

Travis Perkins^{plc}

WEDNESDAY



A13 *A77JDCIR* #21
06/06/2018
COMPANIES HOUSE

Annual Report
& Accounts 2017

Front Cover:

Travis Perkins plc, Omega, Warrington, Distribution Centre

Right:

Colleagues - Travis Perkins, Salthouse Road

Jack Pickles - BSS, Leeds

Ian Ellis and Steve O'Toole - Keyline, Telford

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2.2%

increase in
full-year dividend

Revenue increased

3.5%

2

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HIGHLIGHTS

Solid execution and positioning the business for long-term growth

£m	Note	2017	2016	Change
Revenue	4	6,433	6,217	3.5%
Like-for-like revenue growth ⁽¹⁾	37	3.3%	3.1%	
Adjusted operating profit ⁽¹⁾	5a	380	409	(7.1)%
Adjusted operating profit excluding property ⁽¹⁾	5a	351	392	(10.5)%
Adjusted profit before taxation ⁽¹⁾	5c	343	381	(10.0)%
Adjusted earnings per share ⁽¹⁾	11b	110.4p	120.4p	(8.3)%
Net debt ⁽¹⁾	32	(342)	(378)	£36m
Dividend per share (pence)	12	46.0p	45.0p	2.2%
Lease adjusted ROCE (%)	36	10.1%	10.9%	(0.8)ppt
Operating profit		327	100	
Profit before taxation		290	73	
Basic earnings per share (pence)	11a	93.1p	5.1p	

(1) Alternative performance measures are used to provide a guide to underlying performance. Details of the calculations can be found in the notes indicated.

- Revenue growth of 3.5% in 2017, with like-for-like growth of 3.3%
- Adjusted operating profit of £380m following investments made to improve customer propositions
- Free cash flow generation of £407m, with strong cash conversion of 107%
- Net debt reduced by £36m to £342m
- Full year total dividend of 46.0p, an increase of 2.2% reflecting strong cash performance
- Encouraging early signs from the Plumbing & Heating transformation plan announced in August 2017. As previously disclosed, an exceptional charge of £41m has been recognised in connection with the plan

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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Main image:
Oana Bizic
Travis Perkins,
Staples Corner

Bottom right:
Pete Groucott
City Plumbing Supplies,
Shrewsbury

DIVISIONAL STRUCTURE

The Group's businesses are organised and managed through four divisions.

General Merchancing

£2.1bn sales, 850 branches

The General Merchancing Division supplies products for all types of repair, maintenance and improvement projects ("RMI") as well as new residential and commercial construction. The customer base is largely made up of professional tradesmen, ranging from sole traders to national housebuilders whose key requirements are locally stocked product ranges (immediately available for collection or delivery), access to extended ranges (often delivered direct to site), competitive pricing, credit accounts and problem solving expertise.

Market leading general merchant to trade customers

Kitchen distributor to trade

Consumer

£1.6bn sales, 666 stores

The Consumer Division supplies domestic building and decorative materials through its store network to DIY and trade customers. It differentiates itself by aiming to provide the best value in each of its respective channels through operating efficient stores and delivery services, a superior online proposition, high levels of availability of the brands and products that customers demand in a modern customer shopping environment.

Toolstation has a rapidly growing European business, with 23 stores in the Netherlands and France and online businesses in Belgium and Germany.

Fully integrated multichannel retailer

Fastest growing national DIY retailer

Tile retailer

More than 29,000 colleagues serving trade customers and retail customers from over 2,000 trading outlets throughout the UK.

Contracts

£1.4bn sales, 169 branches

The customers of the three large Contracts businesses, Keyline, BSS and CCF, are typically main contractors and sub-contractors in the residential, infrastructure, commercial and industrial construction sectors. The products supplied from the three main businesses are generally used in large construction projects ranging from new road and rail infrastructure, power generation construction, public service infrastructure such as hospitals and schools, through to commercial and residential construction and refurbishment.

Leading specialist distributor of civils, heavy building materials and drainage

Specialist distributor of ceilings, insulation and drywall

Leading specialist distributors of pipeline and heating solutions

Plumbing & Heating

£1.4bn sales, 391 branches

The Plumbing & Heating Division delivers a coherent and consistent proposition to installer and contract customers through an integrated branch network and online capacity, as well as being a leading wholesaler to trade distributors.

The Division has an extended category reach including its successful own brand products and leading renewable heating distributors, enabling improved customer convenience.

Digital footprint

Physical network

Leading wholesaler to trade distributors

CHAIRMAN'S STATEMENT

I am pleased to introduce the Company's Annual Report for the year ended 31 December 2017, a year in which the Group has continued to drive towards its longer term targets, but has also needed to react to an increasingly uncertain macro-economic climate in the UK. The Group is striking a balance between investing for future growth and delivering positive short term financial performance, and it is pleasing to see our businesses perform well in this challenging environment.

Group sales grew by 3.5% to £6.4 billion and by 3.3% on a like-for-like basis.

Continued investment in the Group's businesses to improve customer service and propositions and build a sustainable advantage over competitors, combined with significant operating cost inflation over the course of the year led to a 7% reduction in adjusted operating profit to £380m. Adjusted earnings per share reduced to 110.4p compared with 120.4p in 2016.

The performance of the Group's businesses results from a combination of the strength/weakness of their end-market performance and the level of investment in the business.

The three Contracts businesses, Keyline, BSS and CCF performed particularly strongly, extending market share and improving profitability. The Travis Perkins general merchant business was impacted by a more challenging repairs, maintenance and improvement market than in recent years, combined with the increased costs of extending the heavyside range centre network across all of England and Wales, and increasing investments in digital capabilities, both of which will be of great benefit to the business in the future.

The Wickes business continued to outperform its direct competitors, but in a market that became increasingly difficult as consumers saw their disposable income tighten through the course of 2017 as higher inflation levels outpaced wage growth. The Toolstation business continues to mature quickly, with like-for-like growth increasing throughout 2017.

The review of the Plumbing & Heating business carried out in the first half of the year led to a wide ranging restructuring plan, and much has been achieved in the second half of the year. Early signs are encouraging and significant improvements have been made in customer propositions, supply chain structure and customer relationships which are showing an improvement in sales, and a significant reduction in the cost base has formed a solid foundation for the recovery of this business going forwards.

Strategy

The Group outlined a five year strategic plan in December 2013 setting out its ambition to deliver long-term, sustainable value to shareholders through four levers of value creation. The Group has invested in recent years in its proposition to offer market-leading service to its customers. While the long-term fundamental drivers remain favourable, the current macro-economic climate means we must be even more focused on where we invest to deliver growing returns. We have therefore set even tougher hurdles for investment and would expect capital expenditure to slow further in 2018.

During 2018, we will focus on refining the Group's strategy to create value for shareholders and will update the market accordingly.

Dividend

The Board is taking a balanced view between the on-going level of uncertainty and the resulting low growth environment in the UK economy, and therefore the Group's end markets, and the continuing strong cash generation of the Group's businesses. Although absolute profitability declined modestly in 2017, the Board recommend an increase of 2.2% in the full year dividend.

A final dividend of 30.5p, payable on 11 May 2018 to shareholders on the register on 6 April 2018, will give a full year dividend of 46p (2016: 45p). This moves the Group to just outside its target dividend cover range of 2.5-3.25x, but reflects the confidence in the on-going positive cash generation of the Group even whilst funding the investment capital and reducing the Group's net debt position.

Employees

Our people are our greatest resource; at Travis Perkins we have around 30,000 employees across the UK and we take our responsibility to our colleagues very seriously. We continue to be recognised by the Great Place to Work Institute, a significant acknowledgement of the hard work and commitment of all our colleagues, particularly across our branch network and the supporting HR teams. We strive for continuous improvement in the Group's programmes which focus on colleague health and safety, career development, diversity and flexible benefits.

I would like to take this opportunity, on behalf of the Board, to thank all our colleagues for their commitment, energy and hard work during the course of 2017.

Board of Directors

In November 2017, Robert Walker retired as Chairman of the Board of Directors after eight years. On behalf of the Board, the Management team and the wider Travis Perkins family, we thank Robert for his diligent service to the company, and for his guidance throughout his Chairmanship.

I joined the Board in September 2017, and succeeded Robert as Chairman in November 2017.

Alan Williams joined the Board as an executive member as Chief Financial Officer on 3 January 2017. Tony Buffin remains on the Board, but changed roles to become Group COO.

There were no other Director changes in 2017. I will be leading a review of Board composition at the Nomination Committee during 2018 in order to plan the evolution of the Board and to ensure that we continue to have the right balance of skills, experience and diversity into the future.

Outlook

The UK economic environment continues to be challenging, with the individual markets in which our businesses compete primarily driven by the sentiment and financial spending power of UK consumers. It remains difficult to predict how these markets will progress in 2018.

Our management teams are highly experienced in operating in a variety of market conditions and have taken appropriate steps for their businesses to react to and take advantage of any market changes.

The core foundations of long term demand for building materials remain solid, with continued unmet demand for housing, and a large and ageing housing stock requiring renovation. The majority of our businesses also operate in fragmented market structures.

Against this backdrop, the investments we have made and will continue to make to improve our customer propositions, optimise our property network and modernise our legacy IT systems will give us the base on which to build our profitable growth plans.

Stuart Chambers

Chairman
27 February 2018

HOW WE CREATE VALUE

The UK's largest distributor of building materials with room to grow

Whilst the Group is the largest distributor of building materials in the UK, its businesses are not always the first choice for many of its customers and many of the markets in which the Group operates remain fragmented. These opportunities present compelling routes to improve and grow many of the Group's businesses. The Group remains committed to building on its core expertise as a distributor of building materials. Given the opportunities to grow, the UK will remain the key focus for the Group's merchant businesses for the foreseeable future. The Group has begun to diversify beyond the UK and this will continue with the organic expansion of its integrated multichannel business Toolstation. The Group will only enter markets beyond the UK where one of the Group's businesses has a disruptive and compelling customer proposition and where strong returns can be generated.

Be the first choice distributor of building materials in the UK



First Choice

The Group is the largest distributor of building materials, but not the first choice for the majority of customers

Distributor

With the exception of some minority investments the Group is a distribution business with complementary supply chains

Building Materials

The products the Group sells are used in the repair, maintenance or improvement of existing buildings and the construction of new building and infrastructure projects

UK

The advantages the Group and its businesses enjoy are generally not scalable outside the UK

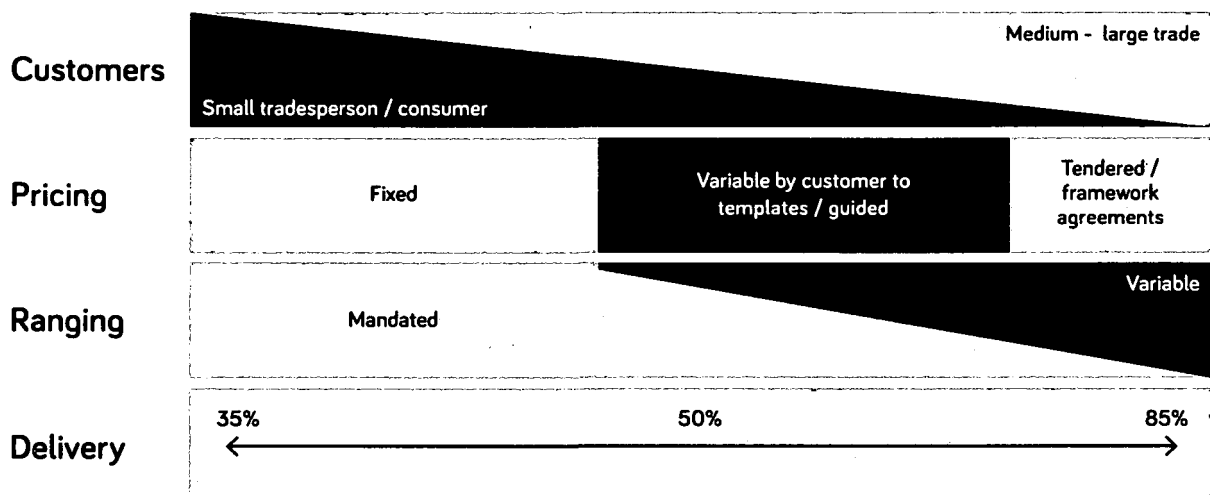
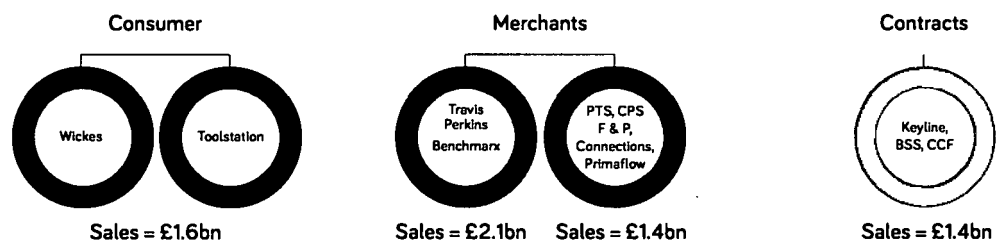
Business model

The core of all of the Group's businesses is distribution, meaning they are engaged in buying, moving and selling building materials.



The markets each of the Group's businesses operate within have distinct characteristics based on the type of customers they serve, what products they sell, the basis of pricing and the fulfilment channel. The Group organises its businesses by customer group. Retail customers are served through the Consumer division and large contract led customers are served

through the Contracts division. Customers who range from local tradesmen through to national developers are served through two merchant divisions; Travis Perkins and Benchmark within the General Merchandising division and specialist plumbing customers through the Plumbing & Heating division.



The Group's ambition

Whilst demand in markets the Group's businesses operate within remains a key driver of the volume of building materials sold and in the Group's continued success, the Group's growth is not overly constrained by market growth. The Group has relatively low market shares in many sectors, which presents an excellent opportunity for the majority of the Group's businesses to gain market share. These businesses are well positioned to take advantage of this opportunity to gain share because of the significant structural advantages the Group enjoys, which include the scale of its buying, its distribution infrastructure and the breadth of its property portfolio, enabling operating businesses to access good quality sites which other competitors may not be able to access, quickly and cost effectively. In addition, each operating business is guided to develop superior customer propositions through better ranging, value for money, convenience and advantaged delivery and service expertise.

1 Market fragmentation	• The majority of the markets in which the Group competes are highly fragmented • Proliferation of small family-owned businesses • The Group's businesses are no. 1 or no. 2 in each of their markets, but mostly with relatively low market shares
2 Structural advantages	• Sourcing & supply chain: sourcing terms, range, stocking and distribution efficiency • Branch network: 2,000 locations in the UK with strong financial position underpinning tight rent yields and site access • IT: selective sharing of software platforms and volume hardware purchasing
3 Superior propositions	• Range & value: improved promotions and KVI pricing, range extension, own label development, availability • Space: new branch and store opening programme with implants intensifying space • Channel, format and customer service: investment in online channels, new formats and better service

Fragmented markets + structural advantage + superior proposition = sustainable market share gains

As a result of its strategic and structural advantages the Group expects to outperform the underlying level of market growth and furthermore to add additional capacity in selected markets. The Group identifies opportunities to continue to add capacity in Wickes, Toolstation, through online channels, in Benchmarx, Keyline and selectively in Travis Perkins and CCF. However, its ability to outperform the market is against a backdrop of uncertainty in its markets, with difficult to forecast price inflation and market volume. Price inflation and volume are clearly linked and the Group will remain agile in its trading approach in order to maximise its cash earning potential.

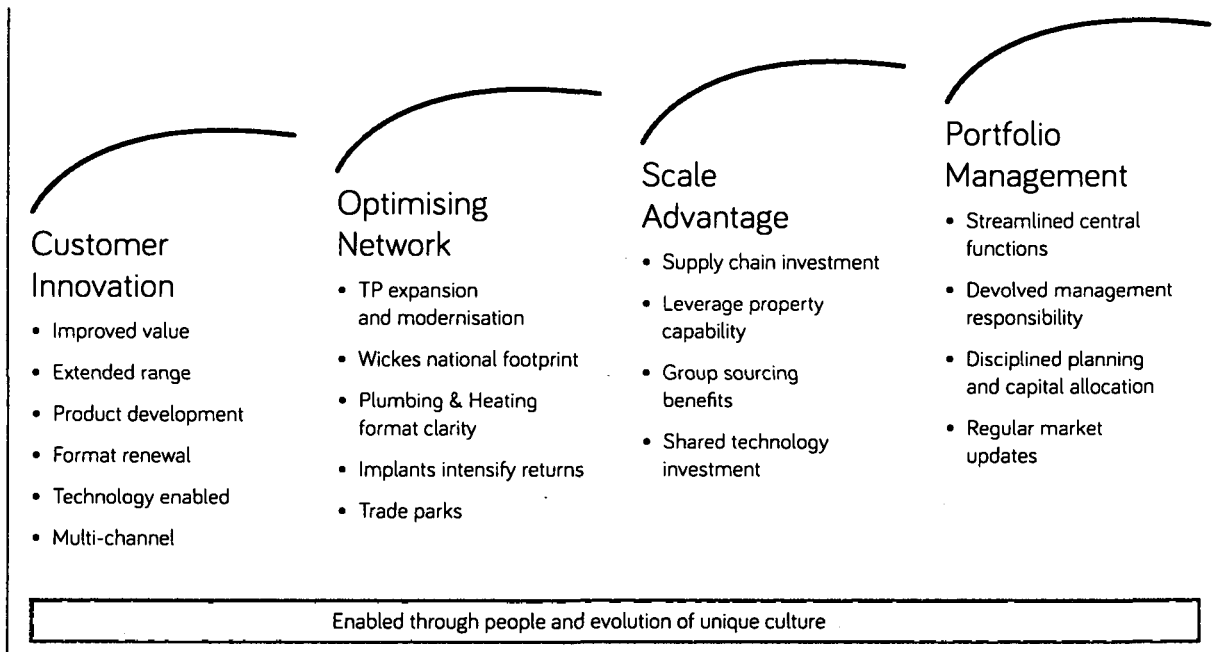
The Group set out its strategy in December 2013 and committed itself to the following:

- Outperforming the market sales growth in these markets
- Growing operating margins in its Contracts and Consumer divisions
- Maintaining its sector leading margins in the General Merchandising division
- Delivering low double digit growth in EBITA per annum in each of these divisions and increases in LAROC of 200-300 basis points over the medium term, subject to modest market growth

Levers of value creation

In order to deliver its ambitions, the Group developed a strategy in 2013 which remains in place today with components of the strategy being accelerated or moderated depending on market conditions and performance in each of its businesses.

The chart below sets out the levers the Group is using to create value for its shareholders.



Comparing performance with strategy

The Group's ambition is to deliver long term, sustainable value to shareholders. There is a comprehensive series of financial and non-financial measures which the Group tracks to monitor operational performance. All of these indicators are aligned to achieving the Group's strategic ambition. The Group's actual performance for 2017 is shown in the performance review sections on pages 14 to 31. Executive Director remuneration is linked to strategy and performance, which is explained further in the Director's Remuneration Report on page 64.

Risks

The Statement of Principal Risks and Uncertainties on pages 33 to 39, sets out the key risk factors that are considered by the Directors to be material to the business and may impact upon the successful delivery of this strategy.

CHIEF EXECUTIVE'S STATEMENT

It has been a challenging year for the Group, and we have worked hard to strike an appropriate balance between continuing to make investments to further improve our competitive positioning for the medium and long term, and reacting to slowing market volume growth in many of our end markets. A key focus of 2017 has been to pass through the significant cost price inflation that was driven by the devaluation of sterling in late 2016, and I am extremely impressed by how our businesses have approached and successfully achieved this challenge.

As a Group, we continue to focus on our customers, and whilst there is still much left to develop and improve, I am proud of the feedback we receive from our customers, particularly with respect to the investments we have already put in place. The growing utilisation of our distribution network demonstrates how customers value swift access to a broad range of products, and the continuing growth of our online sales across the Group shows that our customer base is ready to embrace digital solutions in our markets.

For me, the most important investment programme in the Group today is the replacement of our Merchanting ERP systems, which stretches beyond an IT project, redefining our processes for how we run our business. The change will allow our branch colleagues to serve our customers more completely, far more quickly and with much greater efficiency, and it will deliver considerably more, higher quality data to our businesses which will improve our decision making. It will also underpin our plans to enhance our digital capabilities and enable a true multichannel solution for our merchant customers.

Our business is built on the quality of our people, and it is with great pride that I see how our people have reacted to the challenges we currently face. We have added to our 30,000 strong team at all levels of the organisation, including our apprenticeship scheme which was rebranded in 2017, and gives apprentices opportunities at every level of the business. Developing this strong pipeline of talent is vital to the on-going

success of Travis Perkins, and I am delighted with the progress we are making. We have also made continued progress in improving the diversity of our team, and our 'Workforce with a Difference' programme making positive changes within the Group.

Keeping people safe is a cornerstone of our business, and through the rigorous efforts by our business leaders, line managers, all colleagues and the Stay Safe function, I am pleased to report a significant reduction in the number and frequency of lost time accidents in 2017. We continue to make our sites safer for all our stakeholders.

We have invested considerable capital in our businesses over the last four years which has been used to expand and modernise our branch network to create the only nationwide distribution centre network for building materials and to develop transactional digital platforms to provide a multichannel proposition for our customers. Whilst our plans to invest in and improve our propositions remain intact, the difficult market environment has given us reason to pause on the pace of investment. In 2017 we have focused capital investment on projects that are either vital to the progress of the Group, such as the Merchant ERP system, or which will deliver strong positive returns in the short-term, such as the expansion of Toolstation. By maintaining strong discipline about where capital is allocated we will weather the current market uncertainty, defend or grow our market positions and position the Group for a strong future.

The long-term drivers of our business remain favourable, and I maintain confidence that the investments and progress we have made to improve our businesses are the right ones, and that they have put the Group in an excellent position to outperform our markets over the medium term.

- We compete in fragmented markets where the majority of players are small, independent businesses
- Our investments in recent years have built, and continue to improve, a sustainable competitive advantage, with capabilities beyond our peers
- We are developing superior customer propositions by providing the right product range, at better value, through innovative formats in both physical and virtual stores

Our businesses in 2017

General Merchandising

Over the last 4 years we have invested significant capital to create our lightside and heavyside distribution centre network, and 2017 saw the heavyside proposition extended to all Travis Perkins branches in England and Wales. I am delighted with how our branch staff are using this capability to offer our customers unmatched access to over 30,000 products the next day, and generating extended range sales for the business, as well as supporting our transactional online platform which continues to grow. In 2017, we also completed the roll-out of our new pricing tools across all Travis Perkins branches, allowing our branch staff to give customers more competitive and consistent pricing.

Our kitchen distribution business, Benchmarx, continued its strong growth with a further 11 branches opened in 2017 taking the overall network to 183 branches.

Plumbing & Heating

Whilst it is early days for the Plumbing & Heating transformation plan, led by Tony Buffin in his role as Group COO, I am extremely encouraged by the progress that has been made. The plan to merge the City Plumbing Supplies and PTS branch networks into a single trading entity has significantly simplified our relationships with customers, and has allowed a material reduction in overhead costs.

The team has carried out some promising activities to improve the customer proposition across the Plumbing & Heating businesses, improving the range and availability of products in our branches, refining our promotional activities and launching a transactional online platform. Whilst there is a long way still to go the early signs have been very successful, with positive sales growth in City Plumbing Supplies and the F & P Wholesale business.

The decline in profitability has been arrested in the second half of 2017, and I'm confident that we can deliver positive earnings growth into 2018.

Contracts

The Contracts division delivered the stand-out trading performance in 2017, with all three businesses, Keyline, BSS and CCF, delivering above-market growth, and achieving good operating leverage while doing so. All three businesses can

attribute their progress in recent years to the work undertaken to fully understand our customers and their requirements, and the fantastic level of customer service that they provide.

Although it can be difficult to predict exactly how the medium term demand for commercial construction, infrastructure, residential house building and industrial projects will develop, I remain very confident that our Contracts businesses can continue to gain market share and produce profitable growth in 2018.

Consumer

The UK DIY market continues to be extremely challenging with consumer confidence having declined steadily throughout the year. We invested in our cost base in 2017 with the aim to continue the strong volume growth achieved since 2014, unfortunately the tough market conditions, increased pricing competition and a poor autumn Kitchen & Bathroom showroom sale period meant we did not absorb those additional costs which negatively impacted margins. Significant cost reduction activity has reset the cost base for 2018, and I am encouraged by Wickes' start to the year. We continue to make excellent progress on our store refit programme, and our best-in-class online platform now accounts for over £180m of sales every year.

Toolstation continues to go from strength to strength, with the like-for-like growth rate accelerating and store expansion plan moving at great pace. We opened our 300th UK store in February 2018 in Eastleigh, Hampshire, and sales topped £300m in 2017 for the first time.

The years ahead

It is a genuine privilege to be in my 40th year working for such a fantastic company, surrounded by amazing people. I would like to put on record my genuine thanks to all our colleagues across the Group; they never stop inspiring me and our wider leadership teams, and they are the defining difference as to how we serve and satisfy our customers. During my tenure, I have seen the business show incredible resilience in the face of disruptive market conditions, and I have no doubt that our businesses will navigate the current market challenges successfully.

Given the current UK macroeconomic environment the Group needs to maintain its flexibility in order to be able to adapt to swiftly changing end-market conditions. As we move into 2018 we are determined to maintain a tight control of the cost base, finding an appropriate balance between making positive cost investments to improve customer service and reducing inefficiencies across the Group.

The investments we have made and continue to make to improve the customer propositions delivered by our businesses will provide us with a considerable competitive advantage over our peers, and leave us well positioned to achieve sustainable growth over the medium to long term.

John Carter

Chief Executive
27 February 2018

PERFORMANCE REVIEW

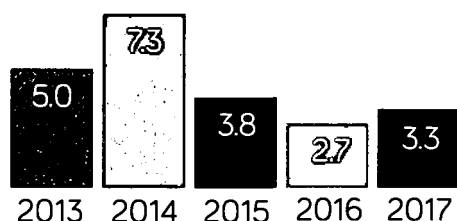
Key performance indicators (KPIs)

The Group tracks its performance using two operating KPIs, three financial KPIs and one funding target that the Board believes are key indicators of its progress against its strategic and financial targets. In addition the Group has a number of guidance measures at a Group, divisional and business level, details of which are set out in this section and in the financial performance section on pages 23 to 31. These are non-GAAP measures, the derivation of which is shown in the notes to the financial statements referenced in the heading to each measure. Where the Group's KPI is based on a non-GAAP measure, rather than its GAAP equivalent, this is because in the Directors' view the non-GAAP measure provides them with a better indicator of the performance of the underlying business.

Operating key performance indicators

Like-for-like sales growth 3.3%
(Note 37)

Performance Trend



Definition

Revenue growth adjusted for new branches, branch closures and trading day differences. Revenue included in like-for-like is for the equivalent periods in both years under comparison. Branches are included in like-for-like sales once they have traded for more than 12 months. When branches close, revenue is excluded from the prior year figures for the

number of months equivalent to the post closure period in the current year.

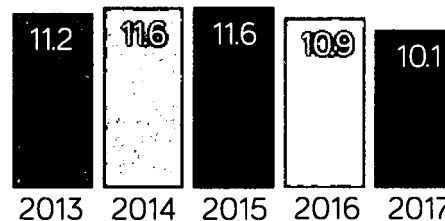
Reason

Calculating like-for-like sales enables management to monitor the performance trend of the underlying business year-on-year. It also gives management a good indication of the health of the business compared to competitors.

Financial key performance indicators

Lease adjusted return on capital employed* 10.1%
(Note 36)

Performance Trend



Definition

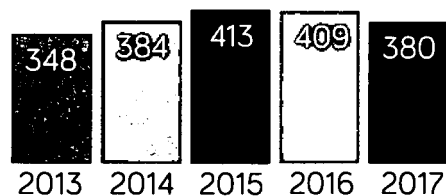
Adjusted operating profit after adding back 50% of annual property lease rentals, divided by the combined value of balance sheet debt, equity and eight times annual property rental expense.

Reason

This ratio allows management to measure how effectively capital is used in the business to generate returns for shareholders. It takes into account both balance sheet debt and off-balance sheet long term obligations, being principally property leases.

Adjusted operating profit £380m
(Note 5a)

Performance Trend



Definition

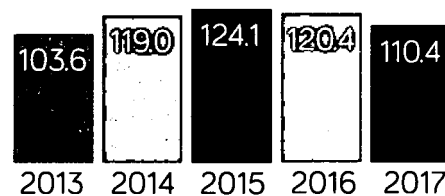
Profit before tax, financing charges and income, amortisation of acquired intangibles and exceptional items.

Reason

Operating profit is adjusted to exclude non-trading items, such as exceptional items and the amortisation of other intangible assets arising on the acquisition of a business, so management can monitor the Group's underlying trading performance.

Adjusted earnings per share* 110.4p
(Note 11b)

Performance Trend



Definition

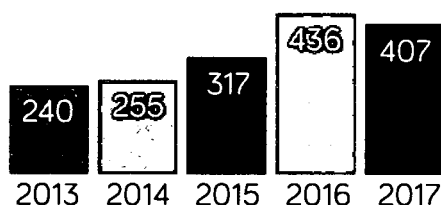
Profit after tax, adjusted to exclude the effects of amortisation and exceptional items, divided by the weighted average number of shares in issue during the period.

Reason

Adjusted earnings per share is an indicator of the Group's underlying profitability, which is important in understanding the earnings attributable to each shareholder and in determining the earnings available for distribution via the dividend.

Free cash flow £407m (Note 34)

Performance Trend



Definition

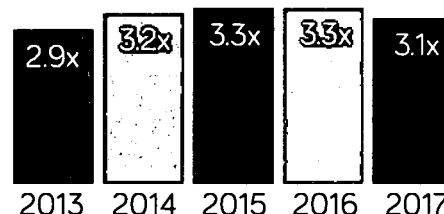
Net cash flow before dividends, growth capital expenditure, pension deficit repair contributions, exceptional cash flows and financing cash flows.

Reason

The Group needs to generate strong free cash flows to enable it to invest and expand its operations, settle financing charges from debt providers, pay dividends to shareholders and access the best property locations.

Fixed charge cover 3.1 times (Note 35c)

Performance Trend



Definition

The ratio of earnings after adding back property lease rentals, but before interest, tax, depreciation, amortisation and exceptional items, to finance charges plus property lease rentals.

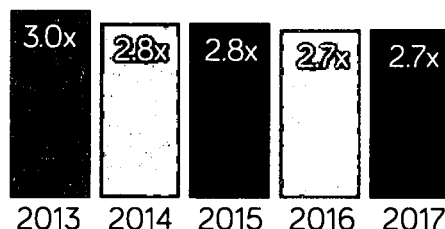
Reason

Fixed charge cover is used by management, lenders and debt rating agencies when determining the ability of the Group to pay fixed financing charges. The Group is targeting a ratio of 3.5x.

Funding key performance indicator

Leverage ratio 2.7 times (Note 35b)

Performance Trend



Definition

The ratio of lease adjusted net debt to earnings before tax, interest, depreciation, amortisation, property lease rentals and exceptional items ("EBITDAR").

Reason

The leverage ratio is an indicator for management and lenders of the Group's ability to support its debt. The Group has a target of below 2.5x.

*KPIs marked * are measurements used in determining elements of director's remuneration, details of which are set out on pages 64 to 81.

Business performance

Summary

The conditions across the Group's end markets were mixed throughout the course of 2017. Input cost inflation was high across all businesses, driven primarily by the foreign exchange impact of sterling weakening following the referendum vote to leave the EU in June 2016 and commodity inflation on specific product categories which is still working its way through the supply chain. This cost inflation dictated that a main focus for the year was how to pass this inflation through into sales prices, protecting profitability in the short term. On the whole, the Group's businesses have passed this inflation through successfully.

The key lead indicators for the Group's end markets have also remained mixed. Secondary housing transactions held up better than expected, at 1.2m transactions, broadly similar to 2016. However, the quality and type of transaction shifted more towards first-time buyers supported by the help-to-buy scheme, and reducing the direct read through to residential repair, maintenance and improvement (RMI) market volumes.

Consumer confidence declined steadily through 2017. Whilst employment levels remain strong, wage inflation has lagged overall inflation, reducing consumer discretionary spending power. Market evidence suggests that consumers remain willing to spend, but with an increased focus on experiences over material purchases and achieving value for money.

Given these market dynamics, Group revenues grew by £216m, or 3.5%, to £6,433m, with like-for-like growth of 3.3%. Focus in the first half of the year was on recovery of significant cost price inflation, maintaining gross margins but at the expense of volume as some competitors were slower to increase prices. In the second half of the year, pricing pressure eased and the Group generated like-for-like growth of 3.7%, with the combined merchant businesses delivering like-for-like growth of 4.9%.

Adjusted operating profit declined in 2017 by £29m or 7.1%, due to a combination of higher operating costs in the General Merchandising and Consumer divisions to strengthen the proposition and the expected full-year profit decline in Plumbing & Heating. Significantly higher central costs were primarily driven by the investments the Group is making in IT capabilities and digital platforms, and the cost of new format experiments.

The Group continued to demonstrate strong cash generation in 2017, with free cash flow of £407m, at a conversion rate of 107%. Net debt reduced by £36m to £342m, adding further to the Group's balance sheet strength and maintaining significant liquidity headroom.

The board recommends a 46.0 pence full year dividend, which reduces dividend cover to 2.4 times (2016: 2.7 times) adjusted earnings per share, slightly below the lower limit of the Board's target range of 2.5x to 3.25x and reflecting the Board's confidence in the on-going strength of cash generation of the Group.

Progress on strategy

The Group's strategic plan is focused on making investments in the businesses that should deliver improving returns throughout the economic cycle with a near-term focus on the Plumbing & Heating transformation plan. Given the near-term challenging economic environment in the UK the Group is further increasing the discipline with which it assesses and makes investments, limiting investments to those that will generate a short-term positive return or which enable growth, particularly through digital channels. On this basis, growth capital investment in 2018 will be mainly focused on the on-going network expansion of Toolstation, a limited number of store refits in Wickes, and the on-going investments in digital platforms across the business.

In General Merchandising, the investments made in supply chain capability for lightside and heavyside product categories, the improved level of customer service within branches and the progress made on developing transactional digital platforms have improved the customer proposition. The service of the heavyside range centre network was extended in 2017 to cover all Travis Perkins branches in England and Wales, with material growth in the extended range of heavyside products and a corresponding positive return on capital in line with expectations.

The General Merchandising market remains tough with limited volume growth and tough pricing competition. The business has however seen encouraging early results from using its new pricing framework to make price investments in selective product categories.

The transformation programme in Plumbing & Heating has already made significant progress. The City Plumbing Supplies and PTS branch networks have been combined under a single management team with the net closure of 46 branches resulting in a meaningful reduction in cost. Improvements to the proposition including consistent branch ranges, better product availability, greater promotional intensity, and further online growth have delivered positive sales momentum and a return to profit growth in the second half of the year. This momentum has carried through into 2018.

The Contracts division continues to perform strongly, with all three businesses outperforming their markets. Pass through of cost price inflation, particularly on insulation products, was achieved successfully, and the operating leverage achieved on higher sales, together with overhead initiatives such as the centralisation of administration activities in BSS generated stronger profit growth in 2017.

The expansion of the Toolstation store network continued at pace, with an additional 40 stores opened in the UK. Focused work to further develop the proposition, including expansion of online ranges, the introduction of a direct ship service to customers, extension of delivery to 6 days per week and Click & Collect times reduced to 10 minutes, all helped to accelerate the like-for-like sales growth rate through 2017.

In Wickes, the store refit programme continued with 27 stores updated to the new format bringing the total to 94. The enhancements to the Kitchen and Bathroom showroom, better laid out trade areas and improved product adjacency is delivering a significant sales uplift compared with old format stores. The plan to open more Wickes stores has been slowed, given challenging UK DIY market conditions, with three additional stores opened in 2017.

Outlook

The long term drivers of market growth remain favourable, centred on the UK's requirement for more homes and the structural underinvestment in the repair, maintenance and improvement (RMI) of existing dwellings and infrastructure. Macroeconomic data has been difficult to read, and recent lead indicators, including consumer confidence and housing transactions, have painted a mixed picture for the near-term performance of the Group's end markets, which is expected to continue in 2018.

Whilst the inflationary pressures suffered in 2017 were primarily foreign exchange driven, and these changes have now been cycled, inflation remains elevated, now driven by rising commodity prices in specific product categories.

During the investment phase since 2014, the Group has added significant cost into the business in order to improve the customer proposition. These improvements give the Group a sustainable competitive advantage, however the Group must ensure an appropriate balance between managing the cost base of the business whilst maintaining the strong proposition that has been put in place.

Cost efficiency programmes have been put in place across the Group, particularly in the General Merchandising and Consumer divisions. In Wickes, a significant cost management exercise was carried out in late 2017, to reset the cost base to an appropriate level for 2018. Costs have already been reduced by £8m, which accounts for around half of the profit reduction in 2017. A wider cost efficiency programme is extending into 2018 to reduce waste and cost in order to offset pressure from general cost inflation.

In General Merchandising, there has been significant operating cost investment in support of the capital investments made to develop the distribution centre network, particularly in extending the coverage of the heavyside range centre (HRC) network to all branches in England and Wales and in improving the customer proposition in branches and online. Whilst the operating cost investments are well received by customers and are delivering a positive return on investment, other operating cost pressure from wages, rent, rates and depreciation is also increasing, and the lack of sales volume progression makes it difficult to absorb these extra costs in the short term. Actions have been taken to improve productivity and efficiency across the business by reducing costs in support functions and creating flexibility in the cost base. This will remain a focus area throughout 2018.

The positive momentum in the Contracts division is expected to continue in 2018 further enhancing returns. Progress on the Plumbing & Heating transformation plan has been encouraging and we remain confident of further recovery in 2018.

Given current market conditions, the Group expects performance in 2018 to be similar to 2017.

Technical guidance for 2018

The Group's technical guidance for 2018 is as follows:

- Effective tax rate of around 19%
- Finance charges will be similar to 2017
- Capital expenditure of around £140m - £160m, excluding investment in freehold property
- Property profits of around £20m
- Progressive dividend policy, underpinned by strong cash generation

Divisional performance

General Merchancing

	2017	2016	Change
Total revenue	£2,109m	£2,073m	1.7%
Like-for-like growth			1.2%
Adjusted operating profit excluding property	£183m	£193m	(5.2)%
Adjusted operating margin excluding property	8.7%	9.3%	(60)bps
LAROC	14%	15%	(1)ppt
Branch network	850	833	17

Financial performance

- Total revenue growth of 1.7% includes like-for-like growth of 1.2%. The like-for-like growth rate accelerated in the second half of the year, at 2.5% versus (0.1)% in the first half.
- Like-for-like growth was predominantly driven by sales price inflation throughout the year, and through volume growth from price investments in selected product categories.
- Adjusted operating profit, excluding property, declined by £10m to £183m, a reduction of 5.2%. This was primarily driven by the higher operating costs required to extend the service of the heavyside range centre network to all branches in England and Wales, together with the costs of opening new branches and increases in rent, rates and depreciation.
- Gross margin reduced modestly in the second half of the year as the new pricing framework allowed selective pricing and promotional activity across specific categories to improve price perception and promote volume growth.
- Divisional LAROC reduced by 1ppt to 14%, reflecting the lower operating profit on a modestly higher capital base following continued extension of the Benchmarx branch network and relocation and refitting of Travis Perkins branches.

Operational highlights

- Cost price inflation was broadly recovered during H1 2017.
- The roll-out of the new pricing framework was completed across the Travis Perkins branch network. The framework allows branch staff to provide more competitive pricing to customers on a much more consistent basis. Price changes are being applied by product category or family through the course of 2017 and 2018.
- The Travis Perkins transactional website continues to grow strongly, with over £17m of online sales in 2017. The proposition of an extensive online range, supported by the heavyside and lightside distribution network, and delivered through a reliable delivery service or through Click & Collect is receiving positive feedback from customers.
- Results from an extensive customer survey carried out in 2017 show good progress in customer perception driven by the investments made to improve the proposition of the business, in particular around product range and availability, and branch service levels.
- The heavyside range centres continue to mature, with good growth in extended range sales in 2017. They are expected to grow strongly again in 2018 with an extra 174 branches serviced at the end of the year. From January 2018, the business is supported by a dedicated Primary Distribution Hub for lightside products, located in Northampton.
- The Benchmarx branch network growth continued with net 11 branches added in 2017, giving an overall network of 183 sites.

Plumbing & Heating

	2017	2016	Change
Total revenue	£1,366m	£1,359m	0.5%
Like-for-like growth			2.1%
Adjusted operating profit excluding property	£31m	£36m	(13.9)%
Adjusted operating margin excluding property	2.3%	2.6%	(30)bps
LAROC	11%	10%	1ppt
Branch network	391	436	(45)

Financial performance

- Plumbing & Heating revenues grew in absolute terms in 2017, a turnaround on recent years. In the second half of the year, sales grew by 2.5% through strong performances in the combined branch network, online channels and the FPC wholesale business.
- Like-for-like sales growth momentum built throughout 2017, reaching 6.1% in Q4, and this strong momentum has carried through into 2018.
- Operating profits excluding property grew in the second half of the year by over 8%. Gross margins reduced modestly with gross profit broadly stable, mainly owing to a change in the mix of business, with strong growth in the lower margin wholesale business, as well as stronger promotional activity in the branch network to drive volume growth. This gross margin dilution was more than offset by the reduction in operating costs, primarily achieved through the simplification of the divisional structure and branch closures.
- LAROC increased to 11% as the reduction in operating profit was offset by a reduction in capital employed as 46 branches were closed and capital investment was restricted to just £4m in the year.

Operational highlights

- Although there remains much to do, the initial results from the transformation programme have been very positive.
- Combining the City Plumbing Supplies and PTS branch networks has been well received by customers, suppliers and colleagues and enabled branch rationalisation and a lower cost base, whilst continuing to grow sales.
- An effective promotional programme has enhanced value for customers, with specific bathroom showroom offers targeting end consumers which has driven additional installation opportunities for our trade customers.
- Branch manager incentive schemes have been restructured to better reward outperformance.
- Range standardisation has been improved, with all branches now reliably stocking the 1,400 top selling products in depth.
- Creating a dedicated supply chain supporting Plumbing & Heating branches and the online platform improved product availability by 10%, enhancing customer service and this should enable further cost efficiencies in 2018.
- A transactional City Plumbing Supplies website was developed in the year with links to a number of specialist category web businesses. Improvements to the specialist online platforms included linking bathrooms.com to drive visits to the Group's bathroom showroom, and the introduction of mobile-enabled websites in Direct Heating Spares, the Underfloor Heating Store and PlumbNation. National Shower Spares was acquired in October 2017, supplementing the spares offer to customers.

Strategic Report

Contracts

	2017	2016	Change
Total revenue	£1,369m	£1,267m	8.1%
Like-for-like growth			8.4%
Adjusted operating profit excluding property	£86m	£76m	13.2%
Adjusted operating margin excluding property	6.3%	6.0%	30bps
LAROCCE	14%	12%	2ppt
Branch network	169	167	2

Financial performance

- Revenue growth was strong across all three businesses in the Contracts division, with total sales growth of £102m, up 8.1%, and like-for-like growth of 8.4%. Following a very strong start to 2017, like-for-like sales maintained a strong growth rate in the second half of the year, with growth of 7.7% and 7.9% in Q3 and Q4 respectively, even against strong comparators from 2016.
- Sales growth was driven by both strong price inflation and volume growth as the commercial construction, residential new build and infrastructure markets remained resilient and CCF, Keyline and BSS all increased market share through the year.
- The additional volume of sales achieved on a constant branch network drove significant operating leverage, increasing operating profit margin by 30bps. Successful pass through of cost price inflation protected gross margins, and the growth of BSS alongside Keyline and CCF maintained a positive mix across the division.
- LAROCCE grew by 2ppts in 2017, reflecting increased sales and profit growth on a stable capital base.

Operational highlights

- Keyline achieved strong like-for-like sales growth throughout 2017, demonstrating further market share gains as the business continues to focus on a specialised heavy civils and drainage product range to a specific customer base. The roll out of the low-cost Keyline branch format continued, with the third trial branch opened in Telford.
- BSS sales grew in 2017, driven by both increasing commodity prices on copper and steel, and by outperforming a market that remains challenging, particularly in the public sector. Overheads have been materially reduced in BSS as the administration teams have been centralised, reducing required headcount and saving c.£1.5m per year in costs.
- In a highly competitive market, CCF has focused on passing through significant cost price inflation on specific insulation products. The business is generating good operating leverage as the new branches opened in late 2015 reach maturity. Differentiation, and therefore market outperformance, is driven by the development of a deeper understanding of customer requirements, and in so doing, forming closer customer relationships.

- The Group acquired TF Solutions in April, an air conditioning specialist, which offers a complementary range to the BSS portfolio.
- The branch networks of Keyline, BSS and CCF will not require significant further expansion; they already cover the whole of the UK with a high proportion of sales delivered direct to customers and so 2018 should see further enhancement of returns.

Consumer

	2017	2016	Change
Total revenue	£1,589m	£1,518m	4.7%
Like-for-like growth			3.0%
Adjusted operating profit excluding property	£82m	£101m	(18.8)%
Adjusted operating margin excluding property	5.2%	6.7%	(150)bps
LAROCCE*	7%	8%	(1)ppt
Branch network	666	617	49

Financial performance

- Total sales growth of 4.7%, driven by the positive performance of Wickes in the first half of the year, and by the continued acceleration of Toolstation's sales growth rate throughout 2017.
- Toolstation sales grew to over £300m in 2017, with accelerating like-for-like sales growth in the second half and this strong momentum has continued into 2018.
- Conversely, Wickes like-for-like sales growth slowed through the course of 2017 as the UK DIY market became increasingly challenging and the business had a disappointing autumn Kitchen & Bathroom (K&B) showroom promotional period.
- Following strong sales performance, particularly in K&B showroom, in recent years, Wickes invested significantly in additional capability to service continued growth in 2017. In the first half of the year this momentum continued, with strong K&B sales offsetting a challenging core DIY market. The application of a different promotional methodology for the autumn K&B showroom sales period between September and November was unsuccessful, and the level of expected sales growth was not achieved over this period.
- Given the higher operating cost base in Wickes in 2017, the division experienced negative operating leverage, resulting in a fall in operating profit before property profits of £19m, to £82m (2016: £101m), and a 150bps decline in operating margin, excluding property, to 5.2%.
- Significant cost reduction activity was carried out in Wickes in late 2017 to right-size the cost base to volume achieved, with £8m of costs eliminated by the year end and more to do in 2018. This has resulted in a more appropriate cost base for 2018, but it was too late to offset the additional costs that had been built into the business in 2017.
- Additionally, K&B showroom promotional activity has now been refined, including extra training for design consultants. This has resulted in a stronger start to 2018.

Operational highlights

Wickes

- The store refit programme continued at pace, with 27 additional stores bringing the total refitted to 94 by the end of 2017. With the benefit of an enhanced K&B showroom, better laid out trade areas and better category adjacency the refitted stores show a significant performance improvement over those stores remaining in the old format.
- The programme to open additional stores and refit existing ones has been slowed in 2018 given a challenging UK DIY market.
- A cost efficiency programme is in place for 2018 to tightly control overhead costs with the aim of offsetting operating cost pressure from wages, rates and depreciation.
- The TradePro card was launched in Q3, giving trade customers specific trade deals, including regular discounts on Mondays. Early customer reaction has been positive, with an uplift in trade sales and the attraction of new customers.

Toolstation

- The focus over the last three years has been to rapidly grow the store network whilst delivering a superior value proposition to customers.
- In 2017, a further 40 stores were opened in the UK, taking the total to 295 at the end of the year, with a further 40 planned in 2018. In February 2018, the business opened its 300th UK store in Eastleigh.
- Enhancements to the customer proposition accelerated in the second half of 2017, focusing on:
 - Stronger promotional and marketing programmes
 - The introduction of front-of-counter ranges
 - Further online range extension, including the roll out of "drop-ship" delivery direct from suppliers. In 2017, 2,800 additional products were added to the product range, with further extension planned in 2018
 - Improvements to delivery service, increasing capability from 5 day to 6 day delivery, and moving to 7 day delivery in 2018, combined with later order cut-off times and click & collect times reducing to 10 minutes
- A third replenishment distribution centre which will open in mid-2018 increasing capacity to support 500 branches.
- Like-for-like growth of over 30% in the Group's associate company in the Netherlands, both through the online channel and the branch network was very encouraging. New store openings brought the network to 20, and strong like-for-like growth provides the confidence to open a new distribution centre and double the number of branches in 2018.
- A three branch trial around the new distribution centre in Lyon, France commenced in Q4 2017 and is progressing well. Revenue growth continues to build through the online platforms in France, and in Belgium and Germany which are serviced from the existing distribution centre in the Netherlands.

Property

The Group continued to leverage its property portfolio with selected investment in freeholds combined with a disciplined disposal programme to realise embedded value in fully developed properties.

The Group invested £35m in the purchase of new freehold properties and a further £20m in the construction of operating sites on new and existing freehold sites across the UK. In addition, the Group invested £6m to purchase the freehold rights on three existing, high-performing branches which are strategically important bringing certainty to future operations and the potential to further develop the sites by adding additional Group branches.

The programme to recycle existing property continued, with sale and lease back activity, predominantly on retail sites, realising £54m of cash and £8m of property profits. The relocation strategy to place operating branches in the best locations within a catchment allowed the sale of £59m worth of sites, offsetting the purchase of new sites.

Given the low growth situation in the General Merchandising market, it was decided to delay the opening of the fourth range centre until 2020. A favourable opportunity arose to dispose of the site that had previously been purchased to develop the range centre.

Overall the Group recognised profits on the disposal of properties of £29m (2016: £17m), with a net release of cash after new freehold acquisitions and construction of £52m.

Main image:

Mark Potter - Keyline, Telford

From top to bottom:

Brendan Cowlain - BSS, Leeds

Sophie Hayes - Wickes, Rugby

Financial performance

Revenue

Group revenue growth was solid in 2017, with absolute growth of 3.5%, and 3.3% on a like-for-like basis.

Volume, price and mix analysis

	General Merchandising (%)	Plumbing & Heating (%)	Contracts (%)	Consumer (%)	Group (%)
Total revenue					
Volume	(1.4)	(1.6)	2.7	0.3	(0.2)
Price and mix	2.6	3.7	5.7	2.7	3.5
Like-for-like revenue growth	1.2	2.1	8.4	3.0	3.3
Network expansion and acquisitions	0.9	(1.2)	0.1	2.3	0.6
Trading days	(0.4)	(0.4)	(0.4)	(0.6)	(0.4)
Total revenue growth	1.7	0.5	8.1	4.7	3.5

New branch and net store openings contributed 0.4% to revenue growth, with a further 0.2% added through acquisitions. There was one fewer trading day in the Merchant businesses in 2017 compared with 2016, as well as two fewer in Consumer businesses, with a combined impact of (0.4)% on Group sales.

Across the Group, volumes were broadly flat, with all of the 3.3% like-for-like growth coming from price increases and mix changes. This was in line with expectations as the Group's businesses were broadly successful in mitigating the impact of cost price inflation.

Quarterly like-for-like revenue analysis

	General Merchandising (%)	Plumbing & Heating (%)	Contracts (%)	Consumer (%)	Group (%)
Like-for-like revenue growth					
Q1 2017	(0.3)	(1.1)	12.1	2.9	2.7
Q2 2017	0.3	(1.9)	6.4	6.5	2.7
Q3 2017	2.4	5.4	7.7	2.4	4.1
Q4 2017	2.6	6.1	7.9	(2.6)	3.2
H1 2017	(0.1)	(1.2)	9.1	4.7	2.7
H2 2017	2.5	5.8	7.7	0.1	3.7
FY 2017	1.2	2.1	8.4	3.0	3.3

In the first half of 2017, like-for-like sales in General Merchandising were broadly flat, as the early drive to pass through price increases led to lower volumes as competitors were slower to raise prices. In the second half of 2017, this volume pressure eased and the like-for-like growth rate represented the increase in sales price, with volumes broadly stable.

In Plumbing & Heating, the activities of the transformation programme to improve ranging, promotional activity and pricing helped to drive strong like-for-like growth in the second half of the year. Around 2ppts of the like-for-life growth in the second half came from around 50% of the sales lost from the closure of 46 branches being captured by the remaining branch network.

The Contracts division had another strong year in 2017 with like-for-like sales of 8.4% representing excellent pass through of price inflation and continued outperformance of the market.

Trading conditions in the UK DIY market became increasingly tough as 2017 progressed. Whilst Toolstation continued its recent trend of accelerating like-for-like growth rates and total sales growth driven by network expansion and proposition improvements, Wickes experienced a more difficult second half. Trading in core DIY categories was challenging throughout 2017, with increased pricing competition in the market and disappointing performance in K&B showroom in Q4. Whilst Wickes retained its position as the value leader, the differential to its major competitors reduced.

Operating profit and margin and profit before tax

£m	2017	2016	
General Merchanding	183	193	(5.2)%
Plumbing & Heating	31	36	(13.9)%
Contracts	86	76	13.2%
Consumer	82	101	(18.8)%
Property	29	17	70.6%
Unallocated costs	(31)	(14)	(121.4)%
Adjusted operating profit	380	409	(7.1)%
Amortisation of acquired intangibles	(12)	(17)	
Impairment	-	(235)	
Exceptional items	(41)	(57)	
Operating profit	327	100	

Operating profit increased to £327m (2016: £100m), with profit before tax increasing to £290m (2016: £73m), with both primarily due to the impairment taken against goodwill and intangible assets in 2016.

Adjusted operating profit reduced by 7.1% to £380m (2016: £409m). Profit growth in Contracts and through property transactions was offset by a decline in profits in General Merchanding and Consumer, along with the expected decline in Plumbing & Heating. Unallocated costs increased by £17m to £31m, driven by the investments the Group is making in IT capabilities and digital platforms, and the cost of new format experiments.

	General Merchanding (%)	Plumbing & Heating (%)	Contracts (%)	Consumer (%)	Group (%)
FY 2016 adjusted operating margin (excluding property profits)	9.3	2.6	6.0	6.7	6.3
Change in gross margin	(0.2)	(0.8)	0.6	(0.3)	(0.2)
Margin impact of change in operating costs	(0.4)	0.5	(0.3)	(1.2)	(0.6)
FY 2017 adjusted operating margin (excluding property profits)	8.7	2.3	6.3	5.2	5.5
Margin impact of change in property profits					0.4
FY 2017 adjusted operating margin (including property profits)					5.9

Group adjusted operating margins declined by 80bps to 5.5% (2016: 6.3%), primarily due to an increase in operating costs from investments in the Group's customer propositions, together with a 20bps decline in gross margins.

- General Merchanding operating margin fell to 8.7% for the full year, with a reduction to 8.2% in the second half of 2017. Operating costs increased reflecting the additional costs required to extend the service coverage of the three heavyside range centres and opening of net 17 new branches, in addition to cost inflation from salaries increases to rent and rates, and rising distribution costs. Gross margins reduced by 50bps in the second half of the year as the new pricing framework was used to reset pricing levels in some specific product categories to increase volume and improve overall price perception. Initial outcomes have been encouraging, with some categories showing demonstrable volume uplift within a couple of months of the pricing review.

- In the Contracts division, gross margin improved as pass through of cost price inflation was successfully achieved with a focus on taking business at acceptable margins.
- Plumbing & Heating margins reduced by 30bps across the whole year, but increased by 10bps in the second half as the improvements from the transformation programme started to take effect. Gross margins reduced due largely to business mix as much of the volume growth came through the lower margin wholesale business, as well as investment in price across the business through increased promotional activity. This reduction was more than offset in the second half of the year by the savings achieved in operating costs through a significantly simplified organisational structure, and the closure of 46 underperforming branches.

- Margins in Consumer were significantly impacted by the poor sales performance in Wickes in Q4. The additional costs that had been built into the business to service volume growth were not justified, and the reduction in K&B showroom sales negatively impacted the overall mix of business. Toolstation maintained its operating margin despite further significant investment in network expansion, although additional costs are required in 2018 to open a fourth distribution centre to maintain sales growth momentum and support the branch opening programme.

Exceptional items

In August 2017, the Group announced a comprehensive strategic review of the Plumbing & Heating division. As stated in note 5, this has resulted in exceptional charges to the income statement of £40.9m which comprised:

- £12.0m of property, redundancy and other cost associated with the close of 46 branches.
- £19.1m of costs arising from the separation and rationalisation of the Plumbing & Heating supply chain. The costs comprised property-related costs, redundancy and reorganisation costs and inventory write-downs.
- £9.8m of central and divisional costs, including representing people, consultancy and other restructuring costs.

Main image:
Darren Hawksworth - Wickes, Rugby

Left image:
Craig Sharples & Sharon Walrong
- Travis Perkins plc, Warrington

Finance charges

Net finance charges, shown in note 9, were £35m (2016: £28m). Interest costs on borrowings were £26m (2016: £24m), with the first full year of coupon payments on the 2023 £300m sterling bond issued in May 2016 partially offset by lower borrowings on the revolving credit facility.

The impact of marking-to-market currency forward contracts used to hedge commercial transactions, which remained outstanding at the year-end increased finance charges by £2.9m (2016: £0.3m gain). Other finance related costs were broadly similar to last year at £4.3m (2016: £4.4m).

The average interest rate on the Group's borrowings during the year was 4.3% (2016: 3.4%) with the increase primarily due to the full year of interest on the 2023 £300m public bond.

Taxation

The underlying tax charge, excluding the effect of exceptional items and impairments, was £64m (2016: £77m), which represents an effective rate of 19.2% (2016: 21.2%). This is broadly in line with the standard rate of corporation tax for the year of 19.25% (2016: 20.0%) applicable to profits in the United Kingdom.

Earnings per share

Profit after taxation increased to £234m (2016: £14m) resulting in basic earnings per share increasing to 93.1 pence (2016: 5.1 pence). The increase is primarily due to the 2016 results being impacted by the impairment of goodwill and intangible assets. There is no significant difference between basic and diluted basic earnings per share.

Adjusted profit after tax reduced by 8.0% to £277m (2016: £301m) resulting in adjusted earnings per share (note 11) decreasing by 8.3% to 110.4 pence (2016: 120.4 pence). There is no significant difference between adjusted basic and adjusted diluted earnings per share.

Reconciliation of reported to adjusted earnings

	2017		2016	
	Earnings (£m)	EPS (pence)	Earnings (£m)	EPS (pence)
Basic earnings and EPS attributable to shareholders	233	93.1	13	5.1
Exceptional items:				
Branch closure programme	12	4.8	17	6.8
Supply chain restructure	19	7.6	30	12.0
Central restructuring costs	10	4.0	4	1.7
Impairment of acquired intangible assets	-	-	235	94.4
Write off of amounts held in current assets	-	-	6	2.5
Amortisation of acquired intangibles	12	4.8	17	6.6
Tax on amortisation of acquired intangibles	(2)	(0.8)	(3)	(1.2)
Tax on exceptional items	(8)	(3.1)	(15)	(6.1)
Effect of reduction in corporation tax on deferred tax	-	-	(4)	(1.4)
Adjusted earnings and EPS attributable to shareholders	276	110.4	300	120.4

Free cash flow

The Group generated strong free cash flow of £407m, at a conversion rate of 107%.

(£m)	2017	2016
EBITA	380	409
Depreciation of PPE and other non-cash movements	130	124
Disposal proceeds in excess of property profits	83	25
Change in working capital*	(54)	13
Maintenance capital expenditure	(48)	(50)
Net interest	(27)	(22)
Tax paid	(57)	(63)
Adjusted free cash flow	407	436
One-off tax payment	-	(42)
Free cash flow	407	394
Underlying cash conversion rate	107%	107%

* 2017 change in net working capital figure excludes £22m (2016: £8m) in relation to the development of cloud-based software because in the opinion of the Directors it is capital in nature and so treated as such in this table (see note 13).

On a modestly lower earnings figure, the strong free cash flow of £407m was helped by the scale of property transactions carried out in the year which contributed positive cash flow of £83m (2016: £25m).

Inventories increased modestly, maintaining stock turnover on broadly flat sales, but reflecting significant cost price inflation. An increase in trade receivables was partially offset by growth in trade payables, but also reflecting progress in reducing overdue customer debt positions. Further opportunities exist to improve working capital, including enhanced debtor management using new systems launched in late 2017, better management of inventory by leveraging the Group's distribution infrastructure and increasing "drop-ship" capabilities direct from suppliers.

Maintenance capex was £48m, including investments made in replacement vehicles which will enhance delivery efficiency and improve overall safety within the branches and on customer sites. This is slightly lower than in 2016 (£50m) but is in line with expectations.

Additional cash contributions to the defined benefit pension schemes above the Income Statement charge were £11m (2016: £14m). The cash cost of 2017 exceptional items and utilising exceptional provisions was £20m.

Net debt and funding

Net debt of £342m at 31 December 2017 was a reduction of £36m from the end of December 2016, reflecting the strong cash generation and tighter control on capital investment.

At 31 December 2017 the Group's committed funding of £1,100m comprised:

- £250m guaranteed notes due September 2021, listed on the London Stock Exchange

- £300m guaranteed notes due September 2023, listed on the London Stock Exchange
- A revolving credit facility of £550m, refinanced in December 2015, which runs until December 2020, advanced by a syndicate of 8 banks.

At the end of 2017, the Group had undrawn committed facilities of £550m (2016: £550m) and deposited cash of £215m. The Group's credit rating, issued by Standard & Poor's, was maintained at BB+ stable following its review in April 2017.

The Group has a policy of funding through floating interest rate facilities owing to the significant implicit fixed interest charges within its leases. However, owing to the uncertainty surrounding the UK's decision to leave the EU and historically low fixed interest rates achieved on its bonds, it took a decision in 2016 to fix all of its interest rate costs other than the rates it receives through drawings on its revolving credit facility, which were nil as at 31 December 2017.

The Group's lease debt increased modestly, up £22m from the end of 2016, reflecting the sale and lease back activity on retail properties where availability remains good and rental inflation pressure is modest. Lease adjusted net debt modestly reduced compared with 31 December 2016 as the increased cash position outweighed the additional lease obligations.

Details of non-statutory disclosures are shown in notes 32 to 37.

	Medium Term Guidance	2017	2016	Change
Net debt		£342m	£378m	£(36)m
Lease debt		£1,525m	£1,506m	£19m
Lease adjusted net debt		£1,866m	£1,884m	£(18)m
Lease adjusted gearing		42.6%	45.3%	(270)bps
Fixed charge cover	3.5x	3.1x	3.3x	(0.2)x
LA net debt: EBITDAR	2.5x	2.7x	2.7x	-

Lease adjusted gearing (note 33b) reduced by 2.7ppts in 2017 to 42.6%, primarily due to lease adjusted equity increasing following further investment in the business and a lower lease adjusted debt figure.

The Group's fixed charge cover ratio (note 35c) fell to 3.1x, primarily driven by lower earnings on a stable interest charge with a modestly higher rent charge. The LA net debt/EBITDAR ratio (note 35) was stable year on year, at 2.7x.

M&A activity

Net cash invested in acquisitions in the year was £10m (2016: £3m). In April 2017 the Group acquired TF Solutions, a ventilation and air conditioning distributor adding adjacent product categories to the BSS business in the Contracts division. The Group also acquired National Shower Spares, a bolt on acquisition in the Plumbing & Heating division which brings a complementary range of spares products to the existing spares business, fulfilled both online and through the Plumbing & Heating branch network.

Capital investments

The strategy to make investments which will provide best-in-class customer propositions continued in 2017.

(£m)	2017	2016
Maintenance (including vehicles)	(48)	(50)
IT - including Merchant ERP / digital capabilities*	(49)	(40)
Growth capex - including new stores / store refits	(69)	(71)
Base capital expenditure	(166)	(161)
Freehold property - including new freehold sites / existing leases	(61)	(68)
Gross capital expenditure	(227)	(229)
Property disposals	113	43
Net capital expenditure	(114)	(186)

* IT investments exclude prepayments in relation to the development of cloud based software (2017: £22m, 2016: £8m)

Digital investments accounted for around £50m of the Group's capex spend, and this level is likely to continue until 2020. The programme to deliver a new ERP system to support the Group's merchant businesses is continuing at pace, and has entered the testing phase. The initial launch of the new platform will take place in the BSS business in the second half of 2018, with the main roll out to the remaining merchant businesses continuing through 2019 and into 2020. Under accounting practices for the cloud based systems a portion of the costs are expensed leading to the higher unallocated central costs, with the remainder capitalised or treated as a prepayment.

In addition to the ERP programme, a number of investments were made in digital platforms across the Group, including a new warehouse management system for the lightside primary distribution hub (PDH) in General Merchandising, the transactional City Plumbing Supplies website, finance systems to manage credit collections and rebates, and the on-going improvements to the Wickes and Toolstation digital platforms.

Growth capex spend of £69m was slightly lower than in 2016 (£71m), and reflects a tighter approach to investing new capital during a period where market volume growth is weak. This additional discipline and scrutiny of potential investments will be stronger in 2018, with overall growth capex likely to be lower than in 2017.

The branch network expansion of Toolstation UK and Benchmarx continued, with 51 net new stores opened in 2017 between the two businesses. Store openings in Travis Perkins and Wickes were curtailed, with a greater focus on refitting existing stores, which delivers a much faster return on the investment. Twenty-seven Wickes stores were refitted in 2017, bringing the total to 94. Trial refits of Travis Perkins branches have shown a good pick up in volumes with further trials to be run in 2018.

New property purchases and construction costs were down slightly on 2016, and included the freehold purchase of three existing operating sites where leases were due for renewal or expiry on sites that are strategically important in the long term. This gives the business certainty of tenure for the long term, reduces the current rent inflation risk on industrial sites and reduces the Group's overall lease obligations.

Dividend

In 2016, the Group announced that future dividend increases would be more in line with underlying earnings growth, whilst also reflecting the medium term expectations for strong cash generation. The proposed dividend for the full year 2017 of 46.0 pence (2016: 45.0 pence) results in a 2.2% increase (2016: 2.3% increase). An interim dividend of 15.5 pence was paid to shareholders in November 2017 at a cost of £38m. If approved, the proposed final dividend of 30.5 pence per share will be paid on 11 May 2018, the cash cost of which will be approximately £75m.

A 46.0 pence full year dividend reduces dividend cover to 2.4 times (2016: 2.7 times) adjusted earnings per share, slightly below the lower limit of the Board's target range of 2.5x to 3.25x. This reflects the Board's confidence in the on-going strength of cash generation of the Group.

Return on capital measures

Net assets at the end of 2017 were £2,860m (2016: £2,656m), which contributed to capital employed of £3,225m (2016: £3,136m).

(£m)	2017	2016
Cash and cash equivalents	(277)	(251)
£250m sterling bond	263	266
£300m sterling bond	300	300
Finance leases	28	34
Liability to pension scheme	34	35
Pension fund deficits	23	103
Finance charges netted off debt	(6)	(7)
Equity attributable to shareholders	2,860	2,656
Total balance sheet capital employed	3,225	3,136
Property operating leases (8x rentals)	1,525	1,506
Total lease adjusted capital employed	4,750	4,642

Lease adjusted ROCE (note 36), decreased to 10.1% from 10.9%. The reduction was largely driven by on-going capital investment across the business which is expected to underpin growth in returns over the medium and longer term, in particular the investments in freehold sites. A number of these sites are not yet contributing to earnings, but they will, pending development, as they become operational over the next 12 to 18 months.

Pensions

The Group made £11m (2016: £14m) of additional cash contributions to its defined benefit schemes during the year.

At 31 December 2017, the combined gross accounting deficit for the Group's final salary pension schemes was £28m (31 December 2016: £127m), which equated to a net deficit after tax of £23m (31 December 2016: £103m). The reduction in the deficit was primarily due to strong returns on plan assets, favourable changes in demographic assumptions, a £30m benefit from a change in the methodology used to determine the discount rate (note 27), together with a change in gilt yields which reduced scheme liabilities.

Supplier income

Fixed price discounts, volume rebates, customer sales support and similar promotional arrangements ("Supplier Income") are a common component of trading agreements in the building product supply industry. As part of its on-going business activities, the Group has entered into such arrangements with a significant number of its goods for resale suppliers.

Only two of the Group's Supplier Income arrangements are not co-terminus with the Group's year end, which reduces the level of judgement required when determining the value of income to be recognised in any year.

The overwhelming majority of Supplier Income, in excess of 85% by value, is determined by reference to fixed supplier price discounts on actual purchases, with approximately 4% being volume rebates that are subject to stepped targets for actual purchases, the net rebate percentage increasing as values or volumes purchased reach pre-agreed targets. However, by the year-end the Group knows whether those targets were reached.

Fixed price discounts and rebates on purchases that remain in stock are deducted from the cost of inventory, so reducing cost of sales in the income statement in the period in which the inventory is expensed. Due to the complexity of the terms of some supplier arrangements and the number of products affected, some judgement is required to determine the amount of fixed price discount and rebate applicable to each product that is due from the supplier at the year-end and the value that should be deducted from the gross value of inventory held at the balance sheet date. The methodologies applied by the Group are well established and consistently applied from year-to-year.

The Group also receives customer sales support which equates to approximately 10% of total Supplier Income (i.e. payments that are made entirely at the supplier's option, that are requested by the Group when a specific product is about to be sold to a specific customer and for which payment is only received after the sale has been completed). These are recognised as a deduction from cost of sales when the sale to the third party takes place and do not require any judgement to be made.

Supplier income	2017 (£m)	2016 (£m)
Other receivables	288	272
Inventory	(210)	(199)
Trade payables	66	52
Net balance sheet position	144	125

Effective financial risk management

The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets. The Group manages the principal financial and treasury risks within a framework of policies and operating parameters reviewed and approved annually by the Board of Directors. The Group does not enter into speculative transactions.

The Group's policy is to enter into derivative contracts only with members of its bank facility syndicate, provided such counterparties meet the minimum rating set out in the Board approved derivative policy.

Following the UK vote to leave the European Union, the Group reassessed its interest hedging policy in the light of possible trends for inflation and interest rates. It decided that the potential downside of a significant interest rate increase is now far more likely than any limited upside arising from rate reductions in the medium term. Accordingly the Group has moved to a strategy of maintaining its outstanding £250m and £300m bonds on fixed coupons.

At the year-end the Group had no interest rate derivatives and its borrowings were fixed on 100% of the Group's cleared gross debt (before cash and cash equivalents).

The Group settles its currency denominated purchases using a combination of currency purchased at spot rates and currency bought in advance on forward contracts. It purchases forward contracts for approximately 90% of its committed requirements six months forward based on the firm placement of forward stock purchases. At 31 December 2017 the nominal value of currency forward contracts, all of which were \$US denominated, was \$76m (2016: \$63m).

The Group is a substantial provider of credit to a large portfolio of small and medium size businesses throughout the UK together with some of the country's largest construction companies. It manages its exposure to credit risk through a strong credit control function that works closely with the business and its customers to ensure the Group offers credit sufficient for the needs of those customers without exposing the Group to excessive risk. The bad debt charge in 2017 was approximately 0.4% (2016: 0.3%) of credit sales, which is at the lower end of results previously achieved by the Group.

In summary, the key aspects of the Group's financial risk management strategy are to:

- Run the business to investment grade credit parameters
- Reduce the Group's reliance on the bank market for its funding by having a diverse mix of funding sources with a spread of maturities
- Seek to maintain a strong balance sheet
- Place a high priority on effective cash and working capital management
- Maintain liquidity headroom of over £250m and build and maintain good relationships with the Group's banking syndicate
- Manage counterparty risk by raising funds from a syndicate of lenders, the members of which maintain investment grade credit ratings

Operate banking covenants attached to the Group's revolving credit facilities within comfortable margins:

- The ratio of net debt to adjusted EBITDA (earnings before interest, tax depreciation and amortisation) has to be lower than 3.0x; it was 0.6x (2016: 0.7x) at the year-end (note 35)
- The number of times operating profit covers interest charges has to be at least 3.5x and it was approximately 16x at 31 December 2017 (31 December 2016: 20x)
- Have a conservative hedging policy that reduces the Group's exposure to currency fluctuations, whilst allowing it to benefit from low interest rates

Tax strategy and tax risk management

The Group's objectives in managing and controlling its tax affairs and related tax risks are as follows:

- Ensuring compliance with all applicable rules, legislation and regulations under which it operates
- Maintaining an open and co-operative relationship with the UK Tax Authorities to reduce its risk profile
- Paying the correct amount of tax as it falls due

Tax policies and risks are assessed as part of the formal governance process and are reviewed by the Chief Financial Officer and reported to the Group's Audit Committee on a regular basis.

Significant tax risks, implications arising from these risks and potential mitigating actions are considered by the Board when strategic decisions are taken. In particular the tax risks of proposed transactions or new areas of business are fully considered before proceeding.

The Group employs professional tax specialists to manage tax risks and takes appropriate tax advice from reputable professional firms where it is considered to be necessary.

The Group's tax strategy is published on its website.

Viability assessment

In accordance with provision C2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014, the Board of Directors has undertaken an assessment of the viability of the Group.

As part of its deliberations the Board undertook a robust review of the Principal Risks and Uncertainties facing the Group, how they are managed and the actions that could be taken to mitigate their effect or avoid them altogether. The resulting disclosures, which include those risks that could threaten the Group's business model, performance, solvency and liquidity are shown on pages 33 to 39 of the Annual Report. The Board believes the Group is well placed to manage those risks successfully.

The Board has decided that it is appropriate to assess the performance of the Group over a three year period from 28 February 2018, the month end date closest to the approval of the 2017 annual results. Three years has been chosen because the Board believes that is the period of the Group's approved Corporate Plan that it is reasonably possible to forecast forward with a degree of accuracy and because the Group is subject to the vagaries of the economic cycle and property market which cannot reasonably be forecast with certainty further than three years forward. Whilst the Board has no reason to believe the Group not will remain viable over a longer period, the inherent uncertainty involved, particularly in the light of the UK referendum vote, means three years is the most appropriate period over which to give users of the Annual Report a reasonable degree of confidence.

The Corporate Plan which is prepared annually on a rolling basis considers the Group's future profitability, cash flows, liquidity headroom, availability of funds and covenant compliance.

For the purposes of the viability review, the Board has performed a robust sensitivity analysis to stress test the downside scenario based upon falls in revenue and gross margin akin to those experienced in the 2008/2009 financial crisis and the mitigating actions that were adopted at that time. These were the worst reductions in revenue and gross margin experienced by the business in its long history and the mitigating actions adopted remain relevant now and in the near future. These mitigating actions include reducing costs, capital and revenue investment and payments to shareholders.

Based upon the assessment undertaken, 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.

Main image:

Francesco (Nino) Lobo - Travis Perkins, Gowerton Road

Top right:

Paul Parker - Travis Perkins, Shrewsbury

STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group operates in markets and an industry which by their nature are subject to a number of inherent gross risks. The Group is able to mitigate those risks by adopting different strategies and by maintaining a strong system of internal control. However, regardless of the approach that is taken, the Group must accept a certain level of risk in order to generate suitable returns for shareholders, and for that reason the risk management process is closely aligned to the Group's strategy.

The Board has a risk reporting framework that ensures it has visibility of the Group's key risks, the potential impacts on the Group and how and to what extent those risks are mitigated. As part of its risk management process, the principal risks stated in the Group's risk register are reviewed, challenged and updated by the Board and monitored throughout the year. Each operating business within the Group monitors a separate risk register. These risk registers are used to determine strategies adopted by the Group's various businesses to mitigate the identified risks and are embedded in their operating plans.

Details of the Group's risk management processes are given in the Corporate Governance report on page 56.

In common with most large organisations the Group is subject to general commercial risks: for example, political and economic developments, changes in the cost of goods for resale, increased competition in its markets and the threat of emerging and disruptive competitors, material failures in the supply chain, failure to secure supply of goods for resale and / or on competitive terms, cyber-security breaches and failure of our IT infrastructure.

The risk environment in which the Group operates does not remain static. During the year, the Directors have reviewed the Group's principal risks and have concluded that as the nature of the business and the environment in which it operates remain broadly the same, the principal risks it faces are largely unchanged. However, some previously identified risks in respect of business transformation, including performance improvement in the Plumbing & Heating businesses, have considerable overlap and so they have been combined, whilst the Directors have also concluded that with so many stakeholders interacting with the Group's operations, health and safety risk should be described separately from other legislative risk. Finally, the resolution of some of the Group's tax disputes with HMRC means that the Board no longer believes that this area represents a principal risk.

The nature of risk is that its scope and potential impact will change over time. As such the list below should not be regarded as a comprehensive statement of all potential risks and uncertainties that may manifest themselves in the future. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, could also have an adverse effect on the Group's future operating results, financial condition or prospects.

The table on pages 34 to 39 sets out, in no particular order, the current principal risks that are considered by the Board to be material, their potential impacts, the factors that mitigate them and those areas of the businesses' strategies they potentially impact. The inherent risk (before the operation of control) is stated for each risk area together with an indication of the current trend for that risk.

Inherent Risk and Trend	Risk Description
Changing Customer and Competitor Landscape Inherent Risk: ● ● ● Trend: ◀ ▶ Strategy: A B E	The Group sells and distributes building materials through a number of channels. The number of outlets and channels where building materials can be purchased continues to grow with new competitors also entering the market. These new entrants may operate business models which differ significantly from the traditional merchanting and retail and online formats from which the Group operates and may take market share. At the same time, customer purchasing habits are evolving with increasing online transactions. Customers' preference for purchasing materials through a range of supply channels and not just through the Group's traditional competitors may affect the Group's performance and adversely impact the profitability of branch based operations. Increasing price transparency could lead to a perception that the Group is less price competitive leading to downward pressure on price and margins.
Colleague recruitment, retention and succession plans do not deliver the required skills and experience Inherent Risk: ● Trend: : Strategy: A D	The ability to recruit, retain and motivate suitably qualified staff is an important driver of the Group's overall performance. The Group may also be exposed to skills shortages in certain areas which can result in salary cost pressures. The strength of the Group's customer proposition is underpinned by the quality of people working throughout the Group, particularly in customer facing roles. Many of them have worked for Travis Perkins for some considerable time, during which they have gained valuable product and customer knowledge and expertise. The Group faces competition for the best people from other organisations. Ensuring the retention, proper development of employees and that robust succession plans exist for key positions is important if the Group is not to suffer an adverse effect on its prospects.
Supplier dependency, relationships and disintermediation leading to adverse impacts on ranging and price Inherent Risk: ○ ○ Trend: ◀ ▶ Strategy: A C E	The Group is the largest customer to a number of its suppliers. In some cases, those suppliers are large enough to cause significant supply difficulties to the Group if they are unable to meet their supply obligations due to either economic or operational factors. Alternative sourcing may be available, but the volumes required and the time it may take those suppliers to increase production could result in significant stock-outs for some considerable time leading to poor customer service. The Group has increased the sourcing of products from overseas factories. This has increased the Group's exposure to sourcing, quality, trading, warranty and currency issues, which again may lead to an adverse impact on customer service. Manufacturers of building materials sold by the Group may also look to sell their products directly to end customers in the future diminishing the role of distributors such as merchanting and retail distribution businesses.
Unsafe practices result in harm to colleagues, customers, suppliers or the public Inherent Risk: Trend: ▼ Strategy: C D E	Keeping the Group's colleagues, customers, suppliers and the public safe is a cornerstone of the business. The Group operates over two thousand sites, many with complex and busy yards. It also operates one of the largest vehicle fleets in the UK, distributing heavy and bulky materials. Poorly implemented safety practices could result in significant harm to people which would damage the company's reputation and could impact trading performance.

Inherent risk: High ● ● ● Medium ● ● Low ● Trend: Increasing ▲ Static ◀ ▶ Reducing ▼

Impact	Risk Mitigation
Adverse effect on financial results.	Changes to market practice are tracked on an on-going basis and reported to the Board each month. The Group is building multi-channel capabilities that complement its existing operations and provide its customers with the opportunity to transact with the Group through channels that best suit their needs. The Group's strategy allows it to use sites flexibly. Alternative space utilisation models are possible, including maintaining smaller stores and implanting additional services into existing branches. The development of new, innovative and competitive supply solutions is a key strength of the Group. It works closely with customers and suppliers on a programme of continuous improvement designed to improve its customer proposition. Pricing strategies across the Group are regularly reviewed and where necessary refined to ensure they remain competitive.
Inability to develop and execute development and succession plans. Competitive disadvantage.	The Group's employment policies and practices are kept under regular review. Staff engagement and turnover by job type is reported to the Executive Committee regularly and to the Board. Succession plans are established for the most senior positions within the Group and these are reviewed annually. The Group's reward and recognition systems are actively managed to ensure high levels of employee engagement. A wide range of training programmes are in place to encourage staff development, whilst management development programmes are available to those identified for more senior positions. Salaries and other benefits are benchmarked regularly to ensure that the Group remains competitive and the Group operates incentive structures to ensure that high performing colleagues are adequately rewarded and retained.
Adverse effect on financial results. Adverse effect on reputation.	Making decent returns is one of the Group's cornerstones which requires it to treat both customers and suppliers fairly. The commercial and financial teams have established strong relationships with the Group's key suppliers and work closely with them to ensure contracts that are beneficial to both parties and the continuity of quality materials. To spread the risk where possible contracts exist with more than one supplier for key products. The Group has made a significant investment in its Far East infrastructure to support its direct sourcing operation which allows the development of own brand products, thereby reducing the reliance on branded suppliers. Comprehensive checks are undertaken on the factories producing products and the quality and the suitability of those products before they are shipped to the UK.
Adverse effect on financial results. Adverse effect on reputation.	The Group continues to challenge its thinking and approach to improving its safety performance through its now well established 'Stay Safe' brand. Stay Safe performance is reviewed at all Plc Board Meetings, by the Executive Committee and during the Group's regular Divisional leadership meetings. Incidents are monitored, investigated and corrective action taken to reduce the likelihood of similar incidents in future. De-risking the Group's operations, improving health and safety awareness and implementing improved ways of working are at the forefront of the Group's activities. Further information on progress made during 2017 can be found in the Health and Safety report on pages 44 to 45.

Link to strategy: A - Customer innovation B - Optimising network C - Scale advantage D - Portfolio management E - Financial strength

Strategic Report

Inherent Risk and Trend	Risk Description
The Group allocates capital inefficiently or under invests in advantaged businesses and does not achieve desired returns Inherent Risk: ● ● Trend: ◀ ▶ Strategy: A B E	The Group operates a number of different businesses in the UK which operate in different, but complementary channels. As the Group's markets continue to develop, it is investing to enhance its existing businesses and also to develop new propositions to better serve its customers. While the Group operates a disciplined capital allocation process, there is a risk that it may be over-investing in channels which may decline or that it may not be allocating sufficient capital to new propositions resulting in sub-optimal returns on capital.
Business transformation projects, turnaround projects and M&A activity fail to deliver the expected benefits, cost more or take longer to implement than anticipated Inherent Risk: ● Trend: ● Strategy: A B E	The Group undertakes a variety of projects throughout its business in order to generate returns for its shareholders. These projects are intended to transform the Group's core IT systems, to develop its supply chain operations and its branch and store networks and to materially improve performance in certain businesses which have underperformed in recent years. The Group also undertakes acquisition and disposal activity to optimise its portfolio of businesses. By their nature, such strategic projects are often complicated, interlinked and may result in a high level of change and require considerable resource to deliver them. As a result, the expected benefits and the costs of implementation of each project may deviate from those anticipated at their outset.
Market conditions leading to demand uncertainty Inherent Risk: ● ● ● Trend: ▲ Strategy: A B E	The Group's products are sold to businesses, tradesmen and retail customers for a broad range of end uses in the built environment. The Group's markets are cyclical in nature and the performance of those markets is affected by general economic conditions and a number of specific drivers of construction, RMI and DIY activity, including mortgage availability and affordability, housing transactions and the timing and nature of government activity to stimulate activity, net disposable income, house price inflation, consumer confidence, interest rates and unemployment. A significant downturn in economic conditions or alternatively major uncertainty about the future outlook could affect the levels of construction activity in the Group's markets and the confidence levels of the Group's customers, which could reduce their propensity to purchase products and services from the Group's businesses.
Uncertainty caused by the UK's decision to leave the European Union Inherent Risk: ● ● ● Trend: ▲ Strategy: A B E	The result of the UK vote to leave the European Union has caused considerable market uncertainty. This has made the economic outlook more difficult to predict in the short term and has resulted in significant volatility in the value of sterling against the principal currencies used by the Group to pay for imported goods. Future trading relationships with foreign markets have yet to be determined and these may result in higher tariffs or duties on imports of construction products as well as extended lead times on imported supplies or result in the need to source some products elsewhere. The construction industry and the distribution and logistics markets employ a significant number of non-UK nationals and the UK may become a less attractive place for them to work resulting in labour shortages and consequent salary cost pressures. The effect on the Group's operations is unlikely to become clear until the UK's future trading relationships are determined.

Inherent risk: High ● ● ● Medium ● ● Low ● Trend: Increasing ▲ Static ▶ ▶ Reducing ▼

Impact	Risk Mitigation
Adverse effect on financial results.	Return on capital is one of the Group's key performance indicators as shown on page 14. Responsibility for identifying and implementing opportunities to expand, improve or modify the Group's operations rests with each of the divisional boards, with capital being deployed or re-deployed by the Group to those projects expected to achieve the best return on capital. Major projects are kept under review to monitor progress and ensure the deployment of capital remains appropriate. Post implementation reviews are undertaken of all major projects and returns are monitored on an ongoing basis to ensure that the expected returns are achieved, but also to allow the Group to modify its capital allocation when appropriate.
Adverse effect on financial results. Adverse effect on shareholder value.	All potentially significant projects are subject to detailed investigation, assessment and approval prior to commencement. Dedicated teams, including financial resource, are allocated to each project, with additional expertise being brought into the Group to supplement existing resource when necessary. All strategic projects are closely monitored by the Executive Committee with regular reporting to the Board.
Adverse effect on financial results.	The Board conducts an annual review of strategy, which includes an assessment of likely competitor activity, market forecasts and possible future trends in products, channels of distribution and customer behaviour. The Group maintains a comprehensive tracking system for lead indicators that influence the market for the consumption of building materials in the UK. Significant events including those in the supply chain that may affect the Group are monitored by the Executive Committee and reported to the Board monthly by the Group CEO. Should market conditions deteriorate then the Board has a range of options dependent upon the severity of the change. Historically these have included amending the Group's trading stance, cost reduction, lowering capital investment and cutting the dividend.
Adverse effect on financial results.	It is still too early to determine the full impact of the decision to leave, but the Board is closely monitoring market conditions and will react accordingly. The Board has already taken steps to reduce some costs, but is carefully balancing the current needs of the business against what may or may not occur in the future. The Group continues to invest in the business where those investments are expected to realise acceptable returns, but it is prepared to reduce activity levels should market conditions so dictate. Where the cost of goods increases due to the exchange rate deteriorating or additional tariffs and duties, the Group will seek to pass those price increases through to its customers, but its ability to do so will depend upon market conditions at the time. The processes in place around the recruitment and retention of people are set out in the principal risk pertaining to such matters on page 34.

Inherent Risk and Trend	Risk Description
Defined benefit pension scheme funding requirements could increase Inherent Risk: ○ ○ Trend: ◀ ▶ Strategy: D E	The Group is required by law to maintain a minimum funding level in relation to its on-going obligations to provide current and future pensions for members of its defined benefit pension schemes. The level of contributions required from the Group to meet the benefits promised in the final salary schemes will vary depending upon the funding position of those schemes. While the Group has taken actions to manage the future cost, the cash funding of pension obligations could increase significantly due to a number of factors including poor performance of the pension fund investments, falling corporate bond and gilt yields and increasing longevity of pension scheme members.
Data security Inherent Risk: ○ ○ Trend: ▲ Strategy: A E	Incidents of sophisticated cyber-crime represent a significant and increasing threat to all businesses including the Group. A major breach of system security could result in system disruption to both customer facing and financial systems and / or the theft and misuse of confidential data with consequential impacts on the Group's reputation or ability to trade.
The changing regulatory framework, including GDPR and new building regulations, increase the risk of non-compliance and fines Inherent Risk: ○ ○ Trend: ◀ ▶ Strategy: A B C D E	The Group is subject to a broad range of existing and evolving governance, environmental, health and safety and other laws, regulations, standards and best practices which affect the way the Group operates and give rise to significant compliance costs, potential legal liability exposure for non-compliance and potential limitations on the development of the Group's operations.

Impact	Risk Mitigation
Adverse effect on financial condition.	All the Group's final salary pension schemes are closed to new members, although they remain open to accrual. Since 2015 individual employee contribution rates have been more closely linked to the cost of accrual which has resulted in the current service contribution of the Group being capped. For the Travis Perkins scheme, pensionable salary inflation has been capped at 3% per annum. The schemes' investment policies are kept under regular review by the trustees in conjunction with the Group to ensure asset portfolios produce the desired level of return within an acceptable risk profile. In 2017 an investment de-risking plan established in 2015 was completed with hedging strategies designed to limit the Schemes' exposure to inflation and interest rate fluctuations being put in place. Notwithstanding this the Group remains exposed to movements in member longevity, the value of pension scheme investments and falling corporate bond and gilt rates. The Group has agreed deficit reduction payment plans for each of its defined benefit pension schemes with the Trustees of the schemes. The repayment plans will remain in place until the next actuarial valuation, when in conjunction with the Scheme Trustees they will be reassessed to take into account the circumstances at the time.
Adverse effect on financial results. Adverse effect on the Group's reputation.	The strategic demands of the business, the resources available to IT, the performance levels of key systems and IT security are kept under review by the Executive Committee with responsibility for monitoring and maintaining cyber security delegated to a data security committee. Investments in best of breed solutions are made that continually adapt to mitigate the risk associated with the most advanced threats. Cyber security controls are in place to protect IT systems and data including firewalls, virus protection and penetration testing. A programme of risk oriented reviews is undertaken to ensure the level of control around IT systems remains robust. An IT disaster recovery plan exists together with a business continuity plan. Arrangements are in place for alternative data sites for both trade and consumer businesses. Off-site back-up routines are in place.
Adverse effect on the Company's reputation. Adverse effect on branch operations. Adverse effect on performance.	The Group's legal team is responsible for monitoring changes to laws and regulations that affect the business. The Group has policies in place that set out the ways employees and suppliers are expected to conduct themselves. Those expectations are widely disseminated using a range of methods to ensure colleagues and suppliers understand their responsibilities to comply with the law and other regulations affecting the Group at all times. The Board and the Executive Committee regularly monitor compliance with laws and regulations. The Group operates a whistleblowing process that allows the anonymous reporting of non-compliance with health and safety, environmental, bribery and other laws and regulations.

Main image:

Adam Buttigieg - Toolstation, Wellingborough

Bottom right:

Simona Platekova - Travis Perkins plc, Warrington

OUR PEOPLE

The Group's success is the result of the hard work and commitment of all its colleagues across its businesses, who are dedicated to meet the changing demands of its customers.

Recruiting the best and building a diverse workforce

2017 has seen further change to the Group's in-house resourcing model which was established in 2015. The new approach consists of focused candidate attraction campaigns delivered by in-house recruiters who consistently create new ways of attracting the best people in the market.

As part of the Group's Early Careers programme we work with Schools, Colleges and Universities to raise awareness around the variety of career paths on offer in the Group businesses, and to recruit into its multi-award winning UK wide apprenticeship scheme.

Since the start of 2017, approximately 275 service leaders have been recruited across the Group via a proactive Ex-Armed Forces recruitment programme. More recently the Group had the great honour of being recognised for its work supporting the Armed Forces with a Defence Employer Recognition Scheme (ERS) Silver award granted in recognition of the Group's approach to recruiting and developing Armed Forces personnel.

Developing to accelerate performance and strengthening succession

Leadership

Developing the best leaders to lead through change is a key enabler of performance for the Group. Leaders are challenged to not tolerate average, to lead by example, to be fanatical about customers, adapt at pace and identify creative ways to grow the Group's businesses whilst simultaneously challenging costs.

The Group 10 leadership development programmes were updated in 2017 to deliver new characteristics and capabilities.

The Group's business unit specific and central leadership succession processes and assessments were adapted to both strengthen the Group leadership pipeline and to proactively foster a more diverse leadership population.

Pipeline

In 2017 the Group apprenticeship programmes were transformed under the brand 'LEAP' (Learn As You Earn Apprenticeship Programmes); so apprentices are offered the opportunity to work in all areas of the business at many levels, and gain qualifications from GCSE to MBA. The launch of new apprenticeships will develop circa 2,000 younger and more diverse people at each level of the pipeline in the next two years.

The Group's branches and functions offer 15 places a year for young women to attend the Duke of Edinburgh's award scheme. This is designed to support the personal development of ambitious women starting their careers with Travis Perkins and to accelerate their progression in the construction industry. In 2017 five women have successfully graduated with the Gold award and twenty more have signed up for the next programme.

Workforce with a Difference

Travis Perkins strongly believes that a 'Workforce with a Difference' doesn't just make good commercial and business sense, it's good for its people and customers.

The number of women in leadership positions overall has increased by 9% to over 19% in 2017. The Group's workforce now includes seven female Managing Directors, and over 160 female Branch/Store Managers and over 47% of new talent into the pipeline through the apprenticeship programme is female.

The Group's internal 'Workforce with a Difference' digital community has over 1,500 members who actively contribute to, and drive change in the business. Improvements have occurred in areas such as uniform, working hours, language in company documentation and general policies. Colleagues have also tackled banter in local branches, whilst unconscious bias training and changes to recruitment advertising are now commonplace.

Listening to colleagues

The Group values honesty and fosters an environment of listening and allowing others to speak up. In 2017 there were a number of examples of this:

- The Group carried out 9 engagement surveys across its businesses.
- Colleagues were encouraged to use Google+ communities and forums to have two way conversations. For instance, formal consultative groups for organisational changes, elected representative groups and more informal listening groups led by Directors for specific topics.

In 2017 'My People Services' launched a new telephone service and portal, accessible to 29,000 colleagues, which provides advice and guidance on dealing with issues that cannot be resolved locally. This is in addition to the separate, independent, whistle blowing hotline.

Gender diversity reporting 2017

	F		M		Total	
	Number	%	Number	%	Number	%
Director	4	17	19	83	23	100
Manager	274	28	703	72	977	100
Colleague	7,330	25	21,446	75	28,776	100
Total	7,608	26	22,168	74	29,776	100

	F		M		Total	
	Number	%	Number	%	Number	%
Central services	680	47	763	53	1,443	100
Consumer division	4,128	37	6,943	63	11,071	100
Contract Merchanting division	643	19	2,832	81	3,475	100
General Merchanting division	1,379	14	8,343	86	9,722	100
Plumbing & Heating division	778	19	3,287	81	4,065	100
Total	7,608	26	22,168	74	29,776	100

Charities and communities

The Group is incredibly proud of how it supports the charities and communities around it. It continues to empower each of the Group's businesses to support different charities which mean something special to them and enter into a partnership, usually for three years or more. In 2017 the General Merchanting division extended its corporate charity partnership with Macmillan Cancer Support by a further two years.

The business raised more than £1 million in 2017 through a variety of activities principally driven and supported by Group colleagues, customers and local communities.

Group colleagues also support charitable activity through Payroll giving and via a Colleague Lottery. The popularity of these schemes remains undiminished, and in 2018, the Group will be looking at ways to make these schemes even more accessible to colleagues.

Our shared successes – charity partnerships

General Merchanting

Contracts

Consumer

Plumbing & Heating

KEEPING PEOPLE SAFE

The Group's approach

Keeping people safe is a cornerstone of the business. The Group's underlying philosophy that **'all those affected by our business should return home safe and well at the end of every day'** remains unchanged.

Travis Perkins recognises that good safety and good business leadership behaviours are indistinguishable from each other. Through the well established 'Stay Safe' brand, it continues to challenge its thinking and approach in order to deliver continuous improvement to the Group's safety performance.

Stay Safe governance

Throughout 2017 Stay Safe performance was reviewed at Travis Perkins plc Board Meetings, by the Executive Committee and also as part of regular Divisional leadership meetings.

The Travis Perkins plc Stay Safe Committee continued to monitor performance, by reviewing the risk profile of the business and progress against 2017 objectives relating to:

- Continued implementation of Divisional Stay Safe strategy, aligned to the Group Stay Safe Vision
- Further de-risking of the Group's operations
- Workplace transport and driver behaviour
- Safety training delivery and effectiveness measures for all colleagues including occupational drivers, front line management and senior management.

Progress against these objectives forms part of the Remuneration Committee's overall assessment of executive performance.

In addition to the Group's internal governance process, an independent external audit of safety strategy, planning and internal assurance processes was commissioned towards the end of 2017. A technical review of the Group's Safety Management System by its Primary Authority was also completed to determine the adequacy of the Group's policy and processes in meeting statutory requirements and in effectively managing its risks.

Stay Safe performance

When launching its revised Stay Safe strategy in 2015, the Group recognised that cultural change takes time and its expectations were that it would take a minimum of two years to make a discernable improvement to performance. As a result of the concerted efforts of everybody in the Group to focus on doing the right thing, it is pleasing to report a significant reduction in the number and frequency of lost time accidents.

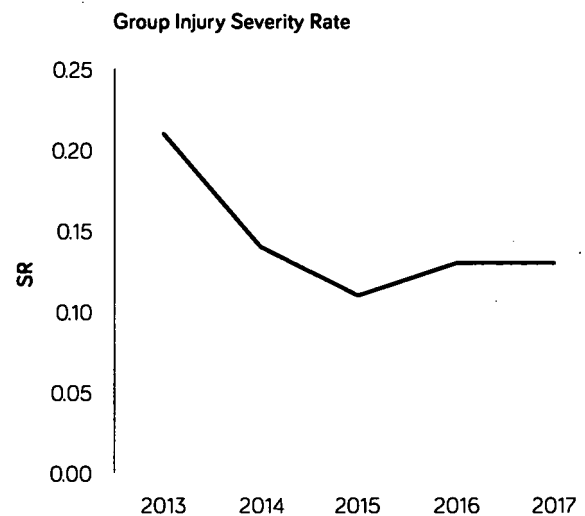
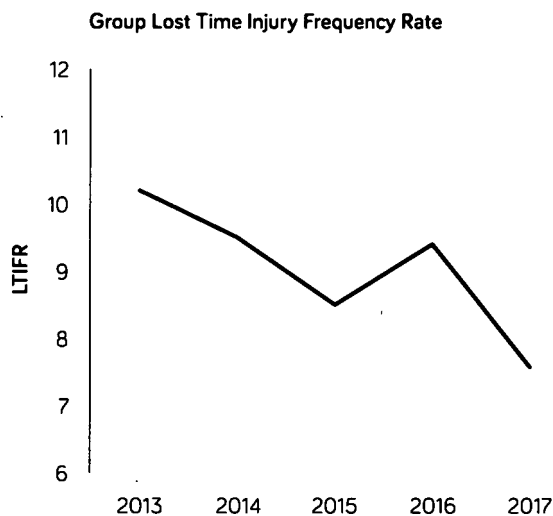
2017 saw 408 lost time accidents compared to 469 in 2016, correlating to an overall decrease in Group LTI frequency rate of 18% from 9.17 in 2016 to 7.57. The Group's Severity Rate remains flat at 0.13, the same as 2016. Near miss reporting continues to go from strength-to-strength, increasing by 100% on 2016 to over 44,000 reports.

Underlying the headline figures, the performance of the Group's operational divisions and businesses improved, with all except Plumbing & Heating showing reductions in the number and the frequency rate of lost time incidents. Frequency rates improved as follows: General Merchandising 14%, Contract Merchandising 12%, Supply Chain 33%, Wickes 17% and Tile Giant 28%. Plumbing & Heating saw its frequency rate increase by 8%, reflecting work to improve its reporting culture.

Consensus from the Divisions, Executive and Board is that the Stay Safe strategy and plan remains sound. It targets the principal causes of accidents, a revised risk assessment process, learning from accidents through application of the Just Culture model, as well as continuing to tackle the low frequency, high impact events related to traffic management.

The most significant challenge is the Group's ability to engage colleagues, particularly against a backdrop of wider organisational change and transformation. Accordingly it is the Group's aim for 2018 to stay on course and not be tempted to try a new approach before fully embedding the changes made to date.

The Group continues to lead the transport arena, maintaining accreditation as part of the Fleet Operators Recognition Scheme (FoRS) for the seventh consecutive year. It continues to champion the Construction Logistics and Cycle Safety (CLOCS) programme which brings together developers, construction companies, operators, vehicle manufacturers and regulatory bodies to ensure a road safety culture is embedded across the construction industry.



Innovation & collaboration

The Group's businesses continue to take the Stay Safe philosophy and translate it into specific actions that are tailored to their operations and the safety issues that they face.

During 2017 the Group has undertaken a number of projects in the health and safety arena. These include:

- All divisions have implemented the new Safety Management System (SMS), the Group's one stop shop for all policy and process relating to health and safety.
- Complementing the launch of a new SMS has been the roll out of the Group's 3 lines of defence assurance programme, seeing robust first line self assessment and review by managers and regional leaders, second line independent assessment of compliance and performance by the Stay Safe function and third line external review via external audit and the Group's Primary Authority.
- General Merchandising has piloted 'Backtrack', wearable technology to help improve manual handling techniques in branch as well as to help rehabilitate those with existing health conditions or injuries. Benefits have included increased engagement with colleagues regarding manual handling behaviour and a 73% reduction in unsafe lifting techniques.
- To help drivers keep themselves and customers safe at the point of delivery, during 2017 the Group delivered internally created training accredited by the Joint Approvals Unit for Periodic Training targeting safe loading and delivery and a new dynamic risk assessment approach.

- In 2017, Travis Perkins and DHL (the Group's primary supply chain delivery partner) conducted a driver fatigue trial using sleep data collected via wearable technology. Working with research partners Sleep and Fatigue Research (SaFR), the Group has collated some good data. Its challenge now is to understand if and how, through complex analysis, it can predict and influence specific driver behaviours and what additional internal systems and controls may be appropriate.
- Following the implementation of new national industry standards for the practical assessment of Fork Lift Truck (FLT) operators, the Group took this opportunity to work with its FLT training provider, Mentor Training, and adopted an industry leading enhanced practical assessment process exceeding the new standards.

Further projects are planned to build on the work undertaken in 2017. These include:

- 2018 will be the third year for the Group's traffic management and workplace transport risk profiling activity, seeking to continuously improve driver and pedestrian safety in branches.
- Improvements from safety by design will also continue as part of the Group's ongoing investment programme in new branches and refurbishment.
- Building on the 'Backtrack' technology pilot, 2018 will see further testing of wearable manual handling technology.
- The Group will continue to develop its broader health and wellbeing programme, continuing to evolve its 'My Worklife' wellbeing benefits offering, and a focus on stress management, developing personal resilience and helping colleagues cope with change. The Contract Merchandising division will be taking part in a programme to understand the 'demand' from colleagues for wellbeing as well as developing a clear wellbeing strategy.

ENVIRONMENTAL SUSTAINABILITY

Environmental essentials

The Group continues to engage, shape and influence practices and programmes that reduce the life cycle environmental impact of construction.¹ During the year, the Group:

- Was recognised for innovation in commercial renewable power installation by being an Edie Sustainability Leadership Finalist
- Joined the Supply Chain Sustainability School as a Partner
- Retained a managed rating (B) from CDP for carbon and forest products
- Retained the Three Trees designation from WWF for management and performance in responsible timber buying
- Operated for the 16th consecutive year with ISO 14001 compliant management system controls.

Materiality and context

The Group carried out an extensive stakeholder survey in 2017 to identify social, environmental and ethical issues that have a material bearing on the Group's continued success. The survey identified energy and carbon, material consumption and waste as being materially important as well as air pollution from vehicles.

Key performance indicators

Carbon

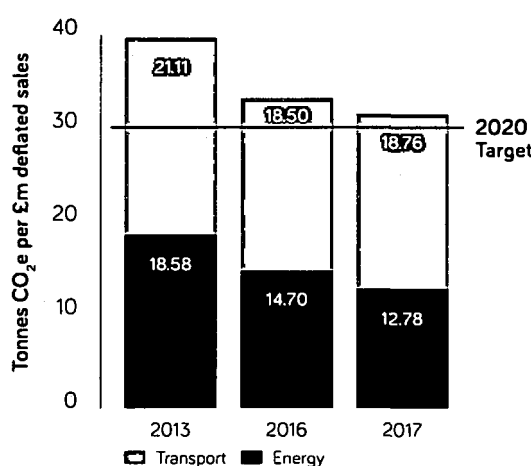
Carbon emissions associated with extracting raw materials, manufacturing products and disposing of products at the end of their useful life continue to account for 98%² of the Group's carbon footprint and it remains committed to increasing the use of environmental performance disclosures to highlight opportunities for collaboration in reducing this impact.

In direct operations, the Group's vehicle fleet is large and growing, so its efficient deployment and use remained a challenge in 2017. Long opening hours and relatively bright retail environments make the 3rd largest contribution to the Group's carbon footprint; so 29 LED retrofits were carried out.

The amount of energy (electricity & gas) the Group used in 2017 was almost 3% higher than in 2016 with much of this increase being accounted for by an increase in the number of operating sites. However, primarily because of grid decarbonisation and decoupled business growth, the Group's carbon emissions associated with energy and transport fell by c.5%. The Group expects a slowing of this rate of reduction in 2018 with some distribution restructuring impacting emissions, however, the Group remains confident of achieving its 2020 ambition of reducing its combined energy and transport intensity by 28% of 2013 levels.

The Group has reported on all of the emissions sources required under the Companies Act 2006 (Strategic Report and Directors Reports) Regulations 2013. Scope 1 and 2 emissions are calculated using the UK Government Conversion Factors for Company Reporting 2017³ on an operational control basis. 95% of Scope 1 and 2 data is from measured sources⁴ with the remainder extrapolated from expenditure on fuel.

Travis Perkins plc Greenhouse Gas Emissions⁵



¹ This report includes data for companies where Travis Perkins plc has operational control.

² Not verified by Lloyds Register Quality Assurance.

³ Fugitive emissions from domestic refrigeration, vehicles and building air conditioning have been excluded in 2013 and 2017, but they were not material to the Group's overall emissions.

⁴ 6% of the energy data is estimated due to supplier data provision issues.

⁵ 2017 data is Office of National Statistics deflated figures. It uses best available financial data at the time the report was produced.

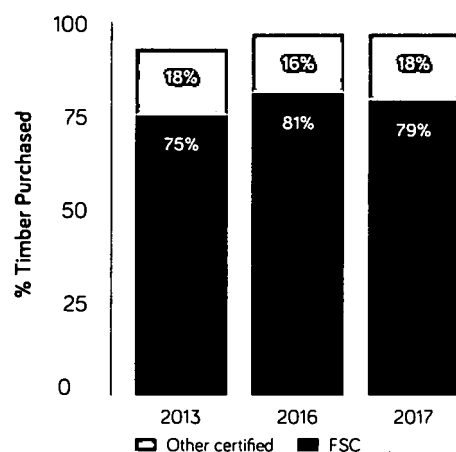
Mandatory carbon report table

Carbon Dioxide Equivalent (CO ₂ e) Tonnes		
	Comparison year 2016	Reporting year 2017
Scope 1 Direct emissions from burning gas and solid fuel for heating and from road fuel use for distribution ⁶	139,434	138,160
Scope 2 Indirect emissions from the use of electricity	65,381	57,205
Intensity⁷ Tonnes of CO ₂ e from scope 1 and 2 sources per million pounds of inflation adjusted sales	33.2	31.6

Timber

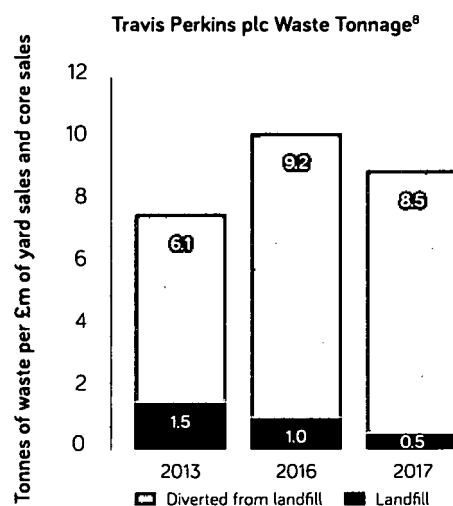
The Group successfully procured over 97% of timber and timber products resold as either FSC or PEFC certified. The Group ambition remains that all timber and timber products are sourced responsibly, and without causing deforestation or degradation.

Travis Perkins plc Timber and Timber Products for Resale



Waste

The Group still sends 2,765 tonnes of waste to landfill, 6% of the 48,439 tonnes of used materials created, and is committed to continuing its journey towards diverting zero waste to landfill in 2018.



The Group recognises that much of its impact on raw material use and waste is due to, both how the products it sells are made and how they are disposed of after their useful life. The Group collaborated with its copper fitting suppliers in 2017 to identify material savings of up to 10% and believes similar approaches are scalable with other suppliers over the next 18 months. Meanwhile the General Merchandising division continued to successfully take back packaging waste from selected customers and Wickes ensured 225 tonnes of material was reused. This is another area where the Group has further opportunity to increase its activities in the future.

Air pollution

The Group operates over 3,300 vehicles which collectively are driven over 150 million miles a year. The combined effect of these on urban air quality is rightly under close scrutiny and so the Group has plans to ensure that all its HGV fleet is less than 10 years old by 2020.

⁶ Scope 1 CO₂e emissions include 21,969 tonnes from buildings and 116,192 tonnes from transport.

⁷ Carbon intensity is referenced to turnover, which is adjusted to allow for inflation, relative to baseline year.

It uses best available financial data at the time the report was produced.

⁸ 2017 data is Office of National Statistics deflated figures. It uses best available financial data at the time the report was produced.

A proportion of the Group's waste data is estimated.

Incidents

In 2017 there were 3 permitted operations and 4 consents from environmental regulators for discharges to air or controlled waters at the Group's 2,076 sites. The majority of the Group's sites operate under waste exemptions in order to responsibly handle and process Group and customer waste.

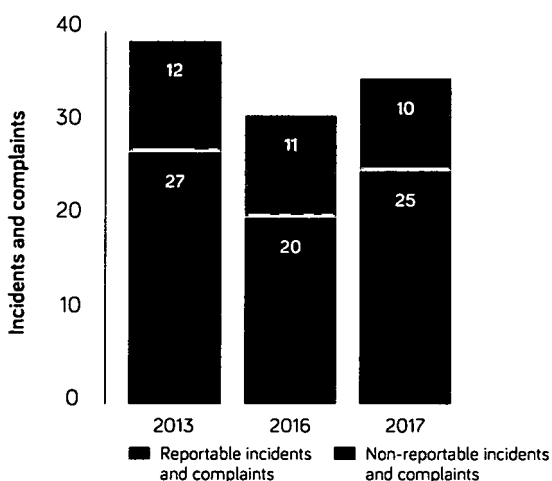
The Group's ISO 14001 certified environmental management system assures compliance and pollution prevention in the event of incidents. In 2017 the system followed up 25 non-reportable incidents and 10 incidents or complaints meeting internal guidelines as being reportable to competent authorities. Of the reported incidents, 9 were of spillages involving fuel, hydraulic oil or paint all less than 100 litres and where small amounts may have entered controlled waters. The Group received one noise complaint from early morning activity at one of its retail sites.

Strategic report approval

The Strategic Report on pages 3 to 48 was approved by the Board of Directors and signed on its behalf by:

John Carter	Alan Williams
Chief Executive	Chief Financial Officer
27 February 2018	27 February 2018

Travis Perkins plc Recorded Incidents and Complaints



There are no current or ongoing investigations by regulators regarding these reported incidents and no part of the Group was either prosecuted or in receipt of a civil sanction in 2017.

Assurance

The content of this report (with the exception of the supply chain carbon emissions values used to calculate the proportion of the Group's Footprint coming from its purchased goods) has been assured against LRQA verification procedure which is based on AA1000AS (2008) and ISAE3000. A copy of their verification statement is available at:

<http://www.travisperkinsplc.co.uk/responsibility/environment-hub/resource-library1.aspx>

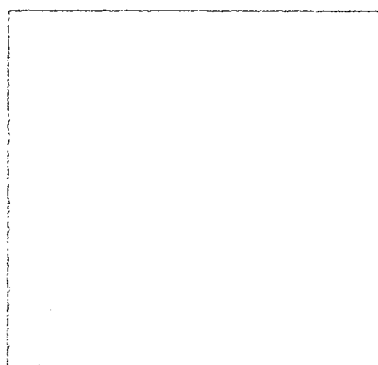
GOVERNANCE & REMUNERATION

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Main image:
George Brown & David Harris - Keyline, Telford

From top left to bottom right:
Emma Walmsley - BSS, Leeds
Adam Raspass - Benchmark, Luton

THE BOARD OF DIRECTORS



Stuart Chambers

Non-executive Chairman

Nationality

British

Appointment date

Non-executive Director – 1 September 2017
Chairman from 7 November 2017

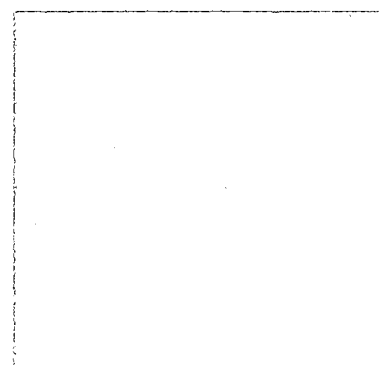
Committee membership

Nomination Committee Chairman,
Remuneration Committee
and Stay Safe Committee

Skills and experience

Stuart Chambers is currently Chairman of Anglo American plc and a member of the UK Takeover Panel.

Stuart was Chairman of Rexam plc from 2012 to 2016 and ARM Holdings plc from 2014 to 2016. He served as a non-executive director on the Boards of Tesco plc, Tesco Bank, Manchester Airport Group, Smiths Group plc and Associated British Ports Holdings plc. His executive career included 10 years with Shell and 10 years with the Mars Corporation. Stuart then joined Pilkington plc in 1996, where he was appointed Group Chief Executive in 2002. Pilkington was acquired by Nippon Sheet Glass in 2006 and Stuart became Group Chief Executive of the new combined Group until 2010.



John Carter

Chief Executive

Nationality

British

Appointment date

Executive Director – 1 July 2001
Chief Executive from 1 January 2014

Committee membership

Executive Committee Chairman and
Stay Safe Committee

Skills and experience

John joined Travis Perkins plc in 1978 as a Management Trainee. With over 39 years experience in the business, John has held various senior strategic roles in Sales, Marketing and Operations and has managed sector-leading functions such as Procurement, Supply Chain, International Sourcing and Category Management. During his career John has headed up the integration of key strategic acquisitions for the Group including Keyline in 1999, Wickes in 2005 and BSS Group in 2010. John is a Non-executive Director of McCarthy & Stone plc.

Tony Buffin

Group Chief Operating Officer

Nationality

British

Appointment date

Chief Financial Officer – 8 April 2013
Group Chief Operating Officer from
1 March 2017

Committee membership

Executive Committee

Skills and experience

Prior to joining the Group, Tony was CFO of the Coles Group, the leading Australian grocery retailer, where he was accountable for finance, property, IT, strategy and the Group online, financial services and hotel businesses. Prior to this Tony was the CFO and then CEO of the Loyalty Management Group and held senior finance roles at The Boots Group plc after qualifying as a chartered accountant at Ernst & Young. Tony has been a Non-executive Director on the Dyson Shareholder Board since 2013.



Alan Williams
Chief Financial Officer

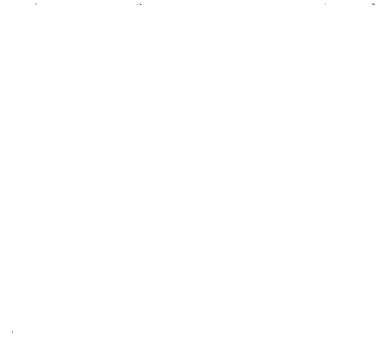
Nationality
British

Appointment date
3 January 2017

Committee membership
Executive Committee

Skills and experience

Prior to joining the Group, Alan served as CFO at Greencore Group plc for 6 years. Alan also previously worked at Cadbury plc in a variety of financial roles in the UK, France and the USA. Alan is a qualified accountant and treasurer and has a strong background in leading strategic initiatives, mergers and acquisitions, integration and business transformation.



Ruth Anderson
Non-executive Director

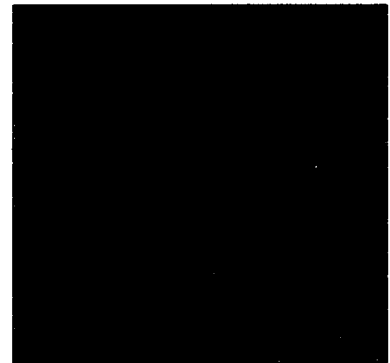
Nationality
British

Appointment date
24 October 2011

Committee membership
Audit Committee Chairman,
Nominations Committee and
Stay Safe Committee

Skills and experience

Ruth is a non-executive director of Ocado plc, Coats Group plc, The Royal Parks which is a charitable public corporation and a trustee of the charity, The Duke of Edinburgh's Award. She is a chartered accountant, and held a number of positions in KPMG (UK) from 1976 to 2009, being a member of its Board from 1998 to 2004 and Vice Chairman from 2005 to 2009.



Coline McConville
Non-executive Director

Nationality
Australian

Appointment date
1 February 2015

Committee membership
Remuneration Committee Chair, Audit
Committee and Nominations Committee

Skills and experience

Coline is currently a non-executive director of TUI AG, Inchcape plc and Fevertree Drinks plc and was formerly a non-executive director of UTV Media plc, Wembley National Stadium Limited, Shed Media PLC and HBOS plc, and a global advisor and director of Grant Thornton International Limited. Prior to that, Coline was Chief Operating Officer and Chief Executive Officer Europe of Clear Channel International Limited. She holds an MBA from Harvard Business School, where she was a Baker Scholar.

Pete Redfern

Non-executive Director

Nationality

British

Appointment date

1 November 2014

Committee membership

Stay Safe Committee Chairman, Nominations Committee and Remuneration Committee

Skills and experience

Pete is a Chartered Surveyor, as well as a Chartered Accountant and is currently Chief Executive of Taylor Wimpey plc. He was previously Chief Executive of George Wimpey plc and prior to that, successively held the posts of Finance Director and Chief Executive of George Wimpey's UK Housing business. Pete is also a Trustee of the homelessness charity Crisis and Chairman of the Youth Adventure Trust.

Christopher Rogers

Senior Independent Non-executive Director

Nationality

British

Appointment date

1 September 2013

Committee membership

Audit Committee, Nominations Committee and Remuneration Committee

Skills and experience

Chris is currently Chairman of Rush Hair Group Limited a business backed by Lloyds Development Capital and a visiting fellow at Durham University. Prior to this, Chris was Managing Director of Costa Coffee from 2012 to 2016 and a director of Whitbread PLC from 2005 to 2016 where he served as Group Finance Director. He was Group Finance Director of Woolworth Group PLC and Chairman of the Woolworth Entertainment businesses from 2001 to 2005 and previously held senior roles in both finance and commercial functions in Comet Group plc and Kingfisher plc. Chris was also a non-executive director of HMV Group plc from 2006 to 2012.

John Rogers

Non-executive Director

Nationality

British

Appointment date

1 November 2014

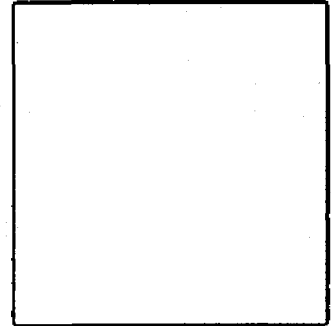
Committee membership

Audit Committee and Nominations Committee

Skills and experience

John Rogers is currently Chief Executive Officer of Sainsbury's Argos and a member of the J Sainsbury's plc Board and Sainsbury's Bank plc Board. Prior to his appointment as CEO of Sainsbury's Argos, John was Chief Financial Officer of J Sainsbury plc for six years and during his career at Sainsbury's he also held the posts of Property Director, Director of Group Finance and Director of Corporate Finance. Before joining Sainsbury's, John held a variety of financial, operational and strategy roles.

CORPORATE GOVERNANCE REPORT



FOR THE YEAR ENDED 31 DECEMBER 2017

2017 has seen a significant change in the composition of the Board. On 6 November 2017 we said farewell to Robert Walker, after eight years of dedicated service to our Company, of which he served more than seven years as Chairman. During his tenure Robert led the Board in overseeing the business make several major acquisitions including the BSS Group and Toolstation and saw Group revenues double.

It is now four months since I took over the role of Chairman and I am pleased to have the opportunity to report on our approach to corporate governance, and our key activities in this area.

Good governance is essential to the way in which our business operates on a day-to-day basis, and the Board remains committed to ensuring the highest standards. As your new Chairman, I am responsible for leading the Board in promoting effective governance across the Group, an activity which I believe is critical in underpinning our ability to deliver our strategy and to create long-term value for our shareholders. Details of the principal activities of the Board and its committees throughout 2017, and how the Company has complied with the UK Corporate Governance Code can be found on pages 54 to 57.

Although we were due to carry out an external Board evaluation in 2017, due to the timing of my appointment, we decided to defer this to 2018 when I will have greater knowledge of the requirements for the Board and the attributes of each of the members. An internal evaluation of the Board's performance was conducted this year, in a fully open and transparent process. The conclusions and recommended actions from the review are summarised on page 56.

The Board plays an important role in setting the Group's culture and, in my initial months, it is clear that the Board and colleagues across the Group demonstrate the Group's core values, the Cornerstones. Throughout the year, the Board has worked effectively and guided the Group forward in the face of some challenging market conditions. The Board is visible within the business and visited a number of the Group's sites during the year. As part of my induction, I have also spent time in the Group's businesses and have found this a very useful way of developing my understanding of the Group.

The AGM this year will be held on 27 April 2018 at the Saints Rugby Football Club in Northampton. I look forward to meeting shareholders at the AGM, where your Board and I will be available to answer any questions.

Stuart Chambers
Chairman
27 February 2018

UK Corporate Governance Code

This part of the Annual Report describes the principal activities of the Board and its committees throughout the year and how the Company has complied with the UK Corporate Governance Code (the "Code") by reference to its five main sections. A copy of the Code can be found on the Financial Reporting Council's website www.frc.org.uk

Throughout the year ended 31 December 2017, the Company was in full compliance with the provisions set out in the Code with the exception of Code provision B.6.2, which requires that the Board undertakes an external evaluation every three years, as explained in the Chairman's introduction.

1. Leadership

Structure of the Board and Committees

The Board is responsible for the long-term success of the Company and is accountable to shareholders for ensuring that the Group is appropriately managed and governed. Principally this is achieved through:

- Setting the overall Group strategy
- Setting the the tone and approach to corporate governance
- Approval of expansion plans and major capital expenditure
- Consideration of significant financial and operational matters and the Group's exposure to key risks

The roles of the Chairman and Chief Executive are split and the Board has approved a written statement of the division of key responsibilities between the Chairman and the Chief Executive and a statement of the role of the Senior Independent Director. These are reviewed annually and are available on the Group's corporate website www.travisperkinsplc.co.uk.

The Board also has a schedule of matters reserved to it, which is reviewed annually. Revisions were made in December 2016 to reflect latest best practice and the operations of the Group. The schedule of matters reserved to the Board is available on the Group's corporate website www.travisperkinsplc.co.uk.

In line with the UK Corporate Governance Code, certain Board responsibilities are delegated to the Board's Committees, which play an important role in supporting the Board. The Board has four Committees: Audit, Nominations, Remuneration and Stay Safe. All committees operate within defined terms of reference which are reviewed annually and these are available on the Company's website www.travisperkinsplc.co.uk. The minutes of all committee meetings are circulated to all Directors.

The Board has delegated responsibility for the execution of the Group's strategy and the day-to-day management and operation of the Group's business to the Executive Committee. The Executive Committee is chaired by the Chief Executive and its members are:

John Carter	Chief Executive Officer
Tony Buffin	Group Chief Operating Officer
Frank Elkins	Divisional CEO, Contract Merchanting Division
Deborah Grimason	Company Secretary and General Counsel
Andrew Harrison	Deputy CEO, Plumbing and Heating Division
Carol Kavanagh	Group Human Resources Director

Simon King	Managing Director, Wickes
Martin Meech	Group Property Director
Cheryl Millington	Chief Digital Officer
Paul Tallentire	CEO, General Merchanting Division
Alan Williams	Chief Financial Officer

Other colleagues are invited to attend Executive Committee meetings from time to time in relation to specific matters. The main purpose of the Executive Committee is to assist the Executive Directors in the performance of their duties, particularly in relation to:

- Development and implementation of strategy, operational plans, policies, procedures and budgets
- The monitoring of operational and financial performance
- The assessment and control of risk
- The prioritisation and allocation of resources

All Directors have direct access to the Company Secretary and General Counsel and may take independent professional advice in the furtherance of their duties if required. The Company maintains director's & officer's insurance in respect of the risk of claims against directors which is reviewed annually.

Board meetings

The Board held nine scheduled meetings in 2017. Regular items at Board meetings included detailed updates on health and safety, reports on progress towards strategic objectives, reviews of the Company's financial position and performance against KPIs. Other topics considered included strategic reviews of business divisions, funding, capital expenditure, investor feedback, risk and governance. During the year, the Board visited a number of operational sites and held a strategy offsite meeting.

The agenda for meetings is agreed by the Chairman in conjunction with the Chief Executive and the Company Secretary and General Counsel. Agendas are based on an annual plan, and also include topical items and matters of particular interest or concern to the Board.

Key financial and other relevant information is circulated to the Directors outside of formal meetings. The Chairman monitors the information provided to the Board both at, and outside of meetings to ensure it is sufficient, timely and clear.

Between board meetings the Chairman maintains frequent direct contact with the Executive Directors and keeps the Non-executive Directors informed of material developments. At the meetings the Chairman ensures that each Director is able to make an effective contribution within an atmosphere of transparency and constructive debate.

The Company liaises closely with the Non-executive Directors to ensure as far as possible that clashes with external appointments are avoided. Directors are able to attend meetings by video or telephone conference if there is an issue with location or travel. The number of Board and Committee meetings attended by each Director during the year is detailed in the following table.

	Plc Board	Audit Committee	Nominations Committee	Remuneration Committee*	Stay Safe Committee	Overall attendance (%)
Number of meetings	9	5	5	4	3	97
Attendance:						
Ruth Anderson	9/9	5/5	5/5	-	3/3	100
Tony Buffin	9/9	-	-	-	-	100
John Carter	9/9	-	-	-	3/3	100
Stuart Chambers	3/3	-	1/1	1/1	-	100
Coline McConville	9/9	4/5	5/5	4/4	-	96
Pete Redfern	7/9	-	5/5	4/4	3/3	90
Christopher Rogers	9/9	5/5	1/1	2/2	-	100
John Rogers	9/9	5/5	4/5	2/2	-	95
Robert Walker	8/8	-	-	3/3	2/3	93
Alan Williams	9/9	-	-	-	-	100

* John Rogers served on the Remuneration Committee until 25 May 2017 and Christopher Rogers joined the Remuneration Committee on 26 May 2017.

Six out of ten Directors had full attendance and the average attendance for the Board and Committees combined was 97%. Robert Walker and Christopher Rogers were not invited to the Nominations Committee meetings in February, March and April as the meetings were primarily concerned with the Chairman's succession. Coline McConville missed the July Audit Committee meeting due to a prior commitment with another company. Pete Redfern missed the Board meetings in August and September due to prior commitments with the Taylor Wimpey plc Board. John Rogers missed the March Nominations Committee meeting due to a travel problem getting to the venue.

2. Effectiveness

As at 31 December 2017 the Board comprised six Non-executive Directors and three executive Directors. Stuart Chambers replaced Robert Walker as Chairman on 7 November 2017. Christopher Rogers is the Senior Independent Non-executive Director. The biographies for the Board are listed on pages 50 to 52.

Appointment of directors

The composition of the Board is kept under regular review by the Nominations Committee and the Committee considers that the Board has the appropriate balance of skills, experience, independence and knowledge to meet the needs of the business. Appointments of new Directors are made by the Board on the recommendation of the Nominations Committee. The Chairman normally chairs the Nominations Committee and all other members are independent Non-executive Directors. The Committee's report can be found on page 82.

The Group's policy is to recruit people of the highest calibre, with a breadth of skills and experience appropriate for the business. The Group supports the principles of the Davies Review and the Hampton Alexander Review and the need for a diverse board, although it does not intend to commit to specific quotas. The Board diversity policy is summarised in the Nominations Committee Report.

Non-executive Directors have letters of appointment and are appointed for a period until the third AGM following their election, at the end of which the appointment may be renewed by mutual agreement. It is the Board's policy that Non-executive Directors should generally serve for six years (two three-year terms) and

that any term beyond this should be subject to a rigorous review. This review takes into account the need for progressive refreshing of the Board, maintenance of a balance of skills and experience and the particular requirements of the Company at the time of the possible extension.

The tenure of each director is shown below:

	Expiry Date	Length of service at expiry date
Ruth Anderson	2018 AGM	6 years 6 months
Stuart Chambers	2021 AGM	3 years 7 months
Coline McConville	2018 AGM	3 years 3 months
Pete Redfern	2018 AGM	3 years 6 months
Christopher Rogers	2020 AGM	6 years 8 months
John Rogers	2018 AGM	3 years 6 months

All Non-executive Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and the time commitment expected is set out in their letter of appointment. The letters of appointment will be available for inspection at the Annual General Meeting.

Induction and development

The Group has an induction process for new Directors, which is facilitated by the Company Secretary and General Counsel. This includes a programme of meetings with senior management in both operations and central functions, and visits to a range of branches and stores. The Chairman ensures that all Directors receive an appropriate induction on appointment and then subsequent development and training as required, taking into account the need to update their skills and their knowledge of the Company's business.

The Board as a whole is also regularly provided with information on forthcoming legal and regulatory changes, corporate governance developments and briefings on the key risks facing the Company, including those identified in the Statement of Principal Risks and Uncertainties on pages 33 to 39.

The Directors may take independent professional advice at the Company's expense at any time.

Evaluation of Board performance

The Board considers on an annual basis the time commitments of each Non-executive Director and whether each remains independent in character and judgement in light of any relationships or circumstances which are likely to affect each Director's judgement. None of the circumstances set out in Code provision B.1.1. apply and the Board is satisfied that all Directors remain independent and have sufficient time available to fulfil their duties.

Each year, the Board undertakes an evaluation of its performance and the performance of its Committees and individual Directors.

The Board's policy is to engage an external facilitator to assist this process every three years. In 2017, due to the timing of the appointment of the Group's new Chairman, the Board carried out an internal evaluation which included each Director completing a questionnaire about the performance of the Board and its Committees followed by individual discussions with the outgoing Chairman and an independent review of the findings by an external party. There was generally a high level of satisfaction with the Board's effectiveness and performance with transparency and openness, independence and freedom to contribute, relationships and standards of governance all highly rated. Looking forward, the Board agreed the following priorities:

- Increasing focus on the articulation and delivery of strategy and value creation
- Understanding and shaping strategy to adapt to the changing customer landscape
- Future proofing the Board and growing diversity of thought through the ongoing Board refreshment programme

The evaluation of the outgoing Chairman's performance was led by the Senior Independent Director.

Each Director has confirmed that they are willing to stand for re-election at the next AGM. In light of the Board's assessment that all Directors continue to perform and provide a valuable contribution to the Board and its Committees, all Directors will submit themselves for re-election at the 2018 AGM.

An externally facilitated evaluation will be undertaken in 2018.

3. Accountability

A review of the performance of the Group's businesses and the financial position of the Group is included in the Strategic Report on pages 4 to 48. The Board uses it to present a full assessment of the Group's position and prospects, its business model, and its strategy for delivering that model. The Directors' responsibilities for the financial statements are described on page 87.

Going concern

After reviewing the Group's forecasts and risk assessments and making other enquiries, the Board has formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the 12 months from the date of signing this Annual Report and Accounts. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In arriving at their opinion the Directors considered:

- The Group's cash flow forecasts and revenue projections
- Reasonably possible changes in trading performance
- The committed facilities available to the Group and the covenants thereon
- The Group's robust policy towards liquidity and cash flow management
- The Group management's ability to successfully manage the principal risks and uncertainties outlined on pages 33 to 39 during periods of uncertain economic outlook and challenging macroeconomic conditions

Risk management and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In the design of the system of internal control, consideration has been given to the significant risks to the business, the probability of these risks manifesting themselves and the most cost effective means of controlling them. The threat posed by those risks, and any perceived change in that threat, is reviewed half yearly by both the Executive Committee and the Board. The system manages rather than eliminates risk and therefore can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The day-to-day operation of the system of internal control is delegated to Executive Directors and senior management, but the Audit Committee review and discuss internal controls on a regular basis. The system of internal controls is reviewed by the Board in a process that accords with the Financial Reporting Council guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

It is the responsibility of the Board to establish the risk framework within which the Group operates. The Board and the Executive Committee review the risk register and risk appetite at least once each year. Members of the Audit Committee also receive reports of Internal Audit reviews. If appropriate, these reports include recommendations for improvement in controls or for the management of those risks. Measures to integrate risk management processes into the Group's operations, to extend awareness of the importance of risk management and to ensure that recommended improvements are implemented, are regularly reviewed and refreshed.

As part of its viability review, the outcome of which is set out on page 31, the Board considered the principal risks and uncertainties and mitigating factors set out on pages 33 to 39.

In conjunction with the Audit Committee, the Board has carried out an annual review of the overall effectiveness of the system of internal control and risk management, during the year and up until the date of approval of this Annual Report.

Audit Committee and Auditors

The Board has established an Audit Committee consisting of four independent Non-executive Directors. Its key responsibilities and a description of its work in 2017 are contained in its report, which is set out on pages 58 to 63.

The Board's fair, balanced and understandable declaration

At the Board meeting during which the Group's results for the year were presented by the Chief Executive and the Chief Financial Officer, the Board also considered whether the annual report and accounts, when taken as a whole, present a fair, balanced and understandable overview of the Group and its performance. After:

- hearing from the Executive Directors
- receiving a report from the Chairman of the Audit Committee on that Committee's meeting to discuss the preparation and content of the year-end financial statements and the audit conducted upon them
- discussing the contents of the Annual Report and Accounts,

the Board concluded that the Annual Report and Accounts are fair, balanced and understandable and accordingly the Directors' declaration to that effect can be found in the Statement of Director's Responsibilities on page 87.

4. Remuneration

The Board has established a Remuneration Committee consisting of three independent Non-executive Directors and the Chairman of the Board. Its responsibilities include setting the Company's remuneration policy, approving the remuneration of Executives and reviewing the performance against targets prior to determining the pay-outs on incentive arrangements. The remuneration of the Non-executive Directors other than the Chairman is determined by the Chairman and the Executive Directors. The Remuneration Committee determines the Chairman's fee. No Director plays a part in the discussion about his or her own remuneration.

The Committee's key responsibilities and a description of its work in 2017 are contained in its report, which is set out on pages 64 to 81.

5. Relations with shareholders

The Company encourages two-way communication with both its institutional and private investors and responds promptly to all enquiries received. The Board receives regular updates on the shareholder register and the views of shareholders. At least once each year, the Company reviews its strategy for engaging with shareholders to ensure that their needs are being met. The Board also reviews reports discussing governance matters and engages with governance bodies to contribute to the debate and development of good governance practices.

In 2017 the Executive Directors attended a large number of meetings. The Group held two briefings on results which were attended by shareholders, equity analysts and debt holders. Copies of these presentations are available on the investor relations section of the Group's corporate website at www.travisperkinsplc.co.uk

The Chairman is always available to the Group's shareholders if they have any issues they wish to discuss and the Senior Independent Director is also available as a direct contact for investors and shareholders, if they wish. During the year the former Chairman, Robert Walker, met with a number of shareholders to discuss governance matters and the Senior Independent Director, Christopher Rogers, joined a number of these meetings.

Annual General Meeting

Shareholders receive more than twenty working days' notice of the Annual General Meeting ("AGM") at which all Directors are available for questions and a short business presentation takes place. Each substantive issue considered at the AGM is the subject of a separate resolution. The numbers of proxy votes for and against each resolution are announced at the meeting and the final votes are subsequently published on the Company's website. Last year the majority of resolutions were passed with over 90% in favour, with only the disapplication of pre-emption rights in limited circumstances below this level at 88.5%.

The Governance Report has been approved by the Board of Directors and is signed on its behalf by:

Stuart Chambers

Chairman

27 February 2018

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Dear Shareholders,

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's report for 2017. The Committee has continued to play a key role within the Group's governance framework in respect of internal financial control, risk management, financial reporting and significant estimates and judgements, as well as overseeing the internal and external audit processes.

The external auditor, KPMG, has now completed its third audit of the Company's accounts and the audit process is running smoothly. During the year the Audit Quality Review team (AQR) from the Financial Reporting Council undertook an inspection of KPMG's audit of the Group's 2016 financial statements.

The AQR's final report was released earlier this month, with findings of four key areas for improvement, which KPMG has accepted and implemented during its audit of the 2017 financial statements.

In 2017, the Committee continued to focus on internal financial controls, particularly in respect of the significant systems programmes under development across the Group. This work will continue through 2018.

I will be available at the Annual General Meeting to answer any questions.

Ruth Anderson
Chairman, Audit Committee
27 February 2018

Role of the Audit Committee

The key responsibilities of the Committee are to:

- Monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them
- Review the Company's internal financial controls and the systems of internal control and risk management
- Monitor and review the effectiveness of the Company's internal audit function
- Maintain an appropriate relationship with the Company's external auditors and review the independence, objectivity and effectiveness of the audit process, taking account of relevant professional, regulatory and ethical guidance

The Committee's terms of reference are reviewed annually, were last updated in December 2017 and are available on the Group's corporate website www.travisperkinsplc.co.uk

Committee membership and meeting attendance

Ruth Anderson, who chaired the Committee, Coline McConville, Christopher Rogers and John Rogers were members of the Committee throughout 2017.

All members are independent Non-executive Directors. Three of the members have recent and relevant financial experience and all members have expertise relevant to the Company's sector, gained through a variety of corporate and professional appointments as required by the UK Corporate Governance Code (see biographies on pages 51 and 52).

The Deputy Company Secretary was Secretary to the Committee throughout 2017.

The Committee held five formal meetings during 2017. The Group Chairman, Chief Executive and Chief Financial Officer, General Counsel & Company Secretary, Group Financial Controller, Head of Internal Audit and external auditors also attended the Committee's meetings at the invitation of the Committee. Separate meetings with the Head of Internal Audit and with the external auditors without the presence of management were also held with the Committee Chairman and with the Committee.

As well as attending the Audit Committee meetings, the Committee members met with operational and finance team members during the year.

Work of the Committee

The Audit Committee adheres to an annual work plan which is regularly reviewed by the Committee to ensure that it encompasses all matters the Committee needs to consider to fulfil its corporate governance responsibilities.

The Committee gives due consideration to the annual report and accounts, and the results announcements prepared by management and issued at the half-year and year-end. In discharging its financial reporting responsibilities, the Committee reviewed accounting policies and compliance with accounting standards, going concern and viability assumptions, significant financial reporting estimates and areas of judgement made during the preparation of the Group's interim and annual accounts.

During the year, the Committee reviewed:

- The Group's systems of internal control, the effectiveness of financial controls and management's continuing control improvement programme
- The Group's key risks and the effectiveness of the risk management framework
- Accounting policies and the management's response to accounting developments including the impact of IFRS 9, IFRS 15 and IFRS 16 and the Group's readiness for their implementation
- The external audit plan, audit conduct and audit findings
- The internal audit plan and internal audit resourcing
- The Group's tax strategy and compliance
- The effectiveness of Internal Audit, the external auditors and of the Committee itself.

In addition, a number of standing agenda items were considered at each of the Committee's meetings:

- Internal Audit activity and findings
- Reports on criminal activity investigations, bribery, whistleblowing, and cyber security
- Progress on implementing recommendations arising from internal and external audit work
- Non-audit fees paid to the auditor and other accountancy firms.

In carrying out these activities, the Committee places reliance on regular reports from management, Internal Audit and the external auditors. The Committee is satisfied that it received sufficient, reliable and timely information to enable it to fulfil its responsibilities during the year.

The Board is updated on key matters and recommendations following each Audit Committee meeting.

Committee effectiveness review

The effectiveness of the Audit Committee was evaluated this year as part of the Board evaluation process. Further details can be found on pages 60 and 61. The review found that the Committee was operating effectively and that its role and remit remained appropriate for the current needs of the business. The Committee discussed the findings of the evaluation process to identify opportunities for further improvement.

Significant issues related to the financial statements

The Audit Committee has assessed whether suitable accounting policies have been adopted by the Group and has reviewed the key judgements and estimates made by management.

The following table sets out the key judgements associated with the Group's financial statements for the year-ended 31 December 2017 that were considered by the Audit Committee. It does not contain a list of all accounting issues, estimates and policies, just those the Audit Committee believes are the most significant ones.

In reaching its conclusions about the reasonableness of the assumptions and judgements underlying the accounting issues the Committee considered papers and explanations provided

by management, discussed each matter in detail, challenged assumptions and judgements made and sought clarification where necessary. It also held in depth discussions with the external auditors about their report to the Committee on the work undertaken to arrive at the conclusions set out in their audit report on pages 90 to 95.

The Group is currently in the process of replacing the ageing systems in its major businesses with new core systems, the

implementation of which is due to commence in 2018 and then continue through to 2020.

Accounting for a number of the matters discussed below is impacted by these ageing systems and the surrounding environment which were initially developed many years ago when the business was significantly smaller, less complicated and the quantum and nature of transactions considerably fewer and simpler.

Area	Issue and Nature of Judgement	Factors Considered and Conclusions Reached	Impact on Financial Information and Disclosure in the Financial Statements
Accounting for inventory and inventory valuation	To meet customer expectations the Group carries a wide range of stock in over 2,000 locations. Stock should be included in the balance sheet at the lower of cost or net realisable value. At 31 December stock was valued at £0.8bn. The determination of cost is complicated by the ageing accounting systems and also by material rebate and fixed price discount agreements, so requiring regular reconciliations in areas such as goods received not invoiced accruals.	During the year management regularly reported on stock valuation and provisioning to the Committee and did so again at its meeting to discuss the year-end annual report and accounts. The Committee reviewed and discussed the information presented about gross stock values and the adjustments made by management to reduce stock carrying values to allow for rebates and fixed price discounts attributable to inventory and provisions to reflect obsolescence or slow moving inventory. The Committee assessed the judgements made by management and concluded from the information it had received and its discussions with management and the Auditors that stock was fairly stated in the balance sheet.	Further information is given in the balance sheet on pages 98 and 99, and in the financial statements: • note 2 covering significant accounting policies, • note 3 detailing critical judgements and estimates
Accounting for rebate income and fixed price discounts ("Supplier Income")	The terms of supplier agreements result in a significant value of Supplier Income being received by the Group. The calculation of the value receivable and the value deferred into stock is complicated due to the number, nature and structure of the agreements in place and the age of the systems. However, only two agreements are not co-terminous with the Group's accounting year end. Furthermore, approximately 80% of amounts due to the Group are received during the course of the year. Therefore the key judgements relate to the calculation of the total value of rebates and fixed price discounts still to be received at the year-end and the value of fixed price discounts and rebates to be set against the gross value of inventory in the balance sheet.	During the year the Committee discussed reports presented by management about the progress of improvements to systems, controls and processes which included the implementation of a new deal tracking and rebate management system. It also received reports that enabled it to monitor Supplier Income collection rates and compare them with the prior year and it discussed the Group's adherence to its accounting policies and procedures. A summary of supplier income received during the year and amounts included in the balance sheet at 31 December 2017 was given to the Committee at the meeting held to consider the year-end results. The Committee reviewed management's judgements regarding the estimates of supplier income and amounts included in the balance sheet. The Committee concluded that the controls over recognising and recovering Supplier Income were appropriate, that the £344m of supplier income included in debtors or offset against creditors was recoverable and that the amount set against the gross carrying value of stock was appropriate.	Further information is given in the financial review on pages 29 and 30, note 2 to the financial statements covering significant accounting policies and note 3 detailing critical judgements and estimates.

Area	Issue and Nature of Judgement	Factors Considered and Conclusions Reached	Impact on Financial Information and Disclosure in the Financial Statements
The carrying value of goodwill and other intangibles and tangible fixed assets	The Group balance sheet contains £1.7bn of goodwill and other intangible assets with indefinite useful lives that arose from historical acquisitions and £0.9bn of tangible fixed assets. The Directors are required to determine annually whether those assets have suffered any impairment. They do so by comparing the present value of future cash flows for each cash generating unit with the carrying value of assets. In addition, the Company balance sheet contains £3.8bn of investments in subsidiaries. The directors compare the net present values of future cash flows from each investment to the carrying value of the investment in the balance sheet. The calculations undertaken to help arrive at a conclusion incorporate a consideration of the risks associated with each cash generating unit and are based upon forecasts of their long term future cash flows, which by their nature require judgement to be exercised and are subject to considerable uncertainty.	The cash flow forecasts used for impairment considerations are prepared from the strategic business plans presented to, and approved by, the Board of Directors annually. Management presented the Committee with papers setting out the results of the work done, the assumptions made and the conclusions reached. They explained to the Committee how the cash flow and discount rate calculations were prepared, the key assumptions and judgements that were made and how sensitive those cash flows were to changes in the key assumptions. After reviewing management's papers, and obtaining further explanation where necessary, the Committee concluded that management had taken a consistent, balanced and reasoned approach to preparing its calculations and that the judgements made were acceptable. It noted that the value in use model used by management showed all material cash generating units except for Wickes had significant headroom, but concluded that, whilst the headroom was limited for the Wickes cash generating unit, there was no impairment. The Committee also discussed the calculations supporting the carrying value of investments in the parent Company and concurred with management's conclusions.	Further information is given in the financial statements: • note 2 covering significant accounting policies, • note 3 detailing critical judgements and estimates, • notes 13 and 14 set out details of intangible assets and goodwill and outline the results of the Group's annual impairment tests.

Internal audit

During 2017, Internal Audit continued to focus on reviewing financial controls in areas which the Audit Committee considered higher risk as well as in other areas of high risk included in the Group risk register or highlighted by Internal Audit evaluation or from consultation with the Executive Committee. All core key financial control areas are audited regularly including balance sheet control accounts, statements by the divisions on their compliance with internal financial controls and key controls in the rebates and fixed price discounts processes.

Audits were undertaken both by the in-house Internal Audit team and the Group's co-source partners. The allocation of work was dependent on the specialist skills required, particularly in areas such as IT, data protection, tax and treasury, as well as on available resource.

The Committee reviewed and approved the 2017 internal audit plan and at each Committee meeting considered reports from Internal Audit setting out the findings from the audits which it had carried out. It also continued to review the effective implementation of recommendations agreed by management, through an Internal Audit system which tracks activity on all active recommendations by age and level of risk to the business.

Following the successful trial in 2016 to move branch and store compliance teams from within the Internal Audit function to the control of Contract Division management, the approach was rolled out to the other divisions in 2017.

An effectiveness review of the Internal Audit function was carried out by an independent assessor in February 2017 which included considering the team's conformance to the Institute of Internal Audit's International Professional Practice Framework, comparing the function's activities against best practice and assessing the impact of internal audit on the organisation. The review concluded that the Internal Audit function generally conforms to the Standards of the Institute of Internal Auditors. A number of actions were agreed as a result of the review and are in the process of being implemented. Taking this, along with the performance of the Internal Audit team into account, the Committee was satisfied with the overall effectiveness of the Internal Audit function during the year.

Risk management and internal controls

The risk management process facilitates the identification and control of risks. Details of risks faced by the Group are maintained in Group and business unit risk registers. Those risks are regularly reviewed by the Executive Committee and the Board to assess the likelihood of occurrence and potential impact, after taking into account the operation of key controls and mitigating factors. Additional mitigating actions are identified where necessary and agreed with relevant business owners.

Risks are managed at a Group level or within the business units. The principal risks and uncertainties are set out on pages 33 to 39, together with information on how those risks are mitigated.

The Audit Committee monitors the key elements of the Company's internal control framework throughout the year and has conducted a review of the effectiveness of the Company's risk management and internal controls. The internal control framework is intended to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's control framework has developed over many years and there are a significant number of IT systems upgrades and replacements underway. The changes will improve control processes and ensure greater consistency across the control environment but, in the meantime, manual controls are put in place to supplement existing systems controls.

Management continued its programme of work to improve the control environment throughout 2017 and this will carry on through 2018. The Audit Committee will monitor progress during the year and, given the level of change, reviewing these programmes will also be an area of focus for Internal Audit.

External auditor

KPMG LLP has been the external auditor since 2015. There are no contractual restrictions on the Group with regard to this appointment. In accordance with current professional standards, the partner responsible for the audit will change every 5 years. In future, the Company will re-tender the external audit in accordance with the timescales set out in Financial Reporting Council guidance.

Audit scope and effectiveness

The scope of the external audit of the 2017 Annual Report and Accounts was presented by the external auditor to the Committee in September 2017 so the Committee had the opportunity to discuss and challenge the audit plan in order to gain a good understanding of the key elements.

The Committee considers the effectiveness of the external auditor during the year and, with input from management, carries out a formal review of its performance after the year end audit has been completed.

In undertaking this assessment, the Committee considers:

- the experience and expertise of the auditor;
- the completion of the agreed external audit plan;
- the content, quality of insights and added value of external audit reports;
- the robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements;
- the interaction between management and the auditor; and
- the provision of non-audit services.

This year, the Committee also considered the findings of the Financial Reporting Council's Audit Quality Review team and the actions being taken by KPMG to address the matters raised.

Independence and objectivity

One of the Committee's responsibilities is to ensure compliance with the Board's policy in respect of services provided by, and fees paid to, the external auditor. The policy, which was reviewed by the Committee during the year, sets out the work that is permitted to be performed by the external auditor and the work which is prohibited.

The Committee oversees the process for approving all non-audit work undertaken by the external auditor in order to safeguard the auditor's objectivity and independence. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from KPMG rather than another supplier. When KPMG is chosen, it is due to their detailed knowledge of the Group's business and them demonstrating that they have the necessary expertise and capability to undertake the work cost effectively.

Value of work

Non-audit fees require approval and the amount payable to the external auditor in any particular year cannot exceed 70% of the average of the current and prior two years audit fee.

Reporting

The Chief Financial Officer reports to the Committee on fees for non-audit services payable to the external auditor at every meeting. As shown in note 5 to the accounts, during the year the Auditors were paid £935,000 (2016: £900,000) for audit-related work, and £120,000 (2016: £242,000) for non-audit work. The principal items of non-audit fees paid to the external auditors relate to the interim announcement review and the provision and maintenance of the Group's employee benefits system, MyPerks. In addition, £3.7m (2016: 3.0m) of fees were paid to other accounting firms for non-audit work. The total fees paid by the Group to KPMG LLP in 2017 amount to less than 0.05% of KPMG's UK fee income.

Assessment of the external auditor

Having considered the external auditor's performance, the report from the Audit Quality Review Team into KPMG's 2016 audit, and representations from the auditors about their internal independence processes, the Committee concluded that it was satisfied with the independence, objectivity and effectiveness of the external auditor and recommended to the Board that it recommend KPMG to be reappointed by shareholders at the Annual General Meeting on 27 April 2018.

The Audit Committee Report has been approved by the Board of Directors and is signed on its behalf by:

Ruth Anderson
Chairman, Audit Committee
27 February 2018

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

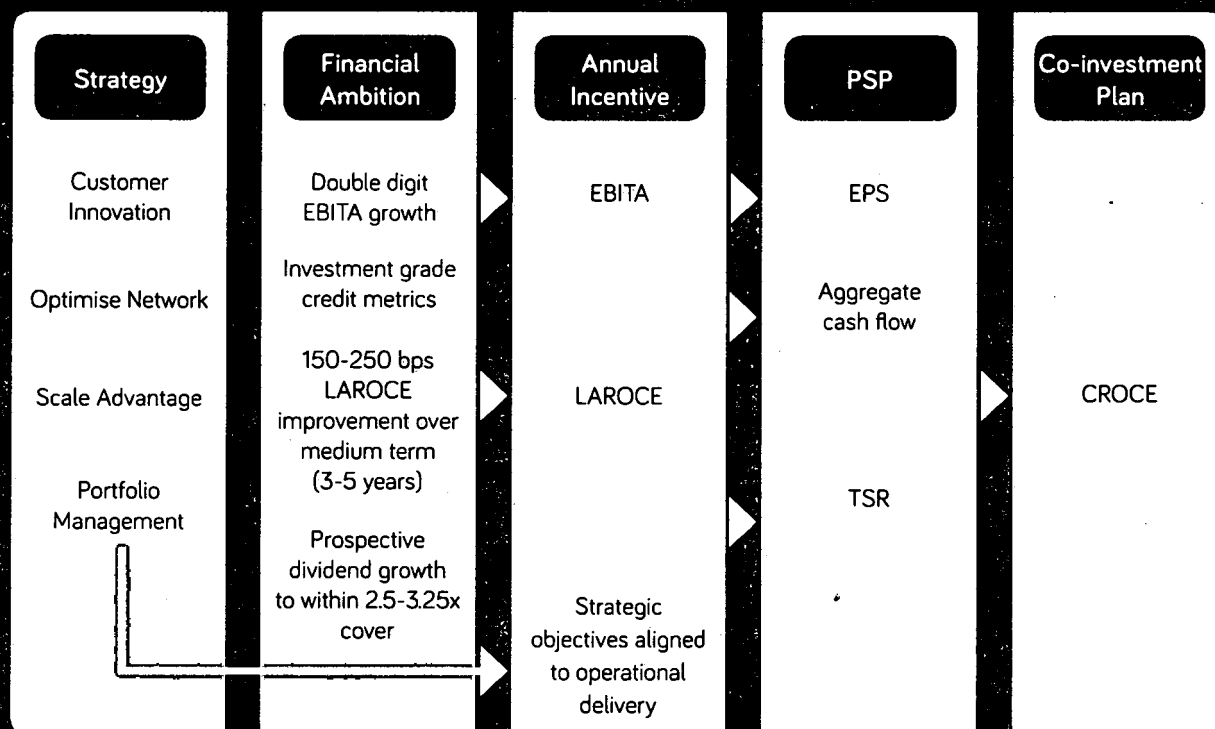
Dear Shareholders,

As Chairman of the Remuneration Committee I am very pleased to introduce the 2017 Directors' Remuneration Report.

No changes to remuneration policy

During 2016 the Committee undertook a review of the Group's executive remuneration framework and, following extensive

shareholder consultation, it submitted a new policy to the 2017 AGM which was approved by 97% of shareholders. The overall reward framework remained the same, but certain changes were made to simplify the framework and to enhance alignment with shareholders which I described in my letter last year. The Committee continues to believe that this framework supports the link between strategy and reward as illustrated below:



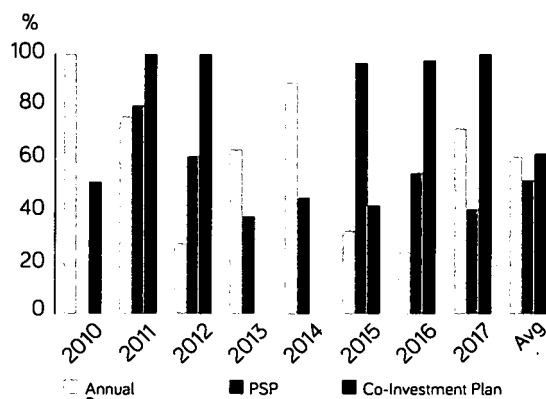
No changes are proposed to policy or the approach to implementation (including quantum and metrics) this year.

Link between pay and performance

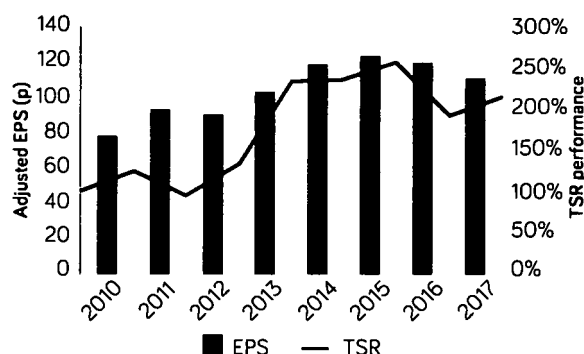
The Group's previously stated ambition to deliver long term sustainable value to shareholders remains at the heart of the Committee's approach to executive remuneration. A fundamental aspect of this is the link between the Group's strategy and remuneration with each part of the remuneration package playing a role in driving performance beyond the short and medium terms to deliver the Group's long-term ambition and improve shareholder returns.

The Committee believes there has been good alignment between the Group's incentive payouts and its performance and the value created for shareholders in recent years. This alignment is illustrated in the following charts:

Historical annual bonus, PSP and CIP vesting as a percentage of maximum for the CEO



TSR and Adjusted EPS performance (p)



Salary review

With effect from 1 January 2018 salaries across the Group were typically increased by 1.5%. John Carter, Tony Buffin and Alan Williams declined the proposed increase to their annual salaries and consequently their annual salaries remain at the 1 January 2017 levels of £690,131, £533,283 and £500,000 respectively. The Remuneration Committee agreed with and welcomed this decision.

Similarly Non-executive Directors' fees remain at the 2017 levels.

2017 Remuneration outcomes

The Group has delivered solid financial performance in the face of market headwinds, flat property transactions and declining consumer confidence and delivered ahead of our financial budget at the start of the year. Performance against key financial objectives is as follows:

- EBITA of £380m (2016: £409m)

Good progress was also made on key strategic initiatives, most notably in the areas of online sales growth and customer satisfaction.

- LAROC of 10.1% (2016:10.9%)

The outcome of the EU referendum and the subsequent triggering of article 50 in March 2017 has resulted in considerable market uncertainty, especially for domestic UK businesses heavily exposed to the economic cycle such as Travis Perkins. The decline in the value of sterling resulted in significant import cost inflation which the Group has had to recover during 2017. Property transactions remained flat in 2017 suggesting weak activity for private house repairs, maintenance and improvement work which represents a significant proportion of the Group's activity. Similarly, modest house price growth suggests weaker appetite to invest in the home, leading to lower activity levels. Consumer confidence has also declined significantly during 2017. All of these factors have impacted volumes in the construction and housing markets.

The Committee set bonus targets for 2017 in this context based on the financial budget for 2017, approved by the Board in December 2016. In determining the appropriate budget and incentive targets the Committee took into account the prevailing market conditions as well as the range of analyst expectations for 2017 performance. The targets set recognised that earnings would likely be lower in 2017 than those delivered in 2016, but the Committee believed these continued to be stretching for management and would represent value for shareholders if delivered. A maximum bonus could only be earned in the unlikely scenario of maintaining EBITA flat on the prior year.

2017 bonus payout

Bonuses for Executive Directors are based on EBITA (60%), LAROC (20%) and performance against our strategic tracker (20%). The Group EBITA achievement of £380m resulted in a payout of 69.1% of maximum bonus potential for this element and LAROC of 10.1% led to a 100% payment reflecting strong cash control throughout the year.

Performance against the strategic tracker has continued to be strong during 2017. Targets in relation to online sales growth, Stay Safe and customer satisfaction were met, whilst colleague engagement and delivery of IT project targets were met in part. Further details are provided on pages 71 to 72. The strategic tracker is an important part of the short term incentive. It focuses management effort towards delivering strategic goals which are considered critical for delivering sustainable growth in returns over the long-term but which may require short-term investment. It is closely aligned to the corporate plan and the levers of value creation and so provides an important bridge from annual bonus to long term incentive plans. Payout against the strategic tracker was assessed by the Committee to be 50%.

These results have generated bonuses of 71.5% of maximum for the Executive Directors. For the CEO this equates to 129% of salary and for the COO and CFO 107% of salary. Half of this bonus will be paid in cash following the year end. The remaining half will be deferred as shares, which will vest after three years.

The Committee considered that this levels of bonus was appropriate reflecting reasonable progress against strategic objectives and resilient financial performance in a challenging economic environment and that the targets set achieved the appropriate mix of stretch challenge and motivation for the Executive Directors.

Long-term incentives

Vesting of 2015 long term incentive awards reflect the impact of current market uncertainty following the UK's decision to leave the European Union. In this context, EPS growth and relative total shareholder return targets have not been achieved. Against this backdrop however the cash generation has remained robust supporting strong CROCE performance. Further details on each element of the long-term incentives is provided below:

Deferred share bonus plan awards vesting

The share price growth targets attached to the deferred share award relating to bonus earned in respect of 2015 were not achieved and accordingly these awards will lapse.

2015 PSP vesting

PSP awards granted in 2015 were subject to achieving Adjusted EPS (40%), TSR (20%) and cash flow (40%) performance targets. Both the Adjusted EPS performance and the TSR performance were below the trigger required for any vesting of these elements of the award. Aggregate cash flow over the three year period was £1,069m which was above the maximum target and resulted in the full 40% of the cash flow element vesting. Overall 40% of PSP awards granted in 2015 vested.

2015 co-investment awards

The CEO and COO invested the maximum amount possible under the Co-Investment Plan in 2015 and awards were made under the plan of twice the gross value of the investments made. These awards were subject to CROCE performance. CROCE performance over the three year period was 10.72% reflecting strong cash generation underpinned by improvements in working capital, judicious capital expenditure and asset recycling. This performance was above the maximum target set and resulted in 100% of awards vesting.

The Committee will be submitting its remuneration report to the 2018 AGM where the report will be subject to an advisory shareholder vote. We look forward to receiving your support.

Coline McConville

Remuneration Committee Chairman
27 February 2018

Remuneration policy report

The Group's Directors' Remuneration Policy (the 'Policy') was approved by 97% of shareholders at the AGM held on 24 May 2017. The Policy can be found on pages 77 to 85 of the 2016 Annual Report & Accounts which are available on the company website. A summary of the Policy is also provided below in the section entitled the 'Statement of implementation of Remuneration Policy in 2018'.

For executive directors

Annual remuneration report

The following pages set out the Group's Annual Remuneration Report for 2017 which includes details of how its policy was implemented in 2017 and how it intends to implement its policy in 2018. This report shall be subject to an advisory shareholder vote at the 2018 AGM.

Statement of implementation of the Remuneration Policy in 2018

The following provides a summary of the Group's remuneration policy and how the Group intends to implement the policy during 2018.

Plan	Individual Maximum Opportunity in 2018	Measures and Weighting	Operation
Base Salary	CEO - £690,131 (2017: £690,131) COO - £533,283 (2017: £533,283) CFO - £500,000 (2017: £500,000)	n/a	John Carter, Tony Buffin and Alan Williams declined the salary increase due to take effect from 1 January 2018 and therefore their salaries remained at the 2017 levels set out here. The Remuneration Committee agreed with and welcomed this decision.
Benefits	n/a	n/a	Directors continue to be entitled to benefits in-line with policy (including private medical insurance, income protection, annual leave, company car (or cash alternative), life insurance of up to 5 times salary and participation in all employee share plans operated such as SAYE and BAYE).
Pension	25% of salary, allowance or contribution	n/a	Directors participate in a defined contribution arrangement or receive a cash allowance.
Annual Bonus	Maximum annual bonus opportunity: CEO - 180% of salary COO - 150% of salary CFO - 150% of salary	The 2018 bonus will be based on the following measures: • EBITA 60% • LAROC 20% • Business strategy 20%	Targets are determined in relation to the Group's Annual Operating Plan (AOP). Threshold payment is made for performance just below AOP with maximum only being made for performance in excess of AOP. Performance below threshold results in zero bonus. For 2018 the strategic tracker includes measures related to the Group's people, customers, multi-channel, cost management and IT systems strategic objectives. 50% of bonus earned is deferred as shares for three years. Malus and clawback provisions apply.

Plan	Individual Maximum Opportunity in 2018	Measures and Weighting	Operation
Performance Share Plan	Maximum annual award of 150% of base salary	The 2018 PSP award will be based on the following measures: - Adjusted EPS growth - 40% - Aggregate cash flow - 40% - Relative TSR - 20%	Awards are subject to performance over a three year performance period. Awards that vest are subject to a further 2 year holding period. Performance below threshold results in zero vesting. From the threshold level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum. 2018 awards will be subject to the following performance conditions and targets: - Adjusted EPS - threshold target of 3% p.a. growth over 3 years with full vesting at 10% p.a. growth - The aggregate cash flow range is £953m to maximum £1,053m - Relative TSR - relative position in FTSE 50-150 - Threshold is median relative position - Maximum is upper quartile relative position Malus and clawback provisions apply.
Co-Investment Plan	Participants may invest up to 50% of their net salary Maximum matching awards of twice the gross salary equivalent of the amount invested (i.e. 100% of gross salary)	The 2018 co-investment matching award will be based on Cash Return on Capital Employed (CROCE)	Awards are subject to performance over a three year performance period. Performance below threshold results in zero vesting. From the threshold level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum. 2018 awards will be subject to a CROCE target performance range of 9.7% to 10.7%. Malus and clawback provisions apply.

Shareholding guidelines apply to executive directors as set out on page 76.

The Company operates different performance measures for the PSP and the CIP as it considers it important that the incentives drive performance in different areas. This has been the case since the CIP was introduced and is well understood by management.

Bonus targets are considered to be commercially sensitive, and disclosure of such may provide an unfair advantage to the Company's competitors. However targets, and the corresponding level of bonus earned, will be disclosed retrospectively, in the relevant reporting period.

For Non-executive directors

Fees and Benefits	• Non-executive director fees policy is to pay: • A basic fee for membership of the Board • An additional fee for the chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role • The Non-executive chairman receives an all-inclusive fee for the role. The Group also pays part of the employment costs of the Chairman's assistant • A minimum of 25% of Non-executive Director and Chairman fees is paid in shares. Non-executive Directors do not receive any other benefits (other than a staff discount card for purchasing products) and are not eligible to join a company pension scheme • Non-executive directors' fees remain unchanged in 2018: • Chairman – upon appointment on 7 November 2017 it was agreed that the Chairman's fee will be fixed at £320,000 for a period of three years. His fee will next be reviewed with effect from 1 January 2021. The previous Chairman's annual fee was £270,000 p.a. • Non-executive basic fee - £57,511 (2017: £57,511) • Chairs of Audit and Remuneration Committees - £17,000 (2017: £17,000) • Senior Independent Director - £12,500 (2017: £12,500) • Chair of Health & Safety Committee - £10,000 (2017: £10,000) • Non-executive fees will be reviewed at appropriate intervals.
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Remuneration elsewhere in the Group

In 2017 the Group launched its Group Employee Consultation Forum which gives voice to a representative cross section of colleagues representing each of our four business divisions, in relation to a broad range of matters, but with a strong focus on remuneration topics. The Forum will help inform the design of new initiatives and raise areas for consideration (including areas of concern) in relation to remuneration issues. The Forum complements existing mechanisms by which colleague views on issues are sought; examples include business's Managing Director listening groups, regional and business consultation forums as well as engagement surveys which are undertaken annually and which allow colleagues to provide feedback on employee reward. The Group's 'MyPerks' Google community delivers feedback on the Group's benefits arrangements from a membership of around 1,800 community members.

The Committee takes into account remuneration packages available to all colleagues when considering executive pay. As with many companies, senior management participate in a wider range of incentives than the majority of colleagues. The Group believes that it has to operate on this basis to attract and retain high-quality managers, but ensures that a significantly higher proportion of reward for this group of colleagues is based on variable incentive outcomes.

All colleagues are eligible for a competitive remuneration package that includes basic pay, bonus, pension and the Group's comprehensive 'MyPerks' benefits offering. To provide the Group's colleagues easy access to their benefits the Group operates an online benefits platform which can be accessed through work or home computers, mobile phones or tablets. This platform is open to all employees of the Group and it provides detailed information about all the rewards and benefits that are included in the MyPerks scheme as well as specific access to colleague rewards, flexible benefits (where employees can 'trade' some of their benefits in favour of others or elect to increase or decrease their benefits to suit their lifestyle or circumstances), discounts, advice and guidance.

Over 24,000 colleagues are active members of a Group pension scheme. Under the defined contribution scheme contribution rates made by the Group range from 1% to 20% of qualifying earnings with all employees able to maximise company contributions to at least 6% of qualifying earnings. The defined benefits schemes are closed to new members. The Group recognises that many colleagues find the pension environment complex. Consequently one of the key aims of the Group's financial wellbeing programme, launched in 2017, is to provide a broad range of financial education and guidance including, but not limited to, retirement provision.

The Group's Sharesave scheme continues to be a great success. In 2017 6,290 colleagues took up the invitation to participate on either 3 or 5 year contracts committing to savings contracts of £31.4m. Plans maturing in 2017 delivered gains of approximately £1.9m shared across 2,658 participating colleagues.

Audited information

Single Total Figure of Remuneration

	Salary 2017 £000	Salary 2016 £000	Benefits 2017 £000	Benefits 2016 £000	Bonus 2017 £000	Bonus 2016 £000	
Executive Directors							
John Carter	690	683	47	44	888	289	
Tony Buffin	533	528	29	25	572	182	
Alan Williams ¹	500	-	20	-	536	-	
Non-executive Directors							
Ruth Anderson	75	69	-	-	-	-	
Stuart Chambers ²	68	-	-	-	-	-	
Coline McConville	75	69	-	-	-	-	
Pete Redfern	68	64	-	-	-	-	
Christopher Rogers	70	67	-	-	-	-	
John Rogers	58	57	-	-	-	-	
Robert Walker ³	259	280	-	-	-	-	
Total	2,396	1,817	96	69	1,996	471	

Notes:

1. Alan Williams was appointed as CFO from 3 January 2017.
2. Stuart Chambers was appointed Chairman on 7 November 2017 having been appointed Non-executive Director and Chairman Designate on 1 September 2017. Between 1 September 2017 and 7 November 2017 he was paid one-third of his chairman fee (£106,666 per annum).
3. Robert Walker retired on 6 November 2017.
4. LTI reported for 2017 for John Carter and Tony Buffin include LTI awards vesting in March 2018. The value of these awards has been calculated based on the average share price for the last quarter of 2017 of £15.16. Further details are provided on page 72.
5. LTI reported for 2016 for John Carter (£1,312k) and Tony Buffin (£982k) were reported on an estimated basis using the average share price of the final quarter of 2016 of £14.20. They are restated here to reflect the actual share prices on vesting (PSP £15.10, Co-investment Plan £15.18 and Deferred Bonus Share Plan £14.80). The figures have also been restated to remove non-performance related elements which had already been disclosed in the single figure in the 2014 Annual Report.
6. This relates to awards made to compensate Alan Williams for awards forfeited on leaving his previous employer. Further details are provided on pages 73 to 74.

Explaining the single figure table

Benefits

Benefits for 2017 for John Carter, Tony Buffin and Alan Williams include private medical insurance and the provision of a company car and fuel (or allowance alternative).

	LTI 2017 £000 ⁴	LTI 2016 £000 ⁵	Pension 2017 £000	Pension 2016 £000	Buy-out 2017 £000 ⁶	Buy-out 2016 £000	Total 2017 £000	Total 2016 £000
	890	1,272	173	171	-	-	2,688	2,459
	687	954	133	134	-	-	1,954	1,823
	-	-	125	-	1,024	-	2,205	-
	-	-	-	-	-	-	75	69
	-	-	-	-	-	-	68	-
	-	-	-	-	-	-	75	69
	-	-	-	-	-	-	68	64
	-	-	-	-	-	-	70	67
	-	-	-	-	-	-	58	57
	-	-	-	-	-	-	259	280
	1,577	2,226	431	305	1,024	-	7,520	4,888

Annual bonus for 2017

The tables below provide a summary of the performance achieved under the annual bonus for 2017:

Director	Maximum Bonus Opportunity	Actual Bonus (% of salary)	Actual Bonus
John Carter	180%	128.6%	£887,776
Tony Buffin	150%	107.2%	£571,674
Alan Williams	150%	107.2%	£535,995

All bonus earned in respect of 2017 performance is included in the annual bonus column in the single figure table.

Half of the bonus earned is deferred as shares for three years.

Bonus earned is based upon achievement of the following Group financial targets:

Performance Measure	Weighting	Targets			Actual Performance	Pay-out (as a % of maximum)
		Plan (50% bonus)	105% Plan (85% bonus)	Maximum (100% bonus)		
EBITA	60%	£370m	£389m	£409m	£380m	69.1%
LAROCÉ	20%	9.5%	n/a	9.9%	10.1%	100%
Business Strategy	20%	The Committee assessed performance against a number of strategic targets which were set at the start of the year. A summary of performance is provided on page 72.				50%

Governance & Remuneration

Area	Measure	Summary of Performance	Committee's Assessment
People	Stay Safe and Colleague engagement	Stay Safe strategy deployment with effective action plans and measures as achieved across the Group and were audited as satisfactory. All branches have implemented risk assessment plans and the substantial majority have completed improvement plans.	Met at around target
	Colleague engagement	Colleague engagement, as measured by the Group's engagement surveys, exceeded the industry average but did not exceed the ambitious internal target range.	Met at around target
Customer	Overall customer satisfaction	Overall customer satisfaction score is measured by overall trading account growth in each business. Both General and Contract Merchanting Divisions delivered overall trading account growth.	Met at around target
Multi-Channel	Online sales growth	Overall year-on-year growth for online sales in Wickes, Toolstation, Plumbnation, Tile Giant, Travis Perkins, Underfloor Heating and Insulation Giant exceeded target with particularly strong performance in Travis Perkins, Insulation Giant and Toolstation.	Exceeded
COGS/GNFR* Savings	Annualised benefit	Annualised savings from COGS and GNFR programmes were on target and in line with the Committee's expectation.	Met at around target
IT	Delivery of key strategic programmes	Achievement against three major IT programmes namely core systems, HR/payroll and multichannel programmes. A number of significant milestones have been successfully delivered and progress has been made, but at a slower pace than originally envisaged.	Met in part

*Cost of goods sold/Goods not for resale.

Long-term incentive plans ('LTIP')

The long-term incentive figure in the single figure is made up of the following plans:

	Performance Share Plan	Co-Investment Plan	Deferred Share Bonus Plan*	Total
John Carter	£339,126 (20,629 shares plus £26,451 cash in lieu of dividends)	£550,523 (33,447 shares plus £43,565 cash in lieu of dividends)	£nil	£889,649
Tony Buffin	£262,365 (15,940 shares plus £20,762 cash in lieu of dividends)	£425,430 (25,847 shares plus £33,666 cash in lieu of dividends)	£nil	£687,795

The value of shares vesting has been calculated with reference to the average price over the last quarter of 2017 of £15.16.

*Deferred Share Bonus Plan amounts included in the long-term incentive figure comprise shares deferred from the bonus award granted in March 2016 and vesting in 2018 which are subject to performance. The performance conditions for these awards were not met and the awards lapsed.

Performance share plan

The following table sets out the performance targets, achievements and vesting levels for the Performance Share Award granted in 2015 and vesting in 2018 in respect of performance period ending on 31 December 2017:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
Adjusted EPS Growth	40%	RPI +3% pa	RPI +10% pa	-7.2%	0%
Relative TSR	20%	Median	Upper quartile	Below median	0%
Aggregate Cash Flow	40%	£901m	£996m	£1,070m	40%
Total Vesting					40%

Relative total shareholder return performance was measured against companies ranked 50-150 in the FTSE index on the date of award.

Co-investment plan

The following table sets out the performance targets, achievements and vesting levels for the matching awards granted in 2015 and vesting in 2018 in respect of performance period ending on 31 December 2017:

Measure	Weighting	Threshold	Maximum	Actual	Total Vesting
Cash Return on Capital Employed (3 year average)	100%	9.08%	10%	10.72%	100%

Alan Williams' buy-out arrangements

On leaving his former employer Alan Williams forfeited outstanding incentives under his deferred bonus and performance share plans. The Committee determined that it was appropriate to 'buy-out' these incentives. The buy-out awards were structured as far as possible to be on a 'like-for-like' basis with awards he forfeited in accordance with the Group's remuneration policy.

Deferred bonus shares

Alan Williams was made an award of 39,900 shares to compensate him for deferred shares forfeited, which were awarded in 2014 and 2015 in respect of bonuses earned. 24,583 (61.6%) shares vested on 2 December 2017 and the balance of 15,317 (38.4%) shares will vest on 4 December 2018. These shares are subject to continued employment and have no further performance conditions (reflecting the terms of the forfeited awards).

These awards have been included in the single figure table based on the value of these shares at the date of award (share price £14.88).

Performance share plan

Alan Williams was made an award of 51,584 shares. This award was to compensate him for performance share awards forfeited, which were awarded in 2014 and 2015. In determining this amount the Committee applied an assumed vesting rate of 80% based on an estimate of vesting for these awards at his former employer. In addition to this discount applied these buy-out awards are also subject to the achievement of stretching role-specific performance conditions as outlined below.

As a condition of this award, Alan was required to purchase shares in the Company with a value of at least half the award using his own funds and retain these shares for the vesting period.

27,548 shares will vest on 15 March 2018 with the remaining 24,036 shares due to vest on 15 March 2019. Vesting of these awards is subject to continued employment and the achievement of stretching objectives regarding the strategy and operation of the finance function in relation to major technology change.

The Committee assessed that Alan had ensured that the future operating principles and the operating model of the function were fully defined, a target organisation design was complete and an implementation plan was established and underway. Alan has demonstrated that he had successfully built on the foundation laid by his predecessor in ensuring the future fitness of the function through a range of transformational activities. In addition, Alan led an important piece of work preparing for the new ERP environment. The Committee was satisfied that good progress had also been made in this area.

Aside from these specific objectives Alan has also taken on additional accountabilities within the Group including responsibility for the Group Strategy and Business Development functions.

On this basis the Committee determined that the first half of the award should vest in full.

The portion of the buy-out that vests on 15 March 2018 has been included in the single figure table on the basis of the average share price for the last quarter of 2017 of £15.16. The value disclosed also includes an amount of £12,465 to reflect the dividend equivalents accrued since award giving a total value of £430,011.

Directors' pension entitlements

In lieu of pension contribution, gross cash allowance of 25% of salary was paid to John Carter and Alan Williams. Tony Buffin received 25% of salary paid as a mix of pension contributions to the DC scheme and a cash allowance.

	John Carter £000	Tony Buffin £000	Alan Williams £000
Pension value in the year from company contributions to DC scheme	n/a	10	n/a
Pension value in year from cash allowance (Salary Supplement in place of Employer pension contributions)	173	123	125
Total pension benefit accrued in 2017	173	133	125

Share interests awarded during the financial year

Performance share plan

	Date of Award	Type of Award	Basis	% Vesting at Lower Target	Face Value	Performance Period
John Carter	15 March 2017	Performance Shares - nil cost option	150% of Salary	25%	£1,028,610 (69,127 shares at £14.88 p/share)	1 January 2017 to 31 December 2019
Tony Buffin					£769,921 (51,742 shares at £14.88 p/share)	
Alan Williams					£719,999 (48,387 shares at £14.88 p/share)	

On the same date John Carter, Tony Buffin and Alan Williams were also awarded 442, 2,016 and 2,016 market value options respectively under the HMRC tax-advantaged CSOP element of the PSP with a face value of £6,577, £29,998 and £29,998 respectively and an exercise price of £14.88 (the market value on the date of award). These awards are subject to the same performance conditions as outlined below for the PSP award. If the options vest they are exercisable until the tenth anniversary of grant.

Performance share plan awards are subject to the following performance measures:

Measure	Weighting	Target Range	Vesting Range
Adjusted EPS Growth	40%	Lower target - 3% per annum over the vesting period Maximum target - 10% per annum over the vesting period	No vesting below lower target Lower target - 25% vests Maximum target - 100% vests Pro-rata vesting between these points
Aggregate Cash Flow over the performance period	40%	Lower target £866m Maximum target £958m	
Company TSR Relative to FTSE 50-150 Index	20%	Lower target - median performance (top 50%) Maximum target - upper quartile performance (top 25%)	

Co-investment plan

	Date of Award	Type of Award	Basis	% Vesting at lower target	Face Value	Performance Period
John Carter	30 March 2017	Matching Shares - nil cost option	Up to 2:1 matching of shares purchased	25%	£681,795 (45,152 shares at £15.10 p/share)	1 January 2017 to 31 December 2019
Tony Buffin					£526,839 (34,890 shares at £15.10 p/share)	
Alan Williams					£493,951 (32,712 shares at £15.10 p/share)	

Co-Investment Plan matching awards are subject to the following performance measure:

Measure	Weighting	Target Detail	Matching Range
Cash Return on Capital Employed (CROCE)	100%	Lower target 8.3% Maximum target 9.3%	0.5:1 matching at lower target 2:1 matching at maximum target Pro-rata matching between these points

The Co-Investment Plan matching awards are described on page 66.

Deferred share bonus plan

Shares awarded during 2017

Half of the bonus earned in respect of 2016 performance was awarded as deferred shares as follows:

	Date of Award	Face Value	Number of shares*	Share price**
John Carter	15 March 2017	£144,511	10,117	£14.284
Tony Buffin		£90,761	6,354	£14.284

*Shares vest on the third anniversary of award.

**The share price used to calculate the number of shares awarded was the last 30 days of the Company's financial year.

Half of the bonuses earned in 2017 will be issued as deferred shares as follows:

	Type of Award	Basis	Face Value
John Carter	Shares	50% of 2017 bonus	£443,868
Tony Buffin			£285,837
Alan Williams			£267,998

Shares vest three years from grant.

Alan Williams's buy-out awards

As noted on pages 73 to 74 Alan Williams was granted certain awards on 16 March 2017 to compensate him for awards forfeited on leaving his previous employer. As a condition of the Performance Share Plan award Alan was required to purchase Travis Perkins shares from his own, personal funds to at least half of the value of the award granted and to retain these shares for the award's vesting period.

Type of Award	Basis	% Vesting at Lower Target	Face Value	Performance Period
Deferred share buy-out – nil cost options ¹	Compensation for deferred share plan awards forfeited in respect of 2014 and 2015	n/a	£573,002 (39,900 shares) ³	n/a
Performance share plan buy-out – nil cost options ²	Compensation for performance share plan awards forfeited in respect of 2014 and 2015	See footnote 2	£740,796 (51,584 shares) ³	See footnote 2

1. 4,583 shares vested on 2 December 2017 and the balance of 15,317 shares will vest on 4 December 2018.

2. 27,548 shares vest on 15 March 2018 with the remaining 24,036 shares vesting on 15 March 2019. Vesting of these awards is subject to continued employment and the Committee's assessment of the extent to which stretching role-specific objectives over these periods have been achieved.

3. The value of these 'buy-out' awards were calculated based on the average Greencore and Travis Perkins share prices between the date on which Alan's appointment was announced (20 September 2016) and 3 January 2017 when he joined (Travis Perkins £14.36 and Greencore £2.52).

Alan Williams was granted options over 1,518 shares on 20 September 2017 under the all employee Sharesave (SAYE).

Payments to past directors

No payments were made to past directors.

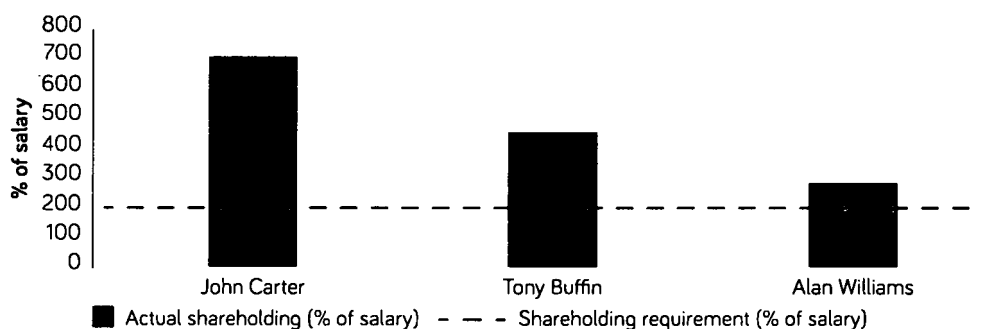
Payments for leaving directors

No payments for loss of office were made during 2017.

Director's shareholdings and share interests – executive directors

Formal shareholding requirements (not voluntary guidelines) apply to executive directors and senior executives. The Committee may decide to scale back or withhold participation in long-term incentives if the requirements are not met or maintained. Executive directors are required to hold shares valued at two times annual salary within 5 years. As at 31 December 2017 John Carter shareholding was 7.1 times salary, Tony Buffin held 4.6 times salary and Alan Williams held 2.9 times salary based on the average share price for the last quarter of 2017 (£15.16).

Executive directors shareholdings are illustrated in the chart below:



Director's shareholding and share interests as at 31 December 2017 was as follows:

Executive Director	Beneficial Owner	Conditional Shares Granted Under LTI Plans ¹	Unconditional Shares Granted Under LTI Plans ²	Unvested Options Subject to Performance Conditions ³	Vested but Unexercised Options	Total Interests	Interests Qualifying Towards Shareholder Requirement ⁴
John Carter	315,711	295,812	17,266	1,245	14,574	644,608	323,435
Tony Buffin	155,507	226,901	11,678	2,016	9,384	405,486	160,480
Alan Williams	94,080	132,683	16,835	2,016	-	245,614	94,080

1. Includes awards made under Deferred Share Bonus Plan (subject to a share price performance test), Unapproved Performance Share Plan, Co-Investment Plan and buyout awards subject to performance conditions.
2. Includes awards made under Deferred Share Bonus Plan (which are not subject to a performance condition), Sharesave and buyout awards not subject to performance conditions.
3. Market value options awarded under the HMRC tax-advantaged CSOP element of the PSP. These awards are subject to the same performance conditions as outlined below for the PSP award.
4. Interest qualifying towards shareholding requirement comprise shares held at 31 December 2017 by the executive and their spouse/partner and 53% of the value of any share options or awards which have vested but have not been exercised.

There were no changes in executive directors' share ownership between 31 December 2017 and 27 February 2018.

During 2017 the following awards vested and were then exercised:

	Vested & Exercised	Price per Share
John Carter		
Performance Share Plan	28,442	15.18
Performance Share Plan	415	15.06
Deferred Share Bonus Plan	14,572	14.80
Deferred Share Bonus Plan	6,776	14.80
Co-Investment Plan	35,120	15.18
Tony Buffin		
Performance Share Plan	22,299	15.04
Deferred Share Bonus Plan	5,007	14.88
Deferred Share Bonus Plan	9,384	14.80
Co-Investment Plan	27,138	15.04
Alan Williams		
Buyout Award	24,583	15.34

Director's shareholding and share interests – non-executive directors

Non-executive Director	Beneficial Shareholding (as at 31 December 2017)	Beneficial Shareholding (as at 28 February 2018)
Ruth Anderson	3,573	3,690
Coline McConville	1,639	1,756
Pete Redfern	8,653	8,760
Christopher Rogers	6,845	6,960
John Rogers	1,463	1,552
Stuart Chambers	519	840
Robert Walker*	82,636	n/a

*Shares shown on the date stepped down from the board.

A minimum of 25% of Non-executive Director fees is paid in shares. Between 31 December 2017 and 27 February 2018 Non-executive Directors' share ownership increased due to the payment of a portion of their fees in shares.

Unaudited information

Service contracts

Each of the executive directors has a service contract, which will be available for inspection at the Annual General Meeting or at the Company's registered office. These contracts provide for 6 months notice from the Director and 12 months notice from the Company. They do not specify any particular level of compensation in the event of termination or change of control. Details of the Group's policy on payments in respect of loss of office are provided in the Group's Directors' Remuneration Policy on pages 77 to 85 of the Annual Report & Accounts 2016.

The dates executive directors service contracts were entered into are as follows:

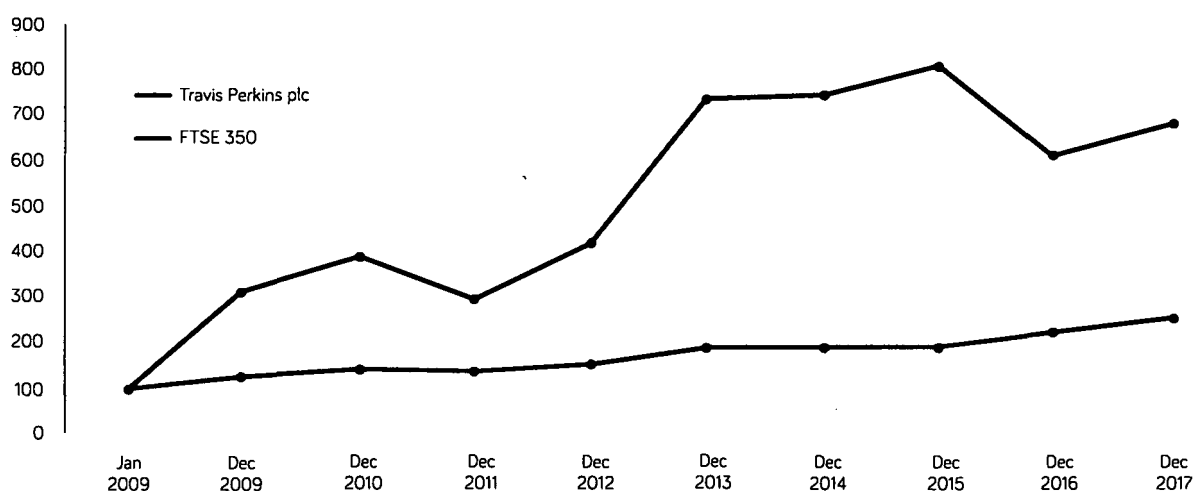
- John Carter – 1 January 2014
- Tony Buffin – 8 April 2013
- Alan Williams – 3 January 2017

Non-executive directors do not have a service contract, but each has received a letter of appointment which will be available for inspection at the Annual General Meeting or at the Company's registered office. These appointments expire on the following dates:

Director	Expiry of appointment letter
Ruth Anderson	2018 AGM
Coline McConville	2018 AGM
Pete Redfern	2018 AGM
Christopher Rogers	2020 AGM
John Rogers	2018 AGM
Stuart Chambers	2021 AGM

In accordance with best practice, the non-executive directors stand for re-election annually.

Total Shareholder Return



TSR was rebased to 100 from 1 January 2009

No compensation is payable on termination of the employment of non-executive directors, which may be with or without notice.

Outside appointments

Travis Perkins recognises that its executive directors may be invited to become non-executive directors of other companies. Such non-executive duties can broaden a director's experience and knowledge which can benefit Travis Perkins.

Subject to approval by the Board, executive directors are allowed to accept non-executive appointments, provided that these appointments will not lead to conflicts of interest, and they may retain the fees received. John Carter was appointed a non-executive director of McCarthy & Stone on 1 October 2017. He earned and retained fees of £13,650 during 2017. Tony Buffin has been a non-executive director of the Dyson family business since 2014. Tony earned and retained fees of £42,000 during 2017 (£40,000 2016). Alan Williams held no external appointments during 2017.

Funding of equity awards

Executive incentive arrangements are funded by shares purchased in the market. Entitlements under the HMRC approved all colleague Sharesave scheme are satisfied by newly issued shares. Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. The current dilution usage of all share plans is c.6.4% of shares in issue. There is no dilution due to discretionary executive plans as shares are purchased in the market to satisfy these awards. Where shares are purchased in the market, these are held by a trust in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 31 December 2017 the Trust held 1,216,331 shares.

Performance graph and table

For comparative purposes the FTSE 350 index has been selected as this is the index of which the Company was a member during the reporting year.

Historic CEO pay

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Single Figure Remuneration (£000)	£1,412	£1,423	£1,938	£3,506	£2,044	£2,634	£2,360	£2,575	£2,688
Annual Bonus Payout (% of maximum)	100%	100%	75.9%	27.0%	62.9%	89.0%	31.9%	23.8%	71.5%
Vesting of Share Options (% of maximum)	0%	-	-	-	-	-	-	-	-
Vesting of Performance Share Plan (% of maximum)	-	0%	0%	80.0%	37.4%	44.8%	96.8%	54.0%	40.0%
Vesting of Co-Investment Plan (SMS) (% of maximum)	0%	0%	51.0%	100%	0%	0%	44.2%	97.0%	100%

Data for 2014-17 relates to John Carter, earlier data relates to the previous CEO, Geoff Cooper.

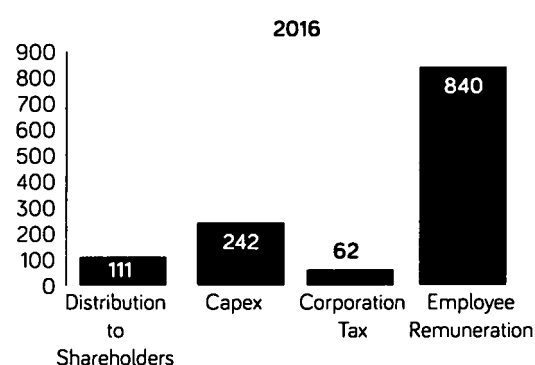
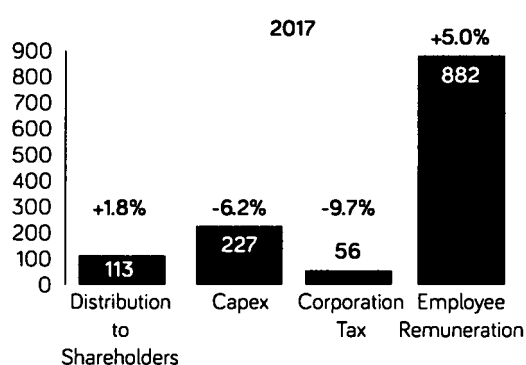
Change in remuneration of the Director undertaking the role of CEO

	Percentage Change in Salary Earned (2017 full year compared to 2016 full year)	Percentage Change in Bonus Opportunity Earned (2017 full year forecast compared to 2016 full year)	Percentage Change in Taxable Benefits Received (2016/17 tax year compared to 2015/16 tax year)
CEO	1.0%	47.7%	2.8%
Comparative Employee Group*	1.15%	5.8%	17.1%**

*Comparator group is all colleagues within the Travis Perkins General Merchandising Division. This division is the largest division within the Company, covers roles at all levels of the organisation, and has wide geographic coverage within the UK and consequently provides a broad and diverse basis for comparison.

**Based on a matched sample across the two periods.

Relative importance of spend on pay



Capital expenditure is shown, for comparison, as an indicator of investment by the Company in future growth. It includes funds invested in the purchase of property, plant and equipment. Corporation tax is included as indicator of wider societal

contribution facilitated by the Company's operations and is the actual amount of corporation tax paid in the relevant reporting periods.

Governance

Remuneration Committee and consideration by the Directors of matters relating to directors' remuneration

At the end of the year the Committee comprised Coline McConville (Chair), Pete Redfern, John Rogers and Christopher Rogers, all of whom are independent non-executive directors. Robert Walker served on the Committee until his retirement on the 6 November 2017 and was replaced by Stuart Chambers from 7 November 2017. John Rogers served on the Committee until 25 May 2017. Christopher Rogers joined the Committee on 26 May 2017.

Deloitte was appointed by the Committee in December 2015, following an interview process, to provide independent advice on executive remuneration.

Deloitte are founding members of the Remuneration Consultants Code of Conduct and adhere to this Code in its dealings with the Committee. The Committee is satisfied that the advice provided by Deloitte is objective and independent. The Committee is comfortable that the Deloitte engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Deloitte provided additional services to the Company in relation to remuneration including support in developing and implementing remuneration proposals, compensation benchmarking and other tax and consulting services mainly in the area of digital strategy, innovation, operating model design and change management.

Fees are charged on a time and materials basis. During the year Deloitte was paid £45,800 for advice provided to the Committee.

In addition John Carter (CEO), Alan Williams (CFO), Deborah Grimason (Company Secretary), Carol Kavanagh (Group Human Resources Director), Helen O'Keefe (Deputy Company Secretary), Jon Erb (Director of Group Finance) and Paul Nelson (Group Head of Reward) have assisted the Committee in its work and attended Committee meetings where appropriate. No individual is involved in setting their own remuneration.

Responsibilities

The Remuneration Committee is responsible for developing and implementing the remuneration policy within the Company. It determines all aspects of the remuneration of executive directors and reviews with the Chief Executive the remuneration of other senior executives. The Committee also oversees the administration of the Company's share plans. The Committee's terms of reference are available on the Company website (www.travisperkinsplc.co.uk) or from the Company Secretary.

Key items discussed in 2017 meetings

In 2017 the Remuneration Committee formally met four times, with additional conference calls as required. The Committee discussed amongst others the following matters:

Month	Key Issues Considered
January	Review of 2016 performance against targets and considering annual and long-term incentive outcomes
February	- Review of 2016 performance against targets and determining annual and long-term incentive outcomes - Annual bonus and LTIP targets for 2017 - Directors' salary review 2017 - Share plan rules 2016 Directors' Remuneration Report - Committee governance - Remuneration arrangements for Alan Williams
March	- Annual bonus targets for 2017 - Committee governance
November	- Salary review 2018 - Review of remuneration trends and issues - Review of 2017 performance against targets and considering annual and long-term incentive outcomes - Format for Directors' Remuneration Report 2017 - Committee governance - Group consultation forum
December	Directors' salary review 2018

Shareholder voting

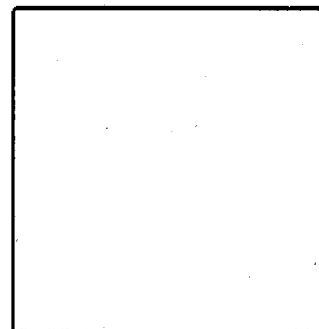
At the last AGM the following resolutions in relation to remuneration were put by the Company:

Resolution	Votes For	% For	Votes Against	% Against	Votes Withheld
To receive and approve the Directors' Remuneration Report	183,963,042	98.23%	3,313,812	1.77%	1,555,812
To receive and approve the Directors' Remuneration Policy (2017 AGM)	183,055,598	96.97%	5,725,210	3.03%	51,858

The Director's Remuneration Report has been approved by the Board of Directors and is signed on its behalf by:

Coline McConville
Chairman of the Remuneration Committee
27 February 2018

NOMINATIONS COMMITTEE REPORT



FOR THE YEAR ENDED 31 DECEMBER 2017

Dear Shareholders,

Nominations Committee highlights

In 2017, the Committee was mainly focussed on the succession of the former Chairman, Robert Walker, which led to my own appointment. I joined the Group on 1 September 2017 and took over as Chairman on 7 November 2017.

The Nomination Committee's purpose is to ensure that the Board and its Committees comprise individuals with the skills, knowledge and experience to maximise the effectiveness with which they discharge their duties. Reviewing the composition of the Board and ensuring appropriate succession plans are in place to meet the needs of the business will be a key focus for me and the Committee over the coming year.

Stuart Chambers

Chairman

27 February 2018

Role of the Committee

The Committee's principal responsibility is to ensure that the Board comprises individuals with the most appropriate balance of experience, skills and knowledge to help develop and support the Company strategy. In order to achieve this, the Committee requires procedures to be in place that enable the nomination, selection and succession of the most capable directors and senior executives.

The Committee is also responsible for considering, and making recommendations to the Board on succession planning for Directors and other Senior Executives; in this sense the Nominations Committee undertakes a broader role.

The Nominations Committee comprises all the Non-executive Directors and is chaired by Stuart Chambers, the Chairman of the Board, other than when it is dealing with matters in relation to the chairmanship of the Company. The Chief Executive and Group HR Director are invited to attend when appropriate.

The Committee operates under formal terms of reference which are available on the Group's corporate website: www.travisperkinsplc.co.uk

Activities in 2017

The Committee held five formal meetings and a number of ad hoc meetings and conference calls during the year. The principal matters discussed were:

- The appointment of a new Chairman
- Current and future Board composition and senior management requirements in light of the business strategy

Process for appointments

The Committee guides the Board in regularly assessing whether there is an appropriate balance of expertise and skills on the Board. A rigorous selection process precedes the appointment of all Directors by the Board, ensuring that appointments to the Board are made on merit and assessed against objective criteria.

A description of how appointments are typically made to the Board is set out below. This process was followed in connection with the appointment of Stuart Chambers as Chairman of the Board of Directors.

The Committee oversees on behalf of the Board, and advises the Board on, the identification, assessment and selection of candidates for appointment to the Board. The process of appointment includes:

- The preparation of a role description in light of existing and required capabilities for the role and the Board
- The engagement of independent recruitment consultants who have no other connection to the Company. Spencer Stuart was used in the selection process for Stuart Chambers during the year
- The preparation of a 'long list' of potential candidates which takes into account diversity considerations and the outcome of the Committee's latest review of the composition and skill sets of the Board
- The selection of a shortlist of suitable candidates meeting the Committee's criteria

- Interviews of those candidates by a selection of members of the Board
- Following selection of the proposed candidate, interviews with the remaining members of the Board and the taking up of detailed references

2018 objectives

In 2018 the Committee will be focussed on:

- Reviewing the skills and experience needed on the Board and making plans to fill any gaps
- Continuing to review the pipeline of executive talent below the Board
- Planning for the succession for the Chairman of the Audit Committee
- Planning for the succession of the CEO

Board diversity

It is the Group's firm belief that having Executives and Non-executives on the Board who are diverse in experience, nationality and gender provides us with different perspectives, which promotes a healthy culture with a good balance between challenge and support and minimises the risk of 'group-thinking'. This does not just make good commercial and business sense, but it is positive for the Group's colleagues and its customers as well.

Job specifications, search processes and selection criteria are also focused on appointing candidates that meet the criteria for the role and who offer different perspectives. Therefore, diversity, including gender diversity, is actively considered, and will continue to be so. The Board is committed to appointing the best people, and ensuring all employees are able to develop their careers within the Group regardless of their background, gender, age or ethnicity. The Group believes that diversity should be considered broadly and not just focusing on one element such as gender and the Group therefore does not believe it is appropriate to set targets in this area.

The Group currently has two female Board directors (22%) and three women on its operating executive (27%). Further details of the Group's workforce diversity are set out in the Our People section on pages 41 to 43.

The Nominations Committee Report has been approved by the Board of Directors and is signed on its behalf by:

Stuart Chambers
Chairman
27 February 2018

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their annual report and audited accounts for the year ended 31 December 2017. The Corporate Governance statement on pages 53 to 57 forms part of the Directors' Report.

Business review

A review of the Group's position, developments, activities in the field of research and development and future prospects can be found in the Strategic Report on pages 4 to 48. Whilst the Group operates predominantly in the UK it does have a few branches in the Isle of Man and the Republic of Ireland and its associate company Toolstation Europe has 23 branches in The Netherlands and France.

Information to be disclosed under LR 9.8.4R

Listing rule	Detail	Page reference
9.8.4R (1-2)(5-11)(14)	Not applicable	
9.8.4R (4)	Long-term incentive schemes	66
9.8.4R (12)	Dividend waiver	134
9.8.4R (13)	Dividend waiver	134

Board of directors

The names of the Directors at 31 December 2017, together with their biographical details are set out on pages 50 to 52. All of these Directors held office throughout the year with the exception of Stuart Chambers who joined the Board as Chairman designate on 1 September 2017 and replaced Robert Walker as Chairman on 7 November 2017. The Executive Directors have rolling 12 month notice periods in their contracts. The Non-executive Directors do not have service contracts. In the light of the results of the formal evaluation of their performances described on page 56, the Chairman confirmed on behalf of the Board that all Directors continue to be effective in, and committed to, their roles.

The UK Corporate Governance Code (the Code) requires that all Directors of FTSE 350 companies are subject to re-election at the Company's Annual General Meeting each year and therefore all Executive Directors and Non-executive Directors will seek re-election at the Annual General Meeting.

Directors conflicts of interest

None of the Directors had an interest in any contract to which the Company or any of its subsidiaries was a party during the year. The Company has undertaken to comply with the best practice on approval of Directors' conflicts of interests in accordance with the Company's Articles of Association. These provisions have operated effectively. Under the Companies Act 2006, a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

The disclosable interests of Directors at 31 December 2017, including holdings, if any, of spouses and of children aged under 18, are contained in the Directors' Remuneration Report on pages 76 to 77.

Directors' indemnities

Article 141 of the Company's Articles of Association permits the Company to indemnify any person who is or was a director of the Company, or of any associated company, in respect of any liability incurred in relation to the affairs of the Company, or any associated company, to the extent the law allows (including in connection with any associated company's activities as trustee of an occupational pension scheme). The Company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its directors. The Company has granted indemnities to its directors and directors of associated companies to the extent permitted by law and these remained in force in the year ended 31 December 2017.

Greenhouse gas emissions reporting

Details of the Group's greenhouse gas emissions can be found in the Environmental Report on pages 46 to 48.

Results and dividends

The Group results for the year ended 31 December 2017 and dividends for the year ending 31 December 2017 are set out in the income statement and note 12 respectively on pages 96 and 124. The final dividend will be paid on 11 May 2018 to those shareholders on the register at the close of business on 6 April 2018.

Balance sheet and post balance sheet events

The balance sheet on pages 98 and 99 shows the Group's financial position. No important events have occurred since the balance sheet date:

Principal risks and uncertainties

A review of the Group's principal risks and uncertainties can be found in the Strategic Report on pages 33 to 39.

Financial risk management

Details of the Group's approach to capital management and the alleviation of risk through the use of financial instruments are given in the Financial Review on pages 23 to 31. Specific quantitative information on borrowings and financial instruments is given in notes 22 and 23 on pages 136 to 141 of the financial statements.

Substantial shareholdings

As at 31 December 2017, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

	Number	%
BlackRock, Inc	12,591,774	5.00
Harris Associates L.P.	12,689,670	5.04
OppenheimerFunds, Inc.	12,656,752	5.02
Sprucegrove Investment Management Ltd	12,006,659	4.76
TIA-CREF Investment Management/ Teachers Advisors, LLC/ Nuveen Asset Management, LLC	10,368,460	4.11

Between 31 December 2017 and 26 February 2018, the following notifications were received by the Company:

Substantial Shareholders	Number	%
OppenheimerFunds, Inc.	12,391,080	4.91
TIA-CREF Investment Management/ Teachers Advisors, LLC/ Nuveen Asset Management, LLC	9,874,450	3.92

Close company status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Employees

Statements on employee matters are contained in the section of the annual report entitled Our People on pages 41 to 43.

Details of the number of employees and related costs can be found in note 7 to the financial statements.

The Company is committed to equality of opportunity and recognises the benefit of diversity within its workforce. Its approach to the matter of diversity on company boards is set out in the Nominations Committee report on page 83 and in the section of the annual report entitled Our People on pages 41 to 43. The Company has an equal opportunities policy aimed at ensuring that employment decisions are based on ability and potential regardless of gender, race, colour, ethnic origin or sexual orientation, age or disability. In particular, applications for employment by disabled persons are always fully and fairly considered, bearing in mind the aptitudes of the person concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Group's policies and practices have been designed to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. Employee representatives are consulted regularly on a wide range of matters affecting their interests. Further details are available in the section of the annual report entitled Our People on pages 41 to 43. All employees with more than three months' service are eligible to participate in the Company's Sharesave and Buy As-You-Earn plans. Details can be found in the Directors' Remuneration report on page 69.

Modern slavery

The Group recognises the harmful impact that Modern Slavery and human trafficking has on society and is committed to eliminating this criminal activity from the business and supply chain. The Group produces a slavery and human trafficking statement each financial year. The latest statement is available on the Group's corporate website www.travisperkinsplc.co.uk

Political donations

The Group has a policy of not making donations to political parties. The Group did not give any money for political purposes nor did it make any donations to political organisations or independent candidates or incur any political expenditure during the year.

Auditor

KPMG LLP is the Company's auditor at the date of this report, having been appointed in 2015. Resolutions will be proposed at the Annual General Meeting to re-appoint KPMG LLP as the Company's auditor, and to authorise the Audit Committee to fix the auditor's remuneration.

Statement on disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all reasonable steps that they ought to have taken as a director in order to make themselves 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 s.418 of the Companies Act 2006.

Share capital and change of control

As at 31 December 2017 the Company had an allotted and fully paid share capital of 251,994,708 ordinary shares of 10 pence each, with an aggregate nominal value of £25,199,470 (including shares owned by the Travis Perkins Employee Share Ownership Trust). The ordinary shares are listed on the London Stock Exchange. All the shares rank *pari passu*. The rights and obligations attaching to the shares are set out in the Company's Articles of Association. Fully paid shares in the Company are freely transferable. There are no persons that hold securities carrying special rights with regard to the control of the Company. Details of the structure of the Company's share capital and changes in the share capital during the year are also included in note 19 to the financial statements.

As at 31 December 2017 the Travis Perkins Employee Share Ownership Trust owned 1,216,331 shares in the Company 0.5% of issued share capital for use in connection with the Company's share schemes. Any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of any recommendation of the Company.

There are no restrictions on voting rights attaching to the Company's ordinary shares. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The rules governing the appointment and replacement of board members and changes to the Articles of Association accord with usual English company law provisions. The powers of the Company's Directors are set out in the Company's Articles of Association. In particular, the Board has the power to issue shares and to purchase the Company's own shares and is seeking renewal of these powers at the forthcoming Annual General Meeting in accordance with the restrictions and within the limits set out in the notice of that meeting.

There are a number of agreements to which the Company is a party that may take effect, alter or terminate upon a change of control following a takeover bid. None of these agreements is considered significant in the context of the Company as a whole.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

The Directors' Report has been approved by the Board of Directors and is signed on its behalf by:

Deborah Grimason
Company Secretary and General Counsel
27 February 2018



STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2017

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 such 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 (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether the financial statements have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, a directors' report, a directors' remuneration report and a corporate governance statement, which comply with that law and those regulations.

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.

Directors' responsibility statement

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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
2. The Strategic Report, which is incorporated into the Directors' 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.
3. The annual report and financial statements taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

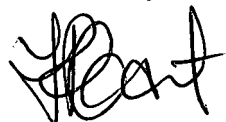
Declaration

We consider that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

The Statement of Directors' Responsibilities has been approved by the Board of Directors and is signed on its behalf by:

John Carter
Chief Executive
27 February 2018

Alan Williams
Chief Financial Officer
27 February 2018




FINANCIAL STATEMENTS

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103	Notes to the financial statements

Main image:
Arkadiusz Stachowicz and Robin Leacy - BSS, Magna Park

From top left to bottom right:
Jordan Berry - CCF, Leeds
Warren Sedgwick - Keyline, Telford
Weronika Narbut - Travis Perkins, Staples Corner

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAVIS PERKINS PLC

1. Our opinion is unmodified

We have audited the financial statements of Travis Perkins plc ("the Company") for the year ended 31 December 2017 which comprise the Group and Company Income Statements, the Group and Company Statements of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes, including the accounting policies in note 2.

In our opinion:

- 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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders on 28 May 2015. The period of total uninterrupted engagement is for the three financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard have been provided in the last three years.

Overview	
Materiality:	£17m (2016:£17m)
Group financial statements as a whole	5% (2016: 5%) of Group profit before tax adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement
Coverage	94% (2016: 96%) of Group profit before tax adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement
Risks of material misstatement vs 2016	
Recurring risks	Recoverability of Wickes and Tile Giant goodwill and of the Parent Company's investment in Wickes and Tile Giant ◀▶
	Recognition of supplier income and recoverability of respective receivables ◀▶
	Valuation of inventory ◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarize below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Recoverability of Wickes and Tile Giant goodwill and of the Parent Company's investment in Wickes and Tile Giant (Goodwill: £707 million; 2016: £707 million) Refer to pages 58 to 63 (Audit Committee Report), page 110 (Critical judgements and key sources of estimation uncertainty) and pages 125 to 128 and 131 to 132 (financial disclosures).	Forecast based valuation A worsening in the UK economy, fall in consumer confidence, the impact of cost price inflation or being slow to respond to changes in customer buying behaviours impacted the performance of certain Group businesses in a manner that the related goodwill and investment balances could become impaired. In particular, in the Consumer division, performance in the Wickes and Tile Giant businesses has been lower than forecast. The headroom has decreased year-on-year and the value in use is sensitive to certain assumptions, such as discount rate, forecast revenue growth, profit margins and maintenance capital expenditure. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	Our procedures included: ▪ Historical comparisons: Assessing the reasonableness of the budgets by considering the historical accuracy of previous forecasts. ▪ Our sector experience: Assessing whether assumptions used, in particular those relating to forecast revenue growth, profit margins and maintenance capital expenditure, reflect our knowledge of the business and industry, including known or probable changes in the business environment. ▪ Benchmarking assumptions: Challenging, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rates by comparing them to externally derived data, including available sources for comparable companies. ▪ Sensitivity analysis: Performing breakeven analysis on the key assumptions noted above. ▪ Assessing transparency: Assessing whether the Group's disclosures about the impairment test appropriately reflected the risks inherent in the valuation of goodwill and investments in subsidiaries. Our results ▪ We found the resulting estimates of the recoverable amounts of Wickes and Tile Giant goodwill and of the Parent Company's investment in Wickes and Tile Giant to be acceptable.

	The risk	Our response
Recognition of supplier income and recoverability of respective receivables Refer to pages 58 to 63 (Audit Committee Report), page 109 (Critical judgements and key sources of estimation uncertainty) and pages 29 and 30 (financial disclosures).	Subjective estimate As a result of the wide range of products and suppliers to the Group, there are a significant number of complex and varying purchase agreements within the businesses specifically involving fixed price discounts, volume rebates and customer sales support. We consider the risk relates to the calculation of the income receivable, including the recoverability of the year end receivables from suppliers in respect of these agreements. The risk is driven by the complexity of this calculation across the range of products and divisions and the estimation relating to the collection rate of this income, including recoverability of the amounts outstanding at the year end.	Our procedures included: • Tests of details: Agreeing a statistical sample of the total amount of supplier income recorded in the year, including amounts outstanding at the year end, to cash received or credit notes raised. • Historical comparisons: Assessing the success rate of supplier income collection in previous periods for a sample of balances outstanding at the date of signing the audit report, including agreeing the calculation of the amount accrued to contractual agreements. • Third party confirmations: Comparing a sample of supplier receivable balances to the third party confirmations and challenging management's explanations of variances, if any. • Assessing transparency: Considering the adequacy of the Group's disclosures about the degree of estimation involved in the recognition of supplier income and recoverability of respective receivables. Our results • We consider the amount of supplier income recognised and the recoverability of respective receivables to be acceptable.
Valuation of inventory (£806 million; 2016: £768 million) Refer to pages 58 to 63 (Audit Committee Report), page 110 (Critical judgements and key sources of estimation uncertainty).	Complex calculation The impact of supplier rebate accounting as described in the supplier income recognition risk above and complicated overhead allocation systems make inventory cost accounting an area which had one of the greatest effects on our audit and on the allocation of resources in planning and completing our audit.	Our procedures included: • Accounting analysis: Evaluating the appropriateness of the methodologies applied in determining product cost and critically assessing the respective calculations (including the allocation of rebates attributable to inventory at the year end as described in the supplier income recognition risk above). • Data analytics: Recalculating the inventory at year end from the full year's product cost database (including overheads). • Tests of details: Recalculating product cost for a statistical sample of inventory balances, including comparing respective underlying data to the purchase documentation. Our results • As a result of our work, we consider the valuation of inventory to be acceptable.

In addition we continue to perform procedures over goodwill of groups of cash generating units as well as those identified in the Key Audit Matter above. However, following stronger than anticipated performance during 2017, we have not assessed the recoverability of goodwill other than that allocated to Wickes and Tile Giant to be one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £17 million (2016: £17 million), determined with reference to a benchmark of Group profit before taxation adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement ('Adjusted Group profit before tax*') of £330.6 million of which it represents 5.1% (2016: 4.7%).

Materiality for the parent company financial statements as a whole was set at £9.1 million (2016: £12.8 million), determined with reference to a benchmark of company total assets, of which it represents 0.2% (2016: 0.3%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 67 (2016: 64) reporting components, we subjected 17 (all UK based) (2016: 17 (all UK based)) to full scope audits for Group purposes.

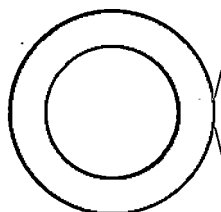
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 8% of total Group revenue, 6% of adjusted Group profit before tax* and 13% of total Group assets is represented by 50 reporting components, none of which individually represented more than 4% of any of total Group revenue, adjusted Group profit before tax* or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £0.8 million to £9.1 million, having regard to the mix of size and risk profile of the Group across the components. The work on 2 of the 17 components (2016: 2 of the 17 components) was performed by component auditors, and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from adjusted Group profit before tax*.

The Group audit team visited all 17 (2016: 17) component locations subject to full scope audits to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group audit team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

Adjusted Group profit before tax*
£330.6m (2016: £364.7m)



Adjusted Group PBT*
Group materiality

Group Materiality
£17.0m (2016: £17.0m)

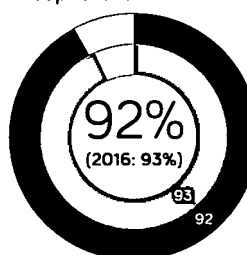
£17.0m
Whole financial statements materiality (2016: £17.0m)

£9.1m
Range of materiality at 17 components (£0.8m to £9.1m) (2016: £1.0m to £12.8m)

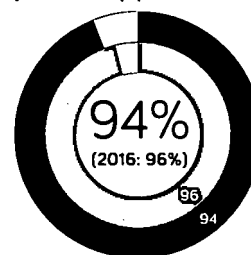
£0.5m
Identified misstatements reported to the Audit Committee (2016: £0.5m)

*adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement

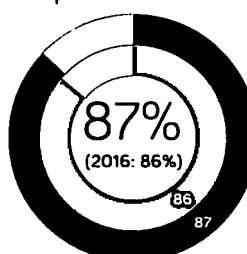
Group revenue



Adjusted Group profit before tax*



Group total assets



Full scope for group audit purposes 2016
Full scope for group audit purposes 2017
Residual components

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 87 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability assessment on page 31 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

- the disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability assessment on page 31 of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether 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 period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability assessment. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that 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 position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.



7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 87, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they 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

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the Directors and other management (as required by auditing standards) and inspection of minutes of the Group's Stay Safe Committee and the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation), taxation and pension legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety and employment law. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Greg Watts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

27 February 2018

Income Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

The Group							
	Notes	2017			2016		
		Pre- exceptional items £m	Exceptional items £m	Total £m	Pre- exceptional items £m	Exceptional items £m	Total £m
Revenue	4	6,433.1	-	6,433.1	6,217.2	-	6,217.2
Operating profit before exceptional items and amortisation		380.1	-	380.1	409.0	-	409.0
Amortisation of acquired intangible assets		(12.3)	-	(12.3)	(16.6)	-	(16.6)
Exceptional items	5(d)	-	(40.9)	(40.9)	-	(292.0)	(292.0)
Operating profit	5(a)	367.8	(40.9)	326.9	392.4	(292.0)	100.4
Share of associates' results		(2.2)	-	(2.2)	-	-	-
Finance income	9(a)	0.7	-	0.7	0.7	-	0.7
Finance costs	9(a)	(35.7)	-	(35.7)	(28.4)	-	(28.4)
Profit before tax		330.6	(40.9)	289.7	364.7	(292.0)	72.7
Tax	10(a)	(63.5)	7.8	(55.7)	(77.1)	18.5	(58.6)
Profit for the year		267.1	(33.1)	234.0	287.6	(273.5)	14.1
Attributable to:							
Owners of the Company		265.9	(33.1)	232.8	286.2	(273.5)	12.7
Non-controlling interests		1.2	-	1.2	1.4	-	1.4
		267.1	(33.1)	234.0	287.6	(273.5)	14.1
Earnings per ordinary share							
Basic	11(a)			93.1p			5.1p
Diluted	11(a)			92.2p			5.0p
Total dividend declared per ordinary share	12			46.0p			45.0p

All results relate to continuing operations. Details of exceptional items are given in notes 5d and 10.

	Notes	The Company	
		2017 £m	2016 £m
Revenue	4	328.2	338.8
Operating profit before exceptional items		308.3	317.7
Exceptional items	5(d)	(10.5)	(19.0)
Operating profit		297.8	298.7
Finance income	9(c)	0.6	0.6
Finance costs	9(c)	(48.9)	(44.3)
Profit before tax		249.5	255.0
Tax	10(a)	12.2	10.6
Profit for the year		261.7	265.6

All results relate to continuing operations. Details of exceptional items are given in note 5d.

Statements of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	The Group		The Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Profit for the year		234.0	14.1	261.7	265.6
Items that will not be reclassified subsequently to profit and loss:					
Actuarial gains / (losses) on defined benefit pension schemes	27(h)	90.8	(86.9)	-	-
Income tax relating to items not reclassified	10(b)	(17.1)	16.5	-	-
		73.7	(70.4)	-	-
Items that may be reclassified subsequently to profit and loss:					
Cash flow hedges		-	0.1	-	0.1
Other comprehensive income / (loss) for the year net of tax		73.7	(70.3)	-	0.1
Total comprehensive income / (loss) for the year		307.7	(56.2)	261.7	265.7

All other comprehensive income is attributable to the owners of the Company.

Balance Sheets

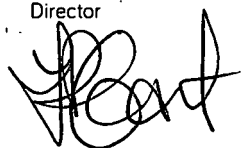
AS AT 31 DECEMBER 2017

	Notes	The Group		The Company	
		2017 £m	2016 £m	2017 £m	2016 £m
Assets					
Non-current assets					
Goodwill	13	1,539.2	1,528.3	-	-
Other intangible assets	14	387.1	360.8	-	-
Property, plant and equipment	15	932.0	929.5	0.2	0.1
Interest in associates	16(a)	20.3	11.5	28.2	16.9
Investment in subsidiaries	16(b)	-	-	3,814.3	3,805.4
Investments	16(c)	9.5	9.1	4.5	4.4
Other receivables	17	30.4	8.3	-	-
Deferred tax asset	25	-	-	1.9	1.8
Total non-current assets		2,918.5	2,847.5	3,849.1	3,828.6
Current assets					
Inventories		816.3	768.0	-	-
Trade and other receivables	17	1,130.2	1,059.3	407.9	387.6
Derivative financial instruments	23	-	1.7	-	1.7
Cash and cash equivalents	18	276.8	250.5	226.8	185.9
Total current assets		2,223.3	2,079.5	634.7	575.2
Total assets		5,141.8	4,927.0	4,483.8	4,403.8

		The Group		The Company	
	Notes	2017 £m	2016 £m	2017 £m	2016 £m
Equity and liabilities					
Capital and reserves					
Issued capital	19	25.2	25.1	25.2	25.1
Share premium account	21	543.4	528.5	542.3	527.4
Merger reserve	21	326.5	326.5	326.5	326.5
Revaluation reserve	21	15.7	16.8	-	-
Own shares	21	(15.3)	(8.7)	(15.3)	(8.7)
Other reserve	21	(4.9)	-	(4.9)	-
Accumulated profits	21	1,958.0	1,760.1	738.8	587.0
Equity attributable to owners of the Company		2,848.6	2,648.3	1,612.6	1,457.3
Non-controlling interests		11.7	7.3	-	-
Total equity		2,860.3	2,655.6	1,612.6	1,457.3
Non-current liabilities					
Interest bearing loans and borrowings	22	612.1	621.1	557.1	559.0
Derivative financial instruments	23	4.9	-	4.9	-
Retirement benefit obligations	27	28.3	127.3	-	-
Long-term provisions	24	17.1	21.2	-	-
Amounts due to subsidiaries		-	-	2,287.4	2,368.4
Deferred tax liabilities	25	61.0	45.8	-	-
Total non-current liabilities		723.4	815.4	2,849.4	2,927.4
Current liabilities					
Interest bearing loans and borrowings	22	6.2	6.9	-	-
Derivative financial instruments	23	1.2	-	1.2	-
Trade and other payables	26	1,453.6	1,348.3	20.6	19.1
Current tax liabilities		44.5	43.8	-	-
Short-term provisions	24	52.6	57.0	-	-
Total current liabilities		1,558.1	1,456.0	21.8	19.1
Total liabilities		2,281.5	2,271.4	2,871.2	2,946.5
Total equity and liabilities		5,141.8	4,927.0	4,483.8	4,403.8

The financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 27 February 2018 and signed on its behalf by:

John Carter
Director



Alan Williams
Director



Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group										
£m	Share capital	Share premium	Merger reserve	Revaluation reserve	Hedging reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non-controlling interest	Total equity
At 1 January 2016	25.0	518.9	326.5	18.4	(0.1)	(15.5)	(1.4)	1,918.1	2,789.9	5.9	2,795.8
Profit for the year	-	-	-	-	-	-	-	12.7	12.7	1.4	14.1
Other comprehensive income for the period net of tax	-	-	-	-	0.1	-	-	(70.4)	(70.3)	-	(70.3)
Total comprehensive income for the year	-	-	-	-	0.1	-	-	(57.7)	(57.6)	1.4	(56.2)
Dividends	-	-	-	-	-	-	-	(110.5)	(110.5)	-	(110.5)
Issue of share capital	0.1	9.6	-	-	-	-	-	-	9.7	-	9.7
Realisation of revaluation reserve in respect of property disposals	-	-	-	(1.8)	-	-	-	1.8	-	-	-
Depreciation adjustment on revalued asset	-	-	-	(0.2)	-	-	-	0.2	-	-	-
Deferred tax rate change	-	-	-	0.4	-	-	-	-	0.4	-	0.4
Tax on share based payments (note 10c)	-	-	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Reserves adjustment	-	-	-	-	-	-	1.4	(1.4)	-	-	-
Own shares movement	-	-	-	-	-	6.8	-	(6.8)	-	-	-
Credit for equity-settled share based payments	-	-	-	-	-	-	-	17.5	17.5	-	17.5
At 31 December 2016	25.1	528.5	326.5	16.8	-	(8.7)	-	1,760.1	2,648.3	7.3	2,655.6
Profit for the year	-	-	-	-	-	-	-	232.8	232.8	1.2	234.0
Other comprehensive income for the period net of tax	-	-	-	-	-	-	-	73.7	73.7	-	73.7
Total comprehensive income for the year	-	-	-	-	-	-	-	306.5	306.5	1.2	307.7
Dividends	-	-	-	-	-	-	-	(113.0)	(113.0)	-	(113.0)
Issue of share capital	0.1	14.9	-	-	-	-	-	-	15.0	-	15.0
Purchase of own shares	-	-	-	-	-	(19.2)	-	-	(19.2)	-	(19.2)
Realisation of revaluation reserve in respect of property disposal	-	-	-	(0.8)	-	-	-	0.8	-	-	-
Depreciation adjustment on revalued asset	-	-	-	(0.3)	-	-	-	0.3	-	-	-
Tax on share based payments (10c)	-	-	-	-	-	-	-	0.1	0.1	-	0.1
Option on non-controlling interest	-	-	-	-	-	-	(4.9)	-	(4.9)	-	(4.9)
Arising on acquisition	-	-	-	-	-	-	-	-	-	3.2	3.2
Foreign exchange	-	-	-	-	-	-	-	0.2	0.2	-	0.2
Own shares movement	-	-	-	-	-	12.6	-	(12.6)	-	-	-
Credit for equity-settled share based payments	-	-	-	-	-	-	-	15.6	15.6	-	15.6
At 31 December 2017	25.2	543.4	326.5	15.7	-	(15.3)	(4.9)	1,958.0	2,848.6	11.7	2,860.3

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	The Company							
£m	Share capital	Share premium	Merger reserve	Hedging reserve	Own shares	Other	Retained earnings	Total equity
At 1 January 2016	25.0	517.8	326.5	(0.1)	(15.5)	-	421.5	1,275.2
Profit for the year	-	-	-	-	-	-	265.6	265.6
Other comprehensive income for the period net of tax	-	-	-	0.1	-	-	-	0.1
Total comprehensive income for the year	-	-	-	0.1	-	-	265.6	265.7
Dividends	-	-	-	-	-	-	(110.5)	(110.5)
Issue of share capital	0.1	9.6	-	-	-	-	-	9.7
Own shares movement	-	-	-	-	6.8	-	(6.8)	-
Tax on share based payments (note 10c)	-	-	-	-	-	-	(0.3)	(0.3)
Credit for equity-settled share based payments	-	-	-	-	-	-	17.5	17.5
At 31 December 2016	25.1	527.4	326.5	-	(8.7)	-	587.0	1,457.3
Profit and total comprehensive income for the year	-	-	-	-	-	-	261.7	261.7
Dividends	-	-	-	-	-	-	(113.0)	(113.0)
Issue of share capital	0.1	14.9	-	-	-	-	-	15.0
Purchase of own shares	-	-	-	-	(19.2)	-	-	(19.2)
Own shares movement	-	-	-	-	12.6	-	(12.6)	-
Tax on share based payments (note 10c)	-	-	-	-	-	-	0.1	0.1
Options on non-controlling interest	-	-	-	-	-	(4.9)	-	(4.9)
Credit for equity-settled share based payments	-	-	-	-	-	-	15.6	15.6
At 31 December 2017	25.2	542.3	326.5	-	(15.3)	(4.9)	738.8	1,612.6

Cash Flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group		The Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Operating profit before amortisation and impairment of goodwill and other intangible assets and exceptional items	380.1	409.0	308.3	317.7
Adjustments for:				
Depreciation of property, plant and equipment	102.0	97.6	0.1	0.1
Amortisation of internally generated intangibles	12.6	7.5	-	-
Other non cash movement – share based payments	15.6	17.5	6.9	6.0
Other non-cash movements - other	0.2	0.2	-	-
Losses of associates	-	1.1	-	-
Gain on disposal of property, plant and equipment	(30.6)	(18.0)	-	-
Operating cash flows before exceptional cash flows	479.9	514.9	315.3	323.8
Increase in inventories	(47.0)	(5.7)	-	-
Increase in receivables	(106.3)	(83.3)	(7.9)	(118.0)
Increase / (decrease) in payables	76.8	93.9	(100.8)	(1.9)
Payments in respect of exceptional items	(20.2)	(11.6)	-	-
Pension payments in excess of the charge to profits	(11.3)	(13.5)	-	-
Cash generated from operations	371.9	494.7	206.6	203.9
Interest paid	(27.6)	(22.6)	(26.8)	(21.4)
Current income taxes paid	(57.2)	(62.2)	-	-
One-off income tax payments	-	(42.5)	-	-
Total income taxes paid	(57.2)	(104.7)	-	-
Net cash from operating activities	287.1	367.4	179.8	182.5
Cash flows from investing activities				
Interest received	0.5	0.4	0.6	0.4
Proceeds on disposal of property, plant and equipment	113.9	42.9	-	-
Development of computer software	(48.1)	(30.8)	-	-
Purchases of property, plant and equipment	(179.0)	(197.5)	(0.2)	(0.1)
Interest in associates	(11.3)	(4.6)	(11.3)	(4.6)
Investments	0.3	(1.1)	(10.8)	(5.6)
Acquisition of businesses	(9.7)	(3.2)	-	-
Net cash used in investing activities	(133.4)	(193.9)	(21.7)	(9.9)
Financing activities				
Proceeds from the issue of share capital	15.0	9.7	15.0	9.7
Purchase of own shares	(19.2)	-	(19.2)	-
Net movement in finance lease liabilities	(7.0)	15.9	-	-
Debt arrangement fees	-	(2.4)	-	(2.4)
Repayment of loan notes	-	(123.1)	-	(123.1)
Decrease in loans and liabilities to pension scheme	(3.2)	(113.2)	-	(110.0)
Gain on settlement of swap contracts	-	16.8	-	16.8
Increase in sterling bonds	-	300.0	-	300.0
Dividends paid	(113.0)	(110.5)	(113.0)	(110.5)
Net cash from financing activities	(127.4)	(6.8)	(117.2)	(19.5)
Net increase in cash and cash equivalents	26.3	166.7	40.9	153.1
Cash and cash equivalents at the beginning of the year	250.5	83.8	185.9	32.8
Cash and cash equivalents at the end of year (note 18)	276.8	250.5	226.8	185.9

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Overview

Travis Perkins plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 166. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 4 to 48.

These financial statements are presented in pounds sterling, the currency of the primary economic environment in which the Group operates.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulations.

Basis of preparation

The financial statements have been prepared on the historic cost basis, except that derivative financial instruments, available for sale investments and contingent consideration arising from business combinations are stated at their fair value. The consolidated financial statements include the accounts of the Company and all entities controlled by the Company (its subsidiaries) (together referred to as "the Group") from the date control commences until the date that control ceases. Control is achieved where the Company:

- Has the power over the investee
- Is exposed or has rights to a variable return from the involvement with the investee
- Has the ability to use its power to affect its returns

As such, the results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

Impact of new standards and interpretations

At the date of the approval of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue, but not yet effective:

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Amendments to clarify the classification and measurement of share-based payment transactions
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Annual improvements to IFRS 2014–2016 cycle
- Annual improvements to IFRS 2015–2017 cycle

Based on their initial assessments, the Directors anticipate that adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the Group.

IFRS 9 – Financial Instruments

The new standard introduces a principles-based approach to the classification and measurement of financial instruments, a new impairment model and changes to hedge accounting. It will be effective from 1 January 2018. The Directors have completed their assessment and based on the Group's current financial instruments and hedging strategy there will be no material effect on the financial statements.

IFRS 15 – Revenue Recognition

IFRS 15 – Revenue from Contracts with Customers, which supersedes IAS 18 – Revenue, will be effective from 1 January 2018. The new standard provides a single model for revenue recognition based on when identified performance obligations are satisfied. The revenue recognition model now focuses on the transfer of control rather than the transfer of risks and rewards. The Directors have completed their assessment of the impact of the new standard. Based on the current operating model the new standard will not have a material effect on revenue recognition, as the point at which revenue is recognised at present is consistent with the passing of control under IFRS 15.

The new standard will require the value of inventory expected to be returned, which currently forms part of the customer returns provision, to be reclassified from other payables to current assets in the balance sheet.

- IFRS 16 – Leases

In January 2016 the IASB issued IFRS 16 – Leases. It was endorsed by the European Union in October 2017 and will be effective from 1 January 2019. This Standard will have a material effect on the Group because the value of the operating leases it has entered into will be included in the balance sheet in future (see note 29). The Group has made progress in its project to determine the effect of this new Standard and implement the processes and systems necessary to comply with its requirements.

Given the complexity of the Standard and the volume of leases to which the Group is a party, this project has not been completed at the date of these accounts. However, based on an analysis of all the Group's material leases the Group's initial estimates are that the implementation of the standard will result in net debt that is broadly consistent with lease adjusted net debt as currently disclosed in note 33.

The estimate above is based on the assumption that the Group applies the Standard retrospectively with the cumulative effect of initial application recognised on the date that it occurs and with the right-of-use assets measured as if the Standard's requirements had been applied at the commencement date of each lease, but discounted using the Group's incremental borrowing rate at the date of initial application. The Directors have not concluded on which transition option will be adopted.

Going concern

The Directors are currently of the opinion that the Group's forecasts and projections show that the Group should be able to operate within its current facilities and comply with its banking covenants. The Group is however exposed to a number of significant risks and uncertainties, which could affect the Group's ability to meet management's projections. The Directors believe that the Group has the flexibility to react to changing market conditions and is adequately placed to manage its business risks successfully.

Detailed considerations of going concern, risks and uncertainties are provided in the Annual Report on pages 56 and 33 to 39 respectively.

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for twelve months from the date of signing these accounts. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements are set out below.

Revenue recognition

Revenue is recognised when goods or services are received by the customer and the risks and rewards of ownership have passed to them. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value added tax. For the Group, services comprise tool hire and kitchen and bathroom installations. Tool hire revenue is recognised on a straight line basis over the period of hire. Revenue from the installation of kitchens and bathrooms is recognised when the Group has fulfilled all its obligations under the installation contract. For the Parent Company, revenue comprises management charges receivable and dividend income received.

Exceptional items

Exceptional items are those items of income and expenditure that by reference to the Group are material in size or unusual in nature or incidence, that in the judgement of the Directors, should be disclosed separately on the face of the financial statements (or in the notes in the case of a segment) to ensure both that the reader has a proper understanding of the Group's financial performance and that there is comparability of financial performance between periods.

Items of income or expense that are considered by the Directors for designation as exceptional items include, but are not limited to, significant restructurings, onerous contracts, write-downs or impairments of current and non-current assets, the costs of acquiring and integrating businesses, gains or losses on disposals of businesses and investments, re-measurement gains or losses arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective, material pension scheme curtailment gains and the effect of changes in corporation tax rates on deferred tax balances.

Supplier income

Supplier income comprises fixed price discounts, volume rebates and customer sales support.

Fixed price discounts and volume rebates received and receivable in respect of goods which have been sold are initially deducted from the cost of inventory and therefore reduce cost of sales in the income statement when the goods are sold. Where goods on which the fixed price discount or volume rebate has been earned remain in inventory at the year-end, the cost of that inventory reflects those discounts and rebates (see inventory accounting policy).

The Group receives customer sales support payments that are made entirely at the supplier's option, that are requested by the Group when a specific product is about to be sold to a specific customer and for which payment is only received after the sale has been completed. All customer sales support receipts received and receivable are deducted from cost of sales when the sale to the third party has been completed, i.e. when the customer sales support payment has been earned.

Supplier income receivable is netted off against trade payables when there is a legally binding arrangement in place and it is management's intention to do so, otherwise amounts are included in other receivables in the balance sheet.

Other promotional arrangements are not significant.

Customer rebates

Where the Group has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place, is deducted from turnover in the year in which the rebate is earned.

Business combinations and goodwill

All business combinations are accounted for using the acquisition method. The cost of an acquisition represents the cash value of the consideration and / or the fair value of the shares issued on the date the offer became unconditional. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payments

Where a business combination is achieved in stages, the Group's previously held interest in the acquired entity is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in the income statement.

Goodwill arising on acquisition represents the excess of the cost of acquisition over the share of the aggregate fair value of identifiable net assets (including intangible assets) of a business or a subsidiary at the date of acquisition. All material intangible fixed assets obtained on acquisition have been recognised separately in the financial statements. Goodwill is initially recognised as an asset and allocated to cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination and is then reviewed at least annually for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed, as such, goodwill is stated in the balance sheet at cost less any provisions for impairment in value.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP carrying value subject to being tested for impairment at that date. Goodwill written off to reserves prior to 1998 under UK GAAP has not been reinstated and would not be included in determining any subsequent profit or loss on disposal.

Liabilities for contingent consideration are classified as fair value through profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets

Intangible assets identified as part of the assets of an acquired business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition.

Intangible assets are amortised to the income statement on a straight-line basis over a maximum of 20 years except where they are considered to have an indefinite useful life. In the latter instance, they are reviewed annually for impairment.

The directly attributable costs incurred for the development of computer software owned by, and for use within the business, are capitalised and written off over their estimated useful life, which ranges from 3 years to 10 years. Interfaces are amortised over the lower of the remaining estimated useful lives of the systems they operate between. Costs relating to research, maintenance and training are expensed as they are incurred.

Amounts paid to third parties in respect of the development of assets not controlled by the Group are expensed over the period where the Group receives the benefit of the use of these assets. License fees for using third-party software are expensed over the period the software is in use.

No amortisation is charged on assets in the course of construction.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value. Assets are depreciated to their estimated residual value on a straight-line basis over their estimated useful lives as follows:

- Buildings - 50 years or if lower, the estimated useful life of the building or the life of the lease
- Plant and equipment - 4 to 10 years
- Freehold land is not depreciated

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds net of expenses and the carrying amount of the asset in the balance sheet and is recognised in the income statement.

Where appropriate, the attributable revaluation reserve remaining in respect of properties revalued prior to the adoption of IFRS is transferred directly retained earnings.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease rental payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Reverse lease premia and other incentives receivable for entering into a lease agreement are recognised in the income statement on a straight-line basis over the life of the lease.

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) and whether or not the sale was made at the asset's fair value.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately.

Impairment of tangible and intangible assets

The carrying amounts of the Group's tangible and intangible assets with a definite useful life are reviewed at each balance sheet date to determine whether there is any indication of impairment to their value. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount of an asset is the greater of its fair value less disposal cost and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use the present value of future cash flows is discounted using a pre-tax discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset concerned.

Where the carrying value exceeds the recoverable amount a provision for the impairment loss is established with a charge being made to the income statement. When the reasons for a write down no longer exist the write down is reversed in the income statement up to the net book value that the relevant asset would have had if it had not been written down and if it had been depreciated.

For intangible assets that have an indefinite useful life the recoverable amount is estimated at each annual balance sheet date.

Inventories

Inventories, which consist of goods for resale, are stated at the lower of average weighted cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less the estimated costs of disposal.

Financial instruments

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at amortised cost, which is carrying amount less provision for irrecoverable amounts. Allowances for the estimated irrecoverable amounts are made in the income statement when the receivable is considered to be irrecoverable.

Impairment of financial assets

Financial assets are treated as impaired when, in the opinion of the Directors, the likelihood of full recovery is diminished by either events or change of circumstance.

Bank and other borrowings

Interest bearing bank loans and overdrafts, loan notes and other loans are recognised in the balance sheet at amortised cost. Finance charges associated with arranging non-equity funding are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in accordance with the effective interest rate method.

Trade payables

Trade payables are measured at amortised cost.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates ruling on the date of the transaction.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from financing activities. The Group does not enter into speculative financial instruments. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for derivative trading purposes.

Derivative financial instruments are stated at fair value.

The fair value of derivative financial instruments is the estimated amount the Group would receive or pay to transfer to a market participant the derivative at the balance sheet date, taking into account current interest and exchange rates and the current creditworthiness of the counterparties.

Changes in the fair value of derivative financial instruments, that are designated and effective as hedges of the future variability of cash flows, are recognised in equity and the ineffective portion is recognised immediately in the income statement.

For an effective hedge of an exposure to changes in the fair value of a hedged item, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken to the income statement as they arise.

Derivatives embedded in commercial contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the underlying contracts, with unrealised gains or losses being reported in the income statement.

The fair value of hedged derivatives is classified as a non-current asset or non-current liability if the remaining maturity of the hedge relationship is more than 12 months, otherwise they are classified as current.

Foreign currency forward contracts not designated as effective hedges are marked-to-market at the balance sheet date, with any gains or losses being taken through the income statement.

Financial assets and financial liabilities

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities' and trade and other payables.

The Group has defined the classes of financial assets to be other financial assets, cash and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities are classified as FVTPL where the financial asset or the financial liability is either held for trading or is designated as FVTPL.

A financial asset or financial liability is classified as held for trading if it:

- Has been acquired principally for the purpose of being sold or disposed of in the near future; or
- Is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- Is a derivative that is not designated and effective as a hedging instrument

Financial assets and financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement unless it is an effective cash flow relationship. The net gain or loss recognised in the income statement incorporates any interest earned or paid on the financial asset and financial liability respectively.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables, which applies to all amounts owed to the Group when the recognition of interest would be immaterial.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items, which are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. This is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effects of asset ceilings and minimum funding payments and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income. Remeasurement recorded in the statement of comprehensive income is not recycled.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Net interest expense or income is recognised within finance costs.

Where the Group is committed to pay additional contributions under a minimum funding arrangement and it has no unconditional right to receive any surplus in a winding up of the scheme, the pension obligation recognised in the financial statements is the higher of the IAS 19 (revised 2011) obligation or the net present value of future minimum funding payments to which the Group is unconditionally committed, discounted using the IAS 19 (revised 2011) discount rate.

Employee share incentive plans

The Group issues equity-settled share-based payments to employees (long-term incentives, executive share options and Save As You Earn). These payments are measured at fair value at the date of grant using the Black Scholes option-pricing model taking into account the terms and conditions upon which the options were granted. The cost of equity-settled awards is recognised on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation because of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity instruments and own shares

Equity instruments represent the ordinary share capital of the Group and are recorded at the proceeds received, net of directly attributable incremental issue costs.

Consideration paid by the Group for its own shares is deducted from total shareholders' equity. Where such shares vest to employees under the terms of the Group's share incentive schemes or the Group's share save schemes or are sold, any consideration received is included in shareholders' equity.

Dividends

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. The preparation of financial statements requires the Directors to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions. The Directors frequently re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

Some financial information is produced by finance systems that were first implemented by the Group over 30 years ago, which as the business has grown, have been amended to cope with significantly higher transaction levels and more complicated ways of doing business. This has made the systems unwieldy and frequently requires management to make judgements about the accuracy of information calculated by those systems in areas such as supplier income, inventory and goods received not invoiced accruals.

The Directors believe that the following items are critical due to the degree of estimation required and / or the potential material impact the judgements may have on the Group's financial position and performance.

Supplier income

The overwhelming majority of supplier income, in excess of 85% by value, is determined by reference to fixed price discounts on actual purchases with approximately 4% being volume rebates that are subject to stepped rebate targets, the rebate percentage increasing as values or volumes purchased reach pre-agreed targets. However, because the agreements with suppliers are almost entirely coterminous with the Group's financial year end, by the year-end the Group knows whether those targets were reached.

Approximately 80% of supplier income is receivable during the year as it is earned and settled monthly, although some agreements may also stipulate quarterly, bi-annual or annual payments, with only two of the arrangements not being co-terminous with the Group's statutory year-end. Therefore the key estimates relate to the total value of rebates and fixed price discounts still to be received at the year-end and the amount to be set against the gross value of inventory. These are determined using established methodologies and in the case of collectability, management's knowledge of the parties involved and historical collection trends.

Other supplier income relates to customer sales support received in respect of sales of specific products to specific customers which is included in the income statement when the relevant sale occurs, i.e. when all conditions for it to be earned have been met.

At 31 December 2017 the supplier income amount recognised in other receivables and trade payables was £354m (2016: £324m).

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY continued

Cash generating units

In the Directors' judgement, individual assets do not generate cash flows that are largely independent of those from other assets and consequently that, for the purposes of impairment testing, each branch or distribution network in the Group is a cash generating unit ("CGU"). Impairment testing of property, plant and equipment is carried out at individual branch or distribution network level. Goodwill and other intangibles impairment testing is carried out at brand level as described in note 13.

Goodwill and other intangible assets

In testing for impairment, the recoverable amount of goodwill and intangible assets is determined by reference to the value in use of the CGU grouping to which they are attributed. In addition the Directors have made certain estimates concerning discount rates, future cash flows and the future development of the business that are consistent with its corporate plan. Whilst the Directors consider their assumptions to be realistic, should actual results, including those for market volume changes, be different from expectations, for instance due to a worsening of the UK economy, then it is possible that the value of goodwill and other intangible assets included in the balance sheet could become impaired.

The pre-tax discount rate is derived from the Group's weighted average cost of capital ("WACC") calculated by the Group's advisors. The WACC is based upon the risk free rate for twenty-year UK gilts, adjusted for the UK market risk premium, which reflects the increased risk of investing in UK equities and the relative volatilities of the equity of the Group compared to the market as a whole. The Directors have applied risk-based adjustments to cash flows to reflect their view of the relative risk of the Group's operations. Further details concerning the judgements made by the Directors in respect of goodwill and other intangible assets and the impairment testing thereof, are given in note 13.

Pension assumptions

The Group has chosen to adopt assumptions that the Directors believe are generally in line with comparable companies. If the difference between actual inflation and the actual increase in pensionable salaries is greater than that assumed, or if long term interest rates are lower than assumed, or if the average life expectancy of pensioners increases, then the pension deficit could be greater than currently stated in the balance sheet. Where the pension obligation is included in the balance sheet at the net present value of the minimum funding payments then the impact on the balance sheet of changes in these assumptions is reduced.

Inventories

In determining the cost of inventories the Directors have to make estimates to arrive at cost and net realisable value.

The Group has entered into a large number of rebate and fixed price discount agreements, the effects of which have to be offset against the gross invoice price paid for goods. As explained in the section of this note setting out the estimates made in respect of supplier income, the calculation of the value deferred into stock is complicated due to the number, nature and structure of the agreements in place. However, the Group has a well tested methodology that is consistently applied. The Directors believe that the £210m deduction from the gross invoice cost of stock (2016: £199m) is appropriate.

Furthermore, determining the net realisable value of the wide range of products held in many locations requires judgement to be applied to determine the likely saleability of the product and the potential price that can be achieved. In arriving at any provisions for net realisable value the Directors take into account the age, condition and quality of the product stocked and the recent trend in sales.

4. REVENUE AND OTHER INCOME

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Sale of goods	6,250.6	6,049.9	-	-
Sales of services	182.5	167.3	-	-
Management charges	-	-	4.5	8.4
Dividends from subsidiaries	-	-	323.4	330.4
Dividend receivable	-	-	0.3	-
	6,433.1	6,217.2	328.2	338.8
Other operating income	5.6	5.7	-	-
Finance income	0.7	0.7	0.6	0.6
	6,439.4	6,223.6	328.8	339.4

5. PROFIT

a. Operating profit

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Revenue	6,433.1	6,217.2	328.2	338.8
Cost of sales	(4,527.5)	(4,365.4)	-	-
Gross profit	1,905.6	1,851.8	328.2	338.8
Selling and distribution costs	(1,239.7)	(1,403.1)	-	-
Administrative expenses	(374.0)	(369.9)	(30.4)	(40.1)
Profit on disposal of properties	29.4	17.0	-	-
Other operating income	5.6	5.7	-	-
Share of results of associates	-	(1.1)	-	-
Operating profit	326.9	100.4	297.8	298.7
Add back exceptional items	40.9	292.0	10.5	19.0
Add back amortisation of acquired intangible assets	12.3	16.6	-	-
Adjusted operating profit	380.1	409.0	308.3	317.7
Profit on disposal of properties	(29.4)	(16.6)	-	-
	350.7	392.4	308.3	317.7

During the year the Group incurred the following costs for services provided by the Company's auditor:

	The Group	
	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	130	130
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	670	595
Additional fees payable to Company's auditor for the prior period audit	135	175
Fees paid to the Company's auditor for other services:		
Audit related assurance services	59	55
Other services	61	187
	1,055	1,142

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5. PROFIT continued

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 58 to 63, and includes an explanation of how auditor objectivity and independence is safeguarded when the auditor provides non-audit services.

Operating profit has been arrived at after charging / (crediting):

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Movement of provisions against inventories	1.1	4.1	-	-
Cost of inventories recognised as an expense	4,526.4	4,361.3	-	-
Pension costs in administration expenses	7.7	8.7	0.1	0.3
Pension costs in selling and distribution costs	19.2	16.8	-	-
Depreciation of property, plant and equipment	102.0	97.6	0.1	0.1
Impairment of goodwill and acquired intangible assets	-	231.3	-	-
Impairment of investments	-	4.1	10.5	19.0
Amortisation of internally generated intangible assets	12.6	7.5	-	-
Staff costs	853.0	814.5	15.9	16.0
Gain on disposal of property, plant and equipment	(30.6)	(18.0)	-	-
Rental income	(5.6)	(5.7)	-	-
Hire of vehicles, plant and machinery	49.8	46.3	-	-
Other leasing charges - property	196.2	194.0	-	-
Amortisation of acquired intangible assets	12.3	16.6	-	-
Exceptional restructuring costs	40.9	56.6	-	-
Auditor's remuneration for audit services	0.8	0.7	0.1	0.1

b. Adjusted operating margin

	General Merchanting		Contracts		Consumer		Plumbing & Heating		Unallocated		Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Revenue	2,109.5	2,073.4	1,369.0	1,266.7	1,589.1	1,518.2	1,365.5	1,358.9	-	-	6,433.1	6,217.2
Segment result	200.6	196.2	81.3	60.0	79.4	59.6	(3.5)	(198.3)	(30.9)	(17.1)	326.9	100.4
Amortisation of intangible assets	-	-	6.3	6.3	5.0	5.0	1.0	5.3	-	-	12.3	16.6
Exceptional items	-	11.3	-	9.7	-	36.4	40.9	232.3	-	2.3	40.9	292.0
Adjusted segment result	200.6	207.5	87.6	76.0	84.4	101.0	38.4	39.3	(30.9)	(14.8)	380.1	409.0
Property profits	(18.0)	(13.6)	(1.9)	0.3	(1.9)	-	(7.6)	(3.3)	-	-	(29.4)	(16.6)
Adjusted segment result excluding property profits	182.6	193.9	85.7	76.3	82.5	101.0	30.8	36.0	(30.9)	(14.8)	350.7	392.4
Adjusted operating margin	9.5%	10.0%	6.4%	6.0%	5.3%	6.7%	2.8%	2.9%	-	-	5.9%	6.6%
Adjusted segment margin excluding property profits	8.7%	9.3%	6.3%	6.0%	5.2%	6.7%	2.3%	2.6%	-	-	5.5%	6.3%

Segmental information including the definition of segment result is shown in note 6.

C. Adjusted profit before and after tax

	The Group	
	2017 £m	2016 £m
Profit before tax	289.7	72.7
Exceptional items	40.9	292.0
Amortisation of acquired intangible assets	12.3	16.6
Adjusted profit before tax	342.9	381.3

	The Group	
	2017 £m	2016 £m
Profit after tax	234.0	14.1
Exceptional items	40.9	292.0
Amortisation of acquired intangible assets	12.3	16.6
Tax on amortisation of acquired intangible assets	(2.1)	(2.9)
Tax on exceptional items	(7.8)	(15.1)
Effect of reduction in corporation tax rate on deferred tax	-	(3.4)
Adjusted profit after tax	277.3	301.3

d. Exceptional items

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Impairment of goodwill, other intangible assets, tangible fixed assets and investments	-	235.4	10.5	19.0
Branch closure programme	12.0	16.5	-	-
Supply chain restructure	19.1	29.6	-	-
Central and divisional restructuring costs	9.8	4.3	-	-
Write off of amounts previously held in current assets	-	6.2	-	-
	40.9	292.0	10.5	19.0

To enable readers of the financial statements to obtain a clear understanding of underlying trading, the Directors have shown the exceptional items separately in the group income statement.

The Group

2017

In August 2017 the Group announced that, following a comprehensive strategic review of the Plumbing & Heating division, it would reduce capacity, integrate the CPS and PTS businesses, overhaul the division's customer proposition and create a dedicated Plumbing & Heating supply chain. In accordance with the accounting policy stated in note 2 the total cost of £40.9m has been treated as exceptional. The exceptional items consist of the following:

- £12.0m of property, redundancy and other costs associated with the closure of 46 branches
- £19.1m of costs arising from the separation and rationalisation of the Plumbing & Heating supply chain. The costs comprised property-related costs, redundancy and reorganisation costs and inventory write-downs
- £9.8m of central and divisional costs including people-related, consultancy and other restructuring costs.

2016

Due to economic uncertainty and market conditions, the prospects for each business in the Plumbing & Heating division were reassessed and the Group determined that it was appropriate to impair the carrying value of assets in the division. In addition the performance of the Group's small tile business was expected to fall below previous expectations. Accordingly an impairment charge of £235.4m was made in the income statement, an analysis of which is shown in note 13.

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5. PROFIT continued

In October 2016, as a result of the economic uncertainty, the Group announced a number of branch and distribution centre closures together with other cost reduction measures. In accordance with the accounting policy stated in note 2 the total cost of £56.6m was treated as exceptional.

The Company

The Company impaired the carrying value of investments in subsidiaries by £10.5m (2016: £19.0m).

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

As required by IFRS 8, operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to assess their performance. All four divisions sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom and consequently no geographical information is presented. The operating segments of the Group are aggregated into four divisions, the reportable segments of the Group, based on shared economic characteristics and similarities in their customers and products.

Segment result represents the profit earned by each segment without allocation of certain central costs, finance income and costs and income tax expense. Unallocated segment assets and liabilities comprise financial instruments, current and deferred taxation, cash and borrowings and pension scheme assets and liabilities.

Inter-segment trading is eliminated.

	2017					
	General Merchanting £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Unallocated £m	Consolidated £m
Revenue	2,109.5	1,369.0	1,589.1	1,365.5	-	6,433.1
Segment result	200.6	81.3	79.4	(3.5)	(30.9)	326.9
Share of associates	-	-	-	-	(2.2)	(2.2)
Finance income	-	-	-	-	0.7	0.7
Finance costs	-	-	-	-	(35.7)	(35.7)
Profit before taxation	200.6	81.3	79.4	(3.5)	(68.1)	289.7
Taxation	-	-	-	-	(55.7)	(55.7)
Profit for the year	200.6	81.3	79.4	(3.5)	(123.8)	234.0
Segment assets	1,811.0	867.2	1,544.6	592.3	326.7	5,141.8
Segment liabilities	(441.5)	(323.5)	(403.6)	(317.8)	(795.1)	(2,281.5)
Consolidated net assets	1,369.5	543.7	1,141.0	274.5	(468.4)	2,860.3
Capital expenditure	152.9	14.3	57.3	3.6	2.3	230.4
Amortisation of acquired intangible assets	-	6.3	5.0	1.0	-	12.3
Depreciation and amortisation of software	67.5	11.8	26.4	8.8	0.1	114.6

	2016					Consolidated £m
	General Merchandising £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Unallocated £m	
Revenue	2,073.4	1,266.7	1,518.2	1,358.9	-	6,217.2
Segment result	196.2	60.0	59.6	(198.3)	(17.1)	100.4
Finance income	-	-	-	-	0.7	0.7
Finance costs	-	-	-	-	(28.4)	(28.4)
Profit before taxation	196.2	60.0	59.6	(198.3)	(44.8)	72.7
Taxation	-	-	-	-	(58.6)	(58.6)
Profit for the year	196.2	60.0	59.6	(198.3)	(103.4)	14.1
Segment assets	1,661.5	831.4	1,526.4	613.1	294.6	4,927.0
Segment liabilities	(388.5)	(255.9)	(409.0)	(332.5)	(885.5)	(2,271.4)
Consolidated net assets	1,273.0	575.5	1,117.4	280.6	(590.9)	2,655.6
Capital expenditure	123.9	14.6	56.2	9.1	-	203.8
Amortisation of acquired intangible assets	-	6.3	5.0	5.3	-	16.6
Impairment of goodwill and acquired intangibles	-	-	21.6	213.8	-	235.4
Depreciation	54.3	11.8	22.5	9.0	-	97.6

During 2016 an impairment loss was recognised in the Consumer and Plumbing & Heating segments in respect of goodwill and other assets totalling £235.4m.

Unallocated segment assets and liabilities comprise the following:

	2017 £m	2016 £m
Assets		
Interest in associates	20.3	11.5
Financial instruments	-	1.7
Tangible fixed assets	0.2	0.7
Investments	9.5	9.1
Cash and cash equivalents	276.8	250.5
Unallocated corporate assets	19.9	21.1
	326.7	294.6
Liabilities		
Financial instruments	(4.9)	-
Tax liabilities	(44.5)	(43.8)
Deferred tax liabilities	(61.0)	(45.8)
Retirement benefit obligations	(28.3)	(127.3)
Interest bearing loans, borrowings and loan notes	(618.3)	(628.0)
Unallocated corporate liabilities	(38.1)	(40.6)
	(795.1)	(885.5)

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7. STAFF COSTS

a. The average full-time equivalent monthly number of persons employed (including executive directors)

	The Group		The Company	
	2017 No.	2016* No.	2017 No.	2016 No.
Sales and distribution	25,979	25,478	-	-
Administration	1,774	1,761	64	50
	27,753	27,239	64	50

*Restated. During the year the Directors identified a discrepancy in the way that the Group's average monthly number of persons employed was calculated. As a result the 2016 disclosure has been increased by 2,583.

b. Aggregate remuneration

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Wages and salaries	772.9	736.3	7.9	9.1
Share based payments (note 8)	15.6	17.5	6.6	6.0
Social security costs	64.5	60.7	1.1	0.9
Other pension costs (note 27m)	26.9	25.5	0.1	0.2
	879.9	840.0	15.7	16.2

8. SHARE-BASED PAYMENTS

The Black-Scholes option-pricing model is used to calculate the fair value of the options and the amount to be expensed. The probability of the performance conditions being achieved was included in the fair value calculations. The inputs into the model for options granted in the year expressed as weighted averages are as follows:

	2017			2016		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Share price at grant date (pence)	1,487	1,434	1,487	1,785	1,569	1,797
Option exercise price (pence)	1,488	1,185	-	1,847	1,342	-
Volatility (%)	29.2%	28.4%	31.0%	23.4%	28.2%	23.7%
Option life (years)	3.0	3.3	2.9	3.0	3.4	2.9
Risk-free interest rate (%)	0.1%	0.1%	0.2%	0.5%	0.1%	0.5%
Expected dividends as a dividend yield (%)	2.9%	3.1%	2.9%	2.3%	2.6%	2.3%

Volatility is based on historic share prices over a period equal to the vesting period. Option life used in the model has been based on options being exercised in accordance with historical patterns. For executive share options the vesting period is 3 years. If options remain unexercised after a period of 10 years from the date of grant, these options expire. Options are forfeited if the employee leaves the Group before options vest. SAYE options vest after 3 or 5 years and expire 3½ or 5½ years after the date of grant.

The risk-free interest rate of return is the yield on zero-coupon UK Government bonds on a term consistent with the vesting period. Dividends used are based on actual dividends where data is known and future dividends estimated using a dividend cover of three times (within the Board's target range).

The expected life of options used in the model has been adjusted, based upon management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

A description of the share schemes operated by the Group is contained in the remuneration report on pages 64 to 81.

SAYE options were granted on 20 September 2017. The estimated fair value of the shares under option at that date was £8.9m for the Group and £0.1m for the Company.

Shares were granted under the share-matching scheme on 30 March 2017. The estimated fair value of the shares under option at those dates was £5.1m for the Group and £2.8m for the Company.

Shares were granted under the performance share plan on 15 March 2017 and 24 August 2017. The estimated fair value of the shares under option at those dates was £8.2m for the Group and £3.8m for the Company.

Shares were granted under the deferred share bonus plan on 15 March 2017. The estimated fair value of the shares at that date was £0.8m for the Group and £0.6m for the Company.

Shares were granted under the Wickes and Toolstation long-term incentive plans on 15 March 2017. The estimated fair value of the shares at that date was £0.5m for the Group and £nil for the Company.

The Group charged £15.6m (2016: £17.5m) and the Company charged £6.9m (2016: £6.0m) to the income statement in respect of equity-settled share-based payment transactions.

The number and weighted average exercise price of share options is as follows:

	The Group					
	2017			2016		
	Weighted average exercise price (p)	Number of options	Number of nil price options	Weighted average exercise price (p)	Number of options	Number of nil price options
In thousands of options						
Outstanding at the beginning of the year	1,384	5,578	3,007	1,345	5,782	2,946
Forfeited during the year	1,532	(1,545)	(362)	1,266	(1,401)	(250)
Exercised during the year	1,248	(1,209)	(793)	906	(1,078)	(545)
Granted during the year	1,197	2,756	1,478	1,194	2,275	856
Outstanding at the end of the year	1,486	5,580	3,330	1,384	5,578	3,007
Exercisable at the end of the year	1,314	393	395	1,087	354	408

Share options were exercised on a regular basis throughout the year. The weighted average share price for options exercised during the year was 1,539 pence (2016: 1,573 pence).

Details of the options outstanding at 31 December 2017 is as follows:

	The Group					
	2017			2016		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	433-2,018	818-1,616	-	201-1,958	657-1,616	-
Weighted average exercise price (pence)	1,670	1,296	-	1,697	1,376	-
Number of shares (thousands)	292	5,288	3,329	292	5,286	3,007
Weighted average expected remaining life (years)	1.1	2.4	1.2	1.0	2.1	1.0
Weighted average contractual remaining life (years)	8.0	2.8	8.0	7.5	2.6	7.6

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8. SHARE-BASED PAYMENTS continued

If all 0.3m outstanding executive options vest and then are exercised on the date of vesting, or in the case of SAYE all 5.3m shares are acquired on the first possible day 5.6m of shares will be issued for a consideration of £73.4m in the years ending 31 December:

31 December	2018		2019		2020		2021		2022	
	No. m	Value £m	No. m	Value £m	No. m	Value £m	No. m	Value £m	No. m	Value £m
Options	0.1	1.4	0.1	1.0	0.1	1.6	-	-	-	-
SAYE	0.7	10.7	1.3	18.2	2.3	27.2	0.2	3.2	0.4	4.9

The table above shows theoretical amounts. For the Company to receive the cash indicated in the periods shown, the following must occur:

- All performance conditions on executive share options must be fully met
- Options must be exercised on the day they vest (option holders generally have a 7 year period post vesting to exercise the option)
- The share price at the exercise date for SAYE options must exceed the exercise price and every holder must exercise
- All option/SAYE holders must remain with the Company, or leave on good terms

If none of the requirements are met then the Company will receive no consideration.

The number and weighted average exercise price of share options is as follows:

	The Company					
	2017			2016		
	Weighted average exercise price (p)	Number of options	Number of nil price options	Weighted average exercise price (p)	Number of options	Number of nil price options
In thousands of options						
Outstanding at the beginning of the year	1,543	60	1,279	1,481	64	1,195
Forfeited during the year	1,541	(17)	(136)	1,569	(8)	(81)
Exercised during the year	1,240	(12)	(411)	1,274	(15)	(242)
Transferred from other Group companies	1,591	2	103	-	-	-
Granted during the year	1,297	31	502	1,592	19	407
Outstanding at the end of the year	1,412	64	1,337	1,543	60	1,279
Exercisable at the end of the year	1,613	5	102	909	4	30

Details of the options outstanding at 31 December 2017 is as follows:

	The Company					
	2017			2016		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	433-2,018	818-1,616	-	743-1,958	657-1,616	-
Weighted average exercise price (pence)	1,251	1,103	-	1,837	1,427	-
Number of shares (thousands)	22	41	1,330	17	43	1,279
Weighted average expected remaining life (years)	1.3	2.5	1.3	0.7	2.5	1.1
Weighted average contractual remaining life (years)	11.1	3.0	11.2	10.6	3.0	11.1

9. NET FINANCE COSTS

a. Finance costs and finance income

	The Group	
	2017 £m	2016 £m
Interest on bank loans and overdrafts*	(4.1)	(6.1)
Interest on sterling bonds	(21.0)	(16.1)
Interest on obligations under finance leases	(0.8)	(0.6)
Unwinding of discounts - property provisions	(0.7)	(0.3)
Unwinding of discounts - SPV loan	(2.4)	(2.4)
Other interest	(0.7)	(1.2)
Other finance costs – pension scheme	(3.1)	(1.7)
Net loss on remeasurement of derivatives at fair value	(2.9)	-
Finance costs	(35.7)	(28.4)
Net gain on remeasurement of derivatives at fair value	-	0.3
Interest receivable	0.7	0.4
Finance income	0.7	0.7
Net finance costs	(35.0)	(27.7)

*Includes £1.5m (2016: £1.4m) of amortised finance charges. In 2016 an additional £0.5m of arrangement fees on bilateral loans was charged directly to the Income Statement.

The charge caused by the unwinding of the discounts relates to the property provisions and the liability to the pension scheme associated with the SPV (note 27).

b. Fixed charge cover interest

	The Group	
	2017 £m	2016 £m
Interest on bank loans and overdrafts*	(4.1)	(6.1)
Interest on sterling bonds	(21.0)	(16.1)
Interest on obligations under finance leases	(0.8)	(0.6)
Unwinding of discounts - SPV loan	(2.4)	(2.4)
Interest for fixed charge ratio purposes	(28.3)	(25.2)

*Includes £1.5m (2016: £1.4m) of amortised finance charges. In 2016 an additional £0.5m of arrangement fees on bilateral loans was charged directly to the Income Statement.

9. NET FINANCE COSTS continued

C. The Company

	The Company	
	2017 £m	2016 £m
Interest on bank loans and overdrafts*	(3.9)	(5.7)
Interest on sterling bonds	(21.0)	(16.1)
Interest payable to Group companies	(20.5)	(21.6)
Other interest	(0.6)	(0.9)
Net loss on re-measurement of derivatives at fair value	(2.9)	-
Finance costs	(48.9)	(44.3)
Net gain on remeasurement of derivatives at fair value	-	0.3
Interest receivable from Group companies	-	0.1
Interest receivable	0.6	0.2
Finance income	0.6	0.6
Net finance costs	(48.3)	(43.7)

*Includes £1.5m (2016: £1.4m) of amortised finance charges. In 2016 an additional £0.5m of arrangement fees on bilateral loans was charged directly to the Income Statement.

10. TAX

a. Tax charge in income statement

	The Group						The Company	
	2017			2016			2017	2016
	Pre- exceptional items £m	Exceptional items £m	Total £m	Pre- exceptional items £m	Exceptional items £m	Total £m	£m	£m
Current tax:								
UK corporation tax								
- current year	64.9	(7.4)	57.5	74.4	(11.3)	63.1	(12.2)	(10.9)
- prior year	0.4	-	0.4	(3.7)	-	(3.7)	0.2	(0.1)
Total current tax	65.3	(7.4)	57.9	70.7	(11.3)	59.4	(12.0)	(11.0)
Deferred tax:								
- current year	(2.1)	(0.4)	(2.5)	2.6	(7.2)	(4.6)	(0.2)	0.6
- prior year	0.3	-	0.3	3.8	-	3.8	-	(0.2)
Total deferred tax	(1.8)	(0.4)	(2.2)	6.4	(7.2)	(0.8)	(0.2)	0.4
Total tax charge	63.5	(7.8)	55.7	77.1	(18.5)	58.6	(12.2)	(10.6)

During 2016, following a change in legislation, HMRC issued a payment demand for £52.5m of unpaid tax relating to historical tax disputes. As shown in the cash-flow statement, the Group made one-off tax payments of £42.5m. The remaining £10m was settled by allocating against the outstanding amount of £10m, historical tax overpayments that were already held by HMRC.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax for the Group and Company are as follows:

	The Group			
	2017		2016	
	£m	%	£m	%
Profit before tax	289.7		72.7	
Tax at the UK standard corporation tax rate	55.8	19.3	14.5	20.0
Tax effect of expenses / credits, that are not deductible / taxable, in determining taxable profit	1.2	0.4	0.8	1.1
Depreciation of non-qualifying property	2.5	0.9	2.6	3.6
Impairment of goodwill	-	-	42.7	58.7
Impairment of intangibles	-	-	0.5	0.7
Share based payments	0.9	0.3	3.9	5.2
Deferred tax rate change	-	-	(3.1)	(4.3)
Property sales	(5.4)	(1.9)	(3.4)	(4.7)
Prior period adjustment	0.7	0.2	0.1	0.3
Tax expense and effective tax rate for the year	55.7	19.2	58.6	80.6

The tax charge for 2016 includes an exceptional credit of £3.4m arising from the reduction in the rate of UK corporation tax effective on 1 April 2020 from 18% to 17%.

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10. TAX continued

	The Company			
	2017		2016	
	£m	%	£m	%
Profit before tax	249.5		255.0	
Intercompany dividends	(323.7)		(330.4)	
Loss before tax and dividends received	(74.2)		(75.4)	
Tax at the UK standard corporation tax rate	(14.3)	19.3	(15.1)	20.0
Tax effect of expenses / credits, that are not deductible / taxable, in determining taxable profit	(0.1)	0.1	(0.1)	0.1
Impairment of investments	2.0	(2.7)	3.8	(5.0)
Prior period adjustment	0.2	(0.2)	(0.3)	0.4
Share based payments	-	-	1.1	(1.5)
Tax credit and effective tax rate for the year	(12.2)	16.5	(10.6)	14.0

b. Tax charge in the statement of comprehensive income

In addition to the amounts charged to the income statement the following amounts relating to tax have been recognised in other comprehensive income:

	The Group		The Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Deferred tax:				
Items that may not be reclassified:				
Deferred tax rate change on actuarial movement	(17.1)	16.5	-	-
Income tax relating to items not reclassified	(17.1)	16.5	-	-

c. Tax credited directly to equity

In addition to the amount charged to the income statement and other comprehensive income, the following amounts of tax have been recognised in equity:

	The Group		The Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Current tax:				
Excess tax deductions related to share based payments on exercised options	0.4	1.1	0.2	0.4
Deferred tax:				
Share based payments	(0.3)	(2.2)	(0.1)	(0.7)
Tax rate change impact on revaluation reserve	-	0.4	-	-
	0.1	(0.7)	0.1	(0.3)

11. EARNINGS PER SHARE

a. Basic and diluted earnings per share

	2017 £m	2016 £m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	232.8	12.7
Weighted average number of shares for the purposes of basic earnings per share	250,100,896	249,073,416
Dilutive effect of share options on potential ordinary shares	2,468,248	4,029,146
Weighted average number of ordinary shares for the purposes of diluted earnings per share	252,569,144	253,102,562
Earnings per share	93.1p	5.1p
Diluted earnings per share	92.2p	5.0p

978,010 share options (2016: 280,952 share options) had an exercise price in excess of the average market value of the shares during the year. As a result, these share options were excluded from the calculation of diluted earnings per share.

b. Adjusted earnings per share

Adjusted earnings per share is calculated by excluding the effect of exceptional items and amortisation of acquired intangible assets from earnings.

	2017 £m	2016 £m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	232.8	12.7
Exceptional items	40.9	292.0
Amortisation of acquired intangible assets	12.3	166
Tax on exceptional items	(7.8)	(15.1)
Tax on amortisation of acquired intangible assets	(2.1)	(2.9)
Effect of reduction in corporation tax rate on deferred tax	-	(3.4)
Adjusted earnings	276.1	299.9
Adjusted earnings per share	110.4p	120.4p
Adjusted diluted earnings per share	109.3p	118.5p

12. DIVIDENDS

Amounts were recognised in the financial statements as distributions to equity shareholders as follows:

	2017 £m	2016 £m
Final dividend for the year ended 31 December 2016 of 29.75p (2015: 29.25p) per ordinary share	74.7	72.5
Interim dividend for the year ended 31 December 2017 of 15.50p (2016: 15.25p) per ordinary share	38.3	38.0
Total dividend recognised during the year	113.0	110.5

The Directors are recommending a final dividend of 30.5p in respect of the year ended 31 December 2017.

Dividend cover of 2.4x (2016: 2.7x) is calculated by dividing adjusted earnings per share (note 11) of 110.4p (2016: 120.4p) by the total dividend for the year of 46.0p (2016: 45.0p).

There are no income tax consequences in respect of the dividends declared, but not recognised in the financial statements.

The dividends for 2017 and for 2016 were as follows:

	2017 Pence	2016 Pence
Interim paid	15.50	15.25
Final proposed	30.50	29.75
Total dividend for the year	46.00	45.00

The anticipated cash payment in respect of the proposed final dividend is £76.9m (2016: £74.6m).

Distributable reserves

The distributable reserves of the Company approximate to the accumulated profits of £740.5m. When required the Company can receive dividends from its subsidiaries to further increase distributable reserves. In 2017 the Company received £323.7m of dividends from its subsidiaries (2016: £330.4m).

13. GOODWILL

	The Group				
	General Merchanting £m	Contracts £m	Consumer £m	P&H £m	Total £m
At 1 January 2015	466.4	172.9	829.5	348.0	1,816.8
Recognised on acquisitions during the year	1.8	8.1	2.1	10.4	22.4
Impairment charged to the income statement as an exceptional item	-	-	-	(99.0)	(99.0)
At 1 January 2016	468.2	181.0	831.6	259.4	1,740.2
Recognised on acquisitions during the year	1.9	-	-	-	1.9
Transferred between segments	10.4	(10.4)	-	-	-
Impairment charged to the income statement as an exceptional item	-	-	(20.9)	(192.9)	(213.8)
At 1 January 2017	480.5	170.6	810.7	66.5	1,528.3
Recognised on acquisitions during the year	-	7.8	-	3.1	10.9
At 31 December 2017	480.5	178.4	810.7	69.6	1,539.2

The Company has no goodwill.

Cash generating units

The Directors consider that each branch or distribution network in the Group is an individual Cash Generating Unit ("CGU"). Goodwill and intangible assets with indefinite useful lives have been allocated and monitored for impairment testing purposes to groups of individual CGUs within the same brand. The following table analyses goodwill and intangible assets with indefinite useful lives by CGU grouping.

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13. GOODWILL continued

CGU grouping	2017			2016		
	Intangibles with indefinite useful life (note 14)	Goodwill	Total	Intangibles with indefinite useful life (note 14)	Goodwill	Total
	£m	£m	£m	£m	£m	£m
Contracts:						
CCF	-	43.6	43.6	-	43.6	43.6
Keyline	-	100.2	100.2	-	100.2	100.2
BSS Industrial	49.3	27.8	77.1	49.3	27.8	77.1
TF Solutions	-	7.8	7.8	-	-	-
General Merchandising:						
Travis Perkins	-	479.5	479.5	-	479.5	479.5
Consumer:						
Tile Giant	-	5.8	5.8	-	5.8	5.8
Toolstation	-	103.4	103.4	-	103.4	103.4
Wickes	162.5	701.5	864.0	162.5	701.5	864.0
Plumbing & Heating:						
City Plumbing Supplies	-	51.5	51.5	-	51.5	51.5
Plumbnation	-	1.7	1.7	-	1.7	1.7
FPC	-	2.9	2.9	-	2.9	2.9
Underfloor Heating	-	10.4	10.4	-	10.4	10.4
National Shower Spares	-	3.1	3.1	-	-	-
Other	3.5	-	3.5	3.5	-	3.5
	215.3	1,539.2	1,754.5	215.3	1,528.3	1,743.6

Measuring recoverable amounts

The Group tests goodwill and other non-monetary assets with indefinite useful lives for impairment annually or more frequently if there are indications that an impairment may have occurred. The recoverable amounts of the goodwill and other non-monetary assets with indefinite useful lives are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and like-for-like market volume changes which impact sales and therefore cash flow projections and maintenance capital expenditure. Management estimates pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the CGU groupings that are not reflected in the cash flow projections.

At the beginning and end of the financial year the recoverable amount of goodwill and intangible assets with indefinite useful lives in all segments was in excess of their book value. In the absence of a binding agreement to sell the assets and active reference market on which fair value can be determined the recoverable amount of the goodwill and intangible assets with indefinite useful lives was determined according to value in use. The Directors' calculations have shown that no impairments have occurred other than detailed in the table opposite. The key variables applied to the value in use calculations were:

- Cash flow forecasts are risk-adjusted and were derived from the most recent board approved corporate plan updated for changes in current trading conditions
- The sales market volume assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based on historic performance (excluding future investment and enhancements) and the current outlook for both the UK economy and the UK building materials industry. This is viewed as the key operating assumption because the state of the building materials market determines the Directors' approach to margin and cost maintenance.
- A pre-tax discount rate is calculated by reference to the weighted average cost of capital ("WACC") of the Group. For 2017, the pre-tax discount rate ranged between 8.3% and 8.6% (2016: 9.6% to 11.1%), which is not significantly different for any individual CGU or CGU grouping. That is because each CGU operates in the same market, selling the same product types therefore the risk profiles are not dissimilar. The reduction in pre-tax discount rates in 2017 is the result of share price volatility having been elevated in 2016 following the Brexit vote.
- For 2017, cash flows beyond the corporate plan (2021 and beyond) have been determined using a growth rate of 2.0%, which is the average long-term forecast GDP growth outlined in the Economic and Fiscal Outlook report produced by the Office for Budget Responsibility. The Directors believe this is the most appropriate indicator of long-term growth rates that is available (2016 growth rate: 2.1%).

Sensitivity of results to changes in assumptions

Whilst management believe the assumptions are realistic, it is possible that a further impairment would be identified if any of the above key assumptions were changed significantly. For instance factors which could cause an impairment are:

- Significant underperformance relative to the forecast results
- Changes to the way the assets are used or changes to the strategy for the business
- A deterioration in the UK economy

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13. GOODWILL continued

The impairment review calculations are based upon anticipated discounted future cash flows. For most of the CGU groupings, given the prudence already built into the Group's corporate plan and the level of headroom they show, the Directors do not envisage reasonably possible changes to the key operating assumptions that are sufficient to generate a different outcome to the impairment calculations undertaken. However, for the CGU groupings listed in the table below this is not the case as the Directors consider that reasonably possible changes in key assumptions could result in discounted future cash flows being insufficient to allow full recovery of the carrying value of the CGU's goodwill and other intangible assets. Following changes in City Plumbing Supplies in 2017, the CGU is no longer sensitive to impairment.

The Directors have conducted a sensitivity analysis to determine the specific value for each assumption, all other assumptions remaining the same, that would result in the carrying value of goodwill and other intangible assets equalling their recoverable amounts and these are shown in the following tables. The sole market value adjustment is the average annual change incorporated in the corporate plan of each CGU grouping.

CGU Grouping	Headroom	Like-for-like market volume (Average per annum)		Discount rate		Long-term growth rate	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Wickes	£191m	0.5%	(1.9%)	8.6%	10.0%	2.0%	0%

An increase in maintenance capital expenditure of £1m per annum will reduce headroom by £18m.

2016 impairment and sensitivity of results to changes in assumptions and impairment

Sensitivity of results to changes in assumptions

CGU Grouping	Headroom	Like-for-like market volume (Average per annum)		Discount rate		Long-term growth rate	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Wickes	£291m	0.5%	(4.4%)	10.0%	11.3%	2.1%	(1.9%)

An increase in maintenance capital expenditure of £1m per annum will reduce headroom by £13m.

In 2016 the Group recognised an impairment charge in respect of goodwill and other intangible assets of £231.3m and £4.1m in respect of tangible fixed assets. The 2016 impairment charge is analysed as follows:

	Goodwill	Acquired brands	Acquired customer relationships	Tangible fixed assets	Total
	£m	£m	£m	£m	£m
Cash generating unit					
F & P	-	9.9	3.5	0.1	13.5
PTS	-	2.5	-	3.9	6.4
City Plumbing Supplies	188.9	-	-	-	188.9
Solfex	4.0	0.9	-	-	4.9
Tile Giant	18.8	-	-	-	18.8
Bathrooms.com	2.1	0.7	-	0.1	2.9
	213.8	14.0	3.5	4.1	235.4

The only significant CGU where an impairment was recognised in 2016 and where reasonably possible changes to key operating assumptions could have generated a materially different impairment charge is City Plumbing Supplies. The impact on the impairment charge recognised in 2016 of a 1.0% change in each assumption, all other assumptions remaining the same, is shown in the table below.

CGU Grouping	Like-for-like market volume (Average per annum)		Discount rate		Long-term growth rate	
	Change in assumption	Impact	Change in assumption	Impact	Change in assumption	Impact
City Plumbing Supplies	0.5%	£3.0m	1.0%	£6.6m	(1.0%)	£4.5m

14. OTHER INTANGIBLE ASSETS

	The Group				Total £m
	Brand £m	Computer software £m	Customer relationships £m	Assets under construction £m	
Cost or valuation					
At 1 January 2016	306.1	40.8	147.6	14.2	508.7
Additions	-	13.6	-	17.2	30.8
Transfers between categories	-	7.9	-	(7.9)	-
Disposals	-	(0.1)	-	-	(0.1)
Reclassifications from tangible fixed assets	-	5.2	-	(2.8)	2.4
At 1 January 2017	306.1	67.4	147.6	20.7	541.8
Additions	-	14.3	-	33.8	48.1
Transfers between categories	-	9.0	-	(9.0)	-
Reclassifications from current assets	-	3.1	-	-	3.1
At 31 December 2017	306.1	93.8	147.6	45.5	593.0
Amortisation					
At 1 January 2016	47.2	15.5	74.3	-	137.0
Charged to operating profit in the year on acquired intangibles	2.4	1.0	13.2	-	16.6
Charged to operating profit in the year on internally generated intangibles	-	7.5	-	-	7.5
Reclassifications from tangible fixed assets	-	2.4	-	-	2.4
Impairment charged to the income statement as an exceptional item	14.0	-	3.5	-	17.5
At 1 January 2017	63.6	26.4	91.0	-	181.0
Charged to operating profit in the year on acquired intangibles	2.1	1.1	9.1	-	12.3
Charged to operating profit in the year on internally generated intangibles	-	12.6	-	-	12.6
At 31 December 2017	65.7	40.1	100.1	-	205.9
Net book value					
At 31 December 2017	240.4	53.7	47.5	45.5	387.1
At 31 December 2016	242.5	41.0	56.6	20.7	360.8
				2017 £m	2016 £m
Cost of brands with an indefinite useful life (note 13) (net of impairment losses)				215.3	215.3
Cost of brands being amortised (net of impairment losses)				37.7	37.7
				253.0	253.0

Where a brand, which is a leading brand in its sector and has significant growth prospects, has not been established for a significant period of time, the Directors do not have sufficient evidence to support a contention that it will have an indefinite useful life. Accordingly for Toolstation, PlumbNation, Primaflow, Underfloor Heating and certain product related brands the Directors have decided it is appropriate to amortise their brand costs over their estimated useful lives. The useful lives of those brands being amortised range from 10 to 20 years with the remaining lives ranging from 1 to 11 years.

The Directors consider that the other brands, which are also all leading brands in their sectors with significant histories and significant growth prospects, have an indefinite useful life. They are reviewed annually for impairment; details of impairment testing and the impairments recognised in 2016 are shown in note 13. Acquired customer relationships are amortised over their estimated useful lives, which range from 5 to 15 years. The remaining lives of amortised customer relationships range from 1 to 7 years. The Company has no intangible assets.

Assets under construction consist of software being developed for use by the Group, which is not yet ready to be used. No amortisation is charged on assets under construction.

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15. PROPERTY, PLANT AND EQUIPMENT

	The Group					The Company
	Freehold £m	Long leases £m	Short leases £m	Plant and equipment £m	Total £m	Plant and equipment £m
Cost or deemed cost						
At 1 January 2016	453.8	37.4	162.5	706.4	1,360.1	0.7
Additions	68.5	0.4	27.0	107.9	203.8	0.1
Disposals	(24.0)	-	(6.0)	(39.1)	(69.1)	-
Reclassifications to intangible fixed assets	(0.8)	-	0.8	(2.4)	(2.4)	-
At 1 January 2017	497.5	37.8	184.3	772.8	1,492.4	0.8
Additions	63.9	-	25.3	93.1	182.3	0.2
Additions from acquired business	0.8	-	-	0.3	1.1	-
Disposals	(78.0)	(2.3)	(6.1)	(34.2)	(120.6)	(0.7)
Reclassifications from current assets	-	-	-	10.6	10.6	-
At 31 December 2017	484.2	35.5	203.5	842.6	1,565.8	0.3
Accumulated depreciation						
At 1 January 2016	47.7	13.7	69.6	380.0	511.0	0.6
Charged this year	6.0	0.7	12.5	78.4	97.6	0.1
Impairment charged to the income statement as an exceptional item	-	-	-	4.1	4.1	-
Disposals	(7.8)	-	(1.8)	(37.8)	(47.4)	-
Reclassifications to intangible fixed assets	-	-	-	(2.4)	(2.4)	-
At 1 January 2017	45.9	14.4	80.3	422.3	562.9	0.7
Charged this year	5.0	1.0	11.9	84.1	102.0	0.1
Disposals	(3.5)	(1.8)	(1.4)	(29.0)	(35.7)	(0.7)
Reclassification from current assets	-	-	-	4.6	4.6	-
At 31 December 2017	47.4	13.6	90.8	482.0	633.8	0.1
Net book value						
At 31 December 2017	436.8	21.9	112.7	360.6	932.0	0.2
At 31 December 2016	451.6	23.4	104.0	350.5	929.5	0.1

The cost element of the fixed assets carrying value is analysed as follows:

	The Group					The Company
	Freehold £m	Long leases £m	Short leases £m	Plant and equipment £m	Total £m	Total £m
At deemed cost	20.8	3.9	-	-	24.7	-
At cost	463.4	31.6	203.5	842.6	1,541.1	0.3
	484.2	35.5	203.5	842.6	1,565.8	0.3

Included within freehold property is land with a value of £176m (2016: £149m) which is not depreciated. No assets are pledged as security for the Group's liabilities.

The carrying amount of assets held under finance leases is analysed as follows:

	The Group				The Company
	Long leases £m	Short leases £m	Plant and equipment £m	Total £m	Total £m
2017	3.7	0.6	18.0	22.3	-
2016	0.8	5.0	14.1	19.9	-

16. INVESTMENTS

a. Interest in associates

	The Group		The Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Equity investment	1.2	1.2	1.2	1.2
Loan facility	27.0	15.7	27.0	15.7
Dividends received	(0.3)	-	-	-
Share of losses	(7.6)	(5.4)	-	-
	20.3	11.5	28.2	16.9

Travis Perkins plc holds a 49% investment in The Mosaic Tile Company Limited, a 49% investment in Toriga Limited and a 49% investment in Toolstation Europe Limited. There is no impairment in the carrying value of the investment in and loan to Toolstation Europe because the future profitability forecasts fully support the current carrying value.

The Group's share of associates' assets, liabilities, income and expenses are as follows:

	The Group	
	2017	2016
	£m	£m
Current assets	20.6	12.6
Current liabilities	(10.9)	(8.1)
Non-current assets	3.8	1.8
Non-current liabilities	(1.3)	(0.6)
Net assets	12.2	5.7
Group share of net assets (49%)	6.0	2.8
Goodwill	14.3	8.7
Carrying amount of investment in associates	20.3	11.5
Income	40.5	30.3
Expense	(45.1)	(32.8)
Net expense of equity accounted investments	(4.6)	(2.5)
Group share of revenue (49%)	19.9	14.9
Group share of net expense (49%)	(22.1)	(16.0)

The reconciliation of investments in associates is given below:

	The Group	
	2017	2016
	£m	£m
At 1 January	11.5	7.9
Additions to investments	11.3	4.7
Dividends received	(0.3)	-
Share of losses	(2.2)	(1.1)
At 31 December	20.3	11.5

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16. INVESTMENTS continued

b. Investment in subsidiaries

	The Company	
	2017 £m	2016 £m
Cost		
At 1 January	3,855.8	3,714.9
Additions	19.4	140.9
At 31 December	3,875.2	3,855.8
Provision for impairment	(60.9)	(50.4)
Net book value at 31 December	3,814.3	3,805.4

During the year the Group acquired 75% of the issued share capital of National Shower Spares Limited and 77.5% of the issued share capital of TFS Holdings Limited, see note 28 for further details.

In 2016 the Group recognised an impairment charge in respect of some plumbing and heating businesses (note 13) and its tile businesses. The associated impairment was recognised on the Company's investments.

During 2016 100% of the issued share capital of Wickes Building Supplies Limited was transferred to the Company from Wickes Holdings Limited, a subsidiary undertaking, for its carrying value of £125.0m.

A full listing of all related undertakings is provided in note 38.

c. Investments

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Available for sale investments at fair value:				
Investments in property entities	3.7	3.4	-	-
Shares held in invested entities	1.0	1.0	1.0	1.0
Loans receivable at amortised cost:				
Loans to property entities	1.3	1.3	-	-
Loans to invested entities	3.5	3.4	3.5	3.4
	9.5	9.1	4.5	4.4

The investments in property entities represent minority holdings in property owning entities that acquired properties from the Group in 2006 and 2015. These investments present the Group with an opportunity to generate returns through both income and capital gains. The Directors consider that the carrying amount of these investments approximates to their fair value. The Group provides loans to one of the property entities totalling £1.0m and charges interest at rates of between 10% and 12%.

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Current				
Trade receivables	764.0	709.2	-	-
Allowance for doubtful debts	(11.0)	(21.6)	-	-
	753.0	687.6	-	-
Amounts owed by subsidiaries	-	-	407.9	387.6
Other receivables	291.4	290.5	-	-
Prepayments and accrued income	85.8	81.2	-	-
	1,130.2	1,059.3	407.9	387.6
Non current prepayments	30.4	8.3	-	-
Trade and other receivables	1,160.6	1,067.6	407.9	387.6

The Group's trade and other receivables at the balance sheet date comprise principally of amounts receivable from the sale of goods, together with amounts due in respect of rebates and sundry prepayments. The Directors consider the only class of asset containing significant credit risk is trade receivables. The average credit term taken for sales of goods is 57 days (2016: 57 days). The allowance for doubtful debts is estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Directors consider the carrying amount of trade and other receivables approximates to their fair values. The business has provided fully for all receivables outstanding for more than 90 days beyond agreed terms. Trade receivables which have been outstanding for less than 90 days and that are not considered recoverable are specifically provided for. No interest is charged on the trade receivable from the date of the invoice until the date the invoice is classified as overdue according to the trading terms agreed between the Group and the customer. Thereafter, the Group retains the right to charge interest at between 2% to 4% per annum above the clearing bank base rate on the outstanding balance.

Movement in the allowance for doubtful debts.

	The Group	
	2017 £m	2016 £m
At 1 January	21.6	23.9
Amounts written off during the year	(22.5)	(14.5)
Increase in allowance recognised in the income statement	11.9	12.2
At 31 December	11.0	21.6

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable that may have occurred between the date credit was initially granted and the reporting date. The concentration of credit risk is limited due to the customer base being large. Accordingly, the Directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

Included in the Group's trade receivable balance are debtors unprovided against with a carrying amount of £46.2m (2016: £44.3m) which are past due at the reporting date for which the Group has not identified a significant change in credit quality and as such, the Group considers that the amounts are still recoverable and therefore there is no allowance for doubtful debts. Except for some instances of personal guarantees the Group does not hold any collateral over these balances.

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17. TRADE AND OTHER RECEIVABLES continued

Ageing of past due but not impaired receivables.

Days overdue	The Group	
	2017 £m	2016 £m
0 - 30 days	26.5	27.8
31 - 60 days	11.4	11.1
61 - 90 days	8.3	5.4
	46.2	44.3

Included in the allowance for doubtful debts are specific trade receivables with a balance of £2.0m (2016: £1.1m) where the customer has been placed into liquidation. This includes amounts in respect of uninsured receivables from Carillion plc. The impairment represents the difference between the carrying amount of the specific trade receivable and the amount it is anticipated will be recovered.

None of the Company's debts are overdue. The Directors do not consider there to be any significant credit risk, as the majority of the debt is due from subsidiaries.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and cash deposits with an original maturity of three months or less held by the Group and Company, net of overdrafts. The carrying amount of these assets approximates to their fair value.

19. SHARE CAPITAL

	The Group and the Company Issued and fully paid	
	No.	£m
Ordinary shares of 10p		
At 1 January 2016	249,814,722	25.0
Allotted under share option schemes	989,958	0.1
At 1 January 2017	250,804,680	25.1
Allotted under share option schemes	1,190,028	0.1
At 31 December 2017	251,994,708	25.2

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

20. OWN SHARES

	The Group and the Company	
	2017 No.	2016 No.
At 1 January	729,680	1,318,532
Acquired	1,295,639	-
Re-issued	(808,988)	(588,852)
At 31 December	1,216,331	729,680

None of the own shares have been allocated to grants of executive options. The own shares are stated at cost and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes. All rights attaching to own shares are suspended until the shares are reissued.

21. RESERVES

Details of all movements in reserves for both the Group and Company are shown in their respective Statement of Changes in Equity. A description of the nature and purpose of each reserve is given below:

- The merger reserve represents the premium on equity instruments issued as consideration for the acquisition of BSS
- The revaluation reserve represents the revaluation surplus that arose from property revaluations in 1999 and prior years
- The own shares reserve represents the cost of shares purchased in the market and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes
- The other reserve represents anticipated gross outflow on the potential exercise of the put options held over the non-controlled shareholdings in TF Solution and National Shower Spares.

The cumulative total of goodwill written off directly to reserves for acquisitions from December 1989 to December 1998 is £40.1m. The aggregate information for the accounting periods prior to this period is not available.

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22. BORROWINGS

A summary of the Group's objectives, policies procedures and strategies with regard to financial instruments and capital management can be found in the Strategic Report on pages 27 to 30. At 31 December 2017 all borrowings were denominated in Sterling (2016: Sterling).

a. Summary

	The Group		The Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Liability to pension scheme	33.7	34.5	-	-
Sterling bonds	562.6	566.0	562.6	566.0
Finance leases (note 22d)	27.5	34.5	-	-
Finance charges netted off debt	(5.5)	(7.0)	(5.5)	(7.0)
	618.3	628.0	557.1	559.0
Current liabilities	6.2	6.9	-	-
Non-current liabilities	612.1	621.1	557.1	559.0
	618.3	628.0	557.1	559.0

b. Analysis of other borrowings

	The Group	
	2017	2016
	£m	£m
Borrowings repayable		
On demand or within one year	6.2	6.9
More than one year, but not more than five years	16.7	22.3
More than five years	600.9	605.8
Gross borrowings	623.8	635.0
Unamortised fees	(5.5)	(7.0)
	618.3	628.0

	The Company	
	2017	2016
	£m	£m
Borrowings repayable:		
Gross borrowings repayable in more than five years	562.6	566.0
Unamortised fees	(5.5)	(7.0)
	557.1	559.0

C. Facilities

At 31 December 2017, the following facilities were available:

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Drawn facilities:				
£250m sterling bond	262.6	266.0	262.6	266.0
£300m sterling bond	300.0	300.0	300.0	300.0
	562.6	566.0	562.6	566.0
Undrawn facilities				
5 year committed revolving credit facility	550.0	550.0	550.0	550.0
Bank overdrafts	30.0	30.0	30.0	30.0
	580.0	580.0	580.0	580.0

The Group's £550m banking agreement with a syndicate of banks runs until December 2020. The disclosures in note 22(c) do not include finance leases, loan notes, or the effect of finance charges netted off bank debt.

d. Obligations under finance leases

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts payable under finance leases:				
Within one year	7.0	7.2	6.2	6.9
In the second to fifth years inclusive	18.4	19.8	16.7	21.0
After five years	7.8	17.4	4.6	6.6
	33.2	44.4	27.5	34.5
Less: future finance charges	(5.7)	(9.9)	-	-
Present value of lease obligations	27.5	34.5	27.5	34.5
Less: Amount due for settlement within one year (shown under current liabilities)			(6.2)	(6.9)
Amount due for settlement after one year			21.3	27.6

The average loan term for properties held under finance leases is 49 years (2016: 48 years) and the average borrowing rate is determined at the inception of the lease is 9.0%. Interest rates are fixed at the contract date. All lease obligations, which are denominated in sterling, are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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22. BORROWINGS continued

e. Interest

The weighted average interest rates received on assets and paid on liabilities were as follows:

	2017 %	2016 %
Assets:		
Short term deposits	0.3	0.5
Liabilities:		
Unsecured senior notes	-	5.9
£250m sterling bond	3.0	3.0
£300m sterling bond	4.5	4.5
Bank loans and overdrafts	1.1	1.3

In October 2016, to manage the risk of interest rate rises, the Group exited its fixed-to-floating swap contracts which had swapped the £250m principal of the sterling bond maturing in 2021 into floating rates.

The £300m sterling bond issued in May 2016 is maintained at a fixed coupon of 4.5%.

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date. All assets and liabilities reprice within six months.

	The Group and the Company			
	2017		2016	
	Effective interest rate	£m	Effective interest rate	£m
Assets:				
Short term deposits	0.52%	215.0	0.39%	184.5
Liabilities:				
£250m sterling bond	4.38%	262.6	4.38%	266.0
£300m sterling bond	4.5%	300.0	4.5%	300.0
		562.6		566.0

f. Fair values

For both the Group and the Company the fair values of financial assets and liabilities have been calculated by discounting expected cash flows at prevailing rates at 31 December. There were no significant differences between book and fair values on this basis and therefore no further information is disclosed.

Details of the fair values of derivatives are given in note 23c.

g. Guarantees and security

There are cross guarantees on the overdrafts between Group companies.

Travis Perkins Trading Company Limited, Wickes Building Supplies Limited, Travis Perkins (Properties) Limited, Keyline Builders Merchants Limited and Travis Perkins Plumbing and Heating LLP are guarantors of the following facilities advanced to Travis Perkins plc:

- £250m sterling bond
- £300m sterling bond
- £550m revolving credit facility
- Currency derivatives (note 23)

The Group companies have entered into other guarantee and counter-indemnity arrangements in respect of guarantees issued in favour of Group companies by several banks amounting to approximately £22m (2016: £22m).

23. FINANCIAL INSTRUMENTS

a. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

b. The carrying value of categories of financial instruments

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Financial assets:				
Designated as fair value through profit and loss (FVTPL)	-	1.7	-	1.7
Loans and receivables (including cash and cash equivalents)	1,326.0	1,228.6	230.3	185.0
Available-for-sale	4.7	4.4	1.0	1.0
	1,330.7	1,234.7	231.3	187.7
Financial liabilities:				
Designated as fair value through profit and loss (FVTPL)	1.2	-	1.2	-
Borrowings (note 22a)	618.3	628.0	557.1	559.0
Deferred consideration at fair value through equity	4.9	-	4.9	-
Trade and other payables at amortised cost (note 26)	1,241.9	1,124.9	20.4	18.4
	1,866.3	1,752.9	583.6	577.4

Loans and receivables exclude prepayments of £116.2m (2016: £89.5m). Trade and other payables exclude taxation and social security and accruals and deferred income totalling £220.4m (2016: £223.4m). The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group has considered the impact of credit risk on its financial instruments and because the counterparties are banks with strong credit ratings considers its impact to be immaterial.

c. Fair value of financial instruments

Financial assets and financial liabilities designated as FVTPL comprise foreign currency forward contracts and are measured using quoted forward exchange rates.

The following table provides an analysis of 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)

23. FINANCIAL INSTRUMENTS continued

There were no transfers between levels during the year.

	The Group		The Company	
	2017	2016	2017	2016
	£m	£m	£m	£m
Included in current assets				
Level 2				
Foreign currency forward contracts at fair value through profit and loss	-	1.7	-	1.7
Included in liabilities				
Level 2				
Foreign currency forward contracts at fair value through profit and loss	1.2	-	1.2	-
Level 3				
Deferred consideration at fair value through equity	4.9	-	4.9	-
	6.1	-	6.1	-

d. Interest risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts when appropriate. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles. At 31 December 2017 no interest rate risks were hedged (2016: none).

e. Currency forward contracts

The Group acquires goods for sale from overseas, which when not denominated in sterling are paid for principally in US dollars. The Group has entered into forward foreign exchange contracts (all of which are less than one year in duration) to buy US dollars to hedge the exchange risk arising from these anticipated future purchases. At the balance sheet date the total notional value of contracts to which the Group was committed was US\$75.8 m (2016: US\$63.0m). The fair value of these derivatives was £1.2m liability (2016: £1.7m asset). These contracts are not designated cash flow hedges and accordingly the fair value movement has been reflected in the income statement.

f. Liquidity analysis

The following table details the Group's liquidity analysis for its derivative financial instruments and other financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis and the undiscounted gross cash flows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

	2017				Total £m
	0-1 year £m	1-2 years £m	2-5 years £m	5+ years £m	
Total gross settled - foreign exchange forward contracts	(57.1)	-	-	-	(57.1)
Net settled					
Deferred consideration at fair value through equity	-	(4.9)	-	-	(4.9)
Total derivative financial instruments	(57.1)	(4.9)	-	-	(62.0)
Net settled:					
Borrowings	-	-	-	(596.3)	(596.3)
Other financial liabilities (note 26)	(1,241.9)	-	-	-	(1,241.9)
Finance leases (note 22d)	(7.0)	(4.4)	(14.0)	(7.8)	(33.2)
Total financial instruments	(1,306.0)	(9.3)	(14.0)	(604.1)	(1,933.4)

	2016				Total £m
	0-1 year £m	1-2 years £m	2-5 years £m	5+ years £m	
Total gross settled and total derivative financial instruments - foreign exchange forward contracts	(49.5)	-	-	-	(49.5)
Net settled:					
Borrowings	-	-	-	(600.6)	(600.6)
Other financial liabilities (note 26)	(1,124.9)	-	-	-	(1,124.9)
Finance leases (note 22d)	(7.2)	(5.5)	(14.3)	(17.4)	(44.4)
Total financial instruments	(1,181.6)	(5.5)	(14.3)	(618.0)	(1,819.4)

g. Interest rate sensitivity analysis

A sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to key management personnel.

At the 31 December 2017 the Group had no floating rate liabilities. There was £215m on short term deposit at 31 December 2017.

A 1.0% increase / decrease in interest rates, with all other variables held constant, would have the following impact on:

- Profit before taxation for the year ended 31 December 2017 would have increased / decreased by £2.2m (2016: increased / decreased by £1.8m) due to the short term deposits;
- Net equity would have increased / decreased by £1.8m (2016: increased / decreased by £1.5m)

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24. PROVISIONS

	The Group				
	Property £m	Insurance £m	Exceptional £m	Other £m	Total £m
At 1 January 2016	13.1	28.4	4.2	0.2	45.9
Additional provisions charged to the income statement	7.4	9.4	56.6	-	73.4
Utilisation of provisions	(4.4)	(8.9)	(27.9)	(0.1)	(41.3)
Unwinding of discount	0.2	-	-	-	0.2
At 1 January 2017	16.3	28.9	32.9	0.1	78.2
(Release) / charge to income statement	(0.9)	7.5	-	-	6.6
Charge to income statement - exceptional	17.8	-	11.6	-	29.4
Utilisation of provisions	(5.4)	(7.4)	(32.3)	(0.1)	(45.2)
Unwinding of discount	0.7	-	-	-	0.7
At 31 December 2017	28.5	29.0	12.2	-	69.7
Included in current liabilities	11.4	29.0	12.2	-	52.6
Included in non-current liabilities	17.1	-	-	-	17.1
	28.5	29.0	12.2	-	69.7

The Group has a number of vacant and partly sublet leasehold properties. Where necessary provision has been made for the residual lease commitments after taking into account existing and anticipated subtenant arrangements.

As set out in note 5, in 2017 the Group recognised an exceptional charge relating to the transformation of its Plumbing & Heating division. The exceptional provision relates to the exceptional charge, excluding property and inventory amounts. In 2016, the Group established exceptional provisions as a result of reorganising parts of its branch and distribution networks.

Should a provision ultimately prove to be unnecessary then it is credited back into the income statement. Where the provision was originally established as an exceptional item, any release is shown as an exceptional credit.

It is Group policy to insure itself using policies with a high excess against claims arising in respect of damage to assets, or due to employers or public liability claims. The nature of insurance claims means they may take some time to be settled. The insurance claims provision represents management's best estimate, based upon external advice of the value of outstanding claims against it where the final settlement date is uncertain.

The following table details the Group's liquidity analysis of its provisions. The table has been drawn up based on the undiscounted net cash outflows.

	0-1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
2017					
Property	11.4	5.0	10.6	1.9	28.9
Insurance	29.0	-	-	-	29.0
Exceptional	12.2	-	-	-	12.2
	52.6	5.0	10.6	1.9	70.1
2016					
Property	10.0	2.0	3.0	3.0	18.0
Insurance	28.9	-	-	-	28.9
Exceptional	18.3	4.4	8.2	3.2	34.1
Other	0.1	-	-	-	0.1
	57.3	6.4	11.2	6.2	81.1

The Company has no provisions.

25. DEFERRED TAX

The following are the major deferred tax liabilities and assets fully recognised by the Group and movements thereon during the current and prior reporting periods.

(Asset) / liability	The Group						
	At 1 Jan 2016	Recognised in income	Recognised in other comprehensive income	At 1 Jan 2017	Recognised in income	Recognised in other comprehensive income	At 31 Dec 2017
	£m	£m	£m	£m	£m	£m	£m
Capital allowances	2.6	(1.2)	-	1.4	(0.7)	-	0.7
Revaluation of property	8.0	-	(0.4)	7.6	-	-	7.6
Share-based payments	(8.5)	2.1	2.2	(4.2)	0.1	0.3	(3.8)
Provisions	0.3	5.6	-	5.9	(0.4)	-	5.5
Property assets acquired in business combinations	7.5	(0.9)	-	6.6	(0.5)	-	6.1
Brand	61.2	(8.6)	-	52.6	(2.3)	-	50.3
Pension scheme asset	(9.8)	2.2	(16.5)	(24.1)	1.6	17.1	(5.4)
Deferred tax	61.3	(0.8)	(14.7)	45.8	(2.2)	17.4	61.0

At the balance sheet date the Group had unused capital losses of £40.6m (2016: £43.0m) available for offset against future capital profits. No deferred tax asset has been recognised because it is improbable that future taxable profits will be available against which the Group can utilise the losses. £38.7m arose prior to the Group acquiring Wickes the remainder arose in PTS in 2015. Those businesses own no assets that may generate a future capital gain against which the losses can be offset.

Other than disclosed above, no deferred tax assets and liabilities have been offset.

(Asset) / liability	The Company						
	At 1 Jan 2016	Recognised in income	Recognised in other comprehensive income	At 1 Jan 2017	Recognised in income	Recognised in other comprehensive income	At 31 Dec 2017
	£m	£m	£m	£m	£m	£m	£m
Share-based payments	(2.8)	0.6	0.7	(1.5)	(0.1)	0.1	(1.5)
Other timing differences	(0.1)	(0.2)	-	(0.3)	(0.1)	-	(0.4)
	(2.9)	0.4	0.7	(1.8)	(0.2)	0.1	(1.9)

26. OTHER FINANCIAL LIABILITIES

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade payables	1,065.9	940.2	-	-
Other taxation and social security	54.6	71.8	-	-
Other payables	176.0	184.7	20.0	18.4
Accruals and deferred income	157.1	151.6	0.6	0.7
Trade and other payables	1,453.6	1,348.3	20.6	19.1

The Group

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The Company

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

27. PENSION ARRANGEMENTS

Defined benefit schemes

The Group operates four final salary schemes being The Travis Perkins Pensions and Dependents' Benefit Scheme ("the TP DB scheme") and the immaterial Platinum pension scheme ("the TP Schemes") and the "BSS Schemes" being the BSS Defined Benefit Scheme ("the BSS DB Scheme") and the immaterial BSS Ireland Defined Benefit Scheme. All defined benefit schemes are closed to new members. The TP scheme is for the majority of members a 1/60th scheme. The assets of the TP DB schemes are held separately from those of the Group under the control of the schemes' trustees. Employees are entitled to start drawing a pension, based on their membership of a scheme, on their normal retirement date. If employees choose to retire early and draw their pension, or late and defer drawing their pension, then the amount they receive is scaled down or up accordingly.

The TP schemes are funded by contributions from Group companies and employees. Contributions are paid to the Trustees on the basis of advice from an independent professionally qualified actuary who carries out a valuation every three years. A full actuarial valuation of the TP DB scheme was carried out on 30 September 2014. The IAS 19 valuation has been based upon the results of the 30 September 2014 valuation, and then updated to 31 December 2017 by a qualified actuary. The present values of the defined benefit obligations, the related current service costs and the past service costs for the scheme were measured using the projected unit method.

The assets of the BSS schemes are held separately from those of the Group in funds under the control of the schemes' trustees. The most recent actuarial valuations of the BSS schemes' assets and the present value of the defined benefit obligations were carried out at 30 September 2014. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit method with a control period equal to the future working lifetime of the active members.

In June 2010, an agreement was reached with the Trustees of the TP DB scheme to fund £34.7m of the funding deficit using a Group-controlled special purpose vehicle ("SPV"). The pension scheme is entitled to receive the income of the SPV for a period of up to 20 years, subject to funding levels. This income is backed by the security of 16 Travis Perkins freehold properties. As the SPV is consolidated into the Travis Perkins plc Group accounts, advantage has been taken of Regulation 7 of The Partnership (Accounts) Regulations 2008 and accounts for the SPV will neither be audited or filed.

The TP schemes and the BSS schemes expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. A summary of the risks and the management of those risks is given below.

Investment risk	The present value of the defined benefit liabilities of the schemes is calculated using a discount rate predetermined by reference to high quality corporate bond yields. If the return on scheme assets is below this rate it may create a plan deficit. Following a review of the investment strategy, a derisking exercise is currently being undertaken with a higher proportion of the largest two pension schemes' assets being invested in gilts and corporate bonds ('liability driven investments'). Currently the schemes have investments in equity securities, secured finance assets, bonds, debt instruments and real estate. Due to the long term nature of the scheme liabilities the trustees of the pension funds previously considered it appropriate that a reasonable portion of the scheme assets should be invested in equities.
Interest risk	A decrease in corporate bond yields will increase the schemes' liabilities, but the effect will be partially offset by an increase in the return on the schemes' bond and gilt assets.
Longevity risk	The present value of the liabilities of the schemes is calculated by reference to the best estimate of mortality of pension scheme members both during and after their employment. An increase in the life expectancy of the schemes' members will increase the schemes' liabilities.
Salary risk	The present value of the defined benefit schemes' liabilities is calculated by reference to the future salaries of scheme members. As such an increase in salaries of scheme members will increase the schemes' liabilities.

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Company. The scheme assets do not include any of the Group's own financial instruments.

All fair values are provided by the fund managers. Where available, the fair values are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). Unlisted investments (e.g. private equity) are included at values provided by the fund manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs such as yield curves.

The liability driven investments, which comprise fixed interest and index-linked gilts, futures, interest and inflation rate swaps, repurchase agreements and liquidity funds, are all daily priced and traded.

27. PENSION ARRANGEMENTS continued

a. Major assumptions used by the schemes' actuaries at the balance sheet date:

	At 31 December 2017	At 31 December 2016
Rate of increase in pensionable salaries	2.50%	2.65%
Rate of increase of pensions in payment post 2006	2.20%	2.25%
Rate of increase of pensions in payment 1997 - 2006	3.15%	3.30%
Discount rate	2.55%	2.65%
Inflation assumption - RPI	3.25%	3.40%
Inflation assumption - CPI	2.25%	2.40%

The methodology for setting the discount rate has been revised to better reflect the credit risk of the defined benefit schemes. The yield curve, which includes bonds with an average AA rating, now excludes bonds which are sub-sovereign or issued by universities. We estimate that the change in methodology increased the discount rate by 0.1%. The sensitivity of the defined benefit schemes to changes in the discount rate are disclosed in note 27(k).

In respect of longevity, the valuation adopts the S2PA year of birth tables with improvements in life expectancy to continue in the medium term, with base year appropriate to the member's date of birth. This results in the following life expectancies at illustrative ages:

Weighted average life expectancy for mortality tables used to determine pension liabilities at 31 December 2017:

	Male Years	Female Years
Member age 65 (current life expectancy) - TP Schemes	22.0	24.7
Member age 45 (life expectancy on reaching age 65) - TP Schemes	23.3	26.2
Member age 65 (current life expectancy) - BSS Schemes	22.0	23.8
Member age 45 (life expectancy on reaching age 65) - BSS Schemes	23.3	25.3

b. Amounts recognised in income in respect of the defined benefit schemes

	2017		2016	
	TP Schemes £m	BSS Schemes £m	Group £m	Group £m
Current service costs charged to operating profit in the income statement	(7.0)	(2.6)	(9.6)	(8.7)
Past service gains from settlements				-
Net interest expense	(1.5)	(1.6)	(3.1)	(1.7)
Total pension charge	(8.5)	(4.2)	(12.7)	(10.4)

The Directors have agreed with the Schemes' Trustees to pay £10m more than ongoing contributions in 2018 to reduce the deficit in the BSS schemes. In addition the Company has agreed to pay voluntary excess contribution of £1.5m to the BSS schemes and £2.3m to the TP DB schemes. These contributions can be stopped at any time with one month's notice at the Company's sole discretion. In addition, the triennial valuation of the BSS DB Scheme and TP DB Scheme, as at 30 September 2017 are currently being undertaken and will be finalised in 2018. This could change contribution rates, but in the absence of any change in 2018, the excess of funding over the on-going service contributions is expected to be between £10.0m and £13.8m in total for the Group.

Note 5 shows where pension costs have been charged in the income statement. Actuarial gains and losses have been included in the Statement of Comprehensive Income.

C. The amount included in the balance sheet arising from the Group's obligations in respect of all of its defined benefit schemes and the movements during the year (continued)

	2017			2016		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
Fair value of plan assets	1,128.9	324.3	1,453.2	1,076.9	291.5	1,368.4
Present value of defined benefit obligations	(1,122.3)	(350.0)	(1,472.3)	(1,138.6)	(357.1)	(1,495.7)
Gross actuarial surplus / (deficit)	6.6	(25.7)	(19.1)	(61.7)	(65.6)	(127.3)
Additional liability recognised for minimum funding requirements	-	(9.2)	(9.2)	-	-	-
Gross pension asset / (liability) at 31 December	6.6	(34.9)	(28.3)	(61.7)	(65.6)	(127.3)
Deferred tax asset			5.4			24.1
Net pension liability at 31 December			(22.9)			(103.2)

In finalising the 30 September 2014 actuarial valuations the Trustees of the two material defined benefit schemes reached agreement with the Company that in order to eliminate the funding shortfalls at that date the Company would pay recovery plan contributions to each scheme. Amounts receivable by each scheme from 1 January 2018 are as follows:

- TP DB Scheme – nil
- BSS DB Scheme - £10.0m p.a. payable in monthly instalments until 1 September 2021

The Company has agreed to make voluntary recovery plan contributions of £2.3m per annum to the TP DB Scheme and £1.5m per annum to the BSS scheme both paid in equal monthly instalments until September 2023. These contributions are not contractual and can be stopped at any time with one month's notice at the Company's sole discretion.

	2017			2016		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
Gross pension (liability) / asset at 1 January	(61.7)	(65.6)	(127.3)	34.4	(35.5)	(1.1)
Restriction of asset recognised	-	-	-	(34.4)	-	(34.4)
Additional liability recognised for minimum funding requirements	-	-	-	(0.2)	(16.5)	(16.7)
	(61.7)	(65.6)	(127.3)	(0.2)	(52.0)	(52.2)
Current service costs and administration expenses charged to the income statement	(7.0)	(2.6)	(9.6)	(6.7)	(2.0)	(8.7)
Net interest expense	(1.5)	(1.6)	(3.1)	-	(1.7)	(1.7)
Contributions from sponsoring companies	7.0	13.9	20.9	8.3	13.9	22.2
Return on plan assets (excluding amounts included in net interest)	56.7	24.2	80.9	154.5	29.8	184.3
Actuarial gain arising from changes in demographic assumptions	20.2	6.6	26.8	-	4.8	4.8
Actuarial (loss) / gain arising from changes in financial assumptions	(2.2)	1.1	(1.1)	(255.5)	(80.1)	(335.6)
Actuarial (loss) / gain arising from experience adjustments	(4.9)	(1.7)	(6.6)	1.9	4.5	6.4
(Increase) / reduction in minimum funding requirement liability	-	(9.2)	(9.2)	36.0	17.2	53.2
Gross pension asset / (liability) at 31 December	6.6	(34.9)	(28.3)	(61.7)	(65.6)	(127.3)

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27. PENSION ARRANGEMENTS continued

d. Major categories and fair value of scheme assets

The major categories and fair values of scheme assets at the end of the reporting period for each category are as follows:

	At 31 December 2017		At 31 December 2016	
	TP Schemes £m	BSS Schemes £m	TP Schemes £m	BSS Schemes £m
Level 1:				
Repurchase agreements	(288.3)	(88.9)	-	-
Cash	1.3	2.5	3.6	4.1
Level 2:				
Poolied investment vehicles				
Equities	123.5	39.5	555.0	184.5
Secured finance	106.7	28.2		
Corporate bonds	336.3	99.3	131.7	24.3
Diversified growth fund	115.1	39.6	130.1	73.4
Liability driven investments	620.3	184.2	108.1	-
Level 3:				
Property	73.1	19.9	46.7	0.5
SPV asset	15.3	-	18.5	-
Other	25.6	-	83.2	4.7
	1,128.9	324.3	1076.9	291.5

e. Actual return on scheme assets

	2017		2016	
	£m		£m	
TP Scheme	84.8	7.9%	189.3	20.7%
BSS Schemes	31.8	10.9%	39.3	15.9%

f. Movements in the fair value of scheme assets in the current period

	2017			2016		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January	1,076.9	291.5	1,368.4	913.8	247.5	1,161.3
Interest on scheme assets	28.1	7.6	35.7	34.8	9.5	44.3
Return on scheme assets not including interest	56.7	24.2	80.9	154.5	29.8	184.3
Foreign exchange	-	0.4	0.4	-	1.3	1.3
Administration expenses	(0.8)	(0.1)	(0.9)	(0.9)	-	(0.9)
Contributions from sponsoring companies	7.0	13.9	20.9	8.3	13.9	22.2
Contributions from members	0.2	0.1	0.3	0.1	0.1	0.2
Benefits paid	(39.2)	(13.3)	(52.5)	(33.7)	(10.6)	(44.3)
At 31 December	1,128.9	324.3	1,453.2	1,076.9	291.5	1,368.4

g. Movements in the present value of defined benefit obligations in the current period

	2017			2016		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January	(1,138.6)	(357.1)	(1,495.7)	(879.4)	(283.0)	(1,162.4)
Service cost	(6.2)	(2.5)	(8.7)	(5.8)	(2.0)	(7.8)
Interest cost	(29.6)	(9.2)	(38.8)	(33.4)	(10.5)	(43.9)
Foreign exchange	-	(0.4)	(0.4)	-	(1.3)	(1.3)
Contributions from members	(0.2)	(0.1)	(0.3)	(0.1)	(0.1)	(0.2)
Experience adjustments	(4.9)	(1.7)	(6.6)	1.9	4.5	6.4
Actuarial gain arising from changes in demographic assumptions	20.2	6.6	26.8	-	4.8	4.8
Actuarial (loss) / gain arising from changes in financial assumptions	(2.2)	1.1	(1.1)	(255.5)	(80.1)	(335.6)
Benefits paid	39.2	13.3	52.5	33.7	10.6	44.3
At 31 December	(1,122.3)	(350.0)	(1,472.3)	(1,138.6)	(357.1)	(1,495.7)

h. Amounts recognised in the statement of other comprehensive income are as follows:

	2017			2016		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
Return on scheme assets (excluding amounts included in net interest)	56.7	24.2	80.9	154.5	29.8	184.3
Actuarial gain arising from changes in demographic assumptions	20.2	6.6	26.8	-	4.8	4.8
Actuarial losses arising from changes in financial assumptions	(2.2)	1.1	(1.1)	(255.5)	(80.1)	(335.6)
Actuarial gain arising from experience adjustments	(4.9)	(1.7)	(6.6)	1.9	4.5	6.4
(Increase) / decrease in minimum funding requirement liability	-	(9.2)	(9.2)	36.0	17.2	53.2
Re-measurement of net defined pension liability	69.8	21.0	90.8	(63.1)	(23.8)	(86.9)

i. Reconciliation of asset ceiling / additional liability

	2017			2016		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January	-	-	-	(34.6)	(16.5)	(51.1)
Interest expense	-	-	-	(1.4)	(0.7)	(2.1)
Change in asset ceiling	-	(9.2)	(9.2)	36.0	17.2	53.2
At 31 December	-	(9.2)	(9.2)	-	-	-

27. PENSION ARRANGEMENTS continued

j. Maturity profile of obligations

The weighted average duration of the schemes' liabilities are:

TP Schemes – 19.8 years

BSS Schemes – 19.8 years

The maturity profile of the defined benefit obligations for the schemes are as follows:

	TP Schemes %	BSS Schemes %
2017 – 2026	17.0	16.6
2027 – 2036	24.5	25.1
2037 – 2046	24.7	25.3
2047 – 2056	19.6	19.8
2057 – 2066	10.7	10.4
2067 – 2076	3.1	2.6
2077 – 2086	0.4	0.2

k. Sensitivities

The estimated effects of changing the key assumptions (discount rate, inflation and life expectancy) on the IAS19 (revised 2011) balance sheet position as at 31 December 2017 is given below.

Assumption		TP Schemes £m	BSS Schemes £m
Discount rate	Increase of 0.1%	22	7
	Decrease of 0.1%	(22)	(7)
Inflation	Increase of 0.1%	(13)	(6)
	Decrease of 0.1%	14	6
Longevity	Increase of 1 year	(37)	(11)
	Decrease of 1 year	33	10

l. Defined contribution schemes

The Group operates two defined contribution schemes for all qualifying employees. The pension cost, which represents contributions payable by the Group, amounted to £17.3m (2016: £16.8m).

m. Pension scheme contributions for year

The total charge to the income statement disclosed in note 7 of £26.9m (2016: £25.5m) comprises defined benefit scheme current and past service costs of £9.6m (2016: £8.7m) and £17.3m (2016: £16.8m) of contributions made to the defined contribution schemes.

28. ACQUISITION OF BUSINESSES

On 13 October 2017 the Group acquired 75% of the issued share capital of National Shower Spares Limited, a leading online retailer of shower spares, for total cash consideration of £2.7m. On 28 April 2017 the Group acquired 77.5% of the issued share capital of TFS Holdings Limited, an air conditioning and refrigeration distributor, for total cash consideration of £7.8m.

All acquisitions were accounted for using the purchase method of accounting. The net assets acquired totalled £2.8m and £10.9m of goodwill and a non-controlling interest of £3.2m have been recognised. The goodwill represents the benefits from forecast growth and the assembled workforces. A non-current liability of £4.9m has been recognised in respect of put options on the non-controlling interests.

For the period from acquisition the combined revenue and operating profit for the above acquisitions total £12.6m and £1.4m respectively. If the acquisitions had been completed on the first day of the year, group revenue would have been £6,443.5m and group operating profit would have been £327.8m.

In 2016 the Group acquired 100% of the issued share capital of W. Gaunt Limited and T&T (Sussex) Plant Hire Limited for total consideration of £3.2m, all satisfied by cash. The net assets acquired totalled £1.3m and goodwill of £1.9m was recognised as a result of these transactions.

29. OPERATING LEASE ARRANGEMENTS

The Group has entered into a significant number of property operating leases for its trading sites, the commercial terms for which tend to vary. The leases, at inception, are typically 25 years in duration, although some have lessee only break clauses of between 10 and 15 years. No leases place any commercial restriction on the Group's ability to conduct its business in the manner it sees fit (for instance restrictions on dividends, debt levels or further leases). No lease has clauses that link rental payments to performance, for instance turnover leases and no lease contains contingent rent clauses.

All leases include rent escalation clauses setting out the basis for future rent reviews. Typically these are based on open market conditions or are linked to RPI or CPI. The Group has a small number of leases that are subject to fixed reviews, but these are not material.

There are no significant pre-emption rights in any of the Group's leases.

The Group also leases certain items of plant and equipment. The Company has no operating lease arrangements.

a. The Group as lessee

	2017 £m	2016 £m
Minimum lease payments under equipment operating leases recognised in income for the year	34.7	35.5
Minimum lease payments under property operating leases recognised in income for the year	196.6	194.0

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under noncancellable operating leases. The table below sets out the lease commitments of the Group as they fall due up until the end of the existing leases and do not include the effect of possible lease renewals:

	2017 £m	2016 £m
Within one year	200.8	194.2
In the second to fifth years inclusive	668.2	656.2
In the sixth to ten years inclusive	585.6	532.0
In the eleventh to fifteenth years inclusive	255.1	252.4
After fifteen years	122.4	127.8
	1,832.1	1,762.6

b. The Group as lessor

The Group sublets a number of ex-trading properties to third parties. Property rental income earned during the year in respect of these properties was £5.6m (2016: £5.7m).

At the balance sheet date, the Group had contracts with tenants for the following future minimum lease payments:

	2017 £m	2016 £m
Within one year	5.6	5.2
In the second to fifth years inclusive	14.6	15.1
After five years	14.1	15.4
	34.3	35.7

30. CAPITAL COMMITMENTS

	The Group		The Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Contracted for but not provided in the accounts	46.4	14.9	-	-

31. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries, its Directors and with its pension schemes (note 27). Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition the remuneration of the Directors, and the details of their interests in the share capital of the Company are provided in the audited part of the remuneration report on pages 70 to 77.

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2017 £m	2016 £m
Short-term employee benefits	14.2	10.9
Post employee benefits	0.4	0.2
Share-based payments	10.9	4.2
	25.5	15.3

The Company undertakes the following transactions with its active subsidiaries:

- Providing day-to-day funding from its UK banking facilities
- Paying interest to members of the Group totalling £20.5m (2016: £21.6m)
- Levying an annual management charge to cover services provided to members of the Group of £4.5m (2016: £8.4m)
- Receiving annual dividends totalling £323.7m (2016: £330.4m)

Details of balances outstanding with subsidiary companies are shown in note 17 and in the Balance Sheet on pages 98 and 99.

Other than the payment of remuneration there have been no related party transactions with directors.

The Group advanced a total of £11.3m (2016: £4.7m) to all the Group's associate companies in 2017. Operating transactions with the associates during the year were not significant.

32. NET DEBT

a. Movement in net debt

	The Group						
	Cash and cash equivalents	Finance leases	Term loan and revolving credit facility and loan notes	Unsecured senior US\$ notes and sterling bonds	Liability to pension scheme	Exchange and fair value adjustments on derivatives hedging net debt items	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2016	(83.8)	18.6	106.2	391.0	35.4	(20.0)	447.4
Cash flow	(166.7)	15.9	(110.0)	191.2	(3.3)	-	(72.9)
Exchange movement	-	-	-	(3.6)	-	3.5	(0.1)
Fair value movement	-	-	-	(16.5)	-	16.5	-
Finance charges movement	-	-	0.8	0.6	-	-	1.4
Amortisation of swap cancellation receipt	-	-	-	(0.7)	-	-	(0.7)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	-	2.4
At 1 January 2017	(250.5)	34.5	(3.0)	562.0	34.5	-	377.5
Cash flow	(26.3)	(7.0)	-	-	(3.2)	-	(36.5)
Finance charges movement	-	-	0.8	0.7	-	-	1.5
Amortisation of swap cancellation receipt	-	-	-	(3.4)	-	-	(3.4)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	-	2.4
31 December 2017	(276.8)	27.5	(2.2)	559.3	33.7	-	341.5

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32. NET DEBT continued

b. Balances at 31 December

	The Group	
	2017 £m	2016 £m
Cash and cash equivalents	276.8	250.5
Non-current interest bearing loans and borrowings	(612.1)	(621.1)
Current interest bearing loans and borrowings	(6.2)	(6.9)
Net debt	(341.5)	(377.5)
Finance leases arising from the implementation of IAS 17	9.5	12.8
Liability to pension scheme	33.7	34.5
Finance charges netted off borrowings	(5.5)	(7.0)
Net debt under covenant calculations	(303.8)	(337.2)

33. LEASE ADJUSTED GEARING

	The Group	
	2017 £m	2016 £m
Net debt	341.5	377.5
Property operating lease rentals x8	1,524.8	1,506.4
Lease adjusted net debt	1,866.3	1,883.9
Property operating lease rentals x8	1,524.8	1,506.4
Closing net assets	2,860.3	2,655.6
Lease adjusted equity	4,385.1	4,162.0
Gearing	42.6%	45.3%

34. FREE CASH FLOW

	The Group	
	2017 £m	2016 £m
Net debt at 1 January	(377.5)	(467.4)
Net debt at 31 December	(341.5)	(377.5)
Decrease in net debt	36.0	89.9
Dividends paid	113.0	110.5
Net cash outflow for expansion capital expenditure and related items*	201.5	185.8
Net cash outflow for acquisitions	9.7	3.2
Net cashflow for investments	(0.3)	1.1
Amortisation of swap cancellation receipt	(3.4)	(0.7)
Discount unwind on liability to pension scheme	2.4	2.4
Cash impact of exceptional items	20.2	11.6
One-off income tax payments	-	42.5
Interest in associates	11.3	4.6
Shares issued	(15.0)	(9.7)
Purchase of own shares	19.2	-
Decrease in fair value of debt	-	(20.0)
Movement in finance charges netted off bank debt	1.5	1.4
Special pension contributions	11.3	13.5
Free cash flow	407.4	436.1

*Expansion capital expenditure includes £22.1m (2016: £8.3m) in relation to the development of cloud-based software classified as a non-current prepayment (note 17).

Net debt is reconciled to the financial statements in note 32(b).

35. LEVERAGE RATIOS

a. The adjusted ratio of net debt to earnings before interest, tax and depreciation ("EBITDA")

	The Group	
	2017 £m	2016 £m
Profit before tax	289.7	72.7
Net finance costs	35.0	27.7
Depreciation and amortisation	126.9	121.7
EBITDA	451.6	222.1
Exceptional operating items	40.9	292.0
Adjusted EBITDA under covenant calculations	492.5	514.1
Net debt under covenant calculations (note 32c)	303.8	337.2
Adjusted net debt to EBITDA under covenant calculations	0.62x	0.66x

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35. LEVERAGE RATIOS continued

b. Adjusted ratio of net debt to earnings before interest, tax, depreciation and operating lease rentals ("EBITDAR")

	The Group	
	2017 £m	2016 £m
Adjusted EBITDA under covenant calculations	492.5	514.1
Share of associates' results	2.2	-
Adjusted EBITDA	494.7	514.1
Net debt	341.5	377.5
Property lease rentals x8	1,524.8	1,506.4
Lease adjusted net debt	1,866.3	1,883.9
Lease adjusted net debt to adjusted EBITDAR	2.7x	2.7x

c. Fixed charge cover

	The Group	
	2017 £m	2016 £m
Adjusted EBITDAR	685.3	702.4
Property operating lease rentals net of rent receivable	190.6	188.3
Interest for fixed charge calculation (note 9)	28.3	25.2
	218.9	213.5
Fixed charge cover net of rent receivable	3.1x	3.3x

36. RETURN ON CAPITAL RATIOS

Group return on capital employed is calculated as follows:

	2017 £m	2016 £m
Operating profit	326.9	100.4
Amortisation of acquired intangible assets	12.3	16.6
Exceptional items	40.9	292.0
Adjusted operating profit	380.1	409.0
Opening net assets	2,655.6	2,795.8
Net pension deficit	103.2	42.4
Net debt before exchange and fair value adjustments	377.5	467.4
Exchange and fair value adjustment	-	(20.0)
Goodwill amortisation and impairment	-	(235.4)
Tax on impairment of goodwill and intangibles	-	3.8
Opening capital employed	3,136.3	3,054.0
Closing net assets	2,860.3	2,655.6
Net pension deficit	22.9	103.2
Net debt	341.5	377.5
Closing capital employed	3,224.7	3,136.3
Average capital employed	3,180.5	3,095.2

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36. RETURN ON CAPITAL RATIOS continued

Group lease adjusted return on capital employed is calculated as follows:

	2017 £m	2016 £m
Adjusted operating profit	380.1	409.0
50% of property operating lease rentals	95.3	94.1
Lease adjusted operating profit	475.4	503.1
Average capital employed	3,180.5	3,095.2
Property operating lease rentals x8	1,524.8	1,506.4
Lease adjusted capital employed	4,705.3	4,601.6
Lease adjusted return on capital employed	10.1%	10.9%

37. REVENUE RECONCILIATION AND LIKE FOR LIKE SALES

	General Merchandising £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Total £m
2016 revenue	2,073	1,267	1,518	1,359	6,217
Like-for-like revenue	24	106	45	28	203
	2,097	1,373	1,563	1,387	6,420
Network expansion	20	1	34	(16)	39
Trading days	(8)	(5)	(8)	(5)	(26)
2017 revenue	2,109	1,369	1,589	1,366	6,433

Like-for-like sales are a measure of underlying sales performance for two successive periods. Branches and stores contribute to like-for-like sales once they have been trading for more than 12 months. Revenue included in like-for-like is for the equivalent times in both years being compared. When branches close, revenue is excluded from the prior year figures for the months equivalent to the post closure period in the current year.

38. RELATED UNDERTAKINGS

The registered office of all subsidiary undertakings is Lodge Way House, Lodge Way, Harlestone Road, Northampton NN5 7UG except for companies with a superscript where the registered office is given after the list of subsidiary companies and investments.

Active subsidiary companies (100% ownership and UK registered)

Benchmark Kitchens and Joinery Limited	Tile Giant Limited
Built for Trade Limited	Toolstation Limited
CCF Limited	Travis Perkins (Properties) Limited
City Plumbing Supplies Holdings Limited	Travis Perkins (PSL 2015) Limited
Connections (AML) Limited	Travis Perkins Acquisitions Company Limited
Hunter Estates Limited	Travis Perkins Finance Company Limited
IJM Enterprises Limited	Travis Perkins Financing Company No.2 Limited
Keyline Builders Merchants Limited ¹	Travis Perkins Leasing Company Limited
PlumbNation Limited	Travis Perkins P&H Partner Limited
Primaflow Limited	Travis Perkins Plumbing & Heating LLP
PTS Group Limited	Travis Perkins Trading Company Limited
Rudridge Limited	W. Gaunt Limited
Solfex Limited	Wickes Building Supplies Limited
T&T (Sussex) Plant Hire Limited	Wickes Developments Limited
The Cobtree Scottish Limited Partnership ¹	Wickes Properties Limited

Dormant & non-trading subsidiary companies (100% ownership and UK registered)

A. Warren & Sons Limited	City Plumbing Supplies (Salisbury) Limited
A.M. Supplies (Pumps And Controls) Limited	City Plumbing Supplies (Scotland) Limited
Actionbridge Limited	City Plumbing Supplies Limited
Ahed Limited	Cobtree Nominees Limited
Angelery Limited	Commercial Ceiling Factors (Midlands) Limited
B. & G. (Heating & Plumbing) Limited	Commercial Ceiling Factors Limited
Baird Lindsay Limited ¹	Contract Supplies (North East) Limited
Basic Partition Systems Limited	Coppas Controls (UK) Limited
Basildon Heating Services Limited	County Hire Services (Wollaton) Limited
Birchwood Group Holdings Limited	County Landscape Products Limited
Birchwood Products Limited	Curran Sawmills Limited - The ¹
Blyth & Taylor (Hants) Limited	D.W. Archer Limited
BMSS Limited	Direct Building Supplies Truro Limited
Bondco 909 Limited	Direct Heating Spares Limited
Bonham Lilley Timber Limited	Domestic Heating Supplies (Warrington) Limited
Border Building Supplies Limited	Downpatrick Timber Slate & Coal Company Limited ⁵
Boston (2011) Limited	Dyfed Building and Plastic Supplies Limited
Boxbrook Holdings Limited	E Fletcher (Timber) Limited
Brasscapri Limited	E. Salisbury Limited
Brassware Sales Limited	Edwards & Company (Longfield) Limited
British Steam Specialties (International) Limited (The)	Elecnation Limited formerly Malden Timber Limited
British Steam Specialties Limited (The)	Elias Wild & Sons Limited
Broombys Limited	F W Darby & Co (Tunbridge Wells) Limited
BSS (UK) Limited	Fishguard Building Supplies Limited
BSS GPS Trustee Limited	Floorsystems Limited
Builders Mate Limited	Flortek Limited
Builders Traders Limited	Four Oaks Timber and Joinery Supplies Limited
Bulwell Timber Company Limited	Fry & Pollard Limited
Burt Boulton (Timber) Limited	Garratt Timber Supplies Limited
Buywell Building Supplies Limited	Gisowatt UK Limited
C & C Building Supplies (Marple) Limited	Graylin Limited
C & G Building Supplies Limited	Greenwell Building Supplies Limited
C.H. Crees and Son Limited	Grundy & Pilling Limited
Carmichael Browne Associates Limited	Hardleys Timber & Building Supplies Limited
Central England Supplies Ltd	Harris of Starchley Limited
Chandler Forest Products Limited	Harrison Trenerly Limited
Chinnor Plumbing Supplies Limited	Harvey Building Supplies (Scotland) Limited
Christie & Vesey Limited	Heatek Labone Cadell Limited
City Plumbing Supplies (Poole) Limited	Heatstall Limited

Financial Statements

38. RELATED UNDERTAKINGS continued

Dormant & non-trading subsidiary companies (100% ownership and UK registered) continued

HT (1995) Limited	S & M Bathrooms Limited
HTG (1996) Limited	S & M Builders Merchant (Batley) Limited
Hunter Limited	Sandell Perkins + Newmans Limited
IJM Holdings Limited	Seales McLean Limited
Index Timber & Building Supplies Limited ¹	SES Southern Limited
Instox Limited	Sharpe & Fisher (Properties) Limited
Ivco Process Valves Limited	Sharpe & Fisher Limited
J & B. Labone Limited	Shires Timber Co. Ltd
J T Stanton & Co., Limited	Simmons of Stoke-on-Trent Limited
J.H. Walker & Co. (York) Limited	SLBM Systems Limited
James Ladd & Sons Limited	Smiths Building Supplies Limited
Jayhard Holdings Limited	Spendlove C. Jebb ⁷
Jayhard Ltd	Spendlove C. Jebb Holdings Limited
John Clements (Builders Merchants) Limited	Stearns (Shipton Green) Limited
John Dove & Co. Limited	T Butt & Son Limited
John H. Turner & Lisney Limited	T J Willets (Timber) Limited
Joseph Spark & Son Limited	Tavistock Building Supplies Limited
K X Company Limited	Taylor Building Supplies Ltd
KA Venture Limited	Terant Supplies Limited
Kelmar (Plumbing & Heating Supplies) Limited	The BSS Group Limited
Keyline (CML) Limited	The Yard Building Supplies Limited
Kisling Limited	Tile Beta Limited
Lord Street Building Supplies (Leigh) Limited	Tile Delta Limited
M & H (North East) Limited	Tile Giant Holdings Limited
M G Bailey (Building Materials) Limited	Tile HQ Limited
Malden Timber (West) Limited	Tile It All (UK) Limited
Manor Building & Plumbing Supplies Limited	Tile Magic Holdings Limited
Manor Copper Supplies Limited	Tile Magic Limited
May & Hassell (Cumbria) Limited	TP Directors Ltd TP
May & Hassell (North West) Limited	TP General Partner (Scotland) Limited ¹
May & Hassell (Scotland) Limited ¹	The Yard Building Supplies Limited
May & Hassell Limited	Tile Beta Limited
Mayalls Limited	TPG Management Services Limited
MD (1995) Group Limited ¹	Travis & Arnold Limited
MD (1995) Limited	Travis Perkins Bridge Properties LLP
MD (Park Street) Limited	Travis Perkins Capital Partner Limited
MD-DOR3 Limited	Travis Perkins Financing Company No.3 Limited
MD-DOR4 Limited	Travis Perkins Installation Services Limited
Monteith Building Services Limited ¹	Travis Perkins Marketing Company Limited
NAGS Building Supplies Limited	Travis Perkins Quest Trustees Limited
Nailhole Limited	Tricom Group Limited
Neptronik Controls Ltd	Tricom Supplies Limited
Newcastle Tile Centre Limited	UGS Limited
Norman Mackenzie (Building Supplies) Limited ¹	UGS South East Limited
O J Williams (Merchants) Limited	Vaner Holdings Limited
P.C.P. Harris (Builders Merchants) Limited	W.A. Hawke & Son Limited
P.C.P. Harris (Holdings) Limited	W.H. Newson & Sons Limited
Plumbstall Limited	W.H. Newson Holding Limited
P.T.S. Plumbing Trade Supplies Limited	W.S. Shuttleworth (Maidenhead) Limited
Passmore Drywall & Insulation Limited	W.S. Shuttleworth (Slough) Limited
Peck & Goodwin Limited	W.S. Shuttleworth (Timber) Limited
Peckham Timber and Builders Merchants Limited	Water Street Home Improvements Limited
Plasterers & Builders Merchants Limited	Whittaker & Co. (Builders Merchants) Limited
Plumbing Parts Limited	Wickes Limited
Price & Brown (Heating) Limited	Wickes Group Trustees Limited
Price Tool Sales Limited	Wickes Holdings Limited
Primaflow (Birmingham) Limited	Wickes Retail Sourcing Limited
Property Newco Two Limited	William Bird Holdings Limited
Proawarm Limited	William Bloore & Son Limited
R A Thomas (Joinery) Limited	Zenith Plumbpoint Limited
Renpye Limited	

Other subsidiary companies

Company Name	Registered	% Ownership	Status
BSS (Ireland) Limited ³	Ireland	100	Active
City Investments Limited ⁴	Jersey	100	Active
Travis Perkins Hong Kong Limited ¹⁰	Hong Kong	100	Active
Travis Perkins Sourcing (Shanghai) Ltd ¹¹	China	100	Active
National Shower Spares Limited	UK	75	Active
TFS Holdings Limited	UK	78	Active
Tools & Fastener Solutions Limited	UK	78	Active
Underfloor Heating Store (The) Limited	UK	55	Active

Investments

Company Name	Registered	% Ownership	Status
Bombala Limited ²	UK	49	Active
The Mosaic Tile Company Limited ²	UK	49	Active
Toolexpert Benelux BV ⁸	Netherlands	49	Active
Toolstation Europe Limited ⁹	UK	49	Active
Toolstation Europe BV ¹⁰	Netherlands	49	Active
Toriga Limited	UK	49	Active
Toriga Energy Limited	UK	49	Active
Independent Construction Technologies Limited ⁶	UK	15	Active
P H Properties Limited ⁶	UK	15	Active
Staircraft (Midlands) Limited ⁶	UK	15	Active
Staircraft Integrated Solutions Limited ⁶	UK	15	Active

Registered Offices (Not Lodge Way House)

- 1 Suite S3, 8 Strathkelvin Place, Kirkintilloch, Scotland, G66 1XT, United Kingdom
- 2 Project House, Armley Road, Leeds, England and Wales, LS12 2DR, United Kingdom
- 3 White Heather Industrial Estate, South Circular Road, Dublin, 8, Ireland
- 4 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
- 5 Tughans, Marlborough House, 30 Victoria Street, Belfast, BT1 3GS, United Kingdom
- 6 Staircraft Building, Dunns Close, Nuneaton, Warwickshire, CV11 4NF, United Kingdom
- 7 107-127 Grosvenor Road, Belfast, BT12 4GT, United Kingdom
- 8 Touwbaan 40, 2352CZ Leiderdorp, Netherlands, Netherlands
- 9 16-18 Whiteladies Road, Clifton, Bristol, BS8 2LG, United Kingdom
- 10 Suite 2401, 24/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong
- 11 Room 5702-Q, 1486 Najing W Road, Jing an District, Shanghai, China

SHAREHOLDER INFORMATION

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166 Other shareholder information

Main image:
Shannon Boswell - Toolstation, Wellingborough

From top left to bottom right:
Christopher Cheetham - Tile Giant, Shrewsbury
John Ferguson - Travis Perkins, Shrewsbury
David Harris & Warren Sedgwick - Keyline, Telford

Five-year summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Consolidated income statement					
Revenue	6,433.1	6,217.2	5,941.6	5,580.7	5,148.7
Operating profit before amortisation and exceptional items	380.1	409.0	412.6	384.0	347.6
Amortisation	(12.3)	(16.6)	(18.0)	(17.6)	(17.9)
Exceptional items	(40.9)	(292.0)	(140.6)	(23.3)	-
Operating profit	326.9	100.4	254.0	343.1	329.7
Share of associates' results	(2.2)	-	-	-	-
Exceptional investment income	-	-	-	-	9.4
Net finance costs	(35.0)	(27.7)	(30.5)	(21.7)	(26.5)
Profit before tax	289.7	72.7	223.5	321.4	312.6
Income tax expense	(55.7)	(58.6)	(55.8)	(62.7)	(47.9)
Net profit	234.0	14.1	167.7	258.7	264.7
Basic earnings per share	93.1p	5.1p	67.8p	105.9p	109.9p
Adjusted earnings per share	92.2p	120.4p	124.1p	119.0p	103.6p
Dividend declared per ordinary share (pence)	46.0p	45.0p	44.0p	38.0p	31.0p
Number of branches at 31 December (Includes branches of associates)	2,076	2,053	2,028	1,975	1,939
Average number of employees (FTE)	28,117	27,352	26,943	25,441	23,583
Consolidated cash flow statement	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Cash generated from operations	371.9	494.7	350.3	310.2	319.2
Net interest paid	(27.1)	(22.2)	(19.7)	(15.0)	(20.5)
Income taxes paid	(57.2)	(104.7)	(47.8)	(49.9)	(59.2)
Net purchases of investments, property and plant	(112.9)	(186.5)	(247.1)	(134.1)	(90.3)
Interest in associates	(11.3)	(4.6)	(3.5)	(2.1)	(2.9)
Acquisition of businesses net of cash acquired	(9.7)	(3.2)	(26.0)	(15.7)	(9.3)
Proceeds from issuance of share capital	15.0	9.7	10.0	14.3	13.9
Purchase of own shares	(19.2)	-	-	-	-
Dividends paid	(113.0)	(110.5)	(100.2)	(81.1)	(65.1)
Bank facility finance charges	-	(2.4)	(3.9)	(2.6)	-
Movement in finance lease liabilities	(7.0)	15.9	(2.7)	(2.5)	(2.1)
Repayment of unsecured loan notes	-	-	(40.8)	-	-
Increase / (decrease) in loans	(3.2)	80.5	106.9	7.0	(143.0)
Net increase / (decrease) in cash and cash equivalents	26.3	166.7	(24.5)	28.5	(59.3)
Net debt at 1 January	(377.5)	(467.4)	(375.2)	(347.6)	(452.2)
Non cash adjustment	(0.5)	17.1	(8.3)	(54.2)	18.8
Cash flow from debt and debt acquired	10.2	(93.9)	(59.4)	(1.9)	145.1
Net debt before exchange and fair value adjustments at 31 December	(341.5)	(377.5)	(467.4)	(375.2)	(347.6)
Free cash flow	407.4	436.1	316.6	254.7	239.6

Consolidated balance sheet	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Assets					
Non-current assets					
Property, plant and equipment	932.0	929.5	849.5	689.3	609.9
Goodwill and other intangible assets	1,926.3	1,889.1	2,111.9	2,223.6	2,223.7
Derivative financial instruments	-	-	22.5	21.2	9.3
Interest in associates	20.3	11.5	7.9	1.7	7.3
Other receivables	30.4	8.3	-	-	-
Investment property and other investments	9.5	9.1	7.8	3.6	3.1
Current assets					
Inventories	816.3	768.0	761.8	742.7	687.7
Trade and other receivables	1,130.2	1,059.3	986.9	931.8	822.9
Derivative financial instruments	-	1.7	-	-	-
Cash and cash equivalents	276.8	250.5	83.8	108.3	79.8
Total assets	5,141.8	4,927.0	4,832.1	4,722.2	4,443.7
Capital and reserves					
Issued capital	25.2	25.1	25.0	24.9	24.7
Share premium account	543.4	528.5	518.9	510.5	498.0
Merger reserve	326.5	326.5	326.5	326.5	326.5
Own shares	(15.3)	(8.7)	(15.5)	(28.5)	(40.6)
Other reserves	10.8	16.8	16.9	16.8	16.7
Accumulated profits	1,958.0	1,760.1	1,918.1	1,827.5	1,689.9
Equity attributable to owners of the Company	2,848.6	2,648.3	2,789.9	2,677.7	2,515.2
Non-controlling interests	11.7	7.3	5.9	-	-
Total equity	2,860.3	2,655.6	2,795.8	2,677.7	2,515.2
Non-current liabilities					
Interest bearing loans and borrowings	612.1	621.1	411.4	440.0	421.6
Derivative financial instruments	4.9	-	-	0.5	4.5
Retirement benefit obligations	28.3	127.3	52.2	97.5	71.4
Long-term provisions and other payables	17.1	21.2	7.4	7.8	22.6
Deferred tax liabilities	61.0	45.8	61.3	66.7	61.3
Current liabilities					
Interest bearing loans and borrowings	6.2	6.9	139.8	43.5	5.8
Derivative financial instruments	1.2	-	-	-	1.8
Trade and other payables	1,453.6	1,348.3	1,235.5	1,255.2	1,218.1
Tax liabilities	44.5	43.8	90.2	71.6	73.2
Short-term provisions	52.6	57.0	38.5	61.7	48.2
Total liabilities	2,281.5	2,271.4	2,036.3	2,044.5	1,928.5
Total equity and liabilities	5,141.8	4,927.0	4,832.1	4,722.2	4,443.7

Other shareholder information

FINANCIAL DIARY

Trading statement	27 April 2018
Ex-dividend date	5 April 2018
Record date	6 April 2018
Annual General Meeting	27 April 2018
Payment of final dividend	11 May 2018

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held on 27 April 2018 at 12.30pm at Northampton Rugby Football Club, Franklins Gardens, Weedon Road, Northampton, NN5 5BG.

The notice for the meeting is enclosed with this report.

REGISTRARS

For Information about shareholdings, dividends and to report changes to your address, bank details or any other account information please contact the Company's registrars:

Link Asset Services
The Registry,
34 Beckenham Road,
Beckenham,
Kent.
BR3 4TU

Email: enquiries@linkgroup.co.uk

Telephone: +44 (0) 371 664 0300*

You can view and manage your shareholder account online via the shareholder portal at www.travisperkins-shares.com. You will need to register to use this service and to do so you will require your unique investor code (IVC), which can be found on your share certificate or dividend confirmation.

Dividends

It is more secure to have your dividends paid directly into your bank account than by cheque. If you do not already have your dividends paid directly into your account and would like to do so, you can do this on the shareholder portal or you can contact Link and they will send you the relevant form to complete.

SHAREHOLDER COMMUNICATIONS

Company Website

Travis Perkins plc Annual and Interim Reports, results announcements and presentations are available on the Investor Relations section of our website at www.travisperkinsplc.co.uk. The website also carries a range of information about the Group and its principal brands, products and services which can be accessed via the "Our Businesses" section.

Annual Report

The Annual Report and Financial Statements 2017 is published on our website at <http://www.travisperkinsplc.co.uk/investor-relations> and a hard copy has been posted to shareholders who have requested it in paper copy format. All other shareholders have been notified of its availability on the website, either in writing or by email.

A paper copy is available by writing to the Company Secretary at the Company's registered office Lodge Way House, Lodge Way, Harlestone Road, Northampton NN5 7UG or you can email your request to cosec@travisperkins.co.uk

Electronic Shareholder Communications

The Company prefers that you receive your shareholder communications electronically. This is a much faster, environmentally-friendly and cost effective way to communicate with you. If you have received a hard copy of this report, or notification of its availability by post and would like to receive fully electronic communication, please register your preference on the shareholder portal at www.travisperkins-shares.com

*Calls will be charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate; lines are open 9.00am to 5.30pm, Monday to Friday.

SHAREHOLDER SERVICES

The Company's registrars, Link, provide a number of other services that, as a shareholder, might be useful to you:

Duplicate Share Register Accounts

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that is not your intention you may wish to consider merging the accounts into one single entry. Please contact Link who will be pleased to help you.

Dividend Re-Investment Plan ("DRIP")

This is a scheme which allows you to use your dividends to buy shares in Travis Perkins. For any shareholders who wish to re-invest dividend payments in the Company, a facility is provided by Link Market Services Trustees Limited in conjunction with the Company's Registrar. Full details are available by calling from Link on +44 (0) 371 664 0381*. Alternatively, you can sign up for this service on the shareholder portal at www.travisperkins-shares.com (by clicking on 'Manage your account' followed by 'Dividend payments' and following the on screen instructions).

SHARE DEALING SERVICES

Share dealing services are available from the Company's Registrar. For on-line dealing - log on to www.linksharedeal.com. For telephone dealing - call +44 (0) 371 664 0445 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate; lines are open 8.00am to 4.30pm, Monday - Friday).

These services are only available to private shareholders resident in the EEA, the Channel Islands and the Isle of Man. Further details including costs are available at www.linksharedeal.com

SHARE FRAUD – WARNING TO SHAREHOLDERS

In recent years, share fraud has been increasing, with shareholders receiving unsolicited correspondence concerning investment matters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams, offering to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. Sometimes these individuals imply that they represent Travis Perkins, but in fact they have no connection with the Company and have no authority to claim or imply that they are.

If you think you have been approached by fraudsters, please tell the Financial Conduct Authority using the share fraud reporting form at www.fca.org.uk/scams where you can also find out more about investment scams.

*Calls will be charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate; lines are open 9.00am to 5.30pm, Monday to Friday.

Above:

Colleagues - Travis Perkins, Salthouse Road
George Brown - Keyline, Telford

Travis Perkins 

Travis Perkins plc,
Lodge Way House, Harlestone Road,
Northampton, NN5 7UG
01604 752424
www.travisperkinsplc.com

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