £m	30-60 days £m	61-90 days £m	> 91 days £m	
Expected credit loss rate	0.7%	10.6%	10.0%	51.0%	
Total gross carrying amount	214.6	16.0	4.0	31.0	265.6
Expected credit loss	1.6	1.7	0.4	15.8	19.5

The 2018 expected credit loss was as follows:

31 December 2018

	Days past due				Total £m
	< 30 days £m	30-60 days £m	61-90 days £m	> 91 days £m	
Allowance as a percentage of gross carrying amount	0.4%	2.0%	3.8%	51.9%	
Total gross carrying amount	271.4	65.7	26.5	53.9	417.5
Allowance for bad debt	1.1	1.3	1.0	28.0	31.4

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Included within trade receivables is a managed pool of customer balances of £34.5m (2018: £48.0m) pledged as security in relation to the asset backed funding arrangement implemented in relation to the UK defined benefit pension plan. See Note 30(c) for further details.

Transfer of trade receivables

The Group sold without recourse trade receivables to banks and other financial institutions for cash proceeds. These trade receivables of £35.0m (2018: £49.7m) have been derecognised from the Consolidated Balance Sheet, because the Group has transferred the risks and rewards.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade receivable credit exposure is controlled by counterparty limits that are set, reviewed and approved by operational management on a regular basis.

Trade receivables consist of a large number of typically small to medium sized customers, spread across a number of different market sectors and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and to determine whether the credit risk has increased since initial recognition. Where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single customer.

18 Current liabilities

	2019 £m	2018 £m
Trade payables	239.3	308.1
VAT	11.8	20.1
Social security and payroll taxes	18.0	27.1
Accruals and other payables	58.3	73.0
Trade and other payables	327.4	428.3
Contract liabilities	–	1.6
Lease liabilities (Note 25)	51.5	3.2
Bank overdrafts	–	4.5
Bank loans	99.6	56.5
Private placement notes (Note 19)	175.5	–
Loan notes and deferred consideration	–	0.9
Other financial liabilities	1.5	1.1
Derivative financial instruments	0.2	0.3
Current tax liabilities	3.7	4.9
Provisions (Note 23)	6.7	11.0
Liabilities directly associated with assets classified as held for sale (Note 11)	115.7	–
Current liabilities	781.8	512.3

The contract liabilities in the prior year primarily related to the advance consideration received from customers for construction of air handling units, for which revenue is recognised over time. This revenue has been recognised in 2019 within the results from discontinued operations.

Trade payables is presented net of £38.0m (2018: £52.8m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement.

Notes to the Financial Statements

£nil (2018: £nil) of the above bank loans and overdrafts are secured on the assets of subsidiary undertakings, all of the lease liabilities (2018: all of the above finance lease contracts) are secured on the underlying assets and the remaining balances are unsecured. All of the above private placement notes, derivative financial instruments, and £99.6m (2018: £56.5m) of the bank loans are guaranteed by certain companies of the Group.

The bank overdrafts are repayable on demand and attract floating rates of interest. There were no overdraft balances attracting interest at 31 December 2019.

£69.6m (2018: £27.6m) of the bank loans (after taking into account derivative financial instruments) are at variable rates of interest.

£30.0m (2018: £28.9m) of the bank loans and deferred consideration due within one year (after taking into account derivative financial instruments) attract an average fixed interest rate of 1.58% (2018: 3.0%).

The private placement notes have been reclassified as a current liability at 31 December 2019. See Note 19.

Trade payables, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases for underlying operations on a constant currency basis is 56 days (2018: 47 days).

The Directors consider that the carrying amount of current liabilities approximates to their fair value.

19 Non-current liabilities

	2019 £m	2018 £m
Lease liabilities (Note 25):		
– due after one and within two years	48.3	2.7
– due after two and within five years	94.1	4.4
– due after five years	81.7	13.1
Private placement notes	–	185.6
Derivative financial instruments	1.9	3.8
Other financial liabilities	1.4	–
Deferred tax liabilities (Note 24)	–	1.4
Other payables	1.0	5.6
Retirement benefit obligations (Note 30c)	24.8	28.7
Provisions (Note 23)	18.6	20.4
Non-current liabilities	271.8	265.7

All of the above private placement notes and derivative financial instruments are guaranteed by certain companies of the Group.

Details of the contractual repayment profile of the private placement notes (before applying associated derivative financial instruments and prepaid arrangement fees) are shown below. At 31 December 2019, the private placement notes have been reclassified as a current liability on the balance sheet because the covenant test of consolidated net worth at 31 December 2019 is below the threshold of £400m (see Note 33h). From an accounting perspective at the balance sheet date the Company did not have an unconditional right to defer settlement of the liability for at least 12 months. Therefore, as required by IAS 1 "Presentation of financial statements", the entire private placement notes balance is presented as a current liability at 31 December 2019. Under the terms of the private placement note agreement no event of default arose and testing of the covenant at 31 December has been waived and thus the notes did become repayable or capable of being declared immediately due and payable, hence as at 31 December 2019 the only contractual requirement to repay the debt in the next twelve months is the scheduled loan repayment in October 2020.

	2019		2018	
	£m	Fixed interest rate %	£m	Fixed interest rate %
Repayable in 2020	25.4	3.7	26.9	3.7
Repayable in 2021	16.9	3.9	18.0	3.9
Repayable in 2023	42.3	4.2	44.9	4.2
Repayable in 2026	91.2	3.3	96.2	3.3
Total	175.8	3.6	186.0	3.6

£22.6m (2018: £23.5m) of private placement debt repayable in 2026 that was denominated in US Dollar was swapped into Sterling through the use of cross-currency swaps. The remainder of the private placement debt at 31 December 2019 is denominated in Euros. The private placement debt in the table above is valued before application of the cross-currency swaps associated with the US Dollar denominated debt.

The Directors consider that the carrying amount of non-current liabilities approximates to their fair value, with the exception of the private placements notes, the fair value of which is disclosed in Note 20 on page 186.

20 Financial assets and financial liabilities

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, deferred consideration and cash and cash equivalents that derive directly from its operations.

The Group is exposed to credit risk, liquidity risk, interest rate and foreign currency risk. The Group Board oversees the management of these risks. The Board manages the risks through implementation of the Group Treasury Policy, supported by the Group Tax and Treasury Committee, which monitors and reviews the activities of the Group Treasury Function to ensure they are performed in accordance with the policy and reports to the Group Board on a regular basis. The "Treasury risk management" section of the Financial Review on pages 37 and 39 includes a review of all treasury, liquidity, interest rate and foreign currency risks, and provides an explanation of the role that derivative financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The capital structure of the Group is outlined in the Financial Review on page 37. Credit risk is discussed further in Note 17.

a) Financial assets

The Group holds the following financial assets:

	Note	2019 £m	2018 £m
Financial assets at amortised cost			
- Trade receivables	17	226.4	384.3
- Deferred consideration		-	1.5
- Cash at bank and on hand		110.0	83.3
Derivative financial instruments designated as hedging instruments	20c	1.9	1.9
Derivative financial instruments not designated as hedging instruments		0.7	-
Total		339.0	471.0

Included within cash at bank and on hand is cash restricted for use of £0.8m (2018: £4.1m) relating to cash received from customers in relation to trade receivable balances derecognised under factoring arrangements and which is therefore owed to the factor. Also included in the above cash balance in 2019 is £8.1m (2018: £nil) relating to cash held and restricted for use in relation to the asset backed funding arrangement in connection with the UK defined benefit pension scheme. The interest received on cash deposits is at variable rates of interest of up to 1.5% (2018: 1.5%).

The Directors consider that the fair values of cash at bank and on hand, trade receivables and deferred consideration approximate their carrying value, largely due to the short-term maturities of these instruments. The fair value is not significantly different to the carrying amount. All of the deferred consideration in 2018 related to vendor loan notes in connection with the sale of the Turkish Air Handling business in 2017. This has been classified separately in 2019 within assets held for sale.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Information about the Group's exposure to credit risk in relation to trade receivables is given in Note 17.

Of the above cash at bank on hand, £14.5m (2018: £20.1m) is denominated in Sterling, £76.9m (2018: £41.2m) in Euros, £17.2m (2018: £18m) in Polish Zloty, and £1.4m (2018: £4.0m) in other currencies.

b) Financial liabilities

The Group holds the following financial liabilities:

	Note	2019 £m	2018 £m
Financial liabilities at amortised cost			
- Trade and other payables*	18	297.6	381.1
- Borrowings		278.0	247.8
- Loan notes and deferred consideration		-	0.9
- Lease liabilities		275.6	23.4
Derivative financial instruments designated as hedging instruments	20c	2.1	4.1
Derivative financial instruments not designated as hedging instruments		-	-
Total		853.3	657.3

* Excluding non-financial liabilities

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The directors consider that the fair values of trade and other payables and loan notes and deferred consideration approximate their carrying value due to their short-term nature. The fair value of borrowings is considered below.

2019 interest rate and currency profile

The interest rate and currency profile of the Group's financial liabilities at 31 December 2019, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £2.6m as noted above) but excluding prepayment of arrangement fees of £0.7m was as follows:

	Currency	Total £m	Floating rate £m	Fixed rate £m	Effective fixed interest rate %	Weighted average time for which rate is fixed Years	Amount secured £m	Amount unsecured £m
Private placement notes	Sterling	20.9	–	20.9	4.2	6.6	0	20.9
Other borrowings	Sterling	101.2	70.0	31.2	1.6	0.6	0	101.2
Lease contracts	Sterling	136.8	–	136.8	0 – 6.2	0.1 – 89.8	136.8	0.0
Private placement notes	Euro	153.2	–	153.2	3.5	4.4	0.0	153.2
Other borrowings	Euro	2.8	1.0	1.8	2.8	3.0	2.8	0.0
Lease contracts	Euro	128.2	–	128.2	1.7 – 7.3	0.08 – 15.8	128.2	0.0
Other borrowings	Polish Zloty	0.1	0.1	–	n/a	n/a	0.1	0.0
Lease contracts	Polish Zloty	9.0	2.6	6.4	3.2 – 8.3	0.2 – 76.6	9.0	0.0
Lease contracts	Other	1.4	–	1.4	3.9	6.0	1.4	0.0
Total		553.6	73.7	479.9			278.3	275.3

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2019 which alter the currency profile of the Group's financial liabilities. These amount to an asset of £20.9m and a liability of €26.6m. These derivatives also further reduce the fixed interest payable of the Sterling private placement notes from 4.2% to 2.9%. The fair value of these derivatives was a net liability of £1.9m which is included in the Sterling value of other borrowings in the table above. The Group's net debt at 31 December 2019 was £455.4m (including IFRS16 adjustments) and, after taking account of these cross-currency derivatives, the Group had net Euro financial liabilities of £229.7m.

All of the above lease contracts are secured on the underlying assets.

The Directors consider the fair value of the Group's floating rate financial liabilities to materially approximate to the book value shown in the table above. The fair value of the Group's private placement notes at 31 December 2019 is estimated to be £200.2m (2018: £217.3m) and is classified as a Level 2 fair value measurement for disclosure purposes. The remaining fixed rate debt amounts to £305.7m (2018: £57.4m) and relates to finance lease contracts, fixed rate loans (after applying derivative financial instruments) and deferred consideration. The Directors consider the fair value of these remaining fixed rate debts to materially approximate to the book values shown above.

2018 interest rate and currency profile

The interest rate and currency profile of the Group's financial liabilities at 31 December 2018, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £1.9m as noted above), was as follows:

	Currency	Total £m	Floating rate £m	Fixed rate £m	Effective fixed interest rate %	Weighted average time for which rate is fixed Years	Amount secured £m	Amount unsecured £m
Private placement notes	Sterling	21.3	–	21.3	4.2	7.6	–	21.3
Other borrowings	Sterling	61.0	28.0	33.0	3.0	2.2	–	61.0
Finance lease contracts	Sterling	13.3	–	13.3	3.5	23.2	0.1	13.2
Private placement notes	Euro	162.5	–	162.5	3.5	5.4	–	162.5
Other borrowings	Euro	5.8	4.9	0.9	–	0.3	0.9	4.9
Finance lease contracts	Euro	8.2	–	8.2	4.4	6.1	8.2	–
Other borrowings	Polish Zloty	0.2	0.2	–	–	–	0.2	–
Finance lease contracts	Polish Zloty	2.0	–	2.0	3.8	4.5	2.0	–
Total		274.3	33.1	241.2			11.4	262.9

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2018 which altered the currency profile of the Group's financial liabilities. These amounted to an asset of £20.9m and a liability of €26.6m. The fair value of these derivatives was a liability of £3.5m which is included in the Sterling value of other borrowings in the table above. The Group's net debt at 31 December 2018 was £189.4m and, after taking account of these cross-currency derivatives, the Group had net Euro financial liabilities of £159.1m.

In both 2019 and 2018, the interest rate on floating rate financial liabilities is based upon appropriate local market rates.

c) Hedging activities and derivatives

The Group is exposed to foreign currency and interest rate risks relating to its ongoing business operations. The Group's risk management strategy and how it is applied to manage risk is explained in the 'Management of treasury risks' section of the Financial review.

In order to manage the Group's exposure to exchange rate and interest rate changes, the Group utilises both currency and interest rate derivative financial instruments. The fair values of these derivative financial instruments are calculated by discounting the associated future cash flows to net present values using appropriate market rates prevailing at the balance sheet date.

The Group does not trade in derivative financial instruments for speculative purposes. Where derivatives meet the hedge accounting criteria under the rules of IFRS 9, movements in the fair values of these derivative financial instruments are recognised in the Consolidated Statement of Comprehensive Income. Where the criteria for hedge accounting are not met, movements are accounted for at fair value through profit or loss. Financial instruments are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The Group is required to analyse financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the financial instruments below are categorised as Level 2.

i) Net investment hedges

The Group has investments in Euro denominated subsidiaries. At 31 December 2019 the Group held €181m (2018: €181m) of direct Euro-denominated debt through its private placement debt. This borrowing is being used to hedge the Group's exposure to the Euro foreign exchange risk on investments in Euro denominated subsidiaries. Gains or losses on retranslation of the borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries.

As at 31 December 2019 the Group held two (31 December 2018: two) cross-currency derivative financial instruments which receive fixed £20.9m and pay fixed €26.6m. These derivative financial instruments were designated as hedging instruments as part of the net investment hedge of the Group's Euro-denominated net assets. Fair value changes on these derivatives are recognised in other comprehensive income (in the hedging and translation reserve) to offset any gains or losses on translation of the net investments in the subsidiaries.

There is an economic relationship between the hedged item and the hedging instruments as the net investment in Euro denominated assets creates a translation risk that will match the foreign exchange risk on the Euro denominated debt. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. Hedge ineffectiveness will arise when the amount of the investment in Euro denominated subsidiaries becomes lower than the amount of the cross currency derivative.

The impact of the hedging instruments on the statement of financial position is as follows:

	Notional amount	Carrying amount (Liability)	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
	€m	£m		£m
At 31 December 2019				
Cross-currency swap	26.6	1.9	Derivative financial instruments	1.6
Foreign currency denominated borrowing	181.0	153.2	Private placement notes	9.3
Foreign currency denominated borrowing	-	-	Bank loans	-
At 31 December 2018				
Cross-currency swap	26.6	3.5	Derivative financial instruments	0.8
Foreign currency denominated borrowing	181.0	162.5	Private placement notes	1.6
Foreign currency denominated borrowing	4.0	3.6	Bank loans	-

Notes to the Financial Statements

The impact of the hedged item on the statement of financial position is as follows:

	31 December 2019			31 December 2018		
	Change in fair value used for measuring ineffectiveness	Foreign currency translation reserve	Cost of hedging reserve	Change in fair value used for measuring ineffectiveness	Hedging and translation reserve	Cost of hedging reserve
	£m	£m	£m	£m	£m	£m
Net investment in foreign subsidiaries	10.9	8.7	0.2	2.4	2.0	–

The hedging gain recognised in OCI before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

	2019 £m	2018 £m
Hedge of the Group's Euro denominated assets		
Liability at 1 January	(3.5)	(2.7)
Fair value losses recognised in equity	1.6	(0.8)
Liability at 31 December	(1.9)	(3.5)

ii) Cash flow hedges

With regard to cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity and is subsequently removed and included in the Consolidated Income Statement within Finance costs in the same period that the hedged item affects the Consolidated Income Statement. The cash flow hedges described below are expected to impact upon both profit and loss and cash flow annually over the life of the hedging instrument and the related debt as interest falls due, and upon maturity of the debt and related hedging instrument.

Foreign currency risk

The Group faces a translation risk from the US Dollar on its private placement borrowings in respect of payments of interest and the principal amount. As at 31 December 2019, the Group held two (31 December 2018: two) cross-currency interest rate swaps which swap fixed US Dollar-denominated debt (and the associated interest) held in the UK into fixed Sterling-denominated debt. These derivative financial instruments form a cash flow hedge as they fix the functional currency cash flows of the Group. These derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2018, the weighted average maturity date of these swaps is 6.6 years (2018: 7.6 years).

	2019 £m	2018 £m
Hedge of the Group's functional currency cash flows		
Asset at 1 January	1.9	0.1
Fair value (losses)/gains recognised in equity	(0.2)	1.8
Cash settlement on maturity of cash flow hedges	–	–
Asset at 31 December	1.7	1.9

The cash flows associated with the cross-currency interest rate swaps are expected to occur every six months in line with the underlying interest payments on the loans which are recorded in the Consolidated Income Statement.

The Group also uses foreign exchange forward contracts to manage the exposures arising from cross currency transactions. At 31 December 2019 the Group held a number of short term forward contracts designated as hedging instruments in cash flow hedges of forecast purchases in Euros. The forecast transactions are highly probable. Foreign exchange forward contract balances vary with the level of expected foreign currency transactions and changes in foreign exchange forward rates.

Included within derivative financial instruments is £0.2m (2018: £nil) relating to forward foreign exchange contracts.

Interest rate risk

The Group has floating rate debt as part of the revolving credit facility which means interest rate costs will increase in the event of rising interest rates. As at 31 December 2019, the Group held one (31 December 2018: one) interest rate derivative financial instrument which swaps variable rate debt into fixed rate debt thereby fixing the functional currency cash flows of the Group. This interest rate derivative financial instrument is designated and effective as a cash flow hedge and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2019, the maturity date of this swap is 0.6 years (2018: 1.6 years).

	2019 £m	2018 £m
Hedge of the Group's interest cash flows		
Liability at 1 January	(0.3)	(0.8)
Fair value gains/(losses) recognised in equity	0.1	0.5
Liability at 31 December	(0.2)	(0.3)

For the cash flow hedges, there is an economic relationship between the hedged items and hedging instruments as the terms of the cross-currency and interest rate swaps match the terms of the debt (i.e. notional amount, maturity and payment dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the cross-currency swaps, interest rate swap and foreign exchange forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in fair value of the hedging instruments against the changes in fair value of the hedged items.

Hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments; the counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedge items; and changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The Group is holding the following cross-currency swaps, interest rate swaps and foreign exchange forward contracts:

	Notional amount \$m	Notional amount €m	Notional Amount £m	Maturity	Average hedged rate	Average forward rate
At 31 December 2019						
Cross-currency swaps	30.0	n/a	20.9	2026	4.17%	1.436
Interest rate swaps	n/a	n/a	30.0	2020	1.58%	n/a
Foreign exchange forward contracts	n/a	30.5	25.7	2020	n/a	1.186
At 31 December 2018						
Cross-currency swaps	30.0	n/a	(20.9)	2026	n/a	1.435
Interest rate swaps	n/a	n/a	(30.0)	2020	1.58%	n/a
Foreign exchange forward contracts	n/a	111.0	(106.4)	2019	n/a	1.043

The impact of the hedging instruments on the statement of financial position is as follows:

	Carrying amount £m	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period £m
At 31 December 2019			
Cross-currency swaps	1.7	Derivative financial instruments	(0.1)
Interest rate swap	(0.2)	Derivative financial instruments	0.1
Foreign exchange forward contracts	0.2	Derivative financial instruments	0.4
At 31 December 2018			
Cross-currency swap	1.9	Derivative financial instruments	1.8
Interest rate swap	(0.3)	Derivative financial instruments	0.5
Foreign exchange forward contracts	(0.2)	Derivative financial instruments	(0.3)

The impact of the hedged item on the statement of financial position is as follows:

	31 December 2019			31 December 2018		
	Change in fair value used for measuring ineffectiveness £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Change in fair value used for measuring ineffectiveness £m	Hedging and translation reserve £m	Cost of hedging reserve £m
Cross-currency swaps	(0.1)	0.8	(0.9)	1.8	1.7	0.1
Interest rate swap	0.1	0.1	–	0.5	0.5	–
Foreign exchange forward contracts	0.4	0.4	–	(0.3)	(0.3)	–

The effect of the cash flow hedges in the statement of profit or loss and other comprehensive income is as follows:

Notes to the Financial Statements

	Total hedging gain/(loss) recognised in OCI €m	Ineffective- ness recognised in profit or loss €m	Line item in the statement of profit or loss	Amount reclassified from OCI to profit or loss €m	Line item in the statement of profit or loss €m
At 31 December 2019					
Cross-currency swaps	(0.1)	-	Finance costs	-	Operating expenses
Interest rate swap	0.1	-	Finance costs	-	Finance costs
Foreign exchange forward contracts	0.4	-	Finance costs	-	Operating expenses
At 31 December 2018					
Cross-currency swap	-	-	Finance costs	1.3	Operating expenses
Interest rate swap	-	-	Finance costs	-	Finance costs
Foreign exchange forward contracts	-	-	Finance costs	-	Operating expenses

Derivatives not designated as hedging instruments

The Group also uses some foreign exchange forward contracts which are not designated as cash flow hedges to manage some of its transaction exposures and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally within one month. As at the year end there were two (2018: zero) such items with a total carrying amount of £0.7m (2018: £nil). This primarily related to an option to pay Euros at a fixed rate to coincide with the receipt of the proceeds from the Air Handling sale.

iii) Impact of hedging on equity

Set below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Retained (losses)/profits		Cash flow hedging reserve		Foreign currency translation reserve		Cost of hedging reserve	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
At 1 January	(68.9)	(59.5)	-	-	21.7	19.6	1.0	0.9
Transfer to cash flow hedging reserve*	(1.3)	-	1.3	-	-	-	-	-
Effective portion of changes in fair value arising from:								
Net Investment Swaps	-	-	-	-	1.4	-	0.2	-
Cross-currency swaps	-	1.7	0.8	-	-	-	(0.9)	0.1
Interest rate swaps	-	0.5	0.1	-	-	-	-	-
Foreign exchange forward contracts	-	(0.3)	0.4	-	-	-	-	-
Amount reclassified to profit or loss	-	-	0.9	-	-	-	-	-
Foreign currency revaluation of foreign currency denominated borrowing	-	-	-	-	9.3	1.8	-	-
Foreign currency revaluation of net foreign operations	-	-	-	-	(23.5)	0.7	-	-
Tax effect	-	-	-	-	(2.1)	(0.4)	-	-
Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations	-	-	-	-	(0.1)	-	-	-
Other movements not associated with hedging	(154.7)	(11.3)	-	-	-	-	-	-
At 31 December	(224.9)	(68.9)	3.5	-	6.7	21.7	0.3	1.0

* Amounts have been reclassified during the year to clarify the effects of hedging and separately identify the cash flow hedging reserve and foreign currency retranslation reserve. The cash flow hedging reserve and foreign currency translation reserve are included together as "Hedging and Translation Reserves" in the Consolidated Statement of Changes in Equity.

The following table reconciles the net losses on derivative financial instruments recognised directly in the Consolidated Income Statement, to the movements in derivative financial instruments noted above.

	2019 £m	2018 £m
Gains on derivative financial instruments recognised directly in the Consolidated Income Statement	0.7	1.1
Losses attributable to the hedged item recognised in the Consolidated Income Statement	–	(1.1)
Amounts reclassified from OCI to profit and loss on cash flow hedges	–	(1.3)
Hedge ineffectiveness credit recognised in the Consolidated Income Statement	–	–
Spreading charges associated with cancellation of cash flow hedges*	–	0.6
Total	0.7	(0.7)

* 2018: £0.3m of the £0.6m spreading charge has been recognised within Finance costs before other items.

21 Maturity of financial assets and liabilities

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities (inclusive of derivative financial assets) at 31 December 2019 was as follows:

	2019 £m	2018 Restated £m
In one year or less	327.4	66.4
In more than one year but not more than two years	48.8	29.6
In more than two years but not more than five years	95.0	67.2
In more than five years	81.9	111.0
Total	553.1	274.2

The table above is presented consistent with the balance sheet presentation and includes the private placement notes as a current liability rather than based on contractual maturity, as explained in Note 19. The table excludes trade payables of £235.6m (2018: £308.1m).

Borrowing facilities

The Group had undrawn committed borrowing facilities at 31 December 2019 as follows:

	2019 £m	2018 £m
Expiring in more than one years but not more than two years	133.3	–
Expiring in more than two years but not more than five years	–	293.5
Total	133.3	293.5

At 31 December 2019 the Group had £409.1m of committed facilities, of which £133.3m were undrawn as disclosed above, this has reduced from the prior year as a result of the Group reducing its Revolving Credit Facility (RCF) facility from £350m to £233.3m. Since 31 December 2019, a maximum of £160.0m has been drawn down against the £233.3m Revolving Credit Facility.

Contractual maturity analysis of the Group's financial liabilities, derivative financial instruments, other financial assets, deferred consideration and cash and cash equivalents

IFRS 7 requires disclosure of the maturity of the Group's remaining contractual financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the Group's financial assets and liabilities including interest that will accrue to those assets and liabilities except where the Group is entitled and intends to repay the liability before its maturity. Both the inclusion of future interest and the values disclosed being undiscounted results in the total position being different to that included in the Consolidated Balance Sheet. Given this is a maturity analysis all trade payables (including amongst other items payroll and sales tax accruals which are not classified as financial instruments) have been included.

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2019 Analysis

	Balance sheet value £m	Maturity analysis				Total £m
		< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	
Current liabilities						
Trade and other payables	297.6	297.6	–	–	–	297.6
Lease liabilities	51.5	62.4	–	–	–	62.4
Bank overdrafts	–	–	–	–	–	–
Bank loans	99.6	100.4	–	–	–	100.4
Private placement notes	175.5	31.8	22.4	54.9	97.1	206.2
Derivative financial instruments	0.2	0.2	–	–	–	0.2
Other financial liabilities	1.5	1.5	–	–	–	1.5
Loan notes and deferred consideration	–	–	–	–	–	–
Total	625.9	493.9	22.4	54.9	97.1	668.3
Non-current liabilities						
Lease liabilities	224.1	0.5	55.0	110.3	114.8	280.6
Private placement notes	–	–	–	–	–	–
Derivative financial instruments	1.9	(0.2)	(0.2)	(0.6)	1.2	0.2
Other Financial Liabilities	1.4	–	0.4	1.0	–	1.4
Total	227.4	0.3	55.2	110.7	116.0	282.2
Total liabilities	853.3	494.2	77.6	165.6	213.1	950.5
Other						
Derivative financial instrument assets	(2.6)	(1.4)	(0.2)	(0.6)	(2.1)	(4.3)
Cash and cash equivalents	(110.0)	(110.0)	–	–	–	(110.0)
Deferred consideration	–	–	–	–	–	–
Trade and other receivables	(294.7)	(294.7)	–	–	–	(294.7)
Total	(407.3)	(406.1)	(0.2)	(0.6)	(2.1)	(409.0)
Grand total	446.0	88.0	77.4	165.0	211.0	541.5

At 31 December 2019, the private placement notes have been reclassified in the balance sheet as a current liability as explained in Note 19. The contractual maturity profile is unaffected and details of the contractual repayment profile of the private placement notes are shown in Note 19. The table above reflects the contractual maturity for repayments of principal and interest.

The table above includes: cross-currency interest rate swaps in relation to derivative financial assets with a fair value at 31 December 2019 of £1.7m (2018: £1.8m) and derivative financial liabilities of £1.9m (2018: £3.5m) that will be settled gross, the final exchange on these derivatives will be a payment of €26.6m and receipt of \$30.0m in August 2026; and other derivative financial assets with a fair value at 31 December 2019 of £0.9m (2018: £0.6m) and derivative financial liabilities of £0.2m (2018: nil) that will be settled gross, the final exchange on these derivatives will be total receipts of €30.5m (2018: €111m), PLN 31m (2018: PLN 31m) and £62.3m (2018: £nil) and corresponding payments of £31.8m (2018: £106.4m) and €72.5m (2018: €nil).

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts available to offset through netting agreements £m	Net amount £m
As at 31 December 2019			
Derivative financial assets	2.6	(1.7)	0.9
Derivative financial liabilities	(2.1)	1.7	(0.4)
Total	0.5	–	0.5

2018 Analysis

	Balance sheet value £m	Maturity analysis				Total £m
		< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	
Current liabilities						
Trade and other payables	381.1	381.1	–	–	–	381.1
Obligations under finance lease contracts	3.2	3.3	–	–	–	3.3
Bank overdrafts	4.5	4.5	–	–	–	4.5
Bank loans	56.5	56.6	–	–	–	56.6
Derivative financial instruments	0.3	0.3	–	–	–	0.3
Other financial liabilities	1.1	1.1	–	–	–	1.1
Loan notes and deferred consideration	0.9	0.9	–	–	–	0.9
Total	447.6	447.8	–	–	–	447.8
Non-current liabilities						
Obligations under finance lease contracts	20.2	1.2	3.9	7.4	22.9	35.4
Private placement notes	185.6	3.5	30.4	70.8	100.2	204.9
Derivative financial instruments	3.8	0.1	(0.2)	(0.5)	2.4	1.8
Total	209.6	4.8	34.1	77.7	125.5	242.1
Total liabilities	657.2	452.6	34.1	77.7	125.5	689.9
Other						
Derivative financial instrument assets	(1.9)	(0.3)	(0.2)	(0.7)	(3.3)	(4.5)
Cash and cash equivalents	(83.3)	(83.3)	–	–	–	(83.3)
Deferred consideration	(1.5)	(0.7)	(0.3)	(0.5)	–	(1.5)
Trade and other receivables	(477.7)	(477.7)	–	–	–	(477.7)
Total	(564.4)	(562.0)	(0.5)	(1.2)	(3.3)	(567.0)
Grand total	92.8	(109.4)	33.6	76.5	122.2	122.9

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts available to offset through netting agreements £m	Net amount £m
As at 31 December 2018			
Derivative financial assets	1.9	(1.6)	0.3
Derivative financial liabilities	(4.1)	1.6	(2.5)
Total	(2.2)	–	(2.2)

Notes to the Financial Statements

22 Sensitivity Analysis

IFRS 7 requires the disclosure of a sensitivity analysis that details the effects on the Group's profit or loss and other equity of reasonably possible fluctuations in market rates.

This sensitivity analysis has been prepared to illustrate the effect of the following hypothetical variations in market rates on the fair value of the Group's financial assets and liabilities:

- i) a 1% (100 basis points) increase or decrease in market interest rates; and
- ii) a 10% strengthening or weakening of Sterling against all other currencies to which the Group is exposed.

a) Interest rate sensitivity

The Group is currently exposed to Sterling, Euro and US Dollar interest rates. The Group also has a minimal exposure to Polish Zloty interest rates.

In order to illustrate the Group's sensitivity to interest rate fluctuations, the following table details the Group's sensitivity to a 100 basis point change in each respective interest rate. The sensitivity analysis of the Group's exposure to interest rate risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

2019 analysis

	GBP		EUR		USD		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(1.1)	1.1 (i)	–	– (iii)	–	–	(1.1)	1.1
Other equity	0.1	– (ii)	1.7	(1.7) (iv)	(1.5)	1.6 (ii)	0.3	(0.1)
Total Shareholders' equity	(1.0)	1.1	1.7	(1.7)	(1.5)	1.6	(0.8)	1.0

2018 analysis

	GBP		EUR		USD		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(0.2)	0.2 (i)	(0.1)	0.1 (iii)	–	–	(0.3)	0.3
Other equity	0.5	(0.5) (ii)	1.9	(2.1) (iv)	(1.7)	1.8 (ii)	0.7	(0.8)
Total Shareholders' equity	0.3	(0.3)	1.8	(2.0)	(1.7)	1.8	0.4	(0.5)

The movements noted above are mainly attributable to:

- (i) floating rate Sterling debt and cash deposits
- (ii) mark-to-market valuation changes in the fair value of effective cash flow hedges
- (iii) floating rate Euro debt and Euro cash deposits
- (iv) changes in the value of the Group's Euro-denominated assets and liabilities

b) Foreign currency sensitivity

The Group is exposed to currency rate changes between Sterling and Euros, US Dollars and Polish Zloty.

The following table details the Group's sensitivity to a 10% change in Sterling against each respective foreign currency to which the Group is exposed, indicating the likely impact of changes in foreign exchange rates on the Group's financial position. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

2019 analysis

	EUR		USD		PLN		Total	
	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m
Assets and liabilities under the scope of IFRS 7								
Profit or loss	(0.7)	0.9 (i)	–	–	–	–	(0.7)	0.9
Other equity	0.1	(1.3) (ii)	–	– (ii)	(1.4)	1.8 (ii)	(1.3)	0.5
Total Shareholders' equity	(0.6)	(0.4)	–	–	(1.4)	1.8	(2.0)	1.4
Total assets and liabilities*								
Profit or loss	–	– (iii)	–	– (v)	–	– (vi)	–	–
Other equity	(6.0)	7.3 (iv)	(2.0)	2.5 (iv)	(3.5)	4.4 (iv)	(11.5)	14.2
Total Shareholders' equity	(6.0)	7.3	(2.0)	2.5	(3.5)	4.4	(11.5)	14.2

2018 analysis

	EUR		USD		PLN		Total	
	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m
Assets and liabilities under the scope of IFRS 7								
Profit or loss	0.6	(0.2) (i)	–	–	–	–	0.6	(0.2)
Other equity	3.4	(2.9) (ii)	–	(0.1) (ii)	3.4	(4.1) (ii)	6.8	(7.1)
Total Shareholders' equity	4.0	(3.1)	–	(0.1)	3.4	(4.1)	7.4	(7.3)
Total assets and liabilities*								
Profit or loss	(0.3)	0.2 (iii)	0.5	(1.7) (v)	(0.1)	0.1 (vi)	0.1	(1.4)
Other equity	(22.7)	29.8 (iv)	–	(0.1) (iv)	0.5	(0.6) (iv)	(22.2)	29.1
Total Shareholders' equity	(23.0)	30.0	0.5	(1.8)	0.4	(0.5)	(22.1)	27.7

* Certain assets and liabilities such as inventories, non-current assets and provisions do not come under the scope of IFRS 7. Therefore, in order to present a complete analysis of the Group's exposure to movements in foreign currency exchange rates, the exposure on the Group's total assets and liabilities has been disclosed.

The movements noted above are mainly attributable to:

- (i) retranslation of Euro interest flows
- (ii) mark-to-market valuation changes in the fair value of effective cash flow and net investment hedges and retranslation of assets and liabilities under the scope of IFRS 7
- (iii) retranslation of Euro profit streams and transaction exposure relating to purchases in Euros
- (iv) retranslation of foreign currency denominated assets and liabilities outside the scope of IFRS 7 and mark-to-market valuation changes in the fair value of effective cash flow and net investment hedges
- (v) transaction exposure relating to purchases in US dollars
- (vi) retranslation of Polish Zloty profit streams

Notes to the Financial Statements

23 Provisions for liabilities and charges

	Onerous leases £m	Leasehold dilapidations £m	Other amounts £m	Total £m
At 1 January 2019	6.4	20.9	4.1	31.4
Impact of adoption of IFRS 16	(3.9)	–	–	(3.9)
Adjusted balance at 1 January 2019	2.5	20.9	4.1	27.5
Unused amounts reversed in the period	–	–	(0.3)	(0.3)
Utilised	(3.7)	(1.9)	(1.8)	(7.4)
Reclassified	(0.3)	0.3	–	–
New provisions	3.9	3.1	0.9	7.9
Exchange differences	(0.1)	(0.1)	(0.2)	(0.4)
Provisions classified as held for sale (Note 11)	–	(0.5)	(1.5)	(2.0)
At 31 December 2019	2.3	21.8	1.2	25.3

	2019 £m	2018 £m
Included in current liabilities	6.7	11.0
Included in non-current liabilities	18.6	20.4
Total	25.3	31.4

Onerous leases

In the year ended 31 December 2018, the Group provided for the rental payments due over the remaining term of existing operating lease contracts where a period of vacancy is ongoing until 2029. The provision was calculated after taking into account both the periods over which the properties are likely to remain vacant and the likely income from existing and future sub-lease agreements on a contract-by-contract basis. The provision covered potential transfer of economic benefit over the full range of lease commitments disclosed in Note 30b. On adoption of IFRS 16 on 1 January 2019, the future rental payments due over the remaining term of existing lease contracts is included in the lease liability, with the right-of-use asset impaired to reflect the future cost not covered through sublease income. The remaining onerous lease provision relates to other non-rental costs due over the remaining lease term.

Leasehold dilapidations

This provision relates to contractual obligations to reinstate leasehold properties to their original state of repair. The provision is calculated based on both the liability to rectify or reinstate leasehold improvements and modifications carried out on the inception of the lease (recognised on inception with corresponding fixed asset) and the liability to rectify general wear and tear which is recognised as incurred over the life of the lease. The transfer of economic benefits will be made both at the end of the leases as set out in Note 25 and 30b (reinstatement) and during the lease term (wear and tear).

Other amounts

Other amounts relate principally to claims and warranty provisions. The transfer of economic benefit is expected to be made between one and four years' time.

24 Deferred tax

The net deferred tax asset at the end of the year is analysed as follows:

	2019 £m	2018 Restated £m
Deferred tax assets:		
- Continuing operations	4.4	14.6
- Disposal groups held for sale (Note 11)	3.0	-
Deferred tax liabilities:		
- Continuing operations	-	(1.4)
- Disposal groups held for sale (Note 11)	(1.0)	-
Net deferred tax asset	6.4	13.2

Summary of deferred tax

The different components of deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period are analysed below:

	Goodwill and intangibles £m	Property, plant and equipment £m	Short term timing differences £m	Retirement benefit obligations £m	Losses £m	Other £m	Total £m
At 1 January 2018	(8.7)	11.6	4.3	5.9	2.9	(3.7)	12.3
Credit/(charge) to income	2.6	(1.4)	(0.8)	(0.6)	0.4	0.8	1.0
Credit/(charge) to equity	-	-	-	0.1	-	(0.2)	(0.1)
Exchange differences	-	-	-	-	-	-	-
Change of rate charged to equity	-	-	-	-	-	-	-
At 31 December 2018	(6.1)	10.2	3.5	5.4	3.3	(3.1)	13.2
Impact of adoption of IFRS 16		-					-
Adjusted balance at 1 January 2019	(6.1)	10.2	3.5	5.4	3.3	(3.1)	13.2
Credit/(charge) to income	1.4	(5.3)	(1.4)	3.9	-	0.2	(1.2)
Credit/charge to equity	-	-	-	(6.6)	-	-	(6.6)
Exchange differences	-	-	(0.1)	(0.1)	(0.1)	0.2	(0.1)
Change of rate charged to equity	-	-	-	-	-	-	-
Attributable to discontinued operations	0.6	0.1	0.3	0.1	-	-	1.1
At 31 December 2019	(4.1)	5.0	2.3	2.7	3.2	(2.7)	6.4

The deferred tax charge within the Consolidated Income Statement for 2019 includes a charge of £1.0m (2018: credit £0.3m) arising from the change in domestic tax rates in the countries in which the Group operates.

Given current and forecast trading the Directors consider that recognition of the deferred tax assets above is appropriate.

The majority of the deferred tax asset associated with the retirement benefit obligations is in respect of the French and German defined benefit schemes. Payments against the deficit will be deductible for tax purposes on a paid basis and the Group expects to receive the tax benefit, therefore the associated deferred tax asset has been recognised.

Deferred tax has not been recognised on £87.7m of deductible temporary differences relating to property, plant and equipment; short term timing differences; UK retirement benefit obligations and tax losses being carried forward on the basis that the realisation of their future economic benefit is uncertain. The unrecognised potential deferred tax asset in relation to these items is £15.2m (2018: £1.7m).

At the balance sheet date, no deferred tax liability is recognised on temporary differences relating to undistributed profits of the overseas subsidiaries which aggregate to £204m (2018: £163m). The Group is in a position to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

At 31 December 2019, a net deferred tax asset of £1.7m in respect of property, plant and equipment was recognised in respect of the Building Solutions business. Since the business was to be sold after the balance sheet date and would no longer be part of the SIG Group, it was considered appropriate to recognise this asset on the basis that the business was able to provide evidence of suitable future taxable profits against which the asset would unwind.

Notes to the Financial Statements

25 Leases

The Group as a lessee

The Group has lease contracts for various properties, vehicles and other equipment used in its operations. Information on the nature and accounting for lease contracts, together with the impact on adoption of the new standard at 1 January 2019, is provided in the Statement of Accounting Policies.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Buildings £m	Vehicles £m	Equipment £m	Total £m
On adoption of IFRS 16 at 1 January 2019	272.9	38.2	1.7	312.8
Foreign currency movement	(10.3)	(1.0)	–	(11.3)
Additions	54.6	8.8	–	63.4
Disposals	(2.8)	(0.4)	–	(3.2)
Impairment	(1.5)	–	–	(1.5)
Depreciation expense	(48.5)	(12.0)	(0.5)	(61.0)
Classified as held for sale	(43.2)	(0.8)	–	(44.0)
At 31 December 2019	221.2	32.8	1.2	255.2

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2019 £m
On adoption of IFRS 16 at 1 January 2019	329.6
Foreign currency movement	(10.4)
Additions	63.4
Disposals	(3.1)
Accretion of interest	13.9
Payments	(72.5)
Classified as held for sale	(45.3)
At 31 December 2019 (Note 21)	275.6
Current	51.5
Non-current	224.1
	275.6

The following are the amounts recognised in profit or loss (from continuing operations):

	2019 £m
Depreciation expense of right-of-use assets	54.4
Interest expense on lease liabilities	12.0
Expense relating to short-term leases (included in operating expenses)	1.4
Impairment of right-of-use assets (included in other items)*	1.5
Total amount recognised in profit or loss	69.3

* £1.0m is included within 'Impairment charges' within Other items and £0.5m relating to the Maury business is included within 'Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges' within Other items.

The Group had total cash outflows for leases of £67.8m in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of £nil in 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 30b.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the lease-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised (as disclosed in the Statement of Significant Accounting policies on page 143).

Set out below are the undiscounted potential future rental payments relating to periods following the expiry date of extension and termination options that are not included in the lease term.

	Within five years £m	More than five years £m	Total £m
Extension options expected not to be exercised	23.6	0.1	23.7
Termination options expected to be exercised	9.1	0.3	9.4
	32.7	0.4	33.1

Prior to the transition of IFRS 16 the Group classified leases as either finance or operating leases. The amounts recognised in the prior year in relation to finance leases were as follows:

	Minimum lease payments 2018 £m	Present value of minimum lease payments 2018 £m
Amounts payable under finance lease contracts:		
- within one year	4.5	3.2
- after one year and within five years	11.2	7.1
- after five years	22.9	13.1
	38.6	23.4
Less: future finance charges	(15.2)	
Present value of lease obligations	23.4	

The Group leases certain motor vehicles, fixtures and equipment under finance lease contracts, which are denominated in Sterling, Euros and Polish Zloty. The Group also has two properties under leasing arrangements that are considered to meet the criteria for recognition as a finance lease, which are both denominated in Sterling.

The average remaining lease term for motor vehicles, fixtures and equipment at 31 December 2018 was 4.4 years and for property was 22.3 years. For the year ended 31 December 2018, the average effective borrowing rate for motor vehicles, fixtures and equipment was 4.3% and for property was 6.9%. Interest rates are fixed at the contract date.

The carrying amount of the Group's lease obligations approximates to their fair value.

The Group as a lessor

The Group is an intermediate lessor of a number of property leases which are subleased to a third party. In accordance with IFRS 16 these subleases have been reassessed and a number that were previously classified as operating leases are now classified as finance leases. This resulted in recognition of lease assets receivable of £5.8m on adoption at 1 January 2019 and £5.2m at 31 December 2019. These leases have terms of between 1 and 11 years. Rental income recognised by the Group during the year is £1.0m.

Future lease payments receivable from sub-leases classified as finance leases at 31 December 2019 are as follows:

	2019 £m
Within one year	1.0
After one year but not more than five years	3.7
More than five years	1.5
	6.2
Less: future finance charges	(1.0)
Lease assets receivable	5.2

Future minimum rentals receivable under non-cancellable operating leases at 31 December 2019 are as follows:

	2019 £m
Within one year	0.2
After one year but not more than five years	0.8
More than five years	0.2
	1.2

26 Called up share capital

	2019 £m	2018 £m
Authorised:		
800,000,000 ordinary shares of 10p each (2018: 800,000,000)	80.0	80.0
Allotted, called up and fully paid:		
591,556,982 ordinary shares of 10p each (2018: 591,556,982)	59.2	59.2

There were no shares allotted during 2019 (2018: 8,747).

The Company has one class of ordinary share which carries no right to fixed income.

Notes to the Financial Statements

27 Reconciliation of profit/(loss) before tax to cash generated from operating activities

	2019 £m	2018 Restated £m
Profit/(loss) before tax from continuing operations	(112.7)	10.3
Profit/(loss) before tax from discontinued operations	3.8	18.2
Profit/(loss) before tax	(108.9)	28.5
Depreciation of property, plant and equipment (Note 10)	15.2	19.7
Depreciation of right-of-use assets (Note 25)	61.0	–
Net finance costs	26.3	15.8
Amortisation of computer software (Note 14)	4.5	4.4
Amortisation of acquired intangibles (Note 14)	8.1	8.9
Impairment of computer software (Note 14)	0.3	1.1
Impairment of property, plant and equipment (Note 10)	0.6	3.4
Impairment of goodwill (Note 13)	89.6	–
Impairment of right-of-use asset	1.0	–
Profit on agreed sale or closure of non-core businesses (Note 11)	(0.1)	6.7
Profit on sale of property, plant and equipment	(1.4)	(7.5)
Settlement of amounts payable for previous purchases of business dependent on vendors remaining within the business	–	(6.0)
Share-based payments	0.1	0.4
Net foreign exchange differences	(1.3)	–
Decrease in provisions	(2.9)	(1.9)
Working capital movements:		
- Decrease in inventories	1.7	30.1
- (Increase)/decrease in receivables	95.6	(6.5)
- Increase/(decrease) in payables	(23.4)	6.5
Cash generated from operating activities	166.0	103.6

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

Of the total profit on sale of property, plant and equipment, £nil (2018: £1.1m) has been included within Other items of the Consolidated Income Statement (see Note 2).

28 Reconciliation of net cash flow to movements in net debt

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

[^] Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow and cash restricted for use in relation to the asset backed funding arrangement implemented in relation to the UK defined benefit pension plan. The £8.1m restricted cash is included within cash and cash equivalents on the consolidated balance sheet but is deducted in arriving at net debt above as shown in Note 28. See Note 30c for further details.

Net debt is defined as follows:

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

Notes to the Financial Statements

29 Analysis of net debt

	At 31 December 2018 £m	Impact of adoption of IFRS 16 £m	At 1 January 2019 £m	Cash flows £m	Non-cash items* £m	Exchange differences £m	At 31 December 2019 £m
Cash at bank and on hand	83.3		83.3	67.1	(8.1)	(5.3)	137.0
Bank overdrafts	(4.5)		(4.5)	4.5	–	–	–
	78.8		78.8	71.6	(8.1)	(5.3)	137.0
Other financial assets and deferred consideration	1.5	5.8	7.3	(0.8)	(0.5)	–	6.0
	1.5	5.8	7.3	(0.8)	(0.5)	–	6.0
Liabilities arising from financing activities							–
Financial assets – derivative financial instruments	1.9		1.9	–	1.0	(0.3)	2.6
Debts due within one year [^]	(58.8)		(58.8)	(41.5)	(178.3)	1.6	(277.0)
Debts due after one year	(189.4)		(189.4)	–	176.0	10.2	(3.2)
Lease liabilities	(23.4)	(306.2)	(329.6)	4.7	3.5	0.6	(320.8)
	(269.7)	(306.2)	(575.9)	(36.8)	2.2	12.1	(598.4)
Net debt	(189.4)	(300.4)	(489.8)	34.0	(6.4)	6.8	(455.4)

* Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow and cash restricted for use in relation to the asset backed funding arrangement implemented in relation to the UK defined benefit pension plan. The £8.1m restricted cash is included within cash and cash equivalents on the consolidated balance sheet but is deducted in arriving at net debt above as shown in Note 28. See Note 30c for further details.

[^] The £41.6m cash flow in relation to debts due within one year includes £0.9m settlement of deferred consideration.

30. Guarantees and other financial commitments

a) Capital commitments

	2019 £m	2018 £m
The purchase of property, plant and equipment contracted but not provided for	6.3	1.7

At 31 December 2019 the Group is also committed to further licence costs of £12.3m which will be recognised in the income statement over the period 2021 to 2023.

b) Lease commitments

The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are £0.9m within one year, £1.0m within five years and £0.7m thereafter.

Information on the Group's leasing arrangements is included in Note 25. Prior to the transition to IFRS 16 on 1 January 2019 the Group classified leases as either finance or operating leases. The disclosures provided in the prior year in relation to commitments under operating leases are as follows:

The Group leases a number of its premises under operating leases which expire between 2019 and 2029, some contracts contain options to extend for a further lease term at the then prevailing market rate.

The rentals payable are subject to renegotiation at various dates. The total future minimum lease rentals under the foregoing leases are as follows:

Minimum lease rentals due	2018 £m
- within one year	50.5
- after one year and within five years	124.8
- after five years	75.9
	251.2

The Group also leases certain items of plant and machinery whose total future minimum lease rentals under the foregoing leases are as follows:

Minimum lease rentals due	2018 £m
- within one year	16.0
- after one year and within five years	26.4
- after five years	1.9
	44.3

c) Pension schemes

The Group operates a number of pension schemes, six (2018: six) of which provide defined benefits based on final pensionable salary. Of these schemes, one (2018: one) has assets held in a separate trustee administered fund and five (2018: five) are overseas book reserve schemes. Two of the overseas schemes are within the Air Handling business and are therefore classified within assets and liabilities held for sale and not included below. The Group also operates a number of defined contribution schemes, all of which are independently managed.

The Trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The Trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

In The Netherlands, the Company participates in the industry-wide pension plan for the construction materials industry ('BPF HiBiN'). The pension plan is classified as a multi-employer defined benefit scheme under IAS 19, but is recognised in the Financial Statements as a defined contribution scheme since the pension fund is not able to provide sufficient information to allow SIG's share of the assets and liabilities to be separately identified. Therefore, the Group's annual pension expense for this scheme is equal to the required contribution each year. The coverage ratio of the multi-employer union plan decreased to 97.7% as at 31 December 2019 (2018: 104.9%). No change was made to the pension premium percentage of 22.2% (2018: 22.2%). The coverage ratio is calculated by dividing the fund's assets by the total sum of pension liabilities and is based upon market interest rates. The Company's participation in this scheme represents c.0.1% of the total members. The Company is not liable for other participants' obligations, and there is no agreed allocation of surplus or deficit on withdrawal from the scheme or on winding up of the scheme. The Company is not aware of any planned changes to contributions or benefits at the current time.

The Group's total pension charge for the year (from continuing operations), including amounts charged to interest and Other items, was £7.0m (2018: £8.5m), of which a charge of £0.7m (2018: £1.5m) related to defined benefit pension schemes and £6.3m (2018: £7.9m) related to defined contribution schemes.

Defined benefit pension scheme valuations

In accordance with IAS 19 the Group recognises all actuarial gains and losses in full in the period in which they arise in the Consolidated Statement of Comprehensive Income.

The actuarial valuations of the defined benefit pension schemes are assessed by an independent actuary every three years who recommends the rate of contribution payable each year. The last formal actuarial valuation of the SIG plc Retirement Benefits Plan, the UK scheme, was conducted at 31 December 2016 and showed that the market value of the scheme's assets was £164.1m and their actuarial value covered 97% of the benefits accrued to members after allowing for expected future increases in pensionable salaries. On 30 June 2016 the UK defined benefit pension scheme was closed to future benefit accrual.

Following the last triennial valuation of the UK scheme ("the Plan"), the Company and the Trustees agreed to fund the triennial pension deficit and increase security of the Plan using an asset backed funding arrangement under a partnership arrangement, which was implemented in March 2018. The asset backed funding arrangement transfers certain rights over a managed pool of certain customer receivables of one of the Group's subsidiary companies to the partnership and provides a mechanism to settle future funding commitments from receipts from higher quality trade receivables to ensure contributions to the Plan of £2.5m per annum for up to 20 years (as may be required and subject to certain discretions). The partnership is controlled by the Group and is therefore included within the consolidated financial statements. The receivables continue to be recognised on the consolidated balance sheet, and the Plan's interest in the partnership is a non-transferable financial asset issued by the Group, and therefore does not constitute a plan asset for the Group. Distribution of income to the partners of the partnership, which forms the contribution to the Plan, is at the discretion of the General Partner, a subsidiary of the Group. There is however a guarantee in place which ensures that the Group's subsidiary, SIG Trading Limited, will make an equivalent contribution to the Plan if the partnership does not effect the discretionary distribution. The Group is therefore committed to making a contribution of £2.5m per annum until the structure terminates at the end of 20 years or earlier if the funding level of the Plan increases to greater than 115% of Technical Provisions before the end of the term. The contribution during 2018 was higher due to S75 debt in respect of the departure of SIG Trading Ireland from the plan.

The other five schemes are book reserve schemes whereby the sponsoring company does not hold any separate assets to fund the pension scheme but makes a reserve in its accounts. Therefore, these schemes do not hold separate scheme assets. The liabilities of the schemes are met by the sponsoring companies.

The schemes typically expose the Group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk. The risk relating to benefits to be paid to the dependants of scheme members on death in service is reinsured by an external insurance company.

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Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets falls below this rate, it will create a plan deficit. Currently the plan has relatively balanced investments in line with the Trustees' Statement of Investment Principles between equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the Trustees of the pension fund consider it appropriate that a reasonable portion of the plan assets should be invested in growth assets to leverage the return generated by the fund.
Interest rate risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's bond holdings.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. However, a pensionable salary cap was introduced from 1 July 2012 of 2.5% per annum.

Consolidated Income Statement charges

The pension charge for the year, including amounts charged to interest of £0.5m (2018: £0.4m) relating to the defined benefit pension schemes, was £0.7m (2018: £1.5m). In 2018 this charge also included £1.0m in relation to the estimated liability impact of equalising Guaranteed Minimum Pensions (GMP), which has been calculated by the pensions management company using the C2 methodology as set out in the Lloyds Bank High Court Case judgement. This estimated increase in the liability was charged to Other Items within the Consolidated Income Statement in 2018.

In accordance with IAS 19, the charge for the defined benefit schemes has been calculated as the sum of the cost of benefits accruing in the year, the increase in the value of benefits already accrued and the expected return on assets. The actuarial valuations described previously have been updated at 31 December 2019 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value.

The UK defined benefit scheme is closed to new members and has an age profile that is rising. The five overseas book reserve schemes remain open to new members.

Consolidated Balance Sheet liability

The balance sheet position in respect of the six defined benefit schemes can be summarised as follows:

	2019 £m	2018 £m
Pension liability before taxation	(24.8)	(28.7)
Related deferred tax asset	2.7	5.4
Pension liability after taxation	(22.1)	(23.3)

The actuarial loss of £1.8m (2018: £0.1m gain) for the year, together with the associated deferred tax charge of £6.6m (2018: credit of £0.1m) has been recognised in the Consolidated Statement of Comprehensive Income. In addition a deferred tax credit of £3.9m (2018: charge of £0.6m) has been recognised in the Consolidated Income Statement.

Of the above pension liability before taxation, £15.9m (2018: £17.2m) relates to wholly or partly funded schemes and £8.9m (2018: £11.5m) relates to the overseas unfunded schemes.

The movement in the pension liability before taxation in the year can be summarised as follows:

	2019 £m	2018 £m
Pension liability at 1 January	(28.7)	(30.4)
Current service cost	(0.5)	(0.1)
Payment of unfunded benefits	–	–
Contributions	2.6	3.1
Net finance cost	(0.5)	(0.4)
GMP equalisation ruling	–	(1.0)
Actuarial gain	(1.8)	0.1
Transfer to liabilities associated with assets held for sale	3.4	–
Effect of changes in exchange rates	0.7	–
Pension liability at 31 December	(24.8)	(28.7)

The principal assumptions used for the IAS 19 actuarial valuation of the schemes were:

	2019 %	2018 %
Rate of increase in salaries*	n/a	n/a
Rate of fixed increase of pensions in payment	1.6	1.7
Rate of increase of LPI pensions in payment	2.9	3.0
Discount rate	2.1	3.0
Inflation assumption	3.0	3.2

* Upon closure of the UK defined benefit scheme to future benefit accrual the accrued benefits of active members ceased to be linked to their final salary and will instead revalue in deferment broadly in line with movements in the Consumer Price Index.

Deferred pensions are revalued to retirement in line with the schemes' rules and statutory requirements, with the inflation assumption used for LPI revaluation in deferment.

Within the principal plan the life expectancy for a male employee beyond the normal retirement age of 65 is 21.8 years (2018: 21.9 years). The life expectancy on retirement at age 65 of a male employee currently aged 45 years is 23.1 years (2018: 23.3 years). The life expectancy for a female employee beyond the normal retirement age of 65 is 23.6 years (2018: 23.8 years). The life expectancy on retirement at age 65 of a female employee currently aged 45 years is 25.2 years (2018: 25.4 years).

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. If the discount rate were to be increased/decreased by 0.1%, this would decrease/increase the Group's gross pension scheme deficit by £3.1m. If the rate of inflation increased/decreased by 0.1% this would increase/decrease the Group's gross pension scheme deficit by £1.5m. If the life expectancy for employees increased by one year the Group's gross pension scheme deficit would increase by £8.2m. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The average duration of the defined benefit scheme obligation at 31 December 2019 is 19 years (2018: 19 years).

The fair value of assets held at the balance sheet date were:

	2019 £m	2018 £m
Equities	59.6	52.8
Corporate and government bonds	80.1	70.2
Investment funds	15.3	13.8
Property	7.6	8.7
Cash and net current assets	0.9	0.6
Total fair value of assets	163.5	146.1

All equity and debt instruments have quoted prices in active markets and can be classified as Level 2 instruments, other than property which is Level 3.

The amount included in the Consolidated Balance Sheet arising from the Group's obligation in respect of its defined benefit schemes is as follows:

	2019 £m	2018 £m
Fair value of assets	163.5	146.1
Present value of scheme liabilities	(188.3)	(174.8)
Net liability recognised in the Consolidated Balance Sheet	(24.8)	(28.7)

The overall expected rate of return is based upon market conditions at the balance sheet date.

Amounts recognised in the Consolidated Income Statement (from continuing operations) in respect of these defined benefit schemes are as follows:

	2019 £m	2018 £m
Current service cost	0.2	0.1
GMP equalisation ruling	–	1.0
Net finance cost	0.5	0.4
Amounts recognised in the Consolidated Income Statement	0.7	1.5

Notes to the Financial Statements

Analysis of the actuarial gain recognised in the Consolidated Statement of Comprehensive Income in respect of the schemes:

	2019 £m	2018 £m
Actual return less expected return on assets	18.9	(10.9)
Effect of changes in demographic assumptions	1.8	0.9
Effect of changes in financial assumptions	(22.5)	10.1
Impact of liability experience	–	–
Remeasurement of the defined benefit liability	(1.8)	0.1

The remeasurement of the net defined benefit liability is included within the Consolidated Statement of Comprehensive Income.

Movements in the present value of the schemes' liabilities were as follows:

	2019 £m	2018 £m
Present value of schemes' liabilities at 1 January	(174.8)	(191.7)
Current service cost	(0.5)	(0.1)
Interest on pension schemes' liabilities	(4.7)	(4.5)
Benefits paid	7.3	12.4
Payment of unfunded benefits	–	–
Effect of changes in exchange rates	0.7	–
GMP equalisation ruling	–	(1.0)
Remeasurement gains/(losses):		
Actuarial gain arising from changes in demographic assumptions	1.8	0.9
Actuarial loss arising from changes in financial assumptions	(22.5)	9.2
Actuarial loss due to liability experience	–	–
Transfer of liabilities associated with assets held for sale	4.4	–
Present value of schemes' liabilities at 31 December	(188.3)	(174.8)

Movements in the fair value of the schemes' assets were as follows:

	2019 £m	2018 £m
Fair value of schemes' assets at 1 January	146.1	161.3
Finance income	4.2	4.1
Actual return less expected return on assets	18.9	(10.0)
Contributions from sponsoring companies	2.6	3.1
Benefits paid	(7.3)	(12.4)
Transfer of assets held for sale	(1.0)	–
Fair value of schemes' assets at 31 December	163.5	146.1

d) Contingent liabilities

As at the balance sheet date, the Group had outstanding obligations under customer guarantees, claims, standby letters of credit and discounted bills of up to £13.4m (2018: £11.0m). Of this amount, £8.0m (2018: £8.0m) relates to a standby letter of credit issued by HSBC Bank plc in respect of the Group's insurance arrangements.

As disclosed in the Statement of Significant Accounting Policies, Metecho Limited and SIG Building Systems Limited have taken advantage of the exemption available under Section 479A of the Companies Act 2006 in respect of the requirement for audit. As a condition of the exemption, the Company has guaranteed the year end liabilities of the relevant subsidiaries until they are settled in full.

As part of the disposal of Building Plastics a guarantee was provided to the landlord of the leasehold properties transferred with the business covering rentals over the remaining term of the leases in the event that the acquiring company enters into administration before the end of the lease term. The maximum liability that could arise from this would be approximately £2.1m. No provision has been made in these financial statements as it is not considered likely that any loss will be incurred in connection with this.

As disclosed on page 90 the Company referred itself to the FCA regarding the circumstances leading to the trading update issued on 9 January 2020. Since such self-referral the Company has provided to the FCA a copy of the report prepared by PricewaterhouseCoopers LLP. The FCA has wide-ranging powers to investigate potential breaches of market rules and regulations, including the power to require disclosure of documents and to compel witnesses to be interviewed. The FCA also has wide-ranging powers to impose sanctions in the event it finds an issuer has breached market rules or regulations, including censuring issuers and imposing financial sanctions. There is no certainty whether the FCA will open an investigation into the Company; how long any such investigation would take to conclude; the findings of the FCA and any remedy imposed by the FCA. At this point, the Company considers this to be a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company and, accordingly, no provision has been recognised. The Company does not believe it is possible to make a reliable estimate of the potential financial effect in the event that the Company was determined to have any liability that may arise from this matter.

31 Related party transactions

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

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

In 2019, SIG incurred expenses of £0.4m (2018: £0.2m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

Remuneration of key management personnel

The total remuneration of key management personnel of the Group, being the Group Executive Committee members and the Non-Executive Directors (see page 68), is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	2019 £m	2018 £m
Short term employee benefits	4.3	4.8
Termination and post-employment benefits	0.4	0.5
IFRS 2 share option charge/(credit)	0.1	0.4
	4.8	5.7

32 Subsidiaries

Details of the Group's subsidiaries, all of which have been included in the Financial Statements, are shown on pages 242 to 243.

Notes to the Financial Statements

33 Non-statutory information

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

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

These measures, as shown below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for Other items (as explained in further detail within the Statement of Significant Accounting Policies) or to adjust for businesses identified as non-core to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis. Non-core businesses are those businesses that have been closed or disposed of or where the Board has resolved to close or dispose of the businesses by 31 December 2019.

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 33b, 33d and 33h) is provided to show the financial measures used to calculate financial covenants as defined by the banking agreements.

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

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

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

Continuing operations

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

Discontinued operations

	Note	2019 £m	2018 Restated £m
Operating profit from discontinued operations	12	19.1	20.1
Operating lease rentals		(7.4)	–
Additional depreciation from adoption of IFRS 16		6.7	–
Operating profit from discontinued operations excluding impact of IFRS 16		18.4	20.1
<i>Add back:</i>			
Other items		0.7	(0.7)
Underlying operating profit from discontinued operations excluding impact of IFRS 16		19.1	19.4
Net finance costs		(1.2)	0.1
<i>Add back:</i>			
Additional net finance costs from adoption of IFRS 16		1.2	–
Underlying profit before tax from discontinued operations excluding impact of IFRS 16		19.1	19.5
Income tax expense		(4.2)	(4.4)
Reduction in tax expense from adoption of IFRS 16		(0.1)	–
<i>Add back:</i>			
Tax credit associated with Other items		0.7	0.3
Underlying profit after tax from discontinued operations excluding impact of IFRS 16		15.5	15.4

Other business held for sale

	Note	2019 £m	2018 £m
Operating profit from business held for sale	11	2.9	3.5
Operating lease rentals		(0.8)	–
Additional depreciation from adoption of IFRS 16		0.7	–
Operating profit from business held for sale excluding impact of IFRS 16		2.8	3.5
Net finance costs		(0.8)	(0.7)
<i>Add back:</i>			
Additional net finance costs from adoption of IFRS 16		0.2	–
Underlying profit before tax from business held for sale excluding impact of IFRS 16		2.2	2.8

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

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

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

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

Notes to the Financial Statements

b) Covenant leverage

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

	Note	2019 £m	2018 Restated £m
Underlying operating profit from continuing operations excluding impact of IFRS 16	33a	33.5	66.9
Underlying operating profit from discontinued operations held for sale excluding impact of IFRS 16	33a	19.1	19.4
Underlying operating profit from other disposal group held for sale excluding impact of IFRS 16		2.8	3.5
Add back:			
Depreciation prior to adoption of IFRS 16	10	18.7	19.7
Amortisation of computer software	14	4.5	4.4
Reversal of restatement on net operating losses attributable to businesses identified as non-core*	11	-	0.8
Depreciation attributable to businesses identified as non-core*		(0.2)	(0.3)
Covenant EBITDA		78.4	114.4

* The 2018 covenant calculation has not been restated to reflect the decisions made to exit non-core businesses after the signing of the 2018 Financial Statements (Note 11).

	Note	2019 £m	2018 £m
Reported net debt	28	455.4	189.4
Lease liabilities recognised in accordance with IFRS 16		(296.0)	-
Lease receivables recognised in accordance with IFRS 16		5.2	-
Other financial liabilities recognised in accordance with IFRS 16		(1.8)	-
Net debt excluding the impact of IFRS 16		162.8	189.4
Other covenant financial indebtedness		5.4	10.9
Foreign exchange adjustment*		0.3	(1.8)
Covenant net debt		168.5	198.5

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

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

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

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

	Note	2019 £m	2018 Restated £m
Operating profit from continuing operations excluding the impact of IFRS 16	33a	(92.5)	26.2
Income tax expense excluding the impact of IFRS 16	33a	(12.9)	(6.2)
Operating (loss)/profit after tax from continuing operations excluding impact of IFRS 16		(105.4)	20.0
Operating profit from discontinued operations excluding impact of IFRS 16	33a	18.4	20.1
Income tax expense from discontinued operations excluding the impact of IFRS 16	33a	(4.3)	(4.4)
Operating (loss)/profit after tax from discontinued operations excluding impact of IFRS 16		14.1	15.7
Total operating profit after tax excluding impact of IFRS 16		(91.3)	35.7

	Note	2019 £m	2018 Restated £m
Underlying operating profit from continuing operations excluding impact of IFRS 16	33a	33.5	66.9
Income tax expense excluding impact of IFRS 16		(12.9)	(6.2)
Tax credit associated with Other items excluding impact of IFRS 16	2b	(4.1)	(8.2)
Underlying operating profit after tax from continuing operations excluding impact of IFRS 16		16.5	52.5
Underlying operating profit after tax from discontinued operations excluding impact of IFRS 16	33a	15.5	15.4
Underlying operating profit after tax from other disposal group held for sale excluding impact of IFRS 16		2.3	3.0
Total underlying operating profit after tax excluding impact of IFRS 16		34.4	70.9

	Note	2019 £m	2018 £m
Opening reported net assets		462.9	470.5
Opening reported net debt		189.4	258.7
Opening capital employed		652.3	729.2
Computer software impairment charges*		(0.3)	(1.4)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*	11	0.1	(6.2)
Adjusted opening capital employed		652.1	721.6
Closing reported net assets		294.2	462.9
Closing reported net debt	28	455.4	189.4
Lease liabilities recognised in accordance with IFRS 16		(296.0)	–
Lease receivables recognised in accordance with IFRS 16		5.2	–
Other financial liabilities recognised in accordance with IFRS 16		(1.8)	–
Other net asset adjustments recognised in accordance with IFRS 16		9.9	–
Closing capital employed excluding impact of IFRS 16		466.9	652.3
Computer software impairment charges*		–	(0.3)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*		–	0.1
Adjusted closing capital employed excluding impact of IFRS 16		466.9	652.1
Average capital employed excluding impact of IFRS 16		559.6	690.8
Adjusted average capital employed excluding impact of IFRS 16*		559.5	686.9

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

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

d) Covenant interest cover ratio

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

	Note	2019 £m	2018 Restated £m
Underlying operating profit excluding impact of IFRS 16		33.5	66.9
<i>Add back:</i>			
Net operating losses attributable to businesses identified as non-core	11	1.9	5.5
Underlying operating profit from discontinued operations excluding impact of IFRS 16		19.1	19.4
Consolidated EBITA (earnings before interest, tax and amortisation for covenant purposes)		54.6	91.8
Underlying net finance costs excluding impact of IFRS 16	3	12.9	14.7
Net finance cost of disposal groups held for sale, excluding impact of IFRS 16	3	0.6	0.6
<i>Less:</i>			
Interest costs arising on the defined benefit pension scheme	3	(0.5)	(0.5)
Acceptance commission		(0.8)	(0.9)
Covenant net interest payable		12.2	13.9
Interest cover ratio (consolidated EBITA to covenant net interest payable)		4.5x	6.6x

Notes to the Financial Statements

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

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

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

f) Effective tax rates

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

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

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

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

	Note	2019 £m	2018 Restated £m
<i>Current:</i>			
Inventories	16	156.5	207.2
Trade and other receivables	17	294.7	477.7
Contract assets	17	-	1.8
Trade and other payables	18	(327.4)	(428.3)
Contract liabilities	18	-	(1.6)
Provisions	18	(6.7)	(11.0)
<i>Non-current:</i>			
Other payables	19	(1.0)	(5.6)
Provisions	19	(18.6)	(20.4)
Reported working capital		97.5	219.8
Working capital for non-core businesses*		0.8	(25.7)
Foreign exchange adjustment		2.8	(1.6)
Adjusted working capital		101.1	192.5

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

	Note	2019 £m	2018 £m
Reported revenue from continuing operations		2,160.6	2,431.8
Revenue attributable to business identified as non-core	11	(75.9)	(141.4)
Adjusted revenue		2,084.7	2,290.4

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

h) Consolidated net worth

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

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

i) Cash inflow from trading

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

	Note	2019 £m	2018 Restated £m
Cash generated from operating activities	27	166.0	103.6
<i>Add back:</i>			
Working capital movements:			
- Decrease/(increase) in inventories		(1.7)	(30.1)
- (Decrease)/Increase in receivables		(95.6)	6.5
- Decrease/(Increase) in payables		23.4	(6.5)
Cash inflow from trading		92.1	73.5

Notes to the Financial Statements

j) Like-for-like sales

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

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

k) Gross margin

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

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

l) Operating cost as a percentage of sales

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

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

Operating costs excluding impact of IFRS 16

	2019 £m	2018 £m
Underlying operating costs	499.6	511.7
Operating lease rentals	57.5	–
Additional depreciation from adoption of IFRS 16	(50.9)	–
Adjustment due to treatment of sale and leaseback transaction	(0.4)	–
Underlying operating costs excluding impact of IFRS 16	505.8	511.7

m) Return on sales

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

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

^ Underlying operating profit equals segmental result before Other items.

Notes to the Financial Statements

n) Underlying EPS excluding impact of IFRS 16

	Note	2019	2018
Weighted average number of shares (number)	8	591,556,982	591,548,834
Underlying profit after tax from continuing operations excluding impact of IFRS 16 (£m)	33a	3.6	37.8
Underlying earnings per share from continuing operations excluding impact of IFRS 16 (p)		0.6p	6.4p

o) Other non-statutory measures

In addition to the alternative performance measures noted above, the Group also uses underlying EPS (as set out in Note 8) and underlying net finance costs (as set out in Note 3).

34 Post balance sheet events

Sale of Air Handling

The sale of the Air Handling business completed on 31 January 2020 for an enterprise value of €222.7m. The business is presented as a discontinued operation held for sale at 31 December 2019. Further details on the results for the year and the assets and liabilities of the business at 31 December 2019 are provided in Note 12.

Sale of Building Solutions

The sale of the Building Solutions business was conditional upon the approval of the UK Competition & Markets Authority ("CMA"). On 21 May 2020 it was announced that the parties have agreed to terminate the sales agreement as terms could not be agreed for the extension of the agreement to enable the completion of the CMA investigation, and the disposal will no longer proceed. This is a non-adjusting post balance sheet event and the business remains classified as held for sale at the balance sheet date. Given the current economic climate a sale is no longer likely to proceed and the business is not expected to be classified as held for sale going forward.

COVID-19

The COVID-19 outbreak subsequent to the year end is having a significant effect on the global and UK economies and will have an impact on the Group's results for 2020. As a result of government restrictions implemented to mitigate the spread of COVID-19, large sections of the Group's end-markets experienced a severe reduction in sales, resulting in the temporary closure of the majority of the Group's trading sites in the UK and Ireland during April and reduced revenue levels in other countries. The Group has implemented a comprehensive set of actions to reduce costs and manage liquidity during this period but the full impact of the pandemic remains uncertain as the situation is still unfolding. Any prolonged period of uncertainty or potential second wave of COVID-19 could have material adverse consequences on the Group's financial performance.

Further details of the potential impact of changes in assumptions regarding forecast results on the carrying value of non-current assets is provided in Note 13.

Financing

As a result of the Group's reduced earnings together with the impact of COVID-19 on forecast results and net debt for 2020, the Group has engaged with its Lenders and amended the terms of its RCF and private placement note agreements. This includes a short-term waiver of covenants during 2020 and renegotiation of future covenants from 31 December 2020, and an extension of the RCF facility for a further 2 years to May 2023. Further details are provided in the Basis of preparation section of the Statement of Significant Accounting Policies.

Implementation of SAP 1Hana

In light of the current circumstances regarding COVID-19, change of senior management and strategy and renegotiation of debt facilities, the project to implement SAP 1Hana in Germany and France has been paused. Costs of £9.0m are included within software costs in intangible assets (disclosed as assets in the course of construction) at 31 December 2019. This will be reviewed over the coming months to determine the future direction and feasibility of the project.

Independent Auditor's Report

To the members of SIG plc

Opinion

In our opinion:

- SIG plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of SIG plc which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2019	Company statement of comprehensive income for the year ended 31 December 2019
Consolidated income statement for the year ended 31 December 2019	Company balance sheet as at 31 December 2019
Consolidated balance sheet as at 31 December 2019	Company statement of changes in equity for the year ended 31 December 2019
Consolidated statement of changes in equity for the year ended 31 December 2019	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement for the year ended 31 December 2019	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to the Statement of Significant Accounting Policies on pages 141 and 232 in the financial statements, which indicate that the ability of the group and company to continue as a going concern is subject to a number of material uncertainties. The group announced its intention on 29 May 2020 to strengthen its capital structure with a planned £150m equity raise in the coming weeks. Discussions are ongoing with lenders to reset covenants and agree other amendments to its financing facilities. The group continues to operate in an uncertain trading environment and is implementing a new strategy. This gives rise to a number of material uncertainties:

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

Independent Auditor's Report

To the members of SIG plc

As a result, material uncertainties exist that may cast significant doubt on group and company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of these matters.

We describe below how our audit responded to the risk relating to going concern:

- The audit engagement partner increased his time directing and supervising the audit procedures on going concern and utilised corporate finance specialists to assist in assessing the going concern model and assumptions;
- We obtained agreements for the Revolving Credit Facility and the Private Placement Notes and reviewed the nature of facilities, repayment terms, covenants and attached conditions;
- We reviewed draft terms being negotiated with Lenders and discussed key terms with the company and its advisors;
- We obtained and inspected covenant waiver letters;
- We discussed the feasibility of the proposed equity raise and alternative deleveraging plans with the directors and the company's advisors and corroborated this to board presentations and minutes;
- We inspected the agreement with Clayton Dubilier and Rice for an equity investment of up to £85m;
- We obtained the cash flow and latest covenant forecasts and sensitivities prepared by Management and tested for arithmetical accuracy of the models;
- We challenged the appropriateness of Management's forecasts prepared for the purposes of the equity raise and negotiations with lenders, challenged Management's consideration of a reasonable worst-case scenario including the actual impact to date of COVID-19 and the future forecast impact and applied further sensitivities, including reverse stress testing, to understand the impact on liquidity and forecast covenant compliance;
- We reviewed the terms of Government support being accessed in the UK, including employment support, tax and social security deferrals. We discussed with the interim group CFO and external advisors the group's plans to explore additional funding in the form of Government loans in the UK and Mainland Europe, if required, and inspected pre-approvals obtained from banks relating to the loan support arrangements in France; and
- We assessed the disclosures in the Annual Report & Accounts relating to going concern, including the material uncertainties, to ensure they were fair, balanced and understandable and in compliance with IAS1.

We draw attention to the viability statement in the Annual Report on page 40, which indicates that an assumption to the statement of viability is based upon the success of the equity raise, the need to agree amended terms in respect of the RCF and private placement debt, the impact on the Group's debt facilities if the equity raise does not go ahead and the uncertainty regarding the impact of COVID-19. The Directors consider that the material uncertainties referred to in respect of going concern may cast significant doubt over the future viability of the group and company should these events not complete. Our opinion is not modified in respect of this matter.

Conclusions relating to principal risks, going concern and viability statement

Aside from the impact of the matters disclosed in the material uncertainty related to going concern section, we have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 44 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 40 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- whether the directors' statement in relation to going concern and their assessment of the prospects of the company required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 40 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

- Independent Review by PwC
- Impairment of Goodwill, Intangible assets and Property, Plant and Equipment
- Supplier rebates
- Classification of Other items in the income statement
- Cash cut-off

Audit scope

- We performed an audit of the complete financial information of 9 (2018: 8) components and audit procedures on specific balances for a further 4 components (2018: 6)
- The components where we performed full or specific audit procedures accounted for 90% of Underlying Profit before Tax, 94% of Revenue and 89% of Total assets.

Materiality

- Overall group materiality of £2.0m (2018: £3.6m) which represents 5% of Underlying Profit before Tax, plus discontinued operations and operations held for sale, but excluding IFRS 16 adjustments.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Independent Review by PwC <i>Refer to Chairman's Statement (page 5), Corporate Governance Report (page 90), Audit Committee Report (page 108), Contingent Liability note 30d (page 206)</i> The Board instigated an independent review in light of the disparity between the 2019 forecast and actuals announced in the 9 January 2020 Trading Update. The independent review findings raise the possibility of financial claims and or regulatory fines which could have a material impact on the financial statements. The potential override of controls by senior management raises questions in relation to Management integrity and our ability to place reliance on Management.	Overview and status of the investigation Our work programme comprised Management and legal enquiries, inspection of documentation relevant to the investigation and the group's response, and other testing procedures in response to the specific identified risks. Our procedures were supported by EY Forensics & Integrity specialists. We performed an assessment of the adequacy of the scope of the PwC investigation in the context of our audit. We reviewed the PwC report and followed up on matters of importance to the audit. We met with PwC to discuss the findings and recommendations. We met with group General Counsel and external legal advisors to understand the nature of correspondence with the FCA and to understand the range of possible financial claims and or regulatory fines that might arise including any possible liabilities relating to representations given to stakeholders as part of the disposal of the Air Handling business. We reviewed agendas, supporting papers and actions from meetings of the group Investigation Committee responsible for oversight of the group's response to the investigation to obtain an understanding of the progress of the investigation. Internal control environment We made enquiries of the Chairman, Audit Committee Chairman, group General Counsel, group Director of Risk and Internal Audit, PwC and external legal advisors and inspected relevant documentation including PwC interview minutes and company emails to understand whether there was any evidence that SIG employees may have committed an offence, and therefore may lead us to question reliance placed on Management. We sought to identify whether there had been any management override of controls relating to the reported results for the year ended 31 December 2019 and performed incremental test of details. We extended our review of manual journal entry testing at group finance and operating company level including searching on key words and preparer IDs. We performed additional testing of consolidation journals to a lower threshold. We performed incremental testing on "Other items" in the income statement including a review of items originally posted in underlying profit, but then transferred to "Other items" in Q4. We reviewed key "risks and opportunities" identified in the Q4 2019 forecasts to understand the outcome of such items in the actual results. We extended our post year-end testing of manual journal entries to identify any unusual reversals which reinstated accruals or provisions released in 2019. We met with various operating company Finance Directors and senior members of group finance to discuss the PwC findings and the output from our procedures. Disclosure We assessed whether there was any evidence that would require a provision to be recognised in the financial statements, rather than a contingent liability disclosure. We considered the adequacy of disclosure in the Chairman's statement, Governance report, Audit Committee report and the contingent liability disclosure in note 30d.	We reviewed the disclosures on this matter in the annual report and accounts including the contingent liability in note 30d and are satisfied they are fair, balanced and understandable by comparing the disclosure to the knowledge gained during the audit. From the procedures performed, nothing came to our attention that gave concern over our ability to place reliance on current Management. We have not identified any specific matters with a material impact to bring to the Audit Committee's attention in relation to our incremental test of details.

Independent Auditor's Report

To the members of SIG plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of Goodwill, Intangible assets and Property, Plant and Equipment (PPE)	Valuation model	Management's initial impairment model resulted in an impairment of £31m across SIGD (£27m) and Lariviere (£4m).
<i>Refer to Accounting policies (page 146); and Notes 13 and 14 of the Consolidated Financial Statements (pages 177 to 180)</i>	We obtained, understood and tested the methodology applied by Management in performing its impairment test for each of the relevant Cash Generating Units ("CGUs") as compared to the requirements of IAS 36, Impairment of Assets and identified key controls. This included the appropriateness of the forecast period, the allocation of central overheads and the mathematical accuracy of Management's model.	An additional impairment of £59m across SIG D (£31m) and Lariviere (£28m) has been recognised in respect of our audit findings. Management has adjusted the discount rate towards the middle of EY's forecast risk adjusted range and amended the cashflows to reflect the audit teams challenge over the risk of execution of forecast growth, margin and market outperformance.
The group's balance sheet includes goodwill, intangible assets and PPE totalling £259.9m at 31 December 2019 (2018: £445.5m).	We analysed the historical accuracy of budgets to actual results for a 3-year period and other forecast risk factors to determine whether forecast cash flows are reliable.	Goodwill relating to the UK Distribution, UK Exteriors, Lariviere and Germany CGUs is sensitive to reasonably possible changes in key assumptions. The appropriate sensitivity disclosures have been made in Note 13.
In line with the requirements of IAS 36: "Impairment of Assets", Management test goodwill balances annually for impairment, this assessment includes both intangible assets and PPE.	We evaluated the identification of CGUs against the requirements of IAS 36	We consider the other disclosures made in Note 13 to also be appropriate.
The annual impairment test includes areas of estimation uncertainty and judgement over the future performance of the business for example forecast future trading results and cashflows, specific assumptions such as discount rates and long-term growth rates.	Key assumptions in the valuation We evaluated the key underlying assumptions within the value in use calculation including the growth rates, margin and the discount rate applied;	The investment carrying value for SIG Trading could not be supported giving rise to a £66.4m impairment identified by Management. We challenged the carrying value of investments in a dormant subsidiary and raised a £0.2m adjustment. Management has corrected this within the parent company balance sheet.
Changes to these assumptions or adverse performance could have a significant impact on the available headroom and any impairment that may be required. Especially sensitive are the CGUs; UK Distribution, UK Exteriors, Lariviere and Germany.	We inspected CGU business plans, especially focusing on the UK Distribution turnaround. We challenged key features such as recovering market share losses and maintaining margin and corroborated the plans to previous performance, underlying data and progress reporting of initiatives;	Management's assessment of the recoverability of intercompany receivables from European Investments Limited (£503.8m) and European Holdings Limited (£198.4m) indicates that the balances cannot be settled on demand. We challenged the recoverability and expected credit loss provision. Following the audit challenge Management has recognised an incremental expected credit loss provision of £190.6m.
There is also an associated risk in the company only balance sheet over the potential impairment of investments in subsidiary undertakings and the recoverability of receivables due from subsidiary undertakings.	We benchmarked the discount rate calculation and long-term growth rates applied, using our internal valuation experts. We considered if Management's assumptions are within an acceptable range based on comparative market data and with reference to independently calculated forecast risk premiums; and	
	For all CGUs we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained, also taking into consideration the position reported in the parent company balance sheet.	
	Disclosures	
	We assessed the disclosures in the intangible assets note against the requirements of IAS 36 Impairment of Assets, in particular the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment.	
	Impairment of investments and recoverability of intercompany in the Parent Company accounts	
We challenged the basis on which Management's calculations are formed and whether the growth rate and discount rates were appropriate.	We compared the forecasts and discount rates to our Goodwill testing to confirm these had been consistently applied.	
	We compared the investment carrying value to the net assets of the subsidiary and the discounted future cashflow forecasts. Where a shortfall was noted we confirmed that an impairment was posted through the parent company accounts.	
	We compared the intercompany receivables to the ability of the counterparty to settle on demand. Where a shortfall in liquid assets was identified we assessed the future cashflows and discounted these to account for the timing of settlement.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Supplier Rebates <i>Refer to Accounting policies (page 149); and Note 17 & 18 of the Consolidated Financial Statements (pages 182 to 184)</i> The group recognised supplier rebate income from continuing operations in the year of £245.2m (2018: £318.1m) with a receivable balance as at 31 December 2019 of £80.4m (2018: £112.1m). The terms of rebate agreements with suppliers can be complex and varied. Estimation uncertainty is present in relation to supplier rebates, in particular where the amounts receivable are tiered based on purchase volumes or where volumes are estimated, for example where arrangements span the year end. There is opportunity through management override of controls or error to overstate the balance of supplier rebates recognised.	We focused our audit procedures on the areas where Management apply judgement, where the processing is either manual or more complex and on suppliers where the year-end rebate value is high due to non-coterminous year ends. We performed walkthroughs to understand the key processes used to record supplier rebate transactions and identify key controls. We performed analytical review procedures to understand unusual movements in income statement and balance sheet accounts period on period, including ageing analysis. We selected a sample of suppliers, in order to obtain independent confirmations to confirm key terms, income and year end receivable. We reconciled income recognised in the period, for the sample of suppliers, based on agreed arrangement terms, income and receivable as confirmed by the supplier. Using confirmed amounts, we ensured the appropriate tier was applied. Where third party vendor confirmations could not be obtained for the sample, we: ■ Obtained and reviewed the agreement signed by both parties. ■ Validated the purchase volumes used in the calculation of income through sample testing to supporting documentation. ■ Recalculated the year-end rebate receivable and income recognised in the year based on the validated volumes and the terms of the signed agreement. Using data extracted from the accounting system, we tested the appropriateness of a sample of journal entries and other adjustments to supplier rebate accounts in the balance sheet and income statement. We reviewed the appropriateness of the critical accounting judgements and key sources of estimation uncertainty disclosure in respect of supplier rebate amounts recorded in the income statement and balance sheet. We performed the above audit procedures over this risk area at 9 full and specific scope locations, which covered 96% of the risk amount associated to supplier rebate income and 95% of the risk associated to supplier rebates receivable	The income recognised in the year and the balance sheet position at year end are appropriately recorded. We identified that the supplier rebate income and receivable was understated by £0.2m, which was corrected by Management. We consider the disclosures in the financial statements to be appropriate.

Independent Auditor's Report

To the members of SIG plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Classification of Other items in the income statement Refer to Accounting policies (page 147 and 148); and Note 2b of the Consolidated Financial Statements (page 162) Other items in 2019 totals £128.3m (2018: £46.8m). Key components include: impairment charges £90.9m, net restructuring costs £27.1m, amortisation of acquired intangibles £6.2m and investment in omnichannel retailing £5.7m, offset by £2.1m operating profits of non-core businesses. Other items are not defined by IFRS and therefore judgement is required in determining the appropriateness of such classification guided by IAS 1. Consistency in items treated as separately disclosed is important to maintain comparability of reporting year-on-year. Underlying profit is a key performance measure of the group. There exists a risk through management override of controls or bias of judgement of inappropriate classification of these items separately to overstate underlying profit.	We performed walkthroughs to understand the key processes used to record Other items and identify key controls. We obtained evidence of a sample of the Other items to understand the nature of these items and have challenged the appropriateness of separately presenting these items within Other items in line with the group's accounting policy. We have considered the consistency of SIG plc's approach with reference to Other items in the prior year. Where an item related to a restructuring project, we inspected the build-up to ensure that the costs were: ■ Attributable to the restructuring project; ■ Incremental in nature, either directly or indirectly; ■ Qualify for recognition in the financial statements for the period; ■ Have been correctly categorised as a cost or as Other items in line with the accounting policy. We have recalculated the amortisation charge in the year and confirmed this is consistent with the group accounting policy. We obtained calculations of profit or loss on divestment. We agreed divestments to sale agreements and validated the calculation of profit/loss on sale to supporting documentation. We performed analytical review procedures to understand unusual movements in the income statements of divested and non-core businesses separately presented within Other items. We reviewed costs relating to investment in omnichannel retailing and verified the amounts recognised. We assessed that the costs had been correctly categorised within Other items. We reviewed Management's accounting policy disclosure in respect of Other items classification in the income statement. We performed the above audit procedures over this risk area at all full and specific scope locations and additional testing by the primary team to cover 100% of the balance.	Management corrected audit adjustments totalling £4.8m. This includes £0.4m to reclassify costs from Other items to Underlying and a further £3.8m to release accrued costs associated with business disposals where the service had not been incurred, or the contingent fee trigger had not been met, at the year-end. The group's disclosures are consistent with both the group's accounting policy and the guidance in IAS 1.
Cash cut-off Refer to Accounting policies (page 151); and Note 20 of the Consolidated Financial Statements (page 185) The group has cash of £110.0m (2018: £83.3m) and covenant net debt of £168.5m (2018: £198.5m). The timing of the recognition of payments and receipts is relevant to the reported cash and net debt position of the group and is directly linked to financial covenants. There is opportunity through management override of controls or error to misstate the allocation of cash between periods.	We performed walkthroughs to understand the key processes used to record cash transactions and identify key controls including visiting and performing procedures at the outsourced shared service centre in Chennai. We obtained bank confirmations for all bank accounts at in scope locations as at 31 December 2019 and agreed the bank confirmation amount to the year-end bank reconciliation. We obtained and inspected bank reconciliations for material reconciling items and confirmed that all items were recognised in the appropriate accounting period. We tested a sample of consolidation and sub consolidation adjustments to cash to address the risk of management override of controls in cash recognition. We performed full and specific scope audit procedures over this risk area at 13 components, which covered 57% of the risk amount. We performed additional procedures at a selection of our review scope components, which covered a further 41% of the group's year-end cash balance.	Our audit procedures did not identify any material issues.

In the prior year, our auditor's report included a key audit matter in relation to prior year adjustments arising in our first-year audit of the group. As this is no longer an initial audit, we have removed this key audit matter.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 47 reporting components of the group, we selected 13 components covering entities within each of the eight principal countries within which the group operates, which represent the principal business units within the group.

	Number	% of Group Underlying Profit Before Tax	% of Group Revenue	% of Group total assets
Full Scope	9	75%	82%	77%
Specific Scope	4	15%	12%	12%
Full and specific scope coverage	13	90%	94%	89%

Of the 13 components selected, we performed an audit of the complete financial information of 9 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 4 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 90% (2018: 94%) of the group's Underlying Profit before tax, 94% (2018: 92%) of the group's Revenue and 89% (2018: 95%) of the group's Total assets. For the current year, the full scope components contributed 75% (2018: 170%) of the group's Underlying Profit before tax, 82% (2018: 84%) of the group's Revenue and 77% (2018: 90%) of the group's Total assets. The specific scope component contributed 15% (2018: -76%) of the group's Underlying Profit before tax, 12% (2018: 8%) of the group's Revenue and 12% (2018: 5%) of the group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

Of the remaining 34 components that together represent 10% of the group's Underlying Profit before tax, none are individually greater than 5% of the group's Underlying Profit before tax. For these components, we performed other procedures, including analytical review and/or 'review scope' components, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the group financial statements.

Changes from the prior year

Due to a reduction in materiality compared to the prior year there has been an additional specific scope component identified in the UK, and the number of significant accounts tested at each specific scope component has increased. Further, following separation of a French component ahead of the sale of Air Handling, an additional full scope component was identified. This separation did not impact our coverage but separated 1 component in 2018 to 2 components in 2019.

Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 9 full scope components, audit procedures were performed on 8 of these directly by the component audit teams in Belgium, France, Germany, Ireland and the UK. For the 4 specific scope components, audit procedures were performed directly by the component audit teams in Bulgaria, Netherlands, Poland and the UK. We considered the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

At the start of the audit, a group wide Team Planning Event was held with representatives from all full and specific scope component team in attendance through video conferencing. During the current year's audit cycle, visits were undertaken in Germany, Ireland and the UK. These visits involved discussing the audit approach with the component team including any issues arising from their work, meeting with local management, attending planning and closing meetings and reviewing key audit papers on risk areas. A planned visit to France was cancelled due to travel restrictions as a result of the COVID-19 pandemic. Our review of the component team's workpapers was subsequently completed using electronic and video review.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Independent Auditor's Report

To the members of SIG plc

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £2.0 million (2018: £3.6 million), which is 5% (2018: 5%) of Underlying Profit before tax (£15.6m), plus Air Handling discontinued operations (£18.4m) and Building Solutions operations held for sale (£2.2m), but excluding the impact of IFRS 16 (£5.7m). We believe that this basis provides the most relevant performance measure to the stakeholders of the group, and therefore an appropriate basis for materiality. We have included underlying profit before tax from discontinued operations and other operations held for sale on the basis these transactions did not complete in 2019 and were included in the most relevant performance measure monitored by the key stakeholders. We have excluded the impact of IFRS 16 on the basis that it is not representative of the underlying performance of the group. For 2018 our materiality was based on underlying profit before tax, excluding property profits. In 2018 there were no underlying profits from either discontinued activities or operations held for sale and IFRS 16 had not been adopted by the group.

When using an earnings-related measure to determine overall materiality, the norm is to apply a benchmark percentage of 5% of the pre-tax measure. However, we use Underlying Profit before tax, including discontinued operations, profits of non-underlying operations held for sale and excluding IFRS 16 adjustments to establish a measure of normalised earnings.

We determined materiality for the parent company to be £2.0 million (2018: £3.6 million), which is 2% of Equity, capped at the materiality of the group.

During the course of our audit, we reassessed initial materiality and amended for final Underlying Profit before tax, plus discontinued operations and operations held for sale, but excluding IFRS 16 adjustments.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £1.0m (2018: £1.8m). We have set performance materiality at this percentage due to the level of misstatements identified in the prior year and the outcome of our risk assessment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.2m to £0.4m (2018: £0.4m to £1.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2018: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The reduction from 2018 is as a result of the reduced planning materiality to £2.0m (2018: £3.6m) mentioned above.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, set out on pages 1 to 245, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (set out on page 95)** – the statement given by the directors that they consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting (set out on page 101)** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (set out on page 65)** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit
- a Corporate Governance Statement has not been prepared by the company.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 133, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

To the members of SIG plc

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and Management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in each of the eight principle countries of operation.
- We understood how SIG plc is complying with those frameworks by making enquiries of Management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with Management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by Management to manage earnings. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Legal Counsel, group management, Internal Audit, subsidiary Management at all full and specific scope components; and focused testing, as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2016.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 4th July 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ending 31 December 2018 and 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit
- The audit opinion is consistent with the additional report to the Audit Committee

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Colin Brown (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 May 2020

Notes:

1. The maintenance and integrity of the SIG plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Five-Year Summary

Statutory basis	Total 2015 £m	Total 2016 £m	Total 2017 £m	Total 2018 Restated^ £m	Total 2019^ £m
Revenue	2,566.4	2,845.2	2,878.4	2,431.8	2,160.6
Operating (loss)/profit	65.0	(96.0)	(36.3)	26.2	(87.9)
Finance income	1.0	1.7	0.6	0.5	0.5
Finance costs	(15.6)	(17.0)	(19.0)	(16.4)	(25.3)
Profit/(loss) before tax	50.4	(111.3)	(54.7)	10.3	(112.7)
Profit/(loss) after tax	35.4	(122.9)	(59.2)	4.1	(124.1)
(Loss)/earnings per share	6.0	(20.9)	(10.2)	3.0	(21.0)
Total dividend per share	4.60p	3.66p	3.75p	3.75p	1.25p

Underlying basis*	Underlying 2015 £m	Underlying 2016 £m	Underlying 2017 £m	Underlying 2018 Restated^ £m	Underlying 2019^ £m
Revenue	2,230.8	2,478.1	2,654.3	2,290.4	2,084.7
Operating (loss)/profit	86.0	74.4	81.3	66.9	39.6
Finance income	1.0	1.2	0.5	0.5	0.5
Finance costs	(12.3)	(14.8)	(16.6)	(15.2)	(24.5)
Profit/(loss) before tax	74.8	60.6	65.3	52.2	15.6
Profit/(loss) after tax	59.1	45.2	48.6	37.8	(0.3)
(Loss)/earnings per share	10.0p	7.6p	8.2p	6.4p	(0.1)p

^ Results for 2019 and 2018 reflect continuing operations only with the Air Handling business classified as a discontinued operation in these periods. See Note 12 for further information.

* Underlying figures 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 losses attributable to businesses identified as non-core, net restructuring costs, 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.

All underlying numbers are stated excluding the trading results attributable to businesses identified as non-core.



Company Statement of Comprehensive Income

for the year ended 31 December 2019

	2019 £m	2018 Restated £m
(Loss)/profit after tax	(259.8)	7.2
Items that may subsequently be reclassified to the Company Income Statement		
Gains and losses on cash flow hedges	0.4	2.0
Transfer to profit and loss on cash flow hedges	0.9	(0.7)
Other comprehensive income	1.3	1.3
Total comprehensive (expense)/income	(258.5)	8.5
Attributable to:		
Equity holders of the Company	(258.5)	8.5

The 2018 Company Statement of Comprehensive Income has been restated to correct a prior period error as disclosed in the Company Statement of Significant Accounting Policies.

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Statement of Comprehensive Income.

Company Balance Sheet

as at 31 December 2019

	Note	2019 £m	2018 Restated £m
Fixed assets			
Investments	5	376.8	443.2
Tangible fixed assets	6	0.4	2.9
Right-of-use assets	11	1.6	–
Intangible assets	7	11.6	–
		390.4	446.1
Current assets			
Debtors - due within one year	8	539.3	880.8
Debtors - due after more than one year	8	1.7	5.1
Deferred tax assets	13	–	0.4
Cash at bank and in hand		9.1	14.9
		550.1	901.2
Current liabilities			
Creditors: amounts falling due within one year	9	533.1	400.8
Provisions: amounts falling due within one year	12	–	0.2
		533.1	401.0
Net current assets		17.0	500.2
Total assets less current liabilities		407.4	946.3
Creditors: amounts falling due after one year	10	3.5	261.6
Provisions: amounts falling due after one year	12	0.2	0.4
Net assets		403.7	684.3
Capital and reserves			
Called up share capital	14	59.2	59.2
Share premium account	14	447.3	447.3
Merger reserve	14	11.5	21.7
Capital redemption reserve	14	0.3	0.3
Share option reserve	14	1.8	1.7
Exchange reserve	14	(0.2)	(0.2)
Cash flow hedging reserve	14	3.5	–
Cost of hedging reserve	14	(0.1)	–
Retained profits	14	(119.6)	154.3
Shareholders' funds		403.7	684.3

The 2018 Company Balance Sheet has been restated to correct a prior period error as disclosed in the Company Statement of Significant Accounting Policies.

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Balance Sheet.

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own Company Income Statement for the year. SIG plc reported a loss after tax for the financial year ended 31 December 2019 of £259.8m (2018: restated £7.2m profit).

The Financial Statements were approved by the Board of Directors on 29 May 2020 and signed on its behalf by:

Steve Francis
Director

Kath Kearney-Croft
Director

Registered in England: 00998314

Company Statement of Changes in Equity

for the year ended 31 December 2019

	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share option reserve £m	Exchange reserve £m	Cash flow hedging reserve	Cost of hedging reserve Restated £m	Retained profits/(losses)	Total Equity
At 1 January 2018	59.2	447.3	21.7	0.3	1.3	(0.2)		–	168.0	697.6
Profit after tax (restated)	–	–	–	–	–	–	–	–	7.2	7.2
Other comprehensive expense	–	–	–	–	–	–	–	–	1.3	1.3
Total comprehensive income	–	–	–	–	–	–	–	–	8.5	8.5
Credit to share option reserve	–	–	–	–	–	–	–	–	–	–
Share capital issued in the year	–	–	–	–	0.4	–	–	–	–	0.4
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	(22.2)	(22.2)
At 31 December 2018 (restated)	59.2	447.3	21.7	0.3	1.7	(0.2)	–	–	154.3	684.3
Loss after tax	–	–	–	–	–	–	–	–	(259.8)	(259.8)
Other comprehensive income	–	–	–	–	–	–	2.2	(0.9)	–	1.3
Total comprehensive expense	–	–	–	–	–	–	2.2	(0.9)	(259.8)	(258.5)
Transfer of merger reserve	–	–	(10.2)	–	–	–	–	–	10.2	–
Transfer of hedging reserves	–	–	–	–	–	–	1.3	0.8	(2.1)	–
Exercise of share options	–	–	–	–	–	–	–	–	–	–
Credit to share option reserve	–	–	–	–	0.1	–	–	–	–	0.1
Share capital issued in the year	–	–	–	–	–	–	–	–	–	–
Dividends paid to equity holders of the Company	–	–	–	–	–	–	–	–	(22.2)	(22.2)
At 31 December 2019	59.2	447.3	11.5	0.3	1.8	(0.2)	3.5	(0.1)	(119.6)	403.7

The 2018 Company Statement of Changes in Equity has been restated to correct a prior period error as disclosed in the Company Statement of Significant Accounting Policies.

There was no movement in the capital redemption reserve and exchange reserve in the year. During 2019 the Company allotted no shares (2018: 8,747) from the exercise of share options.

Following a revision of past acquisitions an amount of £10.2m has been transferred between merger reserve and retained profits in relation to the Company's holdings in the Freeman Group.

Amounts have been reclassified during the year to clarify the effects of hedging between retained (losses)/profits, the cash flow hedging reserve and the cost of hedging reserve. See Note 14 for further details.

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Statement of Changes in Equity.

Company Statement of Significant Accounting Policies

Basis of accounting

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention (except for the revaluation of financial instruments which are held at fair value as disclosed on page 141). Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. Categorisation of fair value is set out in the Group Accounts on page 187.

The separate Financial Statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101) and the Companies Acts 2006 as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a qualifying entity that would otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. The Company is a qualifying entity for the purposes of FRS 101.

Going concern

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

During 2019, the Directors announced the proposed sale of the Group's Air Handling division to France Air for an enterprise value of €222.7m (£187.0m¹) to strengthen the balance sheet and reduce working capital facilities. The sale completed on 31 January 2020 with net cash proceeds of €180.9m (£151.9m¹) being partly used to manage the Group's working capital, including providing liquidity over the short term to support the Group's business through the COVID-19 uncertainty.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Company Statement of Significant Accounting Policies

New standards, interpretations and amendments adopted

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

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

IFRS 16 “Leases”

The nature and effect of the key changes to the Company's accounting policies in relation to IFRS 16 are set out in the Group Statement of Significant Accounting Policies on pages x to x. The Company has one lease contract for a property with a remaining term of 8 years with a break option after 2 years. This was previously recognised as an operating lease. On adoption of IFRS 16 at 1 January 2019 the Company has recognised a lease liability of £2.0m based on the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 5.0%, and a corresponding right-of-use asset of £1.9m. There was no impact on retained earnings as a result of these adjustments.

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

	As reported £m	IFRS 16 Impact £m	Excluding IFRS 16 Impact £m
Operating loss	(288.3)	–	(288.3)
Net finance income	31.1	0.1	31.2
Loss before tax	(257.2)	0.1	(257.1)

Exemptions applied in accordance with FRS 101

The following exemptions from the requirements of IFRS have been applied in the preparation of these Financial Statements, in accordance with FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 “Share-based Payment”
- the requirements of IFRS 7 “Financial Instruments: Disclosures”
- the requirements of paragraphs 91 to 99 of IFRS 13 “Fair Value Measurement”
- the requirement in paragraph 38 of IAS 1 “Presentation of Financial Statements” to present comparative information in respect of:
 - i) paragraph 79(a)(iv) of IAS 1 and
 - ii) paragraph 73(e) of IAS 16 “Property, Plant and Equipment”
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40B, 111, and 134 to 136 of IAS 1 “Presentation of Financial Statements”
- the requirements of IAS 7 “Statement of Cash Flows”
- the requirements of paragraphs 30 and 31 of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”
- the requirements of paragraph 17 of IAS 24 “Related Party Disclosures”
- the requirements in IAS 24 “Related Party Disclosures” to disclose related party transactions entered into between two or more members of a group
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 “Impairment of Assets”.

Share-based payments

The accounting policy for share-based payments (IFRS 2) is consistent with that of the Group as detailed on page 149.

Derivative financial instruments

The accounting policy for derivative financial instruments is consistent with that of the Group as detailed on page 152.

Financial assets and liabilities

The accounting policy for financial assets and liabilities is consistent with that of the Group as detailed on page 151. The Company has assessed on a forward looking basis the expected credit losses associated with amounts owed by subsidiary undertakings. The impairment methodology applied depends on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk.

Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Tangible fixed assets

The accounting policy for tangible fixed assets is consistent with that of the Group as detailed on page 150.

Intangible assets

The accounting policy for intangible fixed assets is consistent with that of the Group as detailed on page 150.

Foreign currency

The accounting policy for foreign currency is consistent with that of the Group as detailed on page 147.

Taxation

The accounting policy for taxation is consistent with that of the Group as detailed on page 149.

Dividends

Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Accounts until they have been approved by the Shareholders at the Annual General Meeting.

Prior year restatements

An error has been identified in the 2018 Company balance sheet and disclosed loss after tax. The loss after tax was overstated by £13.9m due to the recognition of a duplicate provision against an intercompany balance. This is corrected by a prior year restatement to previously reported numbers in these Financial Statements. The restatement results in an increase in profit/(loss) after tax of £13.9m from a loss after tax of £6.7m to a profit after tax of £7.2m, and an increase in debtors owed by subsidiary undertakings and net assets of £13.9m.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described above, the Directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have had a significant effect on the amounts recognised in the Financial Statements. The judgements involving estimations are dealt with separately below.

Presentation of private placement debt

At 31 December 2019, private placement notes of £175.5m have been reclassified as a currently liability on the balance sheet because the covenant test of consolidated net worth at 31 December 2019 is below the threshold of £400m (see Note 33h of the Consolidated Financial Statements). From an accounting perspective at the balance sheet date the Company did not have an unconditional right to defer settlement of the liability for at least 12 months. Therefore, as required by IAS 1 "Presentation of financial statements", the entire private placement notes balance is presented as a current liability at 31 December 2019. Under the terms of the private placement note agreement no event of default arose and testing of the covenant at 31 December 2019 has been waived and thus the notes did not become repayable or capable of being declared immediately due and payable, hence as at 31 December 2019 the only contractual requirement to repay the debt in the next twelve months is the scheduled loan repayment in October 2020.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities recognised by the Company within the next financial year are detailed below.

Impairment of fixed asset investments

Determining whether the Company's investments are impaired requires an estimation of the investments' value in use. The key estimates made in the value in use calculation in relation to trading subsidiaries are those regarding discount rates, sales growth rates, gross margin and long term operating profit growth. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group.

The Group performs investment impairment reviews by forecasting cash flows based upon the following year's budget as a base, taking into account current economic conditions. The carrying amount of investments in subsidiaries at the balance sheet date was £376.8m (2018: £443.2m) after an impairment loss recognised in 2019 of £66.8m.

Of the £376.8m net book value at 31 December 2019, £370.0m relates to the Company's investment in SIG Trading Limited, the largest UK trading subsidiary, and therefore assumptions regarding sales, gross margin and operating profit growth of this subsidiary are considered to be the key areas of estimation in the impairment review process. At 31 December 2019, a review of the future operating cashflows of SIG Trading Limited using the following year's budget as a base indicated that the carrying value of the investment was not recoverable, resulting in the impairment charge recognised.

Whilst the Directors consider the assumptions used in the impairment review to be realistic, if actual results are different from expectations then it is possible that the value of the investment included in the Balance Sheet could become impaired further. Further details on the assumptions and sensitivities in relation to the forecast future cash flows of this subsidiary are provided in Note 13 of the Consolidated Financial Statements.

Impairment of amounts owed by subsidiary undertakings

At 31 December 2019 the Group has recognised amounts owed by subsidiary undertakings of £537.0m (2018: £880.3m restated). The Group recognises an allowance for expected credit losses (ECLs) in relation to amounts owed by subsidiary undertakings based on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk. An ECL provision of £190.6m has been recognised at 31 December 2019 based on estimates regarding the future cash flows from subsidiaries and taking account of the time value of money. Changes in the economic environment or circumstances specific to individual subsidiaries could have an impact on recoverability of amounts included on the Company Balance Sheet at 31 December 2019 and level of ECL provision required in the future.

Deferred tax assets

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Therefore, estimates are made to establish whether deferred tax balances should be recognised, in particular in respect of non-trading losses. Deferred tax assets have not been recognised at 31 December 2019 on the basis that the realisation of their future economic benefit is uncertain.

Notes to the Company Financial Statements

1 Loss for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own Company Income Statement for the year. SIG plc reported a loss after tax for the financial year ended 31 December 2019 of £259.8m (2018 restated: £7.2m profit).

The Auditor's remuneration for audit services to the Company was £0.6m (2018: £0.4m).

2 Share-based payments

The Company had four share-based payment schemes in existence during the year ended 31 December 2019. The Company recognised a total credit of £0.2m (2018: charge of £0.3m) in the year relating to share-based payment transactions. Details of each of the share-based payment schemes can be found in Note 9 to the Group Accounts on pages 168 to 170.

3 Dividends

An interim dividend of 1.25p per ordinary share was paid on 8 November 2019 (2018: 1.25p). The Directors are not proposing a final dividend for the year ended 31 December 2019 (2018: 2.5p per ordinary share). Total dividends paid during the year, including the final dividend for 2018, were £22.2m (2018: £22.2m) comprising the 2019 interim dividend of £7.4m and the final dividend for 2018 of £14.8m. No dividends have been paid between 31 December 2019 and the date of signing the Financial Statements.

See Note 14 for further details on distributable reserves.

4 Staff costs

Particulars of employees (including Directors) are shown below:

	2019 £m	2018 £m
Employee costs during the year amounted to:		
Wages and salaries	5.3	5.7
Social security costs	1.0	0.6
IFRS 2 share option charge	(0.2)	0.3
Pension costs	0.3	0.2
Total	6.4	6.8

The average monthly number of persons employed by the Company during the year was as follows:

	2019 Number	2018 Number
Administration	56	48

5 Fixed asset investments

Fixed asset investments comprise investments in subsidiary undertakings, as follows:

	2019 £m	2018 £m
Cost		
At 1 January	650.4	650.2
Additions	0.4	0.2
At 31 December	650.8	650.4
Accumulated impairment charges		
At 1 January	207.2	207.2
Impairment charge	66.8	–
At 31 December	274.0	207.2
Net book value		
At 31 December	376.8	443.2
At 1 January	443.2	443.0

Details of the Company's subsidiaries are shown on pages 242 to 243.

The £0.4m additions of investments in the year relate to the share based payment charge settled by SIG plc but relating to other subsidiary companies.

Of the £376.8m (2018: £443.2m) investment net book value, £370.0m (2018: £435m) relates to SIG Trading Limited, the largest UK trading subsidiary. At 31 December 2019, a review of the future operating cashflows of SIG Trading Limited using the following year's budget as a base, taking into account current economic conditions, indicated that the carrying value of the investment was not recoverable and an impairment charge of £66.8m has been recognised in relation to this and other smaller investments.

A more detailed sensitivity analysis of the Group's significant CGUs is given on page 178, Note 13 of the Consolidated Financial Statements.

6 Tangible fixed assets

The movement in the year was as follows:

	Land and buildings		Plant and machinery £m	Total £m
	Freehold land and buildings £m	Leasehold improvements £m		
Cost				
At 1 January 2018	0.1	0.2	0.6	0.9
Additions	–	0.3	2.6	2.9
Disposals	–	–	(0.1)	(0.1)
At 31 December 2018	0.1	0.5	3.1	3.7
Additions	–	–	–	–
Reclassifications	–	–	(2.5)	(2.5)
Disposals	–	–	–	–
At 31 December 2019	0.1	0.5	0.6	1.2
Depreciation				
At 31 January 2018	0.1	–	0.5	0.6
Charge for the year	–	–	0.2	0.2
At 31 December 2018	0.1	–	0.7	0.8
Reclassifications	–	–	(0.1)	(0.1)
Charge for the year	–	0.1	–	0.1
At 31 December 2019	0.1	0.1	0.6	0.8
Net book value				
At 31 December 2019	–	0.4	–	0.4
At 31 December 2018	–	0.5	2.4	2.9

Software costs previously included within plant and machinery with cost of £2.5m and accumulated depreciation of £0.1m at 31 December 2018 have been reclassified as intangible assets during the year (see Note 7).

7 Intangible fixed assets

The movement in the year was as follows:

	Computer software £m	Total £m
Cost		
At 1 January and 31 December 2018	–	–
Reclassifications (Note 6)	2.5	2.5
Additions	10.0	10.0
At 31 December 2019	12.5	12.5
Depreciation		
At 1 January and 31 December 2018	–	–
Reclassifications (Note 6)	0.1	0.1
Charge for the year	0.8	0.8
At 31 December 2019	0.9	0.9
Net book value		
At 31 December 2019	11.6	11.6
At 31 December 2018	–	–

Included within computer software additions are assets in the course of construction of £9.4m (2018: £nil).

Notes to the Company Financial Statements

8 Debtors

	£m	Restated £m
Amounts owed by subsidiary undertakings	537.0	880.3
Derivative financial instruments	0.9	–
Current tax asset	0.4	–
Prepayments	1.0	0.5
Debtors - due within one year	539.3	880.8
Amounts owed by subsidiary undertakings	–	3.2
Derivative financial instruments	1.7	1.9
Deferred consideration	–	–
Debtors - due after more than one year	1.7	5.1
Total	541.0	885.9

The Group recognises an allowance for expected credit losses (ECLs) in relation to amounts owed by subsidiary undertakings based on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk. An ECL provision of £190.6m has been recognised at 31 December 2019 based on estimates regarding the future cash flows from subsidiaries and taking account of the time value of money.

Amounts owed by subsidiary undertakings are measured at amortised cost and bear interest at rates between 0.0% and 8.0%.

9 Creditors: amounts falling due within one year

	31 December 2019 £m	31 December 2018 Restated £m
Lease liabilities	0.2	–
Private placement notes (Note 10)	175.5	–
Bank loans	99.5	56.6
Bank overdrafts	12.7	7.5
Amounts owed to subsidiary undertakings	218.4	323.3
Derivative financial instruments	0.2	0.3
Accruals and deferred income	26.6	10.0
Corporation tax	–	3.1
Total	533.1	400.8

All of the Company's bank loans and overdrafts are unsecured. The bank loans are guaranteed by certain companies of the Group. The private placement notes have been reclassified as a current liability at 31 December 2019. See Note 10.

Amounts owed to subsidiary undertakings are measured at amortised cost, are unsecured and bear interest at rates between 0.0% and 4.0%.

10 Creditors: amounts falling due after one year

	31 December 2019 £m	31 December 2018 £m
Lease liabilities	1.6	–
Private placement notes	–	185.6
Derivative financial instruments	1.9	3.8
Amounts owed to subsidiary undertakings	–	72.2
Total	3.5	261.6

Amounts owed to subsidiary undertakings are measured at amortised cost, are unsecured and bear interest at rates between 0.0% and 4.0%.

Details of the private placement notes (before applying associated derivative financial instruments and prepaid arrangement fees) are shown below. At 31 December 2019, the private placement notes have been reclassified as a currently liability on the balance sheet because the covenant test of consolidated net worth at 31 December 2019 is below the threshold of £400m (see Note 33h of the Consolidated Financial Statements). From an accounting perspective at the balance sheet date the Company did not have an unconditional right to defer settlement of the liability for at least 12 months. Therefore, as required by IAS 1 "Presentation of financial statements", the entire private placement notes balance is presented as a current liability at 31 December 2019. Under the terms of the private placement note agreement no event of default arose and testing of the covenant as at 31 December 2019 has been waived and thus the notes did not become repayable or capable of being declared immediately due and payable, hence as at 31 December 2019 the only contractual requirement to repay the debt in the next twelve months is the scheduled loan repayment in October 2020.

	31 December 2019		31 December 2018	
	Fixed interest rate		Fixed interest rate	
	£m	%	£m	%
Repayable in 2020	25.4	3.7	26.9	3.7
Repayable in 2021	16.9	3.9	18.0	3.9
Repayable in 2023	42.3	4.2	44.9	4.2
Repayable in 2026	91.2	3.3	96.2	3.3
Total	175.8		186.0	

11 Leases

The Company as a lessee

The Company has a lease contract for a property. Information on the nature and accounting for lease contracts, together with the impact on adoption of the new standard at 1 January 2019, is provided in the Statement of Significant Accounting Policies.

Set out below is the carrying amount of the right-of-use asset recognised and the movement during the period:

	Buildings £m	Total £m
On adoption at 1 January 2019	1.8	1.8
Depreciation expense	(0.2)	(0.2)
At 31 December 2019	1.6	1.6

Set out below is the carrying amount of the lease liability and the movement during the year:

	2019 £m
On adoption at 1 January 2019	2.0
Accretion of interest	0.1
Payments	(0.3)
At 31 December 2019	1.8
Current	0.2
Non-current	1.6
	1.8

The following are the amounts recognised in profit or loss:

	2019 £m
Depreciation expense of right-of-use asset	0.2
Interest expense on lease liability	0.1
Total amount recognised in profit or loss	0.3

The Company had total cash outflows for leases of £0.3m in 2019. The Company had no non-cash additions to right-of-use assets and lease liabilities in 2019. There are no future cash outflows relating to leases that have not yet commenced.

FINANCIALS

	Warranty Claims £m	Dilapidations £m	Total £m
At 1 January 2018	1.1	0.8	1.9
Released	–	(0.4)	(0.4)
Utilised	(0.9)	–	(0.9)
At 31 December 2018	0.2	0.4	0.6
Released	(0.2)	–	(0.2)
Utilised	–	(0.2)	(0.2)
At 31 December 2019	–	0.2	0.2
		31 December 2019 £m	31 December 2018 £m
Amounts falling due within one year		–	0.2
Amounts falling due after one year		0.2	0.4
Total		0.2	0.6

13 Deferred tax

	31 December 2019 £m	31 December 2018 £m
Deferred tax assets	-	0.4

	Losses £m	Other £m	Total £m
At 1 January 2018	0.1	0.2	0.3
Credit to income	–	0.1	0.1
At 31 December 2018	0.1	0.3	0.4
Charge to income	(0.1)	(0.3)	(0.4)
At 31 December 2019	–	–	–

14 Capital and Reserves

	31 December 2019 £m	31 December 2018 Restated £m
Called up share capital	59.2	59.2
Share premium account	447.3	447.3
Merger reserve	11.5	21.7
Capital redemption reserve	0.3	0.3
Share option reserve	1.8	1.7
Exchange reserve	(0.2)	(0.2)
Cash flow hedging reserve	3.5	–
Cost of hedging reserve	(0.1)	–
Retained profits	(119.6)	154.3
Total reserves	403.7	684.3

The movements in reserves during the year were as follows:

	Called up share capital £m	Share premium account £m	Share option reserve £m	Cash flow hedging reserve £m	Cost of hedging reserve £m	Retained profits £m
At 1 January 2018	59.2	447.3	1.3	–	–	168.0
Issue of share capital	–	–	–	–	–	–
Credit to share option reserve	–	–	0.4	–	–	–
Exercise of share options	–	–	–	–	–	–
Fair value movement on cash flow hedges	–	–	–	–	–	2.0
Transfer to profit and loss on cash flow hedges	–	–	–	–	–	(0.7)
Loss for the period (restated)	–	–	–	–	–	7.2
Dividends	–	–	–	–	–	(22.2)
At 31 December 2018 (restated)	59.2	447.3	1.7	–	–	154.3
Issue of share capital	–	–	–	–	–	–
Credit to share option reserve	–	–	0.1	–	–	–
Exercise of share options	–	–	–	–	–	–
Transfer of hedging reserves	–	–	–	1.3	0.8	(2.1)
Transfer from Merger reserve	–	–	–	–	–	10.2
Fair value movement on cash flow hedges	–	–	–	1.3	(0.9)	–
Transfer to profit and loss on cash flow hedges	–	–	–	0.9	–	–
Profit for the period	–	–	–	–	–	(259.8)
Dividends	–	–	–	–	–	(22.2)
At 31 December 2019	59.2	447.3	1.8	3.5	(0.1)	(119.6)

There was no movement in the capital redemption reserve and exchange reserve in the year. During 2019 the Company allotted no shares (2018: 8,747) from the exercise of share options.

Amounts have been reclassified during the year to clarify the effects of hedging between retained(losses)/profits, the cash flow hedging reserve and cost of hedging reserve.

At 31 December 2019 the Company has negative distributable reserves of £158.4m. The Company is not proposing a final 2019 dividend in 2020. Before the Group seeks to recommence its dividend payments it will be required to review its medium term plan and distributable reserves position. The Directors intend to carry out a review of the structure of the Group during the coming year in order to remedy this and optimise existing reserves.

Details of the Company's share capital can be found in Note 26 of the Group Accounts on page 199.

15 Guarantees and other financial commitments

a) Guarantees

At 31 December 2019 the Company had provided guarantees of £nil (2018: £nil) on behalf of its subsidiary undertakings.

b) Contingent liabilities

As at the balance sheet date, the Company had outstanding obligations under a standby letter of credit of up to £8.0m (2018: £8.0m). This standby letter of credit, issued by HSBC Bank plc, is in respect of the Group's insurance arrangements.

16 Related party transactions

Remuneration of key management personnel

The total remuneration of the Directors of the Group Board, who the Group considered to be its key management personnel, is provided in the audited part of the Directors' Remuneration Report on pages 111 to 132. In addition, the Company recognised a share-based credit under IFRS 2 of £0.2m (2018: charge of £0.3m).

Group Companies 2019

Fully owned subsidiaries (United Kingdom)

A. M. Proos & Sons (Birmingham) Limited (England) (ii)
 A. M. Proos & Sons Limited (England) (ii)
 A. M. Proos (South) Limited (England) (ii)
 A. Steadman & Son (Holdings) Limited (England) (ii)
 A. Steadman & Son Limited (England) (ii)
 Aaron Roofing Supplies Limited (England) (ii)
 Acoustic and Insulation Manufacturing Limited (England) (ii)
 Acoustic and Insulation Materials Limited (England) (ii)
 Advanced Cladding & Insulation Group Limited (England) (ii)
 Ainsworth Insulation Limited (England) (ii) (xi)
 Ainsworth Insulation Supplies Limited (England) (ii) (xiii)
 Air Trade Centre UK Limited (England) (ii)
 AIS Insulation Supplies Limited (England) (ii)
 Altrim Plastics Limited (England) (ii)
 Asphaltic Properties Limited (England) (ii)
 Asphaltic Roofing Supplies Limited (England) (ii)
 Auron Limited (England) (ii) (xix)
 BBM (Materials) Limited (England) (ii)
 Blueprint Construction Supplies Limited (England) (ii)
 Bondec Boards Limited (England) (ii)
 Bowler Group Limited (England) (ii)
 Builders-Express Limited (England) (ii)
 Building Solutions (National) Limited (England)
 Buildspan Holdings Limited (England) (ii) (vii)
 C. P. Supplies Limited (England) (ii)
 Cairns Roofing and Building Merchants Limited (England) (ii)
 >Capco (Northern Ireland) Limited (Northern Ireland) (ii) (vii)
 Capco Interior Supplies Limited (England) (ii) (xv)
 Capco Slate & Tile Limited (England) (ii)
 Capco UK Holdings Limited (England) (ii) (xiv)
 Ceilings Distribution Limited (England) (i) (ii)
 Cheshire Roofing Supplies Limited (England) (ii)
 Classicbond Limited (England) (ii)
 >Clyde Insulation Supplies Limited (Scotland) (ii)
 Clydesdale Roofing Supplies (Leyland) Limited (England) (ii)
 C.M.S. Acoustic Solutions Limited (England) (ii) (x)
 CMS Danskin Acoustics Limited (England) (ii)
 C.M.S. Vibration Solutions Limited (England) (ii) (xv)
 Coleman Roofing Supplies Limited (England) (ii)
 Construction Material Specialists Limited (England) (ii) (xvi)
 Coxbench IP Limited (England) (ii)
 CPD Distribution Plc (England) (ii)
 Dane Weller Holdings Limited (England) (ii)
 >Danskin Flooring Systems Limited (Scotland) (ii)
 Dataplus Software Limited (England) (ii)
 Davies & Tate plc (England) (ii)
 Drainage Online Limited (England) (ii)
 Drainex Limited (England) (ii) (viii)
 Dyfed Roofing Centre Limited (England) (ii)
 Eurisol Limited (England) (ii)
 Euroform Products Limited (England) (ii)
 >Fastplas Limited (Scotland) (ii)
 Fibreglass Insulations Limited (England) (ii)
 Fireseal (North West) Limited (England) (ii)
 Firth Powerfix Limited (England) (ii) (vii)
 Flex-R Limited (England) (xv)
 Formerton Limited (England) (ii)
 Formerton Sheet Sales Limited (England) (ii)
 Franklin (Sussex) Limited (England) (ii)
 Freeman Group Limited (England) (i) (ii)
 Freeman Holdings Limited (England) (ii)
 General Fixings Limited (England) (ii)
 G.S. Insulation Supplies Limited (England) (ii)
 Gutters & Ladders (1968) Limited (England) (ii)
 Harris Roofing Supplies Gloucester Limited (England) (ii)
 >HHI Building Products Limited (Northern Ireland) (ii)
 Hillsborough Investments Limited (England) (i) (ii) (iii)
 Impex Avon Limited (England) (ii) (xv)
 Insulation and Machining Services Limited (England) (ii)
 Insulslab Limited (England) (ii)

>J. Danskin & Company Limited (Scotland) (ii)
 John Hughes (Roofing Merchant) Limited (England) (ii)
 John Hughes (Wigan) Limited (England) (ii)
 Jordan Wedge Limited (England) (ii)
 K.D. Insulation Supplies Limited (England) (ii)
 Kem Edwards Limited (England) (ii)
 Kent Flooring Supplies Limited (England) (ii)
 Kesteven Roofing Centre Limited (England) (ii)
 Kitson's Thermal Supplies Limited (England) (ii) (v)
 Landsdon Holdings Limited (England) (ii) (xv)
 Landsdon Limited (England) (ii) (x)
 Leaderflush + Shapland Holdings Limited (England)
 Lee and Son Limited (England) (ii)
 Lifestyle Partitions and Furniture Limited (England) (ii) (vi)
 London Insulation Supplies Limited (England) (ii)
 >Long Construction Services (Northern Ireland) Limited (Northern Ireland) (ii)
 >MacGregor & Moir Limited (Scotland) (ii)
 Marvellous Fixings Limited (England) (ii)
 Mayplas Limited (England) (ii) (ix)
 M.C. Insulation Supplies Limited (England) (ii)
 Metall Architektur Limited (England)
 Metecho Limited (England)
 Ockwells Limited (England) (ii) (vii)
 Omni Plastics Limited (England) (ii)
 Omnico (Developments) Limited (England) (ii)
 Omnico Plastics Limited (England) (ii)
 One Stop Roofing Centre Limited (England) (ii)
 Orion Trent Holdings Limited (England) (ii) (xvii)
 Orion Trent Limited (England) (ii) (xvii)
 Parking Ventilation Equipment Limited (England) (xv)
 Penkridge Holdings Limited (England) (ii)
 Plastic Pipe Supplies Limited (England) (ii)
 Polytech Systems Limited (England) (ii) (xvii)
 Pre-Pour Services Limited (England) (ii) (xv)
 Procurewide Limited (England) (ii)
 Proos Roofing Centres Limited (England) (ii)
 Rinus International Limited (England) (ii)
 R.J. & T. Wormwell Limited (England) (ii)
 Roberts & Burling Roofing Supplies Limited (England) (ii)
 Roof Care (Northern) Limited (England) (ii)
 Roof Fitters Mate Limited (England) (ii)
 Roof Shop Limited (England) (ii)
 Roofers Mate Limited (England) (ii)
 Roofing Centre Group Limited (England) (ii)
 Roofing Material Supplies Limited (England) (ii)
 Roplas (Humberside) Limited (England) (ii)
 Roplas (Lincoln) Limited (England) (ii)
 Ryan Roofing Supplies Limited (England) (ii) (viii)
 Safety Direct Limited (England) (ii)
 SAS Direct and Partitioning Limited (England) (ii)
 Scotplas Limited (England) (ii)
 Scotwarm Insulations Limited (England) (i)
 S.G. Insulation Supplies Limited (England) (ii)
 Sheffield Insulations Limited (England) (i) (ii) (iii)
 Shropshire Roofing Supplies Limited (England) (ii)
 SIG Air Handling UK Limited (England)
 SIG Building Solutions Limited (England) (ii)
 SIG Building Systems Limited (England)
 SIG Construction Accessories Limited (England) (ii)
 SIG Digital Limited (England)
 SIG Distribution Limited (England) (ii)
 SIG Dormant Company Number Eight Limited (England) (ii) (iv)
 SIG Dormant Company Number Eleven Limited (England) (ii)
 SIG Dormant Company Number Fourteen Limited (ii)
 SIG Dormant Company Number Nine Limited (England) (i) (ii)
 SIG Dormant Company Number Seven Limited (England) (i) (ii)
 SIG Dormant Company Number Six Limited (England) (ii)
 SIG Dormant Company Number Sixteen Limited (England) (ii)
 SIG Dormant Company Number Ten Limited (England) (i) (ii) (xvii)
 SIG Dormant Company Number Thirteen Limited (England) (ii)

SIG Dormant Company Number Three Limited (England) (i) (ii)
 SIG Dormant Company Number Twelve Limited (England) (ii)
 SIG Dormant Company Number Two Limited (England) (i) (ii) (iv)
 SIG Energy Management Limited (England) (i) (ii)
 SIG EST Trustees Limited (England) (i) (ii)
 SIG European Holdings Limited (England) (i)
 SIG European Investments Limited (England)
 SIG Express Limited (England) (ii)
 SIG Fixings Limited (England) (ii)
 SIG Green Deal Provider Company Limited (England) (i) (ii)
 SIG Group Life Assurance Scheme Trustees Limited (England) (ii)
 SIG Hillsborough Limited (England)
 SIG (IFC) Limited (England)
 SIG Insulations Limited (England) (ii)
 SIG International Trading Limited (England) (i)
 SIG Logistics Limited (England) (ii)
 SIG Manufacturing Limited (England)
 SIG Offsite Limited (England) (ii)
 SIG Retirement Benefits Plan Trustee Limited (England) (i) (ii)
 SIG Roofing Supplies Limited (England) (i) (ii)
 SIG Scots Co Limited (Scotland) (i)
 SIG Specialist Construction Products Limited (England) (ii)
 SIG Sustainable Solutions Limited (England) (ii)
 SIG Trading Limited (England) (i)
 SIG Trading (KSA) Limited (England) (ii)
 Solent Insulation Supplies Limited (England) (ii)
 South Coast Roofing Supplies Limited (England) (ii)
 Southern Roofing Warehouse Limited (England) (ii)
 Southwest Roofing Supplies Limited (England) (ii) (viii)
 Specialised Fixings Limited (England) (ii)
 Specialist Fixings and Construction Products Limited (ii)
 Summers PVC (Essex) Limited (England) (ii)
 Summers PVC Limited (England) (ii)
 Support Site Limited (England) (i) (ii)
 T A Stephens (Roofing) Limited (England) (ii)
 TD Insulation Supplies Limited (England) (ii)
 Tenon Partition Systems Limited (England) (ii)
 The Coleman Group Limited (England) (ii) (xviii)
 The Greenjackets Roofing Services Limited (England) (ii) (xv)
 The Window Village Limited (England) (ii)
 Thomas Smith (Roofing Centres) Limited (England) (ii)
 Tolway East Limited (England) (ii)
 Tolway Fixings Limited (England) (ii)
 Tolway Holdings Limited (England) (ii)
 Tooltray.com Limited (England) (ii)
 Trent Insulations Limited (England) (ii)
 Trimform Products Limited (England) (ii)
 TSS Plastics Centre Limited (England) (ii)
 Undercover Holdings Limited (England) (ii)
 Undercover Roofing Supplies Limited (England) (ii)
 United Roofing Products Limited (England) (ii)
 United Trading Company (UK) Limited (England) (ii) (vii)
 Universal Roofing Supplies Limited (England) (ii)
 Valley Sealants Limited (England) (ii)
 W.W. Fixings Limited (England) (ii) (xvi)
 Walkwell Flooring Supplies Limited (England) (ii)
 Warm A Home Limited (England) (ii) (xx)
 Warren Insulation plc (England) (ii)
 Weymead Holdings Limited (England) (ii) (xv)
 Wedge Roofing Centres Holdings Limited (England) (ii)
 Wedge Roofing Centres Limited (England) (ii)
 Westway Insulation Supplies Limited (England) (ii)
 White & Taylor (Tunstall) Limited (England) (ii) (xii)
 William Smith & Son (Roofing) Limited (England) (ii)
 Window Fitters Mate Limited (England) (ii)
 Wood Floor Sales Limited (England) (ii)
 Woods Insulation Limited (England) (ii)
 Workspace London Limited (England) (ii)
 Zip Screens Limited (England) (i) (ii)

Fully owned limited partnership

+ The 2018 SIG Scottish Limited Partnership (Scotland) (xxi)

Controlling interests (United Kingdom)

Passive Fire Protection (PFP) UK Limited (England) (51%) (ii)

+ Registered Office Address: Coddington Crescent, Holytown, Motherwell, ML1 4YF, United Kingdom
> Registered Office Address: 6-8 Balmoral Road, Balmoral Industrial Estate, Belfast, Northern Ireland, BT12 6QA, United Kingdom

Fully owned subsidiaries (overseas) (including registered office addresses)

Air Trade Centre Netherlands B.V. (The Netherlands) - 1e Tochtweg 11, 2913 LN Nieuwerkerk aan den IJssel, The Netherlands
Asimex Klimaattechniek B.V. (The Netherlands) - Leeghwaterstraat 12, 3316 EC Dordrecht, The Netherlands
Barcol-Air B.V. (The Netherlands) - Cantekoogweg 10, 1442 LG Purmerend, The Netherlands
Beleggingsmij Interland Techniek B.V. (The Netherlands) - Tienenstraat 19, 5145 RC Waalwijk, The Netherlands
BLH Bauelemente für Lüftungstechnik Hennen GmbH (Germany) - Johann-Philipp-Reis-Strasse 1, 54293 Trier, Germany
Climaline Ceiling Solutions GmbH (Germany) - Gneisenaustrasse 10-11, 97074 Würzburg, Germany
Elthisol S.A.R.L. (France) - Parc d'activité de la Chauvellerie, Rue Charles Lindbergh - 35150 Janzé, France
Gate Pizzaras SL (Spain) - Ponferrada, Villamartin Leon, Spain
HCKP B.V. (The Netherlands) - Tienenstraat 19, 5145 RC Waalwijk, The Netherlands
Hillsborough (Guernsey) Limited (Guernsey) - Martello Court, PO Box 119, Admiral Park, St Peter Port, HY1 3HB, Guernsey
Hillsborough Investments (Guernsey) Limited (Guernsey) - Martello Court, PO Box 119, Admiral Park, St Peter Port, HY1 3HB, Guernsey
Holland Conditioning B.V. (The Netherlands) - Tienenstraat 19, 5145 RC Waalwijk, The Netherlands
Holland Conditioning Parkeersystemen B.V. (The Netherlands) - Tienenstraat 19, 5145 RC Waalwijk, The Netherlands
Houdstermaatschappij Gisama B.V. (The Netherlands) - Tienenstraat 19, 5145 RC Waalwijk, The Netherlands
Isolatec b.v.b.a. (Belgium) - Scheepvaartkaai 5, Hasselt 3500, Belgium
Interland Techniek B.V. (The Netherlands) - Tienenstraat 19, 5145 RC Waalwijk, The Netherlands
J S McCarthy Limited (Ireland) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland
Larivière S.A.S. (France) - 36 bis rue delaage, 49100 Angers, France
LITT Diffusion S.A.S. (France) - 8-16 rue Paul Vaillant Couturier 92240 Malakoff, France
Maury S.A.S. (France) - Chemin de la Plaisse, 73370 Le Bourget-du-Lac, France
Meldertse Plafonmeerartikelen N.V. (Belgium) - Bosstraat 60, 3560 Lummen, Belgium
MIT International Trade S.L. (Spain) - Carretera Sarria a Vallvidrera 259, Local 08017, Barcelona, Spain
MPA BXL N.V. (Belgium) - Bosstraat 60, 3560 Lummen, Belgium
Multijoint SA (Switzerland) - Route des Jeunes 6, Gare CFF-La Praille porte 48, 1227 Carouge GE, Switzerland
Profant Lufttechnik Handels GmbH (Austria) - Statteggerstrasse 131, 8045 Graz, Austria

Saftair Ventilation S.A.S. (France) - 15 rue du Levant, 76590 Torcy Le Petit, France
Sebemex S.A.S. (France) - 21 rue du Luxembourg, 37100 Tours, France
SIG Aftbouwspecialist B.V. (The Netherlands) Het Sterrenbeeld 52, 5215 ML 's-Hertogenbosch, The Netherlands
SIG Air Handling Bulgaria EOOD (Bulgaria) 301 Tsarigradsko Shosse Blvd, 1582 Bulgaria
SIG Air Handling N.V. (Belgium) - 180 Hoogstraat, 1930 Zaventem, Belgium
SIG Air Handling Sp. z o.o. (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland
SIG Air Handling Hungary Kft (Hungary) - Gyár u. 2, 2040 Budaörs, Hungary
SIG Air Handling International B.V. (The Netherlands) - Tienenstraat 17, 5145 RC Waalwijk The Netherlands
SIG Air Handling Netherlands B.V. (The Netherlands) - Tienenstraat 17, 5145 RC Waalwijk, The Netherlands
SIG Air Handling Romania Srl (Romania) - Bucharest, sector 1, 307-309 Sos. Odai, module - right section, 2nd floor, room 1, Romania
SIG Belgium Holdings N.V. (Belgium) - Bosstraat 60, 3560 Lummen, Belgium
SIG Building Products Limited (Ireland) (ii) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland
SIG Central Services B.V. (The Netherlands) - Bedrijfsweg 15, 5061 JX Oisterwijk, The Netherlands
SIG Construction GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany
SIG Financing (Jersey) Limited (Jersey) - 44 Esplanade, St Helier, JE4 9WG, Jersey
SIG France S.A.S. (France) - 8-16 rue Paul Vaillant Couturier, 92240 Malakoff, France
SIG Germany GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany
SIG Holdings B.V. (The Netherlands) - Bedrijfsweg 15, 5061 JX Oisterwijk, The Netherlands
SIG International Trading FZE (Dubai) - Jabel Ali, Dubai
SIG Nederland B.V. (The Netherlands) - Bedrijfsweg 15, 5061 JX Oisterwijk, The Netherlands
SIG Property GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany
SIG Technische Isolatiespecialist B.V. (The Netherlands) - Touwbaan 24-26, 2352 TZ Leiderdorp, The Netherlands
SIG Services Limited (Jersey) - 44 Esplanade, St Helier, JE4 9WG, Jersey
SIG Stukadoorspecialist B.V. (The Netherlands) - Hoogeveeneweg 160, Nieuwerkerk a.d. Ussel, 2913 LV, The Netherlands
SIG Trading (Ireland) Limited (Ireland) (viii) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland
SIG Sp. z o.o. (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland
Sitaco Sp. z o.o. (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland
Sitaco Sp. z o.o. Spolka Komandytowa (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland
Societe Industrielle de l'Ouest des Produits Isolants S.A.S. (France) - Chemin de Rouville, 27460 Alizay, France
Technische Handelmaatschappij "Inatherm" B.V. (The Netherlands) - Tienenstraat 17, 5145 RC Waalwijk, The Netherlands
WeGo Systembaustoffe GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany
WeGo Systembaustoffe Austria GmbH (Austria) - Ruthnergasse 28, 1210 Wien, Austria

Controlling interests (overseas) (including registered office addresses)

SIG Middle East LLC (UAE) (49%) - P.O. Box 215851, Dubai, UAE
Insulation and Dry Lining Trading L.L.C (Qatar) (49%) - P.O. Box 18698, Doha, Qatar - in liquidation

Notes

- (i) Directly owned by SIG plc
- (ii) Dormant company
- (iii) Ownership held in cumulative preference shares
- (iv) Ownership held in ordinary shares and 12% cumulative redeemable preference shares
- (v) Ownership held in ordinary shares and preference shares
- (vi) Ownership held in ordinary shares and deferred ordinary shares
- (vii) Ownership held in ordinary shares and class A ordinary shares
- (viii) Ownership held in ordinary shares and class B ordinary shares
- (ix) Ownership held in ordinary shares, class A ordinary shares and class B ordinary shares
- (x) Ownership held in ordinary shares, class B ordinary shares and class C ordinary shares
- (xi) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares and class C ordinary shares
- (xii) Ownership held in ordinary shares and class E ordinary shares
- (xiii) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares, class C ordinary shares, class E ordinary shares, class F ordinary shares and class G ordinary shares
- (xiv) Ownership held in class A ordinary shares
- (xv) Ownership held in class A ordinary shares and class B ordinary shares
- (xvi) Ownership held in class A ordinary shares, class B ordinary shares and class C ordinary shares
- (xvii) Ownership held in class A ordinary shares, class B ordinary shares and preference shares
- (xviii) Ownership held in class A ordinary shares, class B ordinary shares and cumulative redeemable preference shares
- (xix) Ownership held in class B ordinary shares and preference shares
- (xx) Ownership held in class AA ordinary shares, class AB ordinary shares, class AC ordinary shares, class AD ordinary shares, class AE ordinary shares, class AF ordinary shares, class AG ordinary shares, class B ordinary shares and class C ordinary shares
- (xxi) Limited partner SIG Retirement Benefit Plan Trustee Limited

Company Information

Life President

Sir Norman Adsetts OBE, MA

Secretary

Kulbinder Dosanjh

Registered number

Registered in England
998314

Registered office

10 Eastbourne Terrace
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Fax: 0114 285 6349
Email: info@sigplc.com

Corporate office

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United Kingdom
Tel: 0114 285 6300
Fax: 0114 285 6349

Company website

www.sigplc.com

Listing details

Market Reference Sector

UK Listed
SHI.L Support Services

Registrars and transfer office Computershare Investor Services PLC

The Pavilions
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Bristol BS13 8AE

Auditor

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1 More London Place
London SE1 2AF

Solicitors

Pinsent Masons LLP

1 Park Row
Leeds LS1 5AB

Principal bankers

The Royal Bank of Scotland plc

Corporate Banking
3rd Floor
2 Whitehall Quay
Leeds LS1 4HR

Barclays Bank plc

PO Box 190
1 Park Row
Leeds LS1 5WU

Commerzbank Aktiengesellschaft AG

London Branch
PO Box 52715
London EC2P 2XY

Lloyds Bank plc

2nd Floor, Lisbon House
116 Wellington Street
Leeds LS1 4LT

HSBC Bank plc

4th Floor
City Point
Leeds LS1 2HL

Joint stockbrokers

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68 Upper Thames Street
London EC4V 3BJ

Peel Hunt LLP

Moor House
120 London Wall
London EC2Y 5ET

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200 Aldersgate
Aldersgate Street
London EC1A 4HD
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50 Stratton Street
London W1 J8LL

Shareholder enquiries

Our share register is managed by Computershare, who can be contacted by telephone on:

24 hour helpline* 0370 707 1293
Overseas callers* +44 370 707 1293
Text phone 0370 702 0005

* Operator assistance available between 08:30 and 17:30 GMT each business day.

Email: Access the Computershare website www-uk.computershare.com/investor and click on "Contact Us", from where you can email Computershare.

Post: Computershare, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, United Kingdom.

Dividend tax allowance

In respect of UK shareholders, from April 2019 the annual tax-free allowance on dividend income across an individual's entire share portfolio has remained at £2,000. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. Shareholders should seek independent financial advice as to how this change will impact their personal tax obligations. The Company will continue to provide registered shareholders with a confirmation of the dividends paid by SIG plc and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

If you have any tax queries, please contact a financial advisor.

Website and electronic communications

Shareholders receive notification of the availability of the results to view or download on the Group's website www.sigplc.com, unless they have elected to receive a printed version of the results.

We encourage our shareholders to accept all shareholder communications and documents electronically instead of receiving paper copies by post as this helps to reduce the environmental impact by saving on paper and also reduces distribution costs.

If you sign up to electronic communications, instead of receiving paper copies of the annual and half-yearly financial results, notices of shareholder meetings and other shareholder documents through the post, you will receive an email to let you know this information is on our website.

If you would like to sign up to receive all future shareholder communications electronically, please register through our registrars Computershare at www.investorcentre.co.uk/ecomms.

Financial calendar

Annual General Meeting	to be held on 30 June 2020
Interim Results 2020	announcement September 2020
Full Year Results 2020	announcement March 2021
Annual Report and Financial Statements 2020	posted to shareholders March/April 2021
Final Dividend payment	n/a

Shareholder analysis at 31 December 2019

Size of Shareholding	Number of Shareholders	%	Number of Ordinary Shares	%
0 – 999	631	34.05	255,094	0.04
1,000 – 4,999	667	36.00	1,509,190	0.26
5,000 – 9,999	167	9.01	1,117,560	0.19
10,000 – 99,999	227	12.25	6,978,520	1.18
100,000 – 249,999	48	2.59	7,486,139	1.26
250,000 – 499,999	29	1.56	10,458,780	1.77
500,000 – 999,999	17	0.92	10,985,230	1.86
1,000,000+	67	3.62	552,766,469	93.44
Total	1,853	100.00	591,556,982	100.00

Shareholder notes



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