We are beginning to make initial progress towards the Group's medium term financial targets.

"We have achieved much this year, beginning to stabilise the business, returning SIG Distribution to underlying profitability and rationalising the loss-making Offsite Construction division.

We have begun to get a grip on operating costs and working capital and we have made significant steps in refocusing the portfolio, exiting from eleven businesses as we continue to strengthen our balance sheet."

MEINIE OLDERSMA CHIEF EXECUTIVE OFFICER

LIKE-FOR-LIKE SALES	*Total Group revenue*	RETURN ON SALES
3.8%	**£2,878.4m**	**3.4%**
(2016: 0.4%)	(2016: £2,845.2m)	(2016: 3.5%)

OVERALL PERFORMANCE

In 2017, the Group delivered its first improvement in underlying operating profit in three years as well as an improvement in its underlying profit before tax ('PBT'), up 4.3% to £79.2m (2016: £75.9m). Progress has been made in the year against the Group's medium term financial targets of like-for-like sales and headline financial leverage, with return on sales and return on capital employed stabilised at similar levels to the prior year. Included in the underlying PBT for the year is £13.7m (2016: £3.3m) of property profits relating to ongoing property portfolio management.

On a statutory basis, the Group made a loss before tax of £51.2m in the year (2016: £110.0m restated) after £130.4m (2016: £185.9m restated) of non-underlying items.

STABILISING THE BUSINESS

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

Internal initiatives which have been stopped or slowed down during 2017, in order to free time for branch employees to refocus on customers, include the suspension of the Group's Regional Distribution Centre programme and the completion of roll-out of a new ERP system across the core UK businesses. In combination with improving construction market conditions across Mainland Europe and Ireland, this renewed focus on our customers has helped the Group to deliver LFL sales growth of +3.8% in 2017 (2016: +0.4%) and a 1.2% increase in total revenue to £2,878.4m (2016: £2,845.2m).

The Group has also looked to address the rapid rise in costs across the business; eliminating duplication and reducing discretionary expenditure. Group functions have been significantly scaled back and a number of layers of management have been removed, including the UK & Ireland executive management team. The back office support functions for both the insulation and roofing businesses in the UK have been combined and co-located in a single shared services centre in Sheffield. A number of headcount reductions have also been made in the back office team in Germany. The Group has terminated the lease on its corporate office in Paddington and will move to smaller, fit-for-purpose premises in April 2018. SIG's historical head office in Hillsborough, Sheffield, has been sold and will be vacated later this year.

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

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

SUBDUED UK TRADING ENVIRONMENT

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

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

REPORTING OUR PROGRESS

Medium term financial targets → ***Key financial outputs***

- Like-for-like sales growth (%)
- Return on sales (%)
- Return on capital employed (%)
- Headline financial leverage (x)

Other indicators of progress → ***Key financial outputs***

- Opex as % of sales
- Working capital as % of sales

Key financial outputs

- Revenue (£m)
- Underlying gross margin (%)
- Underlying PBT (£m)
- Underlying EPS (p)
- Dividend per share (p)
- Net debt (£m)

RETURN TO UNDERLYING PROFITABILITY IN SIG DISTRIBUTION

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

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

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

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

EUROPEAN RECOVERY

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

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

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

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

ONGOING PORTFOLIO MANAGEMENT

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

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

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

RETURN ON CAPITAL EMPLOYED 10.3%

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

A reconciliation of underlying revenue to statutory revenue for 2017 as a result of these portfolio changes is set out on page 33 and in Note 32 of the Financial Statements, together with the impact on 2016 comparatives.

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

RATIONALISATION OF UK OFFSITE CONSTRUCTION DIVISION

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

INITIAL PROGRESS ON LEVERAGE

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

On 9 January 2018, the Group announced that it had identified a historical overstatement of cash and trade payables related to cash cut-off procedures in SIG Distribution, associated with the issue of cheques around previous period ends. This resulted in a overstatement of net cash of £19.8m at 31 December 2016, which, when adjusted, led to a restated net debt at 31 December 2016 of £279.9m and headline financial leverage of 2.4x. The restated headline financial leverage at 30 June 2017 increased to 2.0x.

The Group ended 2017 with net debt of £223.8m and headline financial leverage of 1.9x, an improvement of 0.5x on the restated 2016 closing position. A reconciliation of the improvement in net debt in the year is set out on page 34.

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

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

SIGNIFICANT BENEFIT FROM PROPERTY PROFITS

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

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

STRATEGY REVIEW – BUILDING ON OUR POTENTIAL

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

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

Delivery of these initiatives is being supported by investment in three key enablers: data, IT and capability. During 2018, SIG is rolling out a consistent data foundation, making it easier to analyse and improve performance. In IT, SIG is working towards a common infrastructure and central portfolio management, with projects delivered under a standard framework, building a platform for future integration.

In parallel, SIG is reinforcing the breadth and depth of its management capability to improve on a poor track record of delivering successful changes to the business.

During the initial weeks of 2018, the leadership team presented the strategy and detailed action plans across the operating companies to around 1,200 managers from eleven countries, followed by a cascade of the same key messages to all employees across the Group. All parts of the business have aligned around the key strategic priorities, with robust messaging about the need to simplify, focus and deliver. Performance management mechanisms have been revised to support the strategy, with tools now in place for close monitoring and support, and the realignment of reward structures up and down the organisation. There remains considerable work to be done to improve returns over the medium term and highly disciplined execution will be critical to success.

CURRENT TRADING AND OUTLOOK

2017 has been a year of challenge and change for SIG, reporting an underlying profit before tax of £65.5m (2016: £72.6m) excluding property profits.

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

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

Read about KPIs on pages 22 and 23