

Our strategic goal is to deliver significantly improved operational and financial performance.

"As one of Europe's leading suppliers of specialist building materials it is essential that we continue to bring value to our business customers across the construction industry.

The changes we have made this year to the leadership of the Group and the plans we have begun to implement provide the foundation for lasting change."

ANDREW ALLNER CHAIRMAN

DEAR SHAREHOLDER,

I am pleased to present my first report to you as your Chairman following my appointment on 1 November 2017.

My initial impressions of SIG plc are that it is a strong business, with leading market positions across our core markets in Europe. With close to £3bn of annual revenues and over 9,000 employees, SIG plays a critical role in the construction supply chain, helping manufacturers of building materials bring their specialised products to a broad customer base across major European markets. We have a loyal, skilled and experienced workforce and through them we help the construction industry to build offices, schools, hospitals and homes by delivering the right product to the right place at the right time.

However, over recent years, the business has struggled to translate these strong market positions and the potential of its people into robust financial performance. SIG has not provided meaningful value to Shareholders for a number of years and, in a challenging market environment, failed to deliver against expectations in 2015 and 2016. In my view, this business lost focus, tried to do too much, and has not been well managed for a long time.

My arrival was the culmination of a series of changes to the senior leadership of SIG last year, with the appointment of Nick Maddock as Chief Financial Officer in February 2017 and the appointment of Meinie Oldersma as Chief Executive Officer in April 2017. In Nick and Meinie, I believe we have a strong management team with a clear sense of what it will take to drive this business forward, and they are already putting improvement plans into action.



REVIEW OF STRATEGY

Following Meinie's and Nick's appointments, the Board carried out a detailed review of our strategy. This has confirmed the potential for the Group to deliver a significantly improved operational and financial performance, which is the Board's immediate priority. The conclusions of this review were presented to Shareholders on 21 November 2017 and are available in the Presentation & results section of our corporate website at www.sigplc.com.

We have reaffirmed our focus on our core business of distribution and merchandising of specialist products for our business customers across the construction industry. We believe our specialist focus brings us real advantages through our product expertise and our ability to partner with both suppliers and customers. We add value through the building materials supply chain with the depth and availability of stock we hold, our ability to break bulk and our delivery and logistics capability. Our customers benefit from our specialist and technical advice, our product enhancement capabilities and our provision of credit.

The implementation of our strategy, which necessarily is prioritising medium term turnaround, is focused on key strategic levers around customer service, customer value and operational efficiency, and management has put in place dedicated plans around each of these. Highly disciplined execution will be key to delivery and this will require focused investment in key enablers around data, IT and capability to support implementation. Whilst it will not be a quick or easy transition, I believe that 2017 has set the business on the path to build on its potential and deliver a significantly improved performance.

As we deliver progress in turning around the performance of the business we shall continue to develop our strategic thinking to create a long term sustainable business that meets the requirements of all our stakeholders and maximises long term value for our Shareholders.



Read about our Strategy on pages 14 to 21

BOARD AND GOVERNANCE

There were a series of changes to the Board in 2017. In addition to my appointment and the arrivals of Meinie and Nick, as noted above, Ian Duncan joined in January as Non-Executive Director and consequently as Chair of the Audit Committee. Ian has been an excellent addition to the Board.

Leslie van de Walle retired from the Board on my appointment after seven years. He did not have an easy time as Chairman but worked hard and conscientiously to do the right thing. I would like to thank him for his contribution.

One of my first priorities has been to assess the structure and composition of the Board. Chris Geoghegan's third term, nine years in total, serving as a Non-Executive Director of SIG, expires at the Company's 2018 Annual General Meeting on 10 May 2018. After consultation with the Company's Nominations Committee and in line with the recommendations of the UK Corporate Governance Code (April 2016), Chris has decided to retire in

advance of the Annual General Meeting and will not be putting himself forward for re-election. Janet Ashdown has assumed his responsibilities as Chair of the Remuneration Committee, with effect from 19 December 2017 and Mel Ewell will take over his responsibilities as Senior Independent Director from 9 March 2018. Chris has given good service to the Group over a number of years and I would like to thank him for his substantial and valuable contribution. Further, in light of succession planning, it was agreed with Mel that he would also retire from the Board, however would remain as a Director until a new Non-Executive Director is appointed.

Following my appointment, I have conducted a review of Board effectiveness with Non-Executive and Executive Directors and with feedback from some of the Group's larger Shareholders. As a result, I intend to make a number of changes to the way that the Board operates. Specifically, I believe the Board has become rather short term and internal in its focus as the financial performance has deteriorated over recent years. I am seeking to set a more strategic agenda for the Board in 2018 that looks beyond the current turnaround, whilst ensuring we continue to hold management to account for delivery of the plans and targets in our medium term strategy.

I am also looking at ways in which the Non-Executive Directors can become closer to the business with a better understanding of the day-to-day operations of the Group, including a programme of site visits and the regular attendance at Board meetings of senior managers from across the business. I am also keen that the Board has a much greater focus on people and culture as they will be critical to the future success of the Group. The Board is planning an external review of Board effectiveness in 2018 and I will report back formally on the findings from that review in due course.

Under my Chairmanship, the Board will be committed to strong corporate governance, doing business the right way and improving standards of environmental, social and sustainability practices. SIG continues to comply with the UK Corporate Governance Code (April 2016), except for running an external Board evaluation process, as outlined in our Corporate Governance Statement.



Read about Corporate Governance on pages 61 to 72

The Board remains determined to hold itself and the broader Group to the highest standards of ethical and professional practices. We will not tolerate any breach of these standards and I support the robust action taken by management, in conjunction with the Audit Committee, in relation to the controls issues identified during the year. We thoroughly investigated and reported the historical overstatements identified, and I would like to assure you that we have moved swiftly and decisively to address these serious matters, which are described further in the Financial Review and Corporate Governance sections later in this Report.



Read about Financial Review on pages 28 to 41

The Board is also supportive of management's focus on increasing the level of transparency and openness with Shareholders and other stakeholders. In this context, we continue to enhance the Annual Report so that disclosures represent a fair, balanced and understandable assessment of the Group's position and prospects and we have made a number of improvements this year with the purpose of improving the clarity of the Strategic Report in particular. I hope that you recognise and welcome these improvements.

DELIVERING SHAREHOLDER VALUE

The Board is committed to delivering value to Shareholders through the operational and financial turnaround of the business. The primary measures that the Board uses to track Shareholder value are profit before tax and average return on capital employed, which in 2017 improved by 10bps to 10.3%. Our stated target is to deliver a ROCE of c.15% over the medium term.

SIG intends to pursue this goal whilst rebuilding a strong balance sheet and is targeting a reduction in headline financial leverage to below 1.0x over the medium term from 1.9x at the year end. This target is set in the context of the recent formalisation of a robust capital allocation policy which recognises cyclical risk.

In 2017, I am pleased to say that actions were being taken to stabilise the business, and the Group delivered an improved underlying earnings per share in 2017 of 9.8p (2016: 9.7p), including the significant benefit from property profits. Statutory loss per share has improved to 10.1p (2016: 20.6p loss per share). As a result, the Board is recommending payment of a final dividend for the year of 2.50p (2016: 1.83p) per share. Together with the interim dividend of 1.25p (2016: 1.83p) per share, this gives a total dividend for the year of 3.75p (2016: 3.66p) per share, in line with the Group's stated policy to target a dividend pay-out in the range of 2-3x underlying earnings cover.

The reported results, which show a loss before tax for the year of £51.2m (2016: £110.0m), reflect the exceptional and largely non-cash costs associated with business disposals, restructuring and other actions aimed at refocusing the Group back on its core business. This process is coming to a conclusion and our objective is that such exceptional costs and charges should not be such a significant feature after the initial years of our turnaround.

I look forward to leading the Board and working on your behalf to ensure delivery of the Group's strategy and the targeted improvement in the Group's operational and financial performance.

ANDREW ALLNER
CHAIRMAN

8 March 2018