



ANNUAL REPORT AND ACCOUNTS  
for the year ended 31 December 2020

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# Return to Growth strategy on track

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# Welcome

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**SIG is a leading supplier of specialist building products and solutions to trade customers across Europe.**

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

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## **2020 overview**

- Return to Growth strategy delivering to plan:
  - UK business rebuilt and relaunched
  - Reconnection with customers, suppliers and employees well advanced
- Strong finish to 2020, ahead of expectations; like-for-like sales up 4% in Q4, reflecting broad-based growth across all major markets, including the UK
- Significantly strengthened balance sheet provides confidence to invest in new growth strategy and security against short term market uncertainty
- Group continues to adapt successfully to trade safely to new Covid-19 norms, working closely and flexibly with our employees, customers and suppliers
- Full year like-for-like sales down 13%, with a solid recovery in the second half
- Underlying gross margin down 80bps due to lower sales volumes over the year
- Underlying operating loss of £53.3m (2019: £42.5m profit)
- Underlying loss before tax of £76.3m (2019: £17.7m profit before tax), with statutory loss before tax from continuing operations of £202.3m (2019: £112.7m loss before tax), reflecting £126.0m of Other items, including £76.1m of impairment charges in the UK business and £13.2m onerous contract costs
- Net debt, pre IFRS 16, down to £4.1m (2019: £162.8m), helped by the sale of Air Handling division in January and £152m capital raise in July; post IFRS 16 net debt down to £238.2m (2019: £455.4m)

Underlying revenue  
**£1,872.7m**  
2019: £2,143.0m

Underlying (loss)/  
profit before tax  
**(£76.3)m**  
2019: £17.7m

Net debt  
**£238.2m**  
2019: £455.4m

Statutory revenue  
**£1,874.5m**  
2019: £2,160.6m

Statutory loss  
before tax\*  
**(£202.3)m**  
2019: (£112.7)m

Total recordable  
incident rate  
**8.8**  
2019: 10.8

\* from continuing operations

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Our first priority throughout the Covid-19 pandemic was to ensure the safety of our employees, customers, suppliers and other partners. Therefore, almost all photography dates from pre-Covid times and may not reflect the health and safety protocols that were or are in place.





# Strategic Report

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# Chairman's statement

The Board believes that we now **have the right strategy** and foundations in place to return the **Group to sustainable profitable growth and build a great and growing company for the future.**

**Andrew Allner**, Chairman



## Dear Shareholder,

2020 was, of course, an unprecedented year, presenting circumstances that we have not encountered before with the outbreak of the Covid-19 pandemic. Despite the challenges, I am very proud of the way in which the Group demonstrated great resilience and flexibility to continue to serve its customers and support its people.

There were also significant changes within SIG. The Group saw senior leadership changes and the implementation of a new strategy early in the year, to drive focused actions to begin the journey to profitable growth. Fundamental to the new strategy is the recognition that SIG is a sales-led organisation. The Company's ability to grow its customer base will rely on the re-establishment of strong customer and supplier partnerships, the reinstatement of specialist expertise and superior customer service, and the improved engagement of its people.

I am pleased to say that good progress has been made in the initial delivery of the new strategy and I am confident that the Company is now taking the right steps to build a great and growing company for the future.

## Covid-19

The Board closely monitored the impact of the pandemic on the business and on our people, and continues to do so.

Throughout this period, the safety of our people, customers and suppliers has been and continues to be our primary concern. Additional health and safety measures were quickly implemented at the beginning of the outbreak and the new protocols continue to be adhered to across the Group, in line with the government guidance across all jurisdictions in which we operate. To support home working, the Group's IT infrastructure was strengthened. As a result of the quick and agile response to the pandemic, and with some

government support, the Group was able to mitigate the impact without reducing headcount as a result of Covid-19.

The decisive actions taken across all functions and at all levels in the business mitigated the initial impact. The performance in the first half of the year was materially affected by the different government lockdown responses to the pandemic in the countries in which we operate, notably in the UK and Ireland during March and April, although less than we had originally envisaged. With the easing of lockdown restrictions in May and June, the Group saw a gradual improvement in trading performance, accompanied by a corresponding reduction in losses, and this continued in the second half. Despite further lockdowns and restrictions from October onwards, the business was able to trade broadly as normal throughout the second half, albeit within the new operating norms and protocols.

## Strategic progress

Following the appointment of Steve Francis as CEO in February 2020, which was made permanent in April, a new strategy for growth was developed, centred on leveraging SIG's key differentiators of expertise, service and proximity with a key emphasis on reconnecting with customers, suppliers and employees.

The successful restructuring of the Group's financing facilities and capital raise of £165m concluded in July, including an £83m equity investment by Clayton, Dubilier & Rice LLC (CD&R). These positive developments provide both a stable financial base on which to drive the strategy for growth forward and security against ongoing market uncertainty.

Actions were taken to strengthen the organisation to prioritise greater branch and customer focus, predominantly with the restructuring of the UK Distribution and UK Exteriors businesses under one

divisional leadership. Good progress has been made throughout the year in refocusing the business and re-energising teams, and we continue to gain momentum.

Strengthening the leadership teams was the catalyst for greater and more concentrated focus on re-establishing customer and supplier partnerships. The UK leadership team was further enhanced in the year, bringing significant industry expertise back into the business and positive steps have been made to energise sales and market share recovery.

The Board continues to place importance, and increase the business's focus, on environmental, social and governance (ESG) initiatives, which we believe will be strategic value drivers for the Group. In the coming year we will balance the focus on these initiatives with a clear near-term direction on returning the Group to profitability.

Details of the strategy can be found on page 10 and a strategic update can be found in the business review on page 18.

## Shareholder value

2020 like-for-like (LFL) sales over 2019 was heavily distorted by the pandemic during H1 and finished down 13.3% for the year. In H2 there was solid recovery and in Q4 the Group reported growth of 4% (compared to Q4 2019). The underlying result in the profit and loss account was similarly distorted by the much lower sales, with an underlying loss of £76.3m for the year. As such, the Group saw a decline in underlying earnings per share from 0.2p to (10.0)p.

Even prior to the pandemic, and despite the proceeds from the sale of the Air Handling division in January 2020, it was clear that the level of net debt in the business was too high, and that the Group would need to raise equity and renegotiate its agreements with its lenders. As noted above, this was achieved in July. The Group is now on a solid financial footing, able to



both withstand further market uncertainty and invest sensibly behind the new growth strategy. The key now is to return to growth, profitability, and cash generation, and I am confident that we are now well placed to do so.

## Governance and Board

The Group supports and requires high standards in corporate governance, and this requires a strong and effective Board. I believe the Board has learnt lessons from the business issues that arose in 2019 and the early part of 2020 and is now operating more effectively.

There have been several changes to the Board during the year. Meinie Oldersma, CEO, and Nick Maddock, CFO, resigned on 24 February 2020 and Steve Francis joined as CEO with effect from 25 February 2020, initially on an interim basis. The appointment was made permanent on 24 April 2020. Steve is highly experienced in returning businesses to growth and has demonstrated strong leadership in the most testing circumstances since his appointment. His ability to navigate the effects of the Covid-19 pandemic, at the same time as focusing the leadership team on the strategic priorities to ensure the future success of SIG, has been exceptional.

Kath Kearney-Croft assumed the role of interim CFO on 25 February 2020 following the departure of Nick Maddock. Ian Ashton was then appointed on 1 July 2020, replacing Kath as the permanent CFO. Ian is a highly experienced senior executive with a strong record of driving change and has already proven to be an extremely valuable addition to the team as we pursue our new strategy for growth, as well as improved financial performance and governance.

Simon King was appointed as Non-Executive Director on 1 July 2020 and is a key addition to the Board, bringing extensive industry experience from his career spanning over 35 years. Simon most recently served on the Travis Perkins Executive Board and held the position of Chief Executive Officer of Wickes, bringing invaluable experience in our efforts to return the business to profitable growth.

We were also delighted to welcome Bruno Deschamps and Christian Rochat to the Board as Non-Executive Directors following the investment by CD&R. Bruno and Christian bring valuable and relevant experience and insights to the Board and have already made a very positive contribution.

Andrea Abt retired in February 2020. More recently, Kate Allum decided to step down as a Non-Executive Director with effect from 31 December 2020, and Ian Duncan with effect from 31 January 2021. I would like to thank Kate and Ian for their support and contribution during a very challenging period. We were delighted to welcome Kath

Durrant to the Board as a Non-Executive Director and Chair of the Remuneration Committee on 1 January 2021, and Shatish Dasani as a Non-Executive Director and Chair of the Audit Committee with effect from 1 February 2021. Kath has more than 30 years' Human Resources experience, with a strong operational and strategic track record, gained at several large global companies, including Ferguson plc, and is an experienced Remuneration Committee Chair. Shatish has over 20 years' experience in senior public company finance roles across various sectors, including building materials, and has served as Chief Financial Officer of both Forterra plc and TT Electronics plc. He is also an experienced Audit Committee Chair.

In support of driving the highest standards in governance and effective leadership, renewed focus was placed on Board involvement and engagement with key stakeholders throughout the year. All members of the Board are committed to providing strong and supportive leadership to achieve the goals set in the strategy.

Board participation in employee engagement as part of the UK Corporate Governance Code can be found on page 65.

## Independent review by PwC

As noted in the 2019 report, the Board instigated an independent review of the Group's forecasting and monthly management accounts processes in light of the shortfall between profit reported in the trading update in January 2020 and market expectations prior to the update. The Board took the findings of the PwC report very seriously. Following the report, in order to strengthen the Group's financial forecasting and internal reporting, KPMG were appointed to assist the Audit Committee in ensuring appropriate improvements have been implemented to the Company's financial systems, procedures and controls. Good progress has been made in this area and further details can be found in the Audit Committee report on pages 104.

## Health and safety

We continue to drive action through our Zero Harm policy, with increased leadership focus. Enhanced incident reporting across the Group has been a priority, to establish better insight and drive key actions, and as such, the total recorded incidents across the Group reduced by 26.8% in the year.

We remain committed to delivering the highest levels of health and safety, which we intend to improve in 2021 through a focus on leadership throughout all levels to increase awareness, engagement and ownership.

## People and culture

The Board believes that the strength of the business is its people. The Group would like to thank all employees for their resilience in

what was an extraordinary year, in which all employees across the Group demonstrated their flexibility and commitment in striving to serve customers and, importantly, support each other.

In concentrated efforts to reconnect with employees, emphasis was placed on engagement initiatives, with an objective of providing effective and frequent feedback channels and offering employees greater visibility of senior executives and Board members.

A Group-wide engagement survey was conducted, inviting feedback across a range of topics. The results were presented to the Board and ongoing action plans are a priority, led by leaders in all areas. In addition, a Board workforce engagement programme was delivered, led by Simon King following his arrival, which was positively received by participants, representing all functions and operating companies. Plans are in place to continue each programme in 2021.

Whilst Covid-19 hindered the full implementation of a Group-wide culture programme, it did provide the opportunity to realign and strengthen the framework comprising a vision, the strategic pillars and cultural behaviours of the Group. Work took place to incorporate employee feedback, and local teams took the opportunity to improve their understanding of the behaviours and how they contribute towards a change in culture. The full roll out resumed in January 2021.

## Outlook

The Group has responded well to exceptional circumstances over the last year. The growth strategy continues to gain momentum, the organisation has strengthened, and we are beginning to see the first signs of the return to growth that is required. We are expecting a return to profitability in the second half of 2021.

SIG retains strong positions in its core markets, and the fundamentals of the markets in which we operate remain strong. The Board believes that we have the right strategy and foundations in place to return to profitable growth and build a great and growing company for the future.

The Board is grateful for the ongoing support of shareholders and remains committed to leading the Group towards its goals in delivering the strategy.

## Andrew Allner

Chairman  
25 March 2021



Read about our  
strategy on page 10

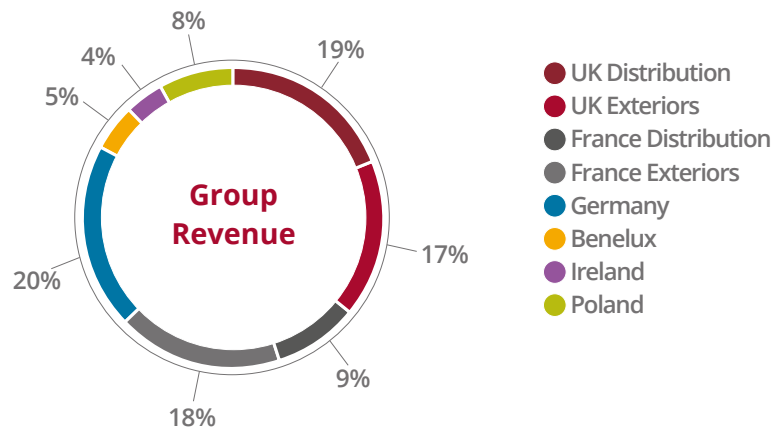


Read our financial  
review on page 22

# At a glance

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

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





## SIG Group

**SIG Distribution:** A market-leading supplier of insulation and interiors products and solutions to the construction industry.

**SIG Exteriors:** A specialist merchant of roofing materials to small to medium-sized construction businesses.

Underlying  
group revenue  
**£1,872.7m**  
(2019: £2,143.0m)

**8**  
Operating  
segments across  
Europe

**c6,500**  
Employees

**421**  
Branches

UK Distribution  
**Revenue  
£357.4m**  
(2019: £534.3m)  
**SIG DISTRIBUTION**  
www.sigdistribution.co.uk

UK Exteriors  
**Revenue  
£310.1m**  
(2019: £346.5m)  
**SIG ROOFING**  
www.sigroofing.co.uk

Benelux  
**Revenue  
£91.6m**  
(2019: £103.0m)  
**SIG**  
www.sigbenelux.com

Poland  
**Revenue  
£149.5m**  
(2019: £156.1m)  
**SIG**  
www.sig.pl

Ireland  
**Revenue  
£80.5m**  
(2019: £94.9m)  
**SIG IRELAND**  
www.sig.ie

Germany  
**Revenue  
£370.7m**  
(2019: £381.5m)  
**wega vti**  
www.wego-vti.de

France Distribution  
**Revenue  
£168.1m**  
(2019: £184.5m)  
**LITT**  
www.litt.fr

France Exteriors  
**Revenue  
£344.8m**  
(2019: £342.2m)  
**LARIVIERE**  
www.lariviere.fr

# Our business model

## Why our stakeholders choose SIG

SIG plays a critical role in the construction industry. For its customers, SIG provides specialist expertise to specialist markets. This facilitates one-stop access to an extensive product range, provides expert technical advice, breaks bulk supplies into suitable quantities and coordinates often complex delivery requirements, ensuring that customers are supplied with what they need, when it is needed.



Read about our stakeholder engagement on page 64

**As a leading supplier of specialist building products and solutions to trade customers across the UK, Ireland and Mainland Europe, SIG has a strong heritage of specialist knowledge and expertise and a wide and integrated network so we can be close to our customers to meet their needs.**

**We leverage these strengths to drive growth, whilst respecting our localised brand strength and history, and continue to be a valuable partner in protecting our customers' own brands.**



## What we do



### Expertise

Our people are our competitive advantage, with specialist product and market knowledge.

### Service

Our people go the extra mile to give our customers the products they need at the time they need them. We help our valued partners deliver and protect their brands.

### Proximity

Our leading branch network and omnichannel approach allows greater proximity to our customers.

**For its suppliers, SIG provides a channel through which suppliers can bring their products to a highly fragmented market of smaller customers conveniently and efficiently, extends product guidance and support, and provides fulfilment capability to sites that are of insufficient scale to supply direct. SIG is committed to delivering the highest levels of customer service.**

## How we do it

- Market-leading brands on an international scale, with local focus to offer effective solutions
- Extensive, specialist knowledge to support projects of every scale
- Continuous development of our people and organisation to ensure capable, engaged and empowered teams
- Scale of operations to meet customer demands
- Close partnerships with customers to offer superior customer service, driven by a sales-led culture
- Enhanced supplier partnerships to strengthen our service to customers and to build high quality, value-driven relationships to leverage joint opportunities and create value-adding strategies
- A strong portfolio of businesses, with eight operating segments across Europe
- A wide network of 421 branches
- Opportunities for organic development of the branch network and acquisitive growth





# Our strategy

To reignite growth, through our expertise, service and proximity



## Responsible actions

Our people feel safe, proud and valued and we operate sustainably to benefit communities and the environment



## Winning branches

Our branch teams are trusted, capable and empowered to achieve success



## Superior service

Our strengthened entrepreneurial and agile sales teams provide best-in-class customer service

### KPIs key:

- 1 Total recordable incident rate
- 2 Like-for-like sales (%)
- 3 Net Promoter Score (NPS)
- 4 Gross margin (%)
- 5 Operating margin (%)
- 6 Operating costs as a % of revenue
- 7 Market share growth

### Risks key:

- A Employee attraction, retention and engagement
- B Health and safety
- C Delivering business change
- D Cyber security
- E Data quality and governance
- F Market downturn
- G Systems failure
- H Business growth
- I Delivering the customer experience
- J Environmental, social and governance

### 2020 progress

- Strengthened the Board
- Conducted Board Workforce Engagement programme with a range of participants across all operating companies
- Conducted a Group-wide employee engagement survey
- Focused on strengthening two-way communications channels, including town halls and regional and branch meetings
- Appointed a new Group HSE Director to drive greater focus on safety and reporting accuracy
- Implemented strong Covid protocols and disciplined operations – rated highly by employees and regulators
- Received the Green Economy Mark from London Stock Exchange
- Launched an Employee Health and Wellbeing programme
- France: New ESG programme and new solar product offering

### Future focus

- Continue to drive actions that encourage and drive sustainable behaviours and approaches across all of our business practices

### Link to KPIs

1 3 7

### Link to risks

A B D J

### 2020 progress

- Re-established branch level profit and loss accountability in all locations
- UK: Re-built distribution branch structure with new regional and branch management in place
- UK/Germany: Re-established delegated branch toolkit including pricing, availability, local supplier relationships, local customer relationships and freight
- Poland: New SIGup loyalty program
- Netherlands: New Wet Plaster flagship branch in Amsterdam and Waddinxveen

### Future focus

- Focus on promoting more winning branches, gaining share and recovering margin and with particular focus on UK Distribution
- Build a winning franchise model across the Group

### Link to KPIs

2 4 7

### Link to risks

A C F G H I

### 2020 progress

- Completed first Group-wide Customer Net Promoter Score (NPS) survey
- De-centralised service provision
- Focused on sales productivity, enhanced tools and training
- Implemented freight management software
- Launched new KPI suite to focus on customer service
- Ireland: New electronic proof of delivery, allowing delivery notification and remote sales order processing for field sales
- Poland: Renewed inventory planning and replenishment module for stock management and e-invoices; new automatic purchase order recording

### Future focus

- Invest in sales training to strengthen commercial teams and ensure they have the right tools to allow greater focus on customer relationships
- Implement e-proof of delivery in Poland

### Link to KPIs

3 5 7

### Link to risks

A E G H I

[+ Read about our KPIs on page 14](#)

[+ Read about our principal risks on page 30](#)



## Specialist expertise

Our empowered local branches are known again for specialist focus and expertise acquired through long-term experience



## Valuable partnerships

We partner closely with suppliers to understand our joint opportunities and to create win-win strategies



## Highest productivity

Our efficient support functions are consistently productive and drive strong standards, governance and financial discipline



## Focused growth

We focus on our core business to drive growth in branches and through acquisition opportunities

### 2020 progress

- UK/Germany: Focused on re-specialising branches
- UK: Recruited high level of sales expertise and experience in rebuilding the team; Re-built Category expertise
- UK: Renewed focus on national accounts to provide value-add solutions
- UK: Launched SIG Assured to support product and service compliance in the UK
- UK: Dedicated training programmes to strengthen our specialist knowledge
- Benelux: New branch formula focusing on specialist merchandising

### Future focus

- Continue to re-introduce and develop industry knowledge to further enhance specialist expertise
- Invest in enhanced technical training

Link to KPIs

4 5 7

Link to risks

A E I

### 2020 progress

- UK: Re-established key relationships with suppliers including Board-level contacts
- UK: Re-launched SIG Alliance, a network of leading quality manufacturers
- UK: Held the first live online broadcast event, SIG Live

### Future focus

- Drive particular focus on re-establishing and developing valued relationships with key suppliers which are supported at all levels, from Board to branch
- Poland: EDI (electronic data interchange) connections with suppliers
- Poland: Continued development of e-commerce platform

Link to KPIs

4 5 7

Link to risks

C F G H I J

### 2020 progress

- Enhanced financial governance
- Invested in LucaNet, accounting software to improve financial reporting
- UK: New organisational structure
- Ireland: Investment in Lean/ Sigma 6 training

### Future focus

- Lean and effective corporate functions
- Benelux: Launch ERP implementation of Microsoft D365 to significantly enhance productivity and data quality

Link to KPIs

4 6

Link to risks

A B C D G

### 2020 progress

- Merged the UK Distribution and Exteriors businesses to create a single division with a combined leadership
- Growing market share in France, Poland and UK Exteriors
- Investment plan for new branches in Poland, France, Germany, Benelux and UK
- Completed acquisition of S M Roofing Supplies Limited in the UK
- Acquired new exclusive distributorships in Benelux
- Poland: E-commerce reached 7% of local revenues

### Future focus

- Return to strong positive EBITDA
- Enhance our network and selective digitisation and acquisition, to increase proximity to our customers and drive organic growth

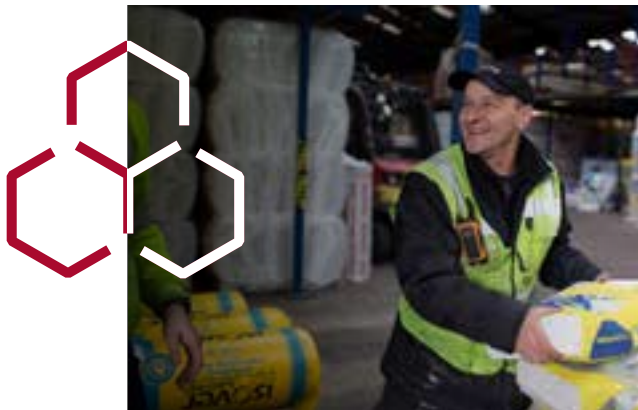
Link to KPIs

2 3 7

Link to risks

B E F H I J

# Strategy in action



## Enhanced collaboration with suppliers

**SIG UK have focused on reconnecting with their partners to improve the supply chain.**

By working closely with valued suppliers, the UK has secured business with several significant customers as we continue to drive our 'Return to Growth' strategy. One new main contractor alone, Saint-Gobain, brings significant opportunities to the SIG UK Distribution business, secured through the focus on establishing close relationships with suppliers.

Mark Rapley, UK Sales Director, Saint-Gobain Insulation UK, commented "Over the last unprecedented and challenging year, Saint-Gobain Insulation UK and SIG have forged a partnership based on shared strategic goals of sustainable growth and new business development, underpinned by a strong working relationship. Our sales and marketing teams have collaboratively supported each other by proactively identifying opportunities with national housebuilders, contractors and independent merchants, providing technical, commercial and supply chain solutions to these new and existing customers. Effective regional and local engagement has resulted in double digit sales growth in a highly competitive market for both the Saint-Gobain Insulation UK brands of ISOVER and Celotex. We are delighted with the progress that has been made and the collaborative approach, and it continues to go from strength to strength".

**Strong collaborative working with our supplier partners is key to our future success.**

**Andy Williamson,**  
Commercial Director, UK



## Providing expertise on major cityscape projects

**SIG's Wego in Germany were proud to support the construction of the country's highest residential building, the 180-metre high Grand Tower in Frankfurt am Main.**

We delivered 185,000 square meters of sheetrock panels over a period of two years, generating a sales volume of over one million euros.

This was a high profile project and SIG has been at the forefront of changing the cityscape and supporting the modernisation of living spaces. Our approach to this project clearly demonstrates our commitment and drive to further our growth strategy. Through hard work, determination and passion for what we do, we were able to further develop our customer relationships and position ourselves as a reliable and valuable business partner on large-scale projects.

Fully aware of the challenges associated with this scale of project, our sales team focused on working closely with the customer, at all times ensuring we were making the right decisions for their success throughout, ultimately leading to the success of the project.

**We are proud to have been involved in the construction of such a prestigious property in the heart of Frankfurt. Our long-standing customer placed their trust in us as a team and we have done everything we can every day to sustain it.**

**Marc Betz,**  
Sales Representative and Project Manager,  
Frankfurt am Main programme





## Reconnecting with industry leaders

**In July 2020, SIG UK hosted a live virtual conference to launch the new Return to Growth strategy.**

The virtual conference, 'SIG Live', was live streamed from a fully customisable studio located in Manchester, UK, to over 1,000 subscribed customers.

During the event, the new SIG UK management team was introduced, an investment update was provided, including a virtual tour of the new state-of-the-art SIG Distribution warehouse near Heathrow, and senior leaders held discussions on current market trends and issues with customers, reigniting our active industry leadership.

Keeping close to our customers is SIG's priority. We commit to serving them to the highest standards, and partner with them to protect and develop their brands and products. The event provided a forum, at what is a pivotal time for the industry, and provided a great opportunity to reconnect with existing customers and welcome new customers.

**SIG Live was a perfect forum for us to explain the investment we have put in place and the changes that will allow us to service our customers better.**

**Phil Johns,**  
Managing Director, UK



## Improved data driving superior service

**An integrated data platform was introduced to drive efficiency and improve sales and service.**

To support improved usage of data to drive the highest levels of service to our customers, an in-house dashboard utilising Power BI was made available throughout the Group. The platform equips external sales teams with better tools and more timely information to drive increased productivity. Sales representatives can access revenue and margin against budget, and analyses by customer, product and individual sales transactions. In addition, stock data is available across all branches to facilitate improved sourcing. This enables better communication between sales teams and branches, allowing for greater autonomy in driving sales, and contributes towards more efficient customer service.

At Larivière in France, the team implemented the performance management capability on Power BI covering the key strategic levers of business activity, business development on key accounts, pricing and stock.

With more reliable data, used daily by management, Power BI facilitates the analysis of performance, improving the efficiency of knowledge sharing to drive improved productivity against the specified KPIs, for example turnover and margin. As a result, we are attracting more customers and sales performance is improving year-on-year.

**Defining strategy is the first step; measuring against performance is what will drive success.**

**Nicolas Balland,**  
Managing Director, Larivière

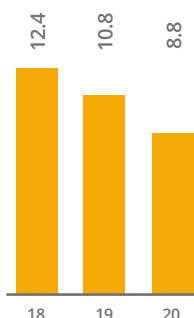
# Our KPIs

The KPIs are calculated based on underlying, continuing operations.



## Responsible actions

### Total recordable incident rate (TRIR)



#### Definition

The ratio of incidents (injury, property or environmental damage) per 200,000 of hours worked.

Note: replaces Accident Incident Rate previously reported.

#### Link to strategy

This measure demonstrates our focus on safe working environments.

#### 2020 performance

Enhanced incident reporting across the Group has been a priority, to establish better insight and drive key actions, and as such, the TRIR across the Group improved to 8.8.

#### Supporting strategic measures

- Employee turnover
- Incident rate
- Tonnes/month fuel usage

#### Link to risks

A B J

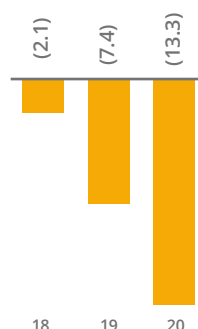
#### Link to remuneration

- Health and safety measures in annual bonus scheme



## Winning branches

### Like-for-like sales (%)\*



#### Definition

The growth/(decline) in sales per day (in constant currency) excluding any current and prior year acquisitions. Sales not adjusted for branch openings or closures. 2019 LFL sales differ from previously reported as a result of the reclassification of non-core businesses.

See note 35 for the calculation.

#### Link to strategy

This measure shows how the branches have developed revenue in comparable business relative to the prior period.

#### 2020 performance

The 13.3% reduction in LFL sales was driven by the temporary impact of Covid-19, mainly in the first half of the year. In H2 there was solid recovery and in Q4 we reported growth of 4%.

#### Supporting strategic measures

- % of branches ahead of YTD sales budget

#### Link to risks

H I

#### Link to remuneration

- Profit measures in annual bonus scheme



## Superior service

### Net Promoter Score (NPS)



#### Definition

NPS is a customer experience metric based on their likelihood to recommend SIG. It is calculated by subtracting the percentage of customers who answer the question with a 6 or lower, from the percentage of customers who answer with a 9 or 10.

This is externally monitored by a third-party company.

#### Link to strategy

This measure demonstrates the high level of customer service we deliver.

#### 2020 performance

Our latest Group NPS score was 43 (out of 100). This is a new measure in 2020 and will be tracked moving forwards.

#### Supporting strategic measures

- Number of new customers
- Total active customers v PY

#### Link to risks

C D G I

#### Link to remuneration

- Strategic objectives in annual bonus scheme



## Specialist expertise

### Gross margin (%)



#### Definition

The calculation of underlying gross profit, divided by the underlying revenue.

See note 35 for the calculation.

#### Link to strategy

This measure shows the success of our specialist focus, our ability to optimize our product mix, and our success at managing both cost and prices.

#### 2020 performance

Gross margin has decreased by 80bps in the year to 25.1%, due to lower sales volumes over the year.

#### Supporting strategic measures

- Average experience of commercial teams (years' tenure) v PY
- Hours of sales/product training in month

#### Link to risks

A C

#### Link to remuneration

- Profit measures in annual bonus scheme



## Valuable partnerships

### Operating margin (%)\*



#### Definition

The ratio of underlying operating profit, divided by underlying revenue.

See note 35 for the calculation.

#### Link to strategy

This measure demonstrates the overall efficiency of the business, including our strong relationships with suppliers.

#### 2020 performance

Operating margin has decreased to (2.8)%, reflecting the lower sales volumes and impact on operating profit due to Covid-19.

#### Supporting strategic measures

- Value add sales

#### Link to risks

C H J

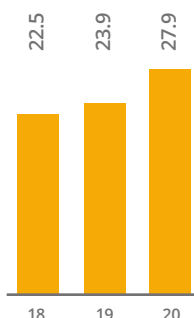
#### Link to remuneration

- Profit measures in annual bonus scheme



## Highest productivity

### Operating costs as a % of revenue



#### Definition

The ratio of underlying operating costs to underlying revenue.

See note 35 for the calculation.

#### Link to strategy

This measure enables the business to track the productivity of our supporting functions.

#### 2020 performance

Underlying costs represented 27.9% of underlying revenue, 400bps higher than the prior year. This is as a result of inflation, foreign currency movement, and bad debt relating to Covid-19 uncertainty, partially offset against government support.

#### Supporting strategic measures

- Cash conversion
- YTD sales/FTE v PY
- YTD sales/sales FTEs v PY

#### Link to risks

C E

#### Link to remuneration

- Average net debt measures in annual bonus scheme



## Focused growth

### Market share growth\*



#### Definition

We are working on a definition for market share across the Group, and have started to review the baseline data. We will report on this strategic KPI in the 2021 Annual Report.



Read more about our strategy on page 10



Read our business review on page 18



Read more about our risks on page 30



Read more about our remuneration on page 107

### \*Strategic KPIs

As announced in the 2019 Annual Report, we are adopting new KPIs to align the business to our seven strategic pillars.

Progress has been slowed given the Covid-19 pandemic. The strategic KPIs will continue to be updated during 2021, and more specific measures will be defined. These will be reported in the 2021 Annual Report.

#### Risks key:

- A Employee attraction, retention and engagement
- B Health and safety
- C Delivering business change
- D Cyber security
- E Data quality and governance
- F Market downturn
- G Systems failure
- H Business growth
- I Delivering the customer experience
- J Environmental, social and governance

# Market review

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

## Global trends



### 1 Economic backdrop

- During the year, particularly in the UK, we continued to see economic uncertainty, which impacted customer confidence and affected construction output.
- In the short term, economic uncertainty remains, but long-term fundamentals remain sound in the Group's markets.
- **Our response:** In July, the Group concluded the successful renegotiation of its debt arrangements and equity raise. These actions, along with careful management of working capital and cash, created a sound financial base for the business to withstand the economic uncertainty.



### 2 Sustainability

- Stakeholders have an increasing awareness of environmental matters and the industry is seeing increasing levels of sustainability legislation.
- Therefore, companies are required more than ever to address key sustainability issues and pledge to minimise their environmental footprint.
- **Our response:** SIG is committed to creating long-term sustainable value for our stakeholders, and we have aligned our operations against the Sustainable Development Goals. See page 36.



### 3 Impact of Covid-19

- Covid-19 is impacting the global construction industry with projects facing supply chain delays and the introduction of new measures to safeguard the health and safety of the workforce.
- **Our response:** We acted quickly to develop a coordinated and decisive response to Covid-19 to support our operating companies, to ensure the health and safety of our people, customers, suppliers and local communities within which we operate and to minimise the adverse impacts on our businesses.



### 4 Technological developments

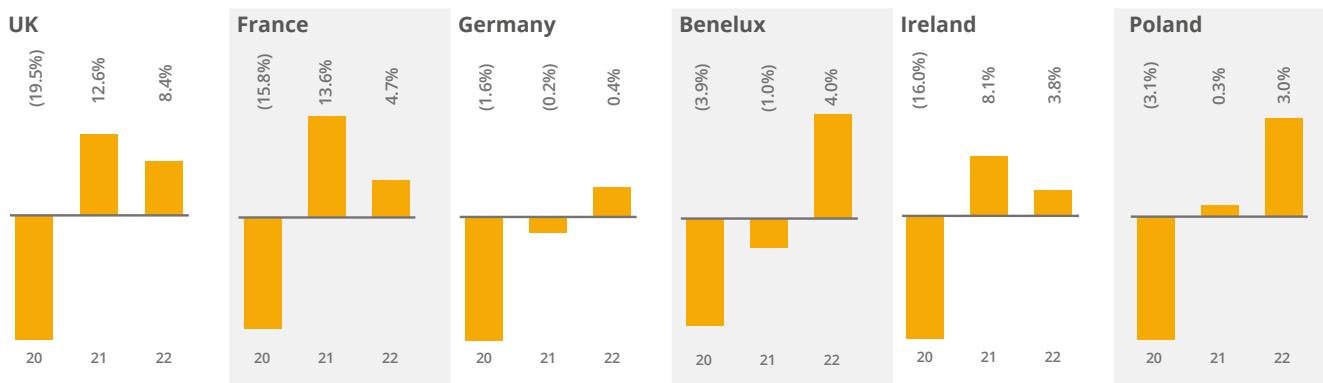
- Customer needs are changing in line with the pace of technological advances, and they are expecting ease, speed and transparency when ordering.
- Companies are investing in digitalisation and technology to improve how they operate and to generate efficiencies.
- **Our response:** We have invested in software tools and technology during the year to support growth, including Pixsell and Power BI for our sales team. We also continue to develop the e-commerce platform across the Group to offer customers an omnichannel experience.



## Geographic outlook

Total construction output fell during 2020, as a result of Covid-19. However, growth is expected in all of our markets over the next two years.

### Total construction output – annual % change



Data source: Euroconstruct database, Nov 2020

## Distribution

### 1 Level of construction activity

**Trend:** The level of construction activity fell during 2020 but is expected to rise over the next two years.

**Our response:** Our extensive range of specialist products, coupled with superior expertise and an expansive network, means SIG is equipped for growth and responding to industry demands.

### 2 Changes in legislation

**Trend:** Higher energy efficiency standards and environmental legislation across all geographical markets, with increasing focus on repair, maintenance and improvement (RMI) investment to meet updated fire regulations.

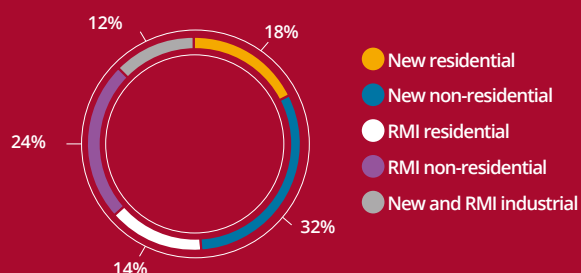
**Our response:** Non-residential renovation projects provide opportunities in the RMI market. In the UK, SIG is also proud to support the Green Homes Scheme.

### 3 Government infrastructure spending

**Trend:** Government investment is driving a solid pipeline of large projects, including green economy initiatives.

**Our response:** Our extensive network and specialist expertise allows us to partner large-scale projects at the forefront of the industry.

#### Revenue by market



## Exteriors

### 1 Investment in new build schemes

**Trend:** The backlog of new housing requires investment, amplified by the steep fall in activity during 2020, due to the effects of Covid-19.

**Our response:** c40% of revenue in our Exteriors business is from new residential activity, which is therefore a significant market for SIG.

### 2 Regulatory changes

**Trend:** Increasing number, and added stringency, of regulatory changes in the industry.

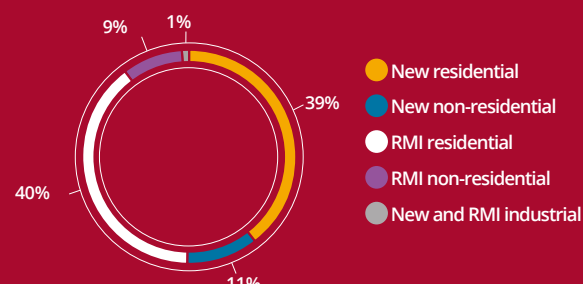
**Our response:** Our key differentiator is the specialist knowledge and expertise of roofing materials, to provide technical advice and support specifications.

### 3 Post-Brexit

**Trend:** The UK's departure from the European Union could bring unexpected challenges and supply chain disruption.

**Our response:** Supply chain delays were experienced prior to and after Brexit, exacerbated by some Covid-related delays in logistics. Where these were anticipated, stock holdings were increased to ensure consistency of supply. We continue to monitor the risks and supply chain availability.

#### Revenue by market



# Business review

Our teams have shown **great resilience and commitment in the face of the challenging circumstances** for much of the year, the effects of which clearly impacted our first half, and hence full year, results. Providing a safe environment and instilling an even greater focus on good health and safety behaviours has been and will remain a major focus of the new management team.

I am delighted that due to our Return to Growth strategy we delivered a solid second half and **have begun to return the business to growth** after a long period of decline. On behalf of the whole Board I would like to thank all our employees for their significant efforts, and successes, during the year.

The new UK management team has rebuilt its business and, everywhere we operate, we have **reconnected with our employees, customers and suppliers**. Their response has reaffirmed that we are at our best when we are a local, sales and technical service-driven

business, partnering closely with our key suppliers and operating with empowered and entrepreneurial branch teams. That is our strategy for growth and the basis for playing a leading role in our industry in the years to come.

This, coupled with a strong balance sheet, gives us the right **foundations for the business to grow**.

**Steve Francis,**  
Chief Executive  
Officer



## Strategy update

On 29 May, the Group launched its Return to Growth strategy. The restructuring of its debt facilities and the successful capital raise provide firm and stable foundations for this strategy to be delivered. Fundamental to the new strategy is the recognition that SIG is a sales-led organisation, where the ability to grow its customer base through the provision of high levels of customer service, deep technical expertise and disciplined pricing are critical. The establishment of strong customer relationships, by empowering and energising key account and branch teams, and promoting an entrepreneurial spirit throughout the company's extensive branch network, is key to this objective.

The implementation of the strategy is now well underway. In the UK, where the Group's operational and financial performance had seen greatest deterioration, the new strategy is initially focusing on de-centralising accountability to branch level and upgrading operational processes, systems and controls to provide the appropriate platform from which market share can be recaptured and profitable growth restored. In the EU businesses, where the Group's operational and financial performance has in general been more stable, the new strategy is empowering the Group's operating companies to move onto a growth footing.

Through the implementation of this strategy, supported by the strengthened balance sheet and strong leadership teams now in place across the organisation, the Board is confident that the Group will return to sustainable and long term profitable growth and achieve its vision of being the leading B2B supplier of specialist construction products and solutions in the markets in which it operates.

The delivery of these strategic objectives will, in turn, enable the Group to achieve its key stated medium term financial goals, being:

- A Group operating margin of approximately 3%, trending towards approximately 5% in the longer term; underpinned by target operating margin of approximately 5% within the Group's operating companies
- Leverage of <1.5x (pre IFRS 16 basis)
- A progressive dividend covered 2.0-3.0x by underlying earnings

## Market share recapture plan

The Group's market share recapture plan, particularly for its UK businesses, Distribution and Exteriors, as well as for its Germany and Benelux businesses, is built upon some key enablers.

## Merger of leadership of UK Distribution and Exteriors

The UK's Distribution and Exteriors businesses have now been merged to create a single UK division, with a combined leadership team replicating the model already successfully deployed in SIG France, which will leverage potential synergies in support functions whilst maintaining separate commercial organisations and footprints (primarily branches). The new regional structure of the combined UK business is focusing on promoting local entrepreneurship, accountability and P&L account responsibility.

## More expansive growth strategy

As part of the Return to Growth strategy, the Group has commenced a review to refine the definitions of its marketplace and thereby revise and expand the definition of "core" business. This is designed to facilitate the development of a more expansive growth strategy in each of the Group's countries of operation. The Company expects this review to highlight opportunities, consistent with the Group's USPs (Expertise, Proximity, Service), to widen its product offering and expand its geographic coverage in areas where the greatest returns can be realised.

### Energise sales, market share recovery and growth efforts

The Group is improving proximity to its customers by identifying and filling gaps in its geographical coverage. Sales forces are being expanded and up-skilled by restoring their historic industry-leading, bench-strength of specialist local expertise in areas such as fire protection, energy efficiency and sustainable materials. Sales force productivity is also being increased through enhanced sales management and training, supported by sales force management tools, disciplines and aligned incentives, with customer reconnection a top priority.

### Facilitate growth through better operations

A number of actions are well advanced in the Group's operations to increase efficiency and service levels to boost the sales effort, including:

- pricing tools and training for key account and branch managers, providing enhanced visibility and autonomy to set pricing quickly and competitively;
- improved product availability through the use of enhanced systems and more accurate operational key performance indicators, such as stock availability;
- enhanced on time and in full delivery; and
- additional training, which is being provided to the Group's workforce in order to promote operational excellence and customer service.

### Liquidity and balance sheet strengthening

The successful renegotiation of the Group's debt facilities during the summer resulted in a resetting of its covenant requirements, with additional minor amendments made in early March 2021 to better align the different tests. Consolidated liquidity covenants are to be tested monthly through to the maturity of the facilities, with net borrowings tested monthly until December 2022. From March 2022, leverage will be tested on a quarterly basis, and interest cover will be tested from June 2022. Consolidated net worth will also be tested each quarter through to maturity of the facilities.

The significant loss of revenues in H1 2020 impacted profitability, cash generation and therefore debt levels, though the immediate and comprehensive set of actions enacted across the business around cash conservation, coupled with the receipt of the sale proceeds of the Air Handling business, meant that the Group was able to preserve its liquidity throughout the period.

In mid-July, the Group completed a successful capital raise, as previously announced, raising gross proceeds of £165m (c£152m net of related costs). At the same time, approximately £13m costs were paid in relation to the debt refinancing.

As at the year-end, the Group had net debt on a pre IFRS 16 basis of £4.1m. By the end of February 2021 this number had increased to £36.4m, reflecting the expected seasonal increase in working capital, as well as some payments of annual commitments. We expect a net cash outflow during the first half and a modest cash inflow in H2.

### Dividend

In line with the terms of the Group's amended debt arrangements, the Board did not declare or pay an interim dividend for the 2020 financial year, and nor will a final dividend be declared.

Successful execution of the Return to Growth strategy will return the Group to sustainable, profitable growth and cash generation, capable of supporting a range of capital allocation priorities. As such, the Board retains its medium term commitment to return to a progressive dividend policy, appropriately covered by underlying earnings.

### People

The Board would like to thank all employees of SIG for their continued commitment and resilience in 2020, which was a particularly challenging year as a result of Covid-19. Whilst the trading results were affected by the pandemic, their efforts have laid a strong foundation for the next phase of SIG's evolution as we focus on building a stronger business with a high performing workforce that is rewarded for making a positive difference.

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

To further strengthen engagement with colleagues, the Board appointed Simon King as the designated Non-Executive Director for workforce engagement with effect from 1 October 2020. In addition, in early 2020, a new culture programme was launched to develop a culture aligned to shared behaviours and encourage openness and transparency.

Whilst Covid-19 hindered the full implementation of a Group-wide culture programme, it did provide the opportunity to realign and strengthen the framework comprising a vision, the strategic pillars and cultural behaviours of the Group. Work took place to incorporate employee feedback, and local teams took the opportunity to improve their understanding of the behaviours and how they contribute towards a change in culture. The full roll out resumed in January 2021.

### Covid-19

The Board closely monitored the impact of the pandemic on the business and on our people, and continues to do so. Throughout the last twelve months, the safety of our people, customers and suppliers has been, and continues to be, our primary concern. Additional health and safety measures were quickly implemented at the beginning of the outbreak, and the new protocols continue to be adhered to across the Group, in line with the government guidance across all jurisdictions in which it operates. To support home working, the Group's IT infrastructure was strengthened. As a result of the quick and agile response to the pandemic, and from some government support, the Group was able to mitigate the impact without reducing headcount as a result of Covid-19.

The specific actions taken included, but were not limited to:

- i. Employees: Over 2,000 employees were furloughed under the UK Government's scheme and the majority of trading sites across the UK and Ireland were temporarily closed. Remaining staff agreed to take up to 20% temporary pay reductions, with the salaries of all members of the Board temporarily reduced by 50% from 1 April to 30 June 2020. In mid-May, the Company reinstated the Executive Directors' pay to 80% at the same time as other Group employees were returning to work on full pay.
- ii. Government support: Relevant government support was accessed in all countries of operation, across employment support, tax and social security deferrals. In aggregate, use of government support schemes enabled the Group to defer approximately £21m of cash payments to points later within 2020, with another c£4m deferred into 2021, and to support the retention of jobs through the receipt of c£11m of furlough monies and other forms of support.
- iii. Capital expenditure: Programmes that required significant cash investment or did not provide near-term business benefits were paused.

# Business review

- iv. Customers: The Group remained very diligent in proactively managing collections and monitoring overdue payments.
- v. Trade suppliers: The Group conducted active discussions with large trade suppliers in order to maintain continuity of supply, and in some cases was able to net rebates off against payments earlier than scheduled.
- vi. Non-trade suppliers: Deferral and terms extension requests were managed across non-trade suppliers, with a significant focus on IT, services and property, with property rates being deferred on UK properties.
- vii. Dividend: As noted above, the Board did not declare a full year 2019 dividend or interim 2020 dividend.

The decisive actions taken across all functions and at all levels in the business mitigated the initial impact of the global pandemic. The performance in the first half of the year was materially affected by the different government lockdown responses to the pandemic in the countries in which we operate, notably in the UK and Ireland during March and April, although less than we had originally envisaged. With the easing of lockdown restrictions in May and June, the Group saw a gradual improvement in trading performance, accompanied by a corresponding reduction in losses and this continued in the second half. Despite further lockdowns and restrictions from October onwards, the business was able to trade broadly as normal throughout the second half, albeit within the new operating norms and protocols.

## Portfolio management

As announced on 3 February 2020, the Company completed the sale of its Air Handling Division to France Air Management SA for an enterprise value of €222.7m (c£187.0m) on a cash free, debt free basis on 31 January 2020. After payment of transaction costs and other agreed adjustments to the consideration, the net cash inflow totalled c£148m. The results from this business have been excluded from the reported underlying results and are shown as a discontinued operation in both FY 2020 and the prior year.

The Building Solutions business was classified as held for sale at 31 December 2019 as a sale had been agreed and was due to complete in the first half of 2020, subject to approval from the UK Competition and Markets Authority (CMA). As announced in May 2020, the parties agreed to terminate the sales agreement as terms could not be agreed for the extension

of the agreement to enable the completion of the CMA phase 2 investigation. During the second half of the year the Board decided to retain and develop the business, and it is now reported as part of underlying operations. Prior year comparatives have been restated to present numbers on a consistent basis with the current year.

## Trading overview

Despite the materially adverse impacts on trading from Covid-19, the Group's results for the year were better than initial internal estimates that were made at the onset of the pandemic early in the year.

The year commenced with a like-for-like decline in underlying revenues of c11% for the first two months of trading, reflecting the continuation of the challenging trends experienced during the final quarter of 2019 in the UK and Germany. Trading activity across the Group's other end markets remained relatively stable.

The onset of the pandemic led to a period of temporary lockdown in a number of the markets in which the Group operates, significantly impacting revenue streams during March and April in France, and April and May in the UK and Ireland, in common with the broader construction industry. The Group's operating companies in Germany, Poland and Benelux were also impacted by local government containment measures, although to a lesser extent. Despite the lockdowns, parts of our UK and Ireland businesses did remain open to service critical and emergency projects only, such as for the NHS, energy and food sectors. After rapidly enhancing our health and safety protocols across all of the Group's branches and offices we were able to operate a staged reopening of our branch network through April and May, in conjunction with local government guidelines. Underlying revenues during the second quarter declined 33% on a like-for-like basis.

The material drop in sales volumes across our end markets throughout the first half led to reductions in underlying gross profit margins, principally driven by reduced levels of supplier rebates, and hence reduced profitability. To partly offset the adverse impacts, the Group initiated a number of decisive actions that not only reduced its cost base but also supported its liquidity position. Additionally, the Group accessed government-supported job retention schemes.

Trading over the summer months continued to show signs of improvement as local restrictions across a number of the Group's trading markets were relaxed,

coupled with a strong consumer demand in the repair, maintenance and improvement ("RMI") market segment, benefiting our UK and France Exteriors businesses.

Despite improving conditions, trading continued to be challenging as we moved into the second half of 2020, particularly in UK Distribution, Ireland and Benelux where various levels of local government-imposed trading restrictions were still in force. However, whilst the Group's LFL sales in the third quarter continued to be down year-on-year, the trajectory improved, with all operating companies, except Poland, witnessing an increase in trading volumes. Underlying revenues in the third quarter finished 8% behind prior year on a like-for-like basis. Margins, and hence profitability, in quarter three showed an improvement on the previous quarter, with a revenue uplift of 38% coming principally from reduced effects of Covid-19, particularly in the UK businesses, resulting in higher levels of supplier rebates.

The fourth quarter saw a return to positive LFL sales at a Group level (+4%), with strength in the RMI markets continuing to assist our exteriors businesses in the UK and France and underpinned by early signs of progress coming from the Group's Return to Growth strategy, which started to deliver an improved organic sales performance. The fourth trading quarter volumes also saw further improvement in gross margins and profitability, providing solid momentum as we entered 2021.

## Outlook

Trading in 2021 to date is in line with management expectations, continuing on a similar trajectory to Q4 2020. The market fundamentals for SIG remain strong and we are benefiting from good RMI growth in UK and France. We now have the right structure in place for UK Distribution and revenue growth is starting to emerge as planned.

Continued uncertainty remains regarding Covid-19, as well as rising input prices and early signs of some potential materials shortages. However, providing there is no further material disruption to either our business or end markets as a result of the pandemic, the Board expects the near-term benefits of the actions taken in 2020 to deliver organic revenue growth in 2021, including market share gains. The benefits of this will become increasingly evident as the year progresses and should enable us to return to underlying operating profitability and cash generation during the second half.



## Rebuilding the UK business

**As part of our overall strategy for growth, the rebuild of the UK business was fundamental to re-establish our core business and expertise. With the joining of Phil Johns as Managing Director, who returned to the business after several years, we made significant progress quickly.**

With the aim of restoring expertise, significant organisational changes took place, beginning with the reorganisation of the senior leadership team; 5 of 7 market-facing UK Directors joined in 2020, bringing back an average of 27 years' experience, with the majority being SIG alumni, re-joining the business. The newly strengthened leadership team put the subsequent merge of the two UK businesses, distribution and roofing, under one leadership team, creating a more effective structure and generating a cost saving of £4m.

Through re-investment, the UK Distribution business began its rebuild and commenced a major project to enhance our sales and branch teams. Over 6 months, a total of 380 roles were redeployed or recruited; 26% of the total were sales and category roles.

In addition, our branch teams were enhanced, with a reintroduction of 32 new branch manager positions, providing enhanced local leadership and accountability.

In line with the new strategy to re-establish local focus, steps were taken to empower branches and maximise specialist central support. Focus was placed on building margin, price management, stock control and localised transport. To drive improved customer service, an enhanced CRM platform was launched. With these enhanced tools and re-prioritisation measures, the re-establishment of customer and supplier engagement was enabled.

With solid foundations in place, the business is making significant initial steps into its footprint growth, with a new branch opening in Scotland, strengthening our local market presence and the first acquisitions made since 2015. S M Roofing, a roofing supplies merchant, and F30 Building Products, a building products merchant (2021) were integrated into the Distribution business strengthening our offering and portfolio.

In 2021, the UK business will continue to focus on returning the UK back to profit, gaining market share and recovering gross margin. Further actions will be taken to maximise the decentralised, branch-led model, supported by selective acquisitions, to drive the business towards growth.



# Financial review

The financial performance in 2020 was severely affected by restrictions on trading in response to Covid-19, **particularly in March and April** during the most severe lockdown period in the majority of markets. As restrictions eased and trading returned to relative normality from May onwards, the Group also saw a gradual **improvement in underlying trading performance**, notably the early stages of recovery in the UK Distribution business late in H2. The Group finished the year with **substantial liquidity headroom**.

**Ian Ashton**, Chief Financial Officer



## Revenue and gross margin

The Group saw a 13% decline in its LFL revenue over the year, with Group underlying revenue down to £1,872.7m (2019: £2,143.0m), principally as a result of the Covid-19 impact. Underlying results exclude the results from the businesses that are classified as non-core and Other items, in order to provide a better understanding of the performance of the Group on a continuing basis. On a statutory basis, Group revenue was £1,874.5m (2019: £2,160.6m), with non-core businesses reporting sales of £1.8m (2019: £17.6m).

Underlying gross profit decreased 15.4% to £470.0m (2019: £555.4m) with a gross

profit margin of 25.1% (2019: 25.9%). This primarily reflects lower rebate receipts due to decreased sales volumes. On a statutory basis, gross profit fell from £559.1m to £470.5m with gross margin decreasing by 80bps to 25.1% (2019: 25.9%).

## Operating costs and profit

The Group's underlying operating costs were £523.3m (2019: £512.9m). The increase was primarily due to the release of a number of one-off accruals and provisions in 2019, some temporary costs related to the UK and broader Group reorganisations, normalisation of incentives, increases to bad debt expense in response to Covid-19 uncertainty,

cost inflation, and movements in foreign currency. These increases were partially offset by c£12m benefit from furlough schemes, other government support, and wage saving initiatives. The Group's underlying operating loss was £53.3m (2019: £42.5m profit) and at a statutory level, the Group's operating loss was £167.7m (2019: £87.9m) after Other items of £114.4m (2019: £130.4m). The latter included £76.1m of impairment charges, £13.2m of onerous contract costs, £7.4m costs associated with refinancing, and £6.7m costs relating to restructuring activities.

## Segmental analysis

### UK

|                           | Underlying revenue<br>2020<br>£m | Underlying revenue <sup>1</sup><br>2019<br>£m | LFL sales    |             | Underlying operating loss<br>2020<br>£m | Underlying operating profit/(loss) <sup>1</sup><br>2019<br>£m |
|---------------------------|----------------------------------|-----------------------------------------------|--------------|-------------|-----------------------------------------|---------------------------------------------------------------|
|                           |                                  |                                               | H1           | H2          |                                         |                                                               |
| UK Distribution           | 357.4                            | 534.3                                         | (48)%        | (15)%       | (33)%                                   | 7.9                                                           |
| UK Exteriors              | 310.1                            | 346.5                                         | (27)%        | 5%          | (11)%                                   | 11.8                                                          |
| <b>UK before non-core</b> | <b>667.5</b>                     | <b>880.8</b>                                  | <b>(40)%</b> | <b>(7)%</b> | <b>(25)%</b>                            | <b>19.7</b>                                                   |
| Non-core businesses       | -                                | 1.2                                           | -            | -           | -                                       | (0.8)                                                         |
| <b>UK</b>                 | <b>667.5</b>                     | <b>882.0</b>                                  | <b>(40)%</b> | <b>(7)%</b> | <b>(25)%</b>                            | <b>18.9</b>                                                   |

1. 2019 restated to include Building Solutions, reported as non-core in 2019.

Underlying revenue in UK Distribution, a specialist insulation and interiors distribution business, was down 33.1% to £357.4m (2019: £534.3m). Underlying gross margin dropped 370bps to 22.5% (2019: 26.2%). The lockdown during March and April severely impacted UK trading and as a result, combined with some continued underlying weakness in performance, underlying operating loss was £45.4m (2019: £7.9m profit).

Underlying  
revenue  
**£1,872.7m**  
2019: £2,143.0m

Underlying  
(loss)/profit  
before tax  
**(£76.3)m**  
2019: £17.7m

Statutory loss  
before tax  
**(£202.3)m**  
2019: (£112.7)m

Net debt  
**£238.2m**  
2019: £455.4m

Despite a strong second half recovery, helped by a robust RMI market, UK Exteriors, a specialist roofing merchant, which also includes our Building Solutions business, saw underlying revenue fall by 10.5% to £310.1m (2019: £346.5m) for the full year. Gross margin decreased 100bps to 27.3% (2019: 28.3%). As a result of these decreases, driven by the impact of Covid-19, the business recorded an underlying operating loss of £7.4m (2019: £11.8m profit).

## France

|                               | Underlying<br>revenue<br>2020<br>£m | Underlying<br>revenue<br>2019<br>£m | LFL sales |     | FY2020       | Underlying<br>operating<br>profit/(loss)<br>2020<br>£m | Underlying<br>operating<br>profit/(loss)<br>2019<br>£m |
|-------------------------------|-------------------------------------|-------------------------------------|-----------|-----|--------------|--------------------------------------------------------|--------------------------------------------------------|
|                               |                                     |                                     | H1        | H2  |              |                                                        |                                                        |
| France Distribution           | <b>168.1</b>                        | 184.5                               | (21)%     | 1%  | <b>(10)%</b> | <b>7.1</b>                                             | 11.2                                                   |
| France Exteriors              | <b>344.8</b>                        | 342.2                               | (11)%     | 12% | <b>0%</b>    | <b>8.3</b>                                             | 8.6                                                    |
| <b>France before non-core</b> | <b>512.9</b>                        | 526.7                               | (14)%     | 8%  | <b>(3)%</b>  | <b>15.4</b>                                            | 19.8                                                   |
| Non-core businesses           | <b>1.8</b>                          | 1.9                                 | –         | –   | <b>–</b>     | <b>(0.3)</b>                                           | (0.9)                                                  |
| <b>France</b>                 | <b>514.7</b>                        | 528.6                               | (14)%     | 8%  | <b>(3)%</b>  | <b>15.1</b>                                            | 18.9                                                   |

Trading activity suffered a temporary setback in France following the short term closure of all branches for three days in mid-March. The businesses then commenced a staged reopening through into April.

France Distribution, trading as LITT, a structural insulation and interiors business, saw underlying revenue decrease by 8.9% to £168.1m (2019: £184.5m), and by 10% on a LFL basis after adjusting for foreign exchange movements. Within this, the second half of the year showed clear signs of recovery, with LFL sales for the six months up 1%. Underlying gross margin remained flat at 27.4% (2019: 27.4%), with the reduction in revenue resulting in a £4.1m decrease in underlying operating profit to £7.1m (2019: £11.2m).

Underlying revenue in France Exteriors, trading as Larivière, a specialist roofing business, increased by 0.8% to £344.8m (2019: £342.2m), with H1 revenues down on prior year, though ahead in H2 on the back of strong demand in the RMI market, similar to that witnessed in the UK. Helped by a new pricing framework introduced during the latter stages of 2019, underlying gross margin improved 90bps in the period to 24.3% (2019: 23.4%). After taking into account inflationary cost increases and foreign currency movement, underlying operating profit reduced by £0.3m to £8.3m (2019: £8.6m).

# Financial review

## Germany and Benelux

|                                            | Underlying revenue<br>2020<br>£m | Underlying revenue<br>2019<br>£m | LFL sales   |             |             | Underlying operating profit<br>2020<br>£m | Underlying operating profit<br>2019<br>£m |
|--------------------------------------------|----------------------------------|----------------------------------|-------------|-------------|-------------|-------------------------------------------|-------------------------------------------|
|                                            |                                  |                                  | H1          | H2          | FY2020      |                                           |                                           |
| Germany                                    | 370.7                            | 381.5                            | (9)%        | (1)%        | (5)%        | 0.4                                       | 4.4                                       |
| Benelux                                    | 91.6                             | 103.0                            | (12)%       | (14)%       | (13)%       | 2.5                                       | 5.2                                       |
| <b>Germany and Benelux before non-core</b> | <b>462.3</b>                     | <b>484.5</b>                     | <b>(9)%</b> | <b>(4)%</b> | <b>(7)%</b> | <b>2.9</b>                                | <b>9.6</b>                                |
| Non-core businesses                        | -                                | 14.5                             | -           | -           | -           | -                                         | 0.8                                       |
| <b>Germany and Benelux</b>                 | <b>462.3</b>                     | <b>499.0</b>                     | <b>(9)%</b> | <b>(4)%</b> | <b>(7)%</b> | <b>2.9</b>                                | <b>10.4</b>                               |

The Group's operating companies in Germany and Benelux were impacted by government measures due to Covid-19, but to a lesser extent than in the UK, Ireland and France, and trading continued from all sites throughout the period.

Underlying revenue in WeGo/VTi, our specialist insulation and interiors distribution business in Germany, fell by 2.8% to £370.7m (2019: £381.5m) and by 5% on a LFL basis. In addition to the challenges faced due to Covid-19, H1 trading in Germany also saw a continuation of the weaker trends experienced in the last quarter of 2019. However, underlying gross margin increased 30bps to 28.0% (2019: 27.7%), reflecting a number of renegotiated contracts with suppliers whereby thresholds have been reduced, and assisted by further enhancements around pricing controls. Underlying operating profit for the period was £0.4m (2019: £4.4m).

Underlying revenue from the Group's business in the Benelux region fell by 11.1% to £91.6m (2019: £103.0m), with the impacts of Covid-19 being exacerbated by a reduction in construction output in the Netherlands following changes in environmental restrictions in 2019. Despite a very competitive marketplace, underlying gross margin decreased only 10bps to 24.6% (2019: 24.7%). As a result of the drop in revenue, operating profit decreased to £2.5m (2019: £5.2m).

## Ireland

|         | Underlying revenue<br>2020<br>£m | Underlying revenue<br>2019<br>£m | LFL sales |      |        | Underlying operating profit<br>2020<br>£m | Underlying operating profit<br>2019<br>£m |
|---------|----------------------------------|----------------------------------|-----------|------|--------|-------------------------------------------|-------------------------------------------|
|         |                                  |                                  | H1        | H2   | FY2020 |                                           |                                           |
| Ireland | 80.5                             | 94.9                             | (31)%     | (3)% | (17)%  | 0.8                                       | 6.8                                       |

In Ireland, a specialist distributor of interiors, insulation and construction accessories, revenues in March to April were significantly impacted by the Covid-19 pandemic, with a gradual improvement in performance in May to June as branches began to reopen. Underlying revenue declined by 15.2% to £80.5m (2019: £94.9m), and by 17% on a LFL basis after adjusting for working days and foreign currency movements. Underlying gross margin dropped to 23.4% (2019: 25.0%) as the business saw a shift in sales mix away from its higher margin offerings, with underlying operating profit for the period of £0.8m (2019: £6.8m).

## Poland

|        | Underlying revenue<br>2020<br>£m | Underlying revenue<br>2019<br>£m | LFL sales |      |        | Underlying operating profit<br>2020<br>£m | Underlying operating profit<br>2019<br>£m |
|--------|----------------------------------|----------------------------------|-----------|------|--------|-------------------------------------------|-------------------------------------------|
|        |                                  |                                  | H1        | H2   | FY2020 |                                           |                                           |
| Poland | 149.5                            | 156.1                            | (0)%      | (5)% | (3)%   | 2.0                                       | 4.3                                       |

In Poland, a market leading distributor of insulation and interiors, underlying revenue fell to £149.5m (2019: £156.1m), with LFL sales down 3%. Whilst also impacted by government measures, trading continued from all sites throughout the period. Underlying gross margin decreased slightly to 20.0% (2019: 20.3%), with the business delivering an underlying profit of £2.0m (2019: £4.3m) in the period, driven by the drop in revenue and a small increase in operating costs.



## Reconciliation of underlying to statutory result

Other items, being items excluded from underlying results, during the period amounted to £126.0m (2019: £130.4m) on a pre-tax basis and are summarised in the table below:

|                                                                                           | 2020<br>£m     | 2019<br>£m |
|-------------------------------------------------------------------------------------------|----------------|------------|
| <b>Underlying (loss)/profit before tax</b>                                                | <b>(76.3)</b>  | 17.7       |
| Other items – impacting (loss)/profit before tax:                                         |                |            |
| Amortisation of acquired intangibles                                                      | (5.6)          | (6.2)      |
| Impairment charges                                                                        | (76.1)         | (90.9)     |
| Profit on agreed sale or closure of non-core businesses and associated impairment charges | 0.6            | 0.1        |
| Net operating losses attributable to businesses identified as non-core                    | (0.3)          | (0.9)      |
| Net restructuring costs                                                                   | (6.7)          | (27.1)     |
| Investment in omnichannel retailing                                                       | (4.2)          | (5.7)      |
| Onerous contract costs                                                                    | (13.2)         | –          |
| Costs associated with refinancing                                                         | (7.4)          | –          |
| Non-underlying finance costs                                                              | (11.6)         | –          |
| Other specific items                                                                      | (1.5)          | 0.3        |
| <b>Total Other items</b>                                                                  | <b>(126.0)</b> | (130.4)    |
| <b>Statutory loss before tax</b>                                                          | <b>(202.3)</b> | (112.7)    |

Further details of Other items are as follows:

- The impairment charges of £76.1m (2019: £90.9m) comprise £45.4m related to goodwill, £1.9m customer relationships in intangibles, £13.7m implementation costs of ERP systems ("SAP 1HANA") in Germany and France, £1.4m other software costs, £3.5m tangible fixed assets, and £10.2m right-of-use assets.
- Net restructuring costs of £6.7m (2019: £27.1m) were incurred in connection with the prior year target operating model projects in the UK, Germany and France, the current year restructuring of the UK businesses as part of the implementation of the Return to Growth strategy, and restructuring in Benelux.
- Onerous contract costs of £13.2m (2019: £nil) related to provisions recognised for licence fee commitments where no future economic benefit is expected, principally in relation to the SAP 1HANA implementation.
- Costs associated with refinancing of £7.4m (2019: £nil) includes legal and professional fees of £8.3m offset by a £0.9m gain in relation to the partial derecognition of a cash flow hedging arrangement as a result of the change in debt facility agreements.
- Non-underlying finance costs of £11.6m (2019: £nil) comprise £11.3m loss on modification recognised in relation to the private placement notes and £0.3m write-off of arrangement fees in relation to the previous Revolving Credit Facility which has been extinguished.

## Taxation

The effective tax rate for the Group on the total loss before tax of £130.3m (2019: £108.9m) is negative 6.8% (2019: negative 14.3%). As the Group operates in several different countries, tax losses cannot be surrendered or utilised cross border and the Group therefore pays tax in some countries and not in others. Tax losses are not currently recognised in respect of the UK business, which also impacts the overall effective tax rate. The combination of these factors means that the effective tax rate is less meaningful as an indicator or comparator for the Group.

In accordance with UK legislation, the Group publishes an annual tax strategy, which is available on our website ([www.sigplc.com](http://www.sigplc.com)).

## Pensions

The Group operates four (2019: six) defined benefit pension schemes and a number of defined contribution pension schemes. The largest defined benefit scheme is a UK scheme, which was closed to further accrual in 2016.

The Group's total pension charge for the year, including amounts charged to interest and Other items, was £6.9m (2019: £7.0m), of which a charge of £0.7m (2019: £0.7m) related to defined benefit pension schemes and £6.2m (2019: £6.3m) related to defined contribution schemes.

The overall defined benefit pension schemes' liabilities before taxation increased marginally during the year to £25.1m (2019: £24.8m).

## Financial position

In July 2020, we concluded the successful restructure of our financing facilities and a £165m capital raise (c£152m net of related costs). These, along with our careful management of working capital and cash in the year, have strengthened the balance sheet and created a sound financial base on which we can rebuild the business. Overall, the net assets of the Group have increased by 4.1% to £306.3m (2019: £294.2m), with a cash position at year-end of £235.3m (2019: £110.0m, excluding cash from businesses held for sale) and net debt of £238.2m (2019: £455.4m).

# Financial review

## Group structure

The results at FY 2019 have been restated to reflect the change to core businesses subsequent to the year-end announcement. Please refer to the table below:

|                                       | Underlying revenue<br>£m | Underlying PBT<br>£m |
|---------------------------------------|--------------------------|----------------------|
| <b>As reported at FY 2019 results</b> | <b>2,084.7</b>           | <b>15.6</b>          |
| Building Solutions                    | 58.3                     | 2.1                  |
| <b>Restated at FY 2020 results</b>    | <b>2,143.0</b>           | <b>17.7</b>          |

## Cash flow

|                                                                | 2020<br>£m    | 2019<br>£m |
|----------------------------------------------------------------|---------------|------------|
| Total operating loss, excluding gain on sale from Air Handling | (166.6)       | (82.9)     |
| Depreciation and non-cash items                                | 154.4         | 177.9      |
| (Increase)/decrease in working capital and provisions          | (30.8)        | 71.0       |
| Interest and tax                                               | (32.3)        | (35.3)     |
| Capital expenditure                                            | (20.8)        | (34.5)     |
| Proceeds from sale of property, plant and equipment            | 5.6           | 7.6        |
| <b>Free cash flow</b>                                          | <b>(90.5)</b> | 103.8      |
| Sale and purchase of businesses                                | 147.0         | 7.5        |
| Payment of lease liabilities                                   | (54.8)        | (59.9)     |
| (Repayment)/drawdown of debt                                   | (85.2)        | 42.4       |
| Dividends paid to equity holders of the Company                | -             | (22.2)     |
| Net proceeds from capital raise                                | 151.9         | -          |
| <b>Change in cash and cash equivalents</b>                     | <b>68.4</b>   | 71.6       |
| Cash and cash equivalents at beginning of the year             | 145.1         | 78.8       |
| Effect of foreign exchange rate changes                        | 21.8          | (5.3)      |
| <b>Cash and cash equivalents at end of the year</b>            | <b>235.3</b>  | 145.1      |

During the year, the Group reported a free cash outflow of £90.5m (2019: £103.8m inflow) as a result of the loss in the year and an increase in working capital, together with payments in relation to interest, tax and capital expenditure. Other movements in cash relate to £147.0m cash inflow from the sale and purchase of businesses (2019: £7.5m), £151.9m net proceeds from the capital raise (2019: nil), £85.2m repayments of debt (2019: £42.4m drawdown) and £54.8m payment of lease liabilities (2019: £59.9m).

Free cash flow represents the cash available after supporting operations and maintaining capital assets, and before financing and investing activities.

## Financing and funding

On 18 June 2020, the Group agreed amended debt facility agreements in respect of its Revolving Credit Facility and private placement notes. On 10 July 2020, the Group also completed the successful raising of £165m (c£152m net of related costs) equity through a firm placing, and placing and open offer, in order to reduce the Group's net debt and strengthen its balance sheet.

The Group has significant available liquidity and on the basis of current forecasts is expected to remain in compliance with all banking covenants throughout the forecast period to 31 March 2022. On 1 March 2021, the Group agreed with its lending banks and private placement noteholders to amend certain financial covenants to better align the different tests and to provide additional headroom on the interest cover covenant under stress test scenarios from March 2022.

## Viability statement

In accordance with the requirements of the 2018 UK Corporate Governance Code (the Code), the Directors confirm that they have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of the risk identification and management process and a description of the principal risks and uncertainties facing the Group are included in this Strategic report on pages 30 to 35. As such, the key factors affecting the Group's prospects are:

- **Market positions:** SIG retains strong market positions in its two core businesses, which the Board believes will continue to offer sustainable positions over the medium term;
- **Specialist business model:** SIG is focused on specialist distribution and merchandising of specialist products for our customers. A defined product focus means SIG occupies a key supply niche, partnering both suppliers and customers to add value;
- **Sales mix:** a diversified portfolio of products, market sectors and geographies means SIG has a resilient underlying portfolio of customers, diversifying the risk around sales for the Group; and
- **Delivery of the Return to Growth strategy:** good early progress has been made in implementing the new strategy introduced in 2020 to drive a return to profitable growth, with a clear focus on growing the customer base through the re-establishment of strong customer and supplier partnerships, specialist expertise and superior customer service.

The Board has determined that a three-year period to 31 December 2023 is the most appropriate time period for its viability review. This period has been selected since it gives the Board sufficient visibility into the future, due to industry characteristics, business cycle and the tenor of the Group's financing, to make a realistic viability assessment. This also aligns with the new growth plan for the business.

### The assessment process and key assumptions

As part of the Group's financial planning process, financial forecasts for the first three years were produced covering the period to 31 December 2023. The process included a detailed review of the forecasts, led by the Chief Executive Officer and Chief Financial Officer in conjunction with input from divisional and functional management.

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

- **Turnaround for the business:** continued focus on the new strategy for growth implemented in 2020 to grow the EU businesses whilst maintaining or improving margin, and delivering a market share recapture plan in the UK. The turnaround in the UK is focused on re-establishing valuable customer and supplier relationships, with clear accountability at branch level;
- **Return to profitable growth:** early progress has been made on delivering the new strategy, centred on leveraging SIG's key differentiators of expertise, service and proximity to reignite growth through focusing on:
  - **Specialist expertise:** branches and regions re-establishing specialist focus and expertise, continuing to re-introduce and develop industry knowledge and investing in enhanced technical training;
  - **Superior service:** our sales capacity and productivity is being strengthened, to provide the best customer service, with investment in sales training to strengthen commercial teams and ensure they have the right tools to allow greater focus on customer relationships;

- **Winning branches:** branch teams are trusted, capable and empowered to achieve success, with a focus on building a winning franchise model across the Group; and
- **Valuable partnerships:** partnering closely with suppliers to understand our joint opportunities and to create win-win strategies.

- **Impact of Covid-19:** the forecasts assume that there will be sustained growth in the economy and in the construction industry in particular, and, given that the Group has adapted working practices to align with the Covid-19 restrictions, that no further significant reductions in trading such as that seen in the Spring of 2020 will occur. The recent commencement and rate of success of vaccination programmes, notably in the UK, reduces the risk of further impact from Covid-19; and
- **Dividends:** no dividend for 2020, as previously announced.

Additionally, during 2020 the Group obtained new financing and strengthened the balance sheet, as follows:

- On 31 January 2020 the Group completed its disposal of its Air Handling Division with net proceeds of £155.1m;
- On 18 June 2020 the Group completed its renegotiation of its banking facilities;
- On 10 July 2020 the Group completed its equity raise with proceeds of £165m; and
- On 1 March 2021 the Group agreed with its lenders to amend certain covenants to better align the different tests.

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

| Variant                                                                                                                                                                                                                                                                                                                                                     | Link to principal risks and uncertainties                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| Sensitivity analysis has been modelled on the basis that the Return to Growth strategy may take longer than expected to fully deliver, with downside scenarios modelled on the medium term plan for 2021, 2022 and 2023.                                                                                                                                    | Delivering business change<br>Market downturn<br>Business growth |
| The implications of a challenging economic environment, in particular a lower than expected recovery in the construction industry and the wider economy following the removal of the current restrictions in relation to Covid-19, have been modelled by assuming a severe but plausible reduction in revenue and gross margins in each of the three years. | Delivering business change<br>Market downturn                    |
| The impact of the competitive environment within which the Group's businesses operate and the interaction with the Group's gross margin has been modelled by assuming a severe but plausible reduction in revenue and gross margins during the three year period.                                                                                           | Delivering business change<br>Market downturn<br>Business growth |

# Financial review

The resulting impact on key metrics was considered with particular focus on solvency measures including liquidity headroom and other covenants. The forecasts show headroom against all covenants during the three year period under the downside scenarios considered, including consideration of the impact of potential further impairments of goodwill and other non-current assets on the consolidated net worth covenant. In the case of these scenarios arising, various mitigating actions are also available to the Group, including further cost reduction programmes, a reduction in non-essential capital expenditure, seeking support from the RCF lenders and the private placement noteholders, seeking alternative sources of finance and making further business disposals.

This assessment is based on the assumption that the Group's £70m term loan/£25m Revolving Credit Facility, which have 31 May 2023 end dates, together with the c£145m Private Placement Notes with 2023-2026 maturities (containing May 2023 put options for early repayment), will be refinanced in advance of these maturities. Following the recent successful amendment of the covenants the Group is confident in ongoing lender support, and also plans to refinance the facilities well in advance of the May 2023 facility end dates.

After conducting their viability review, and taking into account the Group's current position and principal risks, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment to 31 December 2023.

## Going concern

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

On 18 June 2020, the Group agreed amended debt facility agreements in respect of its Revolving Credit Facility (RCF) and private placement notes, with key changes as set out in Note 19 of the Consolidated Financial Statements. On 10 July 2020 the Group also completed the successful raising of £165m of equity through a firm placing and placing and open offer, in order to reduce net debt and strengthen the Group's balance sheet.

Under the June 2020 revised debt facility agreements the Group was subject to covenant testing as follows:

- Leverage (net debt/EBITDA) and interest cover (EBITA/interest) not tested until March 2022, after which tested every quarter, the tests being applied to the prior 12 months;
- Until 28 February 2022 the Group has to ensure that Consolidated Net Debt (CND) does not exceed £225m for each quarterly test date in 2021 (2020: £125m);
- Minimum Liquidity (available cash and undrawn revolving credit facility commitments) of £40m at all times; and
- Consolidated Net Worth (CNW) must at all times not be less than £250m.

The Group was in compliance with these covenants at 31 December 2020.

Whilst the Group has significant available liquidity, and on the basis of current forecasts is expected to remain in compliance with all banking covenants throughout the forecast period to 31 March 2022, on 1 March 2021 the Group agreed with its lending banks and private placement noteholders to amend certain financial covenants to better align the tests and to provide additional headroom on the interest cover covenant under stress test scenarios from March 2022. The amended covenants under the

revised agreements are as follows:

- The interest cover testing does not start until June 2022 and is at lower levels than previously until December 2022;
- The leverage covenant threshold is now slightly lower than previously at March 2022 and June 2022;
- The Consolidated Net Debt threshold is lowered to £200m and extended to December 2022; and
- No change to the CNW or Minimum Liquidity covenants.

In arriving at their opinion on going concern, the Directors have considered the Group's forecasts for the period to 31 March 2022, and specifically the ability to meet the covenant tests above. These forecasts reflect the assumption of more normal trading levels since the worst of the Covid-19 impact, as well as the expected positive impact of the strategic actions being undertaken to improve future performance under the Return to Growth strategy.

Management have continued to manage liquidity very closely, such that cashflow performance was better than initial expectations throughout 2020. The base forecasts indicate that the Group will be able to operate within the covenants for the forecast period to 31 March 2022.

The Directors have considered the following principal risks and uncertainties that could potentially impact the Group's ability to fund its future activities and adhere to its future banking covenants, including:

- A decline in market conditions resulting in lower than forecast sales;
- Implementation of the new strategy taking longer than anticipated to deliver forecast increases in revenue and profit;
- A further wave of the Covid-19 pandemic; and
- The terms of the Group's revised lending arrangements and whether these could limit investment in growth opportunities.

The forecasts on which the going concern assessment is based have been subject to sensitivity analysis and stress testing to assess the impact of the above risks. The Group has considered a plausible downside scenario, factoring in a reduction in sales volumes and a reduction in gross margin, offset by reductions in direct expenditure and discretionary operating costs. The results showed that under this scenario the Group will still be able to operate within the covenants with adequate headroom for the forecast period to 31 March 2022.

In considering the impact of these stress test scenarios the Directors have also reviewed realistic additional mitigating actions that could be taken over and above those already included in the downside scenario forecast to avoid or reduce the impact or occurrence of the underlying risks. These include further reductions to operating costs, cutting discretionary capital expenditure and disposing of non-core assets.

On consideration of the above, the Directors believe that the Group has adequate resources to continue in operational existence for the forecast period to 31 March 2022 and the Directors therefore consider it is appropriate to adopt the going concern basis in preparing the 2020 financial statements.



### Cautionary statement

This Strategic Report has been prepared to provide the Company's shareholders with a fair review of the business of the Group and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

This Strategic Report and other sections of this report contain forward-looking statements that are subject to risk factors including the economic and business circumstances occurring from time to time in countries and markets in which the Group operates and risk factors associated with the building and construction sectors. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward-looking statements.

No assurance can be given that the forward-looking statements in this Strategic Report will be realised. Statements about the directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and they are based on expectations and assumptions as to future events, circumstances and other factors which are in some cases outside the Group's control. Actual results could differ materially from the Group's current expectations. It is believed that the expectations set out in these forward-looking statements are reasonable but they may be affected by a wide range of variables, which could cause actual results or trends to differ materially, including but not limited to, changes in risks associated with the level of market demand, fluctuations in product pricing and changes in foreign exchange and interest rates.

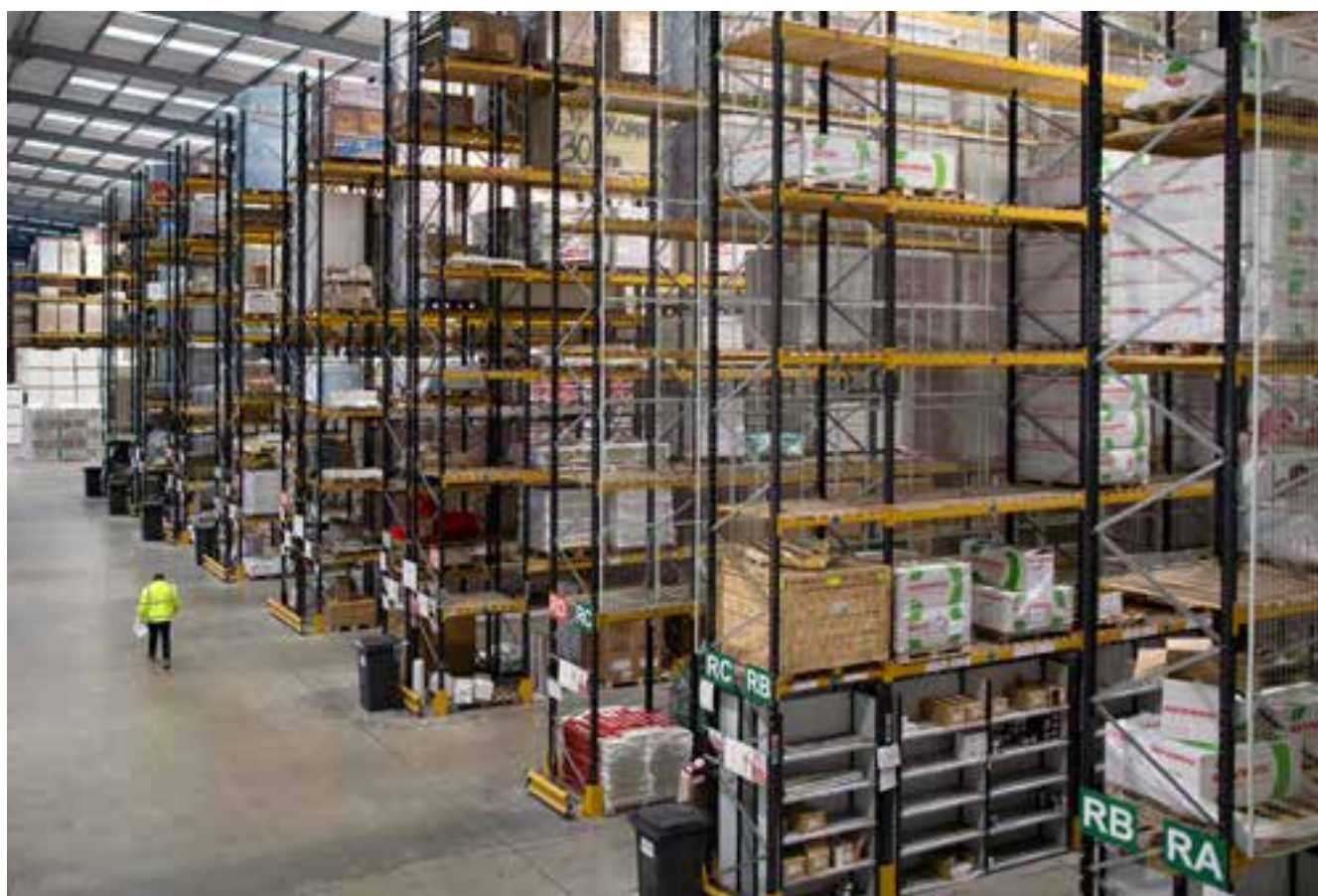
The forward-looking statements should be read in particular in the context of the specific risk factors for the Group identified on pages 30 to 35 of this Strategic Report.

The Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. This Strategic Report has not been audited or otherwise independently verified. The information contained in this Strategic Report has been prepared on the basis of the knowledge and information available to directors at the date of its preparation and the Company does not undertake any obligation to update or revise this Strategic Report during the financial year ahead.

The Strategic Report (comprising pages 04 to 47) was approved by a duly authorised committee of the Board of Directors on 25 March 2021 and signed on the Board's behalf by:

**Steve Francis**  
Chief Executive Officer  
25 March 2021

**Ian Ashton**  
Chief Financial Officer  
25 March 2021



# Principal risks and uncertainties

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



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

The Group employs a three lines model to provide a simple and effective way to enhance risk management and control processes and ensure roles and responsibilities are clear. The Board maintains oversight to ensure risk management and control activities carried out by the three lines are proportionate to the perceived degree of risk and its own risk appetite across the Group.

## Risk management framework

The SIG risk management framework is based on the identification of risks through regular discussion at local operating company leadership and Executive Leadership Team (ELT) meetings. New and emerging risks are identified through the use of horizon scanning, regular exercises with first and second line teams and attendance at relevant forums. These risks are monitored on an ongoing basis with thorough risk assessments completed where needed, to ensure that the Group is well positioned to manage these risks should they materialise.

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

Group risks are formally reviewed by risk owners with updates reported back to the Executive Leadership Team and Board bi-annually. This includes a review of the completeness of risk registers and the appropriateness of risk scoring. For example, the risk rating for delivering business change increased, following a review of the risk scoring and clarity regarding transformation activity due to occur across the Group over the strategic timeframe.

A similar risk management process occurs at the operating company level where the risk register contains risks to the achievement of the local medium-term plan. The Group Risk team periodically review these risks with local management and perform a reconciliation with the Group risk register. Details of spotlight risks are presented at each Audit Committee meeting, with a focus on health and safety, business growth and cyber security in 2020.

| Risk category                    | Risk appetite statement                                                                                                                                                                                                                                                                                        |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial</b>                 | SIG prefers options in its everyday business that limit the possibility of financial loss even though rewards may be restricted as a result.                                                                                                                                                                   |
| <b>Operational</b>               | SIG is prepared to accept some adverse impact on operational performance in the short term if there is a clear business case with defined benefits that will help achieve its objectives.                                                                                                                      |
| <b>Health and safety</b>         | SIG has a commitment to ensuring that no harm comes to colleagues, customers and suppliers, and that there are zero health and safety reportable incidents. It invests appropriately to achieve this.                                                                                                          |
| <b>Regulatory and compliance</b> | SIG is a compliant organisation and invests to ensure that there is a robust control environment to maintain a high level of compliance.                                                                                                                                                                       |
| <b>People</b>                    | SIG will seek to meet current workforce requirements through existing structures but may change the organisational model or seek new skills when there is a clear cost or efficiency benefit from doing so. Employee dissatisfaction is limited wherever possible.                                             |
| <b>Strategy</b>                  | SIG has a balanced approach towards taking risk through strategic initiatives and will maintain a portfolio of initiatives with a range of risk profiles, including those that present higher risk and reward.                                                                                                 |
| <b>Transformation</b>            | SIG will balance the potential reward from transformation activity with the likelihood of risk to delivery. Some activity that has the potential to disrupt underlying business may be undertaken if the potential rewards outweigh the risk.                                                                  |
| <b>Reputation</b>                | SIG will seek to avoid actions that present a risk of reputational damage and will consider the likely views of its stakeholders, including its customers, suppliers, shareholders, employees and communities in which it operates, ensuring risk is minimised prior to approval of an initiative or activity. |

# Principal risks and uncertainties

## Assurance activity

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

Internal Audit provides independent assurance on both control design and effectiveness and, where relevant, the activity conducted by first and second line functions. The annual internal audit plan comprises of a core cyclical plan (which mandates a review of key financial and IT controls on an annual basis) and a risk-based plan that is aligned to Group risks. Whilst most of the work is performed by an in-house team of qualified auditors, expertise for specialist areas such as IT is obtained through a co-source arrangement with KPMG.

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

## Developments in 2020

Key developments in risk management and internal control in 2020 included:

- Updates to the risk management framework.
- Updates to the Group's risk appetite.
- Incorporation of standard tests in all risk-based audits, such as for IT general controls and fraud.
- Continued improvements in documenting sources of assurance.
- Further development by the Group Controls team of the key controls framework to include more detailed risk and control matrices for significant risk areas.
- Roll out of an action tracking tool for internal controls.
- Improvements to the cyber security control environment.
- Improvements to the Group's forecasting process to establish greater control, accountability and transparency.

## Improvements planned for 2021

SIG will continue to improve its risk management processes with a number of initiatives in 2021:

- Further refinement, automation and development of Key Risk Indicators (KRI) reporting.
- Documentation of risk and controls matrices for remaining key control areas.
- Implementation of an integrated assurance framework for enhanced governance of risk and control.

## Brexit risk

Following the UK's exit from the European Union, the Group has made a number of adjustments to its business operations in order to maintain continuity of supply and ensure ongoing legal and regulatory compliance. As the industry adjusts to the post-Brexit operating environment, the Board continues to monitor the potential financial, operational and legislative impacts, particularly with regards to its UK and Ireland businesses, to ensure assessments remain appropriate. The main areas of ongoing focus are:

- Supply shortages and border delays – the Group has adjusted and maintained stock levels in anticipation of potential shortages in key product lines, some of which materialised as a result of the Covid-19 pandemic. With the deal clarifying the UK-Ireland border arrangements, supply and sale arrangements have been amended accordingly.
- Tax and customs – Group Tax and operating company Finance teams performed a review and identified necessary changes to SIG's sale arrangements. Amendments to terms of sale are being made, where necessary, to ensure ongoing compliance.
- Disclosures – the Group is working with suppliers and industry bodies to ensure adequate arrangements are in place in anticipation of changes to safety and security disclosures due in 2021, resulting from Brexit.

The business will maintain ongoing dialogue with suppliers, customers and regulators and update its assessments accordingly.





## Covid-19

Since the outbreak of Covid-19 in Q1 2020, we have continued to monitor the impact of the unfolding situation and has implemented mitigating measures to act in accordance with government guidance and to protect customers, employees and suppliers.

The Board and Executive Leadership Team's continued focus is on ensuring measures are in place to manage the Group's risks across a range of areas, including liquidity, people, supply chain and regulations. The Executive Leadership Team meet regularly to provide updates on the situation and to ensure that the actions that have been taken are appropriate to the evolving threat.

Additional business continuity plans are in place in each operating company in order for local leadership teams to ensure they are responding quickly and effectively to the local situation.

To ensure the business remains Covid-safe, the measures we have taken to date include:

- Actions to manage the Group's cash requirements such as leveraging governmental support (in the form of deferred payments or grants), prioritisation of capital expenditure projects, and liaising with customers to more closely manage credit control and cash collection.
- Enhancing the Group's cash flow forecast model, accommodating a range of scenarios that vary both in time and severity to ensure it has the most accurate view possible of future cashflows.
- Implementation of processes and procedures to allow the safe closure and reopening of branches, according to government guidance. We temporarily closed our UK and Irish businesses and selected branches of other operating companies in line with local government

advice, to protect our people and to conserve cash. Across the Group and where allowed under local regulations, a limited branch network was maintained in order to service critical projects essential to frontline services. In the UK, we reopened all sites by the end of June and ensured Covid-safe measures were in place in all branches across operating companies.

- Adapting to a remote working model, increasing VPN licences and computer hardware to support as many as people as possible to work from home. Enhanced anti-fraud measures have also been implemented in response to the proliferation of organised crime activity that was observed.

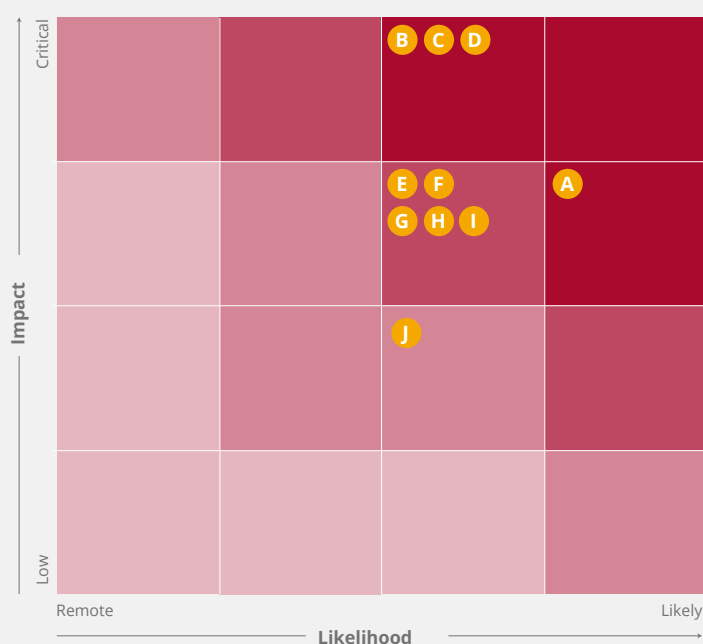
The Group continues to model a range of scenarios and refine its contingency plans in line with the latest information available regarding recovery.

## Principal risks

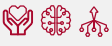
The Board monitors 16 risks on the Group risk register, which includes the ten principal risks to the Group set out in this Report. These risks, if they materialise, could have a significant impact on the Group's ability to meet its strategic objectives. The assessed net risk scores (likelihood and impact of the risk occurring after taking account of mitigating controls) are outlined in the below matrix and details of the risks, current mitigations and planned improvements are included in the table on the next page.

### Principal risks

- A** Employee attraction, retention and engagement
- B** Health and safety
- C** Delivering business change
- D** Cyber security
- E** Data quality and governance
- F** Market downturn
- G** Systems failure
- H** Business growth
- I** Delivering the customer experience
- J** Environmental, social and governance



# Principal risks and uncertainties

| Risk                                                                                                                                                                                                                                       | Description                                                                                                                                                                      | Change in the year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mitigations                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>A</b><br><b>Employee attraction, retention and engagement</b><br><br> | Failure to attract and retain people with the right skills, drive and capability to reshape and grow the business.                                                               | <p>SIG's people risk profile remains unchanged despite challenges posed by Covid-19. We responded to the pandemic with a mental health and wellbeing programme, which included a new Employee Assistance Programme (EAP) in the UK and mental health first aider training.</p> <p>We continued to roll out the culture programme and delivered a Group-wide Board engagement programme and employee engagement survey. Action plans from both will be followed through to completion in 2021.</p>                              | <ul style="list-style-type: none"> <li>■ Engagement survey completed with associated action plan developed.</li> <li>■ Improved remuneration packages and retention plans for critical roles.</li> <li>■ Launch of commitment culture.</li> <li>■ Launch of mental health and wellbeing policy.</li> <li>■ Monthly tracking of staff turnover and key indicators.</li> </ul>                                                                                                    |
| <b>B</b><br><b>Health and safety</b><br><br>                             | Danger of incident or accident, resulting in injury or loss of life to employees, customers or the general public.                                                               | <p>The Covid-19 pandemic increased the risk of a health and safety event occurring, with both the gross and net risk rising in the year.</p> <p>New ways of working were introduced to ensure ongoing compliance with laws and regulations and the safeguarding of health and wellbeing. These included revised in-branch pick-up processes and the introduction of screens and revised branch layouts.</p>                                                                                                                    | <ul style="list-style-type: none"> <li>■ Integrated Safety management system being implemented.</li> <li>■ Framework of compliance standards in place.</li> <li>■ Regular monitoring and reporting of key metrics.</li> <li>■ HSE managers visibility raised by joining Group Senior Leadership Team.</li> </ul>                                                                                                                                                                |
| <b>C</b><br><b>Delivering business change</b><br><br>                | Failure to deliver the change and growth agenda in an effective and efficient manner, resulting in management stretch, compromised quality and inability to meet growth targets. | <p>Delivery of the new strategy has increased the type and level of change initiatives underway at SIG, leading to an increase in risk profile.</p> <p>Operating companies continue to manage change portfolios through programme management governance committees. Increased monitoring has been implemented, in particular over progress against growth initiatives, in line with our strategy.</p>                                                                                                                          | <ul style="list-style-type: none"> <li>■ Project Delivery Framework in place for IT enabled projects.</li> <li>■ Governance process in place for delivery of major projects.</li> <li>■ Benefits tracking.</li> <li>■ Monitoring of KPIs relating to key business change programmes.</li> </ul>                                                                                                                                                                                 |
| <b>D</b><br><b>Cyber security</b><br><br>                            | Internal or external cyber attack could result in system disruption or loss of sensitive data.                                                                                   | <p>The cyber security risk profile remains in line with prior year. Additional measures have been deployed to counteract the increased cyber risk observed throughout the pandemic.</p> <p>We deployed more stringent access controls to critical systems, giving greater security to our infrastructure and data. Awareness campaigns were delivered across the business and continue on a regular basis, with the results of simulated phishing exercises reported to the Executive Leadership Team and Board regularly.</p> | <ul style="list-style-type: none"> <li>■ Training and communication schedule to ensure employee awareness of risks.</li> <li>■ Disaster recovery plans in place and secure backups conducted to ensure continuity of service.</li> <li>■ Endpoint encryption installation.</li> <li>■ Enhanced cyber attack monitoring.</li> <li>■ Monthly tracking of key indicators in management accounts.</li> </ul>                                                                        |
| <b>E</b><br><b>Data quality and governance</b><br><br>               | Poor data quality negatively impacts our financial management, fact-based decision making, business efficiency, and credibility with customers.                                  | <p>With our return to profitability underpinned by accurate and timely data, this risk area is now reflected as a principal risk for the organisation.</p> <p>Investment in a new financial consolidation tool will provide deeper and more readily available insight into forecasts.</p> <p>Product and customer data quality remain a focus area for our operating companies, who continue to liaise with local industry bodies to obtain and leverage market data.</p>                                                      | <ul style="list-style-type: none"> <li>■ Regulatory policies in place to govern compliance.</li> <li>■ Delivery of training and awareness campaigns.</li> <li>■ IT upgrade projects in key locations.</li> </ul>                                                                                                                                                                                                                                                                |
| <b>F</b><br><b>Market downturn</b><br><br>                           | Volatility in the market impacts the Group's ability to accurately forecast and to meet internal and external expectations.                                                      | <p>The risk to SIG of market downturn has remained broadly in line with prior year and market monitoring continues to ensure timely and appropriate responses are put in place in relevant operating companies.</p> <p>Uncertainty regarding Brexit remained, with additional concerns regarding construction activity under Covid-19. Government support for the construction industry in the UK during periods of lockdown resulted in higher levels of market activity than worst-case scenario models.</p>                 | <ul style="list-style-type: none"> <li>■ The Group's geographical diversity across Europe reduces the impact of changes in market conditions in any one country.</li> <li>■ Industry based KPIs monitored monthly at a Group and operating company level.</li> <li>■ Regular and ongoing business performance reviews are conducted.</li> <li>■ Brexit monitoring.</li> <li>■ Enhanced forecasting with Group visibility.</li> <li>■ Business growth plans in place.</li> </ul> |

| Risk                                                                                                                                           | Description                                                                                                                              | Change in the year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mitigations                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>G</b><br><b>Systems failure</b><br>                        | Systems become heavily customised and outdated and are unable to support critical business activity and decision making.                 | <p>Systems failure remains a principal Information Technology risk, with monitoring continuing throughout the year.</p> <p>Enhancements to our infrastructure and control environment strengthened our defence against this risk; SIG France moved to a state-of-the-art data centre and team capabilities were enhanced through specialist hires.</p>                                                                                                                                                                 | <ul style="list-style-type: none"> <li>■ Support from specialised third-party experts.</li> <li>■ Business continuity and disaster recovery capabilities.</li> <li>■ IT upgrade projects in key locations.</li> </ul>                                                                                                                                                |
| <b>H</b><br><b>Business growth</b><br>                        | SIG is unable to grow sales and/or land new market opportunities to grow market share in line with strategy.                             | <p>The business continues to deliver against plans to return to profitable growth, with the risk rating in line with prior year.</p> <p>Our physical branch network was reimagined to ensure proximity to customers and the completion of new flagship distribution centres, such as Valor Park near Heathrow, to allow the business greater scope and scale of sales delivery. Monitoring of business growth metrics continues as part of business reviews at both the management and Board level.</p>                | <ul style="list-style-type: none"> <li>■ Growth targets included in budgets for all business areas.</li> <li>■ Business performance is reported and monitored regularly in management accounts and at management meetings.</li> <li>■ Bespoke technical offerings and diverse specialist product ranges give access to specialist markets.</li> </ul>                |
| <b>I</b><br><b>Delivering the customer experience</b><br>    | Failure to deliver consistent, high-quality service to customers and/or strengthen relationships with customers.                         | <p>Delivering superior value remains one of our principal risks, with a risk profile in line with prior year.</p> <p>Challenging working and trading conditions resulting from the Covid-19 pandemic were offset by investment in a strengthened sales capacity, including a programme of strategic appointments to our salesforce. Customer satisfaction and Net Promoter Score (NPS) surveys were performed throughout the year, with action plans identified for areas where we can better serve our customers.</p> | <ul style="list-style-type: none"> <li>■ Customer-centric training and development programmes.</li> <li>■ Customer segmentation analysis.</li> <li>■ Development of loyalty programmes.</li> <li>■ Customer metrics reported and monitored regularly in management accounts and at management meetings.</li> <li>■ Customer satisfaction and NPS surveys.</li> </ul> |
| <b>J</b><br><b>Environmental, social and governance</b><br> | SIG suffers financial and/or reputational losses as a result of poor environmental, social and governance performance and/or disclosure. | Environmental, social and governance (ESG) risk is reflected as a new principal risk for 2020. Action plans identified through a detailed assessment will be implemented in 2021 and beyond.                                                                                                                                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>■ ESG roadmap in development for rollout prior to upcoming disclosure obligation deadlines.</li> <li>■ Employee mental health and wellbeing programme.</li> <li>■ Development of a ten-year de-carbonisation plan.</li> <li>■ ISO14001 Environmental Management Systems accreditation rollout plan.</li> </ul>                |

### Relevance to strategy



### Understanding movements in business risks



# Environmental, social and governance: Framework



**Commitment to Environmental, Social and Governance (ESG) matters is central to pillar one of our Return to Growth strategy.**



## Environmental

The environmental factor is primarily concerned with the company's influence on the environment and its ability to mitigate various risks that could harm the environment. Generally, a company is assessed by its use of energy, waste generation, level of pollution produced, utilisation of resources and treatment of animals.



## Social

The social factor investigates the company's relationships with other businesses and communities. Social factor considers the attitudes towards diversity, human rights and consumer protection.



## Governance

Corporate governance is concerned with the internal company affairs and its relationships with the company's main stakeholders, including its employees and shareholders.

**SIG is committed to creating long-term sustainable value for our stakeholders. To achieve this goal, we have aligned our operations with the United Nations Sustainable Development Goals (SDGs), providing us with a framework against which to map our ESG and business activities.**

**The SDGs are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to inequality, climate change and responsible consumption and production.**

**This is the second year SIG has reported against the SDGs. We welcome the framework as it is committed to solving global issues, and these universal principles support our commitment to responsible business operations. Our ESG report details the work undertaken by the Group and highlights our commitment to the SDGs.**

## SDGs include:



### Good health and wellbeing

Ensure healthy lives and promote wellbeing for all at all ages.



### Quality Education

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.



### Gender equality

Achieve gender equality and empower all women and girls.



### Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.



### Industry, innovation and infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.



### Reduced inequalities

Reduce inequality within and among countries.



### Responsible consumption and production

Ensure sustainable consumption and production patterns.



### Climate action

Take urgent action to combat climate change and its impacts.



### Peace, justice and strong institutions

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.



# Environmental, social and governance: Principles

## Links to SDGs



## Sustainability

SIG recognises its corporate responsibilities towards its shareholders, employees, customers and suppliers and is committed to socially responsible business practice.

We are committed to creating long-term sustainable value for our stakeholders, and to achieve this, we have utilised the SDG framework.

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

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

## SIG Code of Conduct

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

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

The Code of Conduct can be viewed on our website ([www.sigplc.com](http://www.sigplc.com)).

## Diversity and equal opportunities

The Group has policies that promote equality and diversity in the workforce as well as prohibiting discrimination in any form. SIG encourages and considers all applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development within the business. If an employee becomes disabled during employment, every effort is made to ensure they can continue in employment, by making reasonable adjustments in the workplace or by providing retraining for alternative work where necessary.

## Ethical Trading and Human Rights policy

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

The policy sets out standards concerning:

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

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

## Anti-bribery and Corruption policy

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

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

SIG values its reputation for ethical behaviour, financial probity and reliability.

It recognises that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its image and reputation.

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

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

A copy of the Anti-bribery and Corruption policy is available to view on our website ([www.sigplc.com](http://www.sigplc.com)).

## Modern Slavery Act 2015

The Group has published its Group Modern Slavery statement in respect of the year ended 31 December 2019 on our website ([www.sigplc.com](http://www.sigplc.com)), in line with Home Office guidance. The Group continues to work with its supply chain to ensure there is a zero-tolerance policy to slavery. The 2020 statement will be published on our website in compliance with the required deadline.

## Payment practices

SIG publishes information about payment practices and reporting as required by the Reporting on Payment Practices and Performance Regulations 2017 in the UK.

This is published on a government website [check-payment-practices.service.gov.uk](http://check-payment-practices.service.gov.uk). This report is published every six months as per the requirements and the most recent was submitted in January 2021 for the six months to 31 December 2020.

# Environmental, social and governance: People

## Introduction

**We believe that our people are our greatest strength. In what was a particularly challenging year, the resounding sense of pride and collaboration was apparent across the Group and we saw teams making extraordinary efforts to serve our customers and support each other.**

### Links to SDGs



### A culture built on commitment to our actionable behaviours

Placing greater focus on reconnecting with our people is a fundamental part of our strategy. It is our aim to ensure that our people feel safe, proud and valued. We also aim to reconnect with our partners and stakeholders to create value for all, and a business where we operate sustainably to benefit our communities.

Our people strategy is to create value and enable growth through developing employee expertise, fostering the right behaviours to drive a culture of commitment, and enhancing contribution.

In 2020, we launched our new culture programme, underpinned by three key behaviours that drive shared, sustainable actions. The SIG behaviours have been articulated as “Be bold in what you do”, “Be flexible and agile” and “Make a positive difference”.

To embed the understanding of these behaviours, we developed our supplementary ‘Behaviours in Action’ which further defines the meaning of each and how our people demonstrate and drive each.

Following the significant leadership changes and subsequent launch of a new vision and strategy in May 2020, the programme was developed further to

clarify how this change in culture supports our new goals. Several feedback sessions were held with employees from all areas and levels of the business, to further define the framework, alongside the development of a new internal visual identity based on our three behaviours to support visual recognition and reinforcement, and drive employee morale.

Across our operating companies, further activity took place to embed the understanding of our behaviours and how these can be demonstrated and drive positive action towards achieving our strategic goals. Facilitated sessions with the senior leadership teams were held to focus on activating the behaviours and implementation plans, and engagement sessions with management teams and employees allowed discussion and sharing of examples of where the behaviours have been demonstrated.



Moving into 2021, plans are in place to drive the implementation through regular communications campaigns, and embedding the behaviours into our routine programmes and operations.

### Embedding our behaviours through our people processes

The behaviours underpin our people practices, therefore during the year we developed our people programmes to align to our new culture.

Our recruitment processes reflect the requirement to assess potential new employees in both competency and cultural fit, and recruiting managers are provided with a number of tools to assess alignment to the behaviours. In addition, our induction and on-boarding programmes have been reviewed and updated to allow the quick integration of new recruits into the business, both operationally and culturally.

Local recognition programmes were developed to align to the new behaviours, and replace the previous, values-based schemes. Our teams use these programmes to recognise outstanding work, efforts or achievements that are aligned to the behaviours. Moving into 2021, there are plans to develop our recognition schemes further and on a Group-wide basis.

In addition, our performance management process, which has undergone extensive review and development throughout the year, now includes the measurement of the behaviours alongside operational achievements, driving the key message that not only are our results vital to our success, but also the way in which we achieve them. Incorporating the cultural aspect into the Performance Development Review (PDR) allows us to focus on all areas for development and recognition.

### Reconnecting with our people

Our strategy for growth focuses on reconnecting with our people, to build a great company that our employees can be proud of and where they feel valued. Throughout 2020, we have taken steps to re-engage our people, and develop the programmes and resources that provide better support, communication and guidance to create an open and constructive environment.

### Diversity and inclusion

Creating a diverse and inclusive workforce is a priority and we are committed to developing a culture where individual, valuable contributions are actively encouraged to the benefit of the business and our people. We are also committed to

ensuring that we extend this same principle to all our customers, suppliers, business partners and the communities in which we operate.

Our 2019 Diversity and Inclusion programme, where we set the foundations in place by mapping our legal requirements globally and defining key actions, provided a base for our progression towards our objectives:

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

To achieve these, we developed the measurement tools through a monthly dashboard covering key data on gender, age, disability, ethnicity, and by role, function and salary, where applicable, in our countries of operation. This information was shared with senior leaders to increase understanding of the demographics across the business. In addition, a new Group Diversity and Inclusion policy was launched, supplemented by online training.

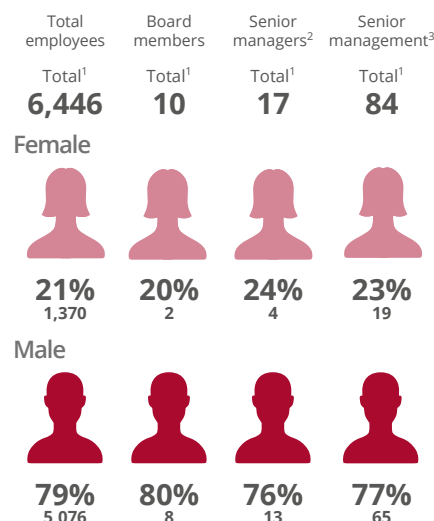
A key aspect of promoting diversity depends on working with our external partners. As such, we engaged with recruitment suppliers to agree upon a more diverse approach in the search and selection of new employees. We introduced more robust exit interviews with senior employees to identify any issues in relation to diversity and inclusion that may have arisen.

Throughout 2020, we developed our approach to diversity and inclusion for 2021, working with a specialist external partner. Our approach will be phased. Phase 1 will see us establish buy-in and develop the foundations for diversity and inclusion throughout SIG, including further senior leadership engagement, auditing of existing positions, policies, data and activities to identify areas to address. Phase 2 will involve further development of the strategic approach to diversity and inclusion, in line with our overarching strategy. Continued and wider leadership awareness and education will be fundamental, and our approach for demographic data gathering and narrative will continue to be expanded.

We are committed to supporting and promoting better diversity and inclusion across all areas of the business, from Board level to throughout the business.

### Gender diversity

SIG is committed to equality and recognises the value that can be created from diversity. As is typical within the construction industry, SIG has historically had a higher proportion of male employees, but it intends to reduce the imbalance in the future.



1. Headcount as at 31 December 2020

2. Data is as per s.414C(8) of the Companies Act and includes subsidiary Directors

3. Data is as per provision 23 of the UK Corporate Governance Code

# Environmental, social and governance: People

## Employee engagement survey

Listening to the experiences and views of our people is fundamental in driving the right actions for the Company and for our people.

We launched our new engagement survey programme, 'Our SIG, Your Voice' in September 2020 to all employees across the Group. The survey provides the opportunity to provide honest and open feedback across several areas in the organisation including vision and strategy, culture and environment, management and leadership, health, safety and wellbeing, communication, customer focus, leadership and development.

From the results, planning has taken place to drive actions across the operating companies to improve in our key areas of focus. The survey will be conducted again in 2021 for consistent and ongoing measurement.

## Board workforce engagement programme

As part of our obligation under the UK Corporate Governance Code, and in support of our ongoing priority to provide regular and varied feedback channels, we launched our Board workforce engagement programme, delivered by Simon King, Non-Executive Director. This programme is aimed at providing a direct communication channel between the Board and our people to gain further insights from all levels of the business, complementing our employee engagement survey. For more detail, please see page 62.

Representatives from all operating companies and our central functions were given the opportunity to participate in sessions, offering opinions, feedback and suggestions from branches and head offices. The response to the programme was hugely positive, with many employees expressing their appreciation of the chance to meet with a Board member and their sentiment of being listened to and valued by the organisation.

During the year, Simon also visited a number of sites across the UK, prior to the Covid-19 outbreak, including Sheffield, St Ives, Edmonton, Waltham Cross and Bedford, where he met a number of the teams.

Reconnecting with our employees is an ongoing strategic priority and engagement actions from each programme will continue to be rolled out throughout 2021 and beyond.

## Employee health and wellbeing

Our primary concern is ensuring that our people feel safe, valued and supported. During what was an exceptional year, we recognised the potential impact on health and wellbeing, both physical and mental. As a result of the changing working practices, home-working and macro-level uncertainty due to Covid-19, this concern came to the forefront more than ever and highlighted the need to review our approach to supporting and protecting the health and wellbeing of our people.

A full programme was developed in July 2020 comprising immediate actions to take place throughout the year and ongoing actions into 2021, with the objectives of:

- Raising awareness and commitment across the organisation, at all levels, about the importance of promoting and supporting mental health in the workplace;
- Helping all employees learn how to manage their own mental health and wellbeing effectively and learn how they can support that of others;
- Eliminating or reducing organisational risk factors in relation to mental health, for example, stress, working excessive hours, discrimination, bullying or harassment, wherever possible; and
- Providing timely and appropriate support for individuals who are experiencing mental health issues.

During the year, we updated and launched our Employee Health and Wellbeing policy, in line with World Mental Health Day. Developed with our Health and Safety and HR teams, the policy outlines the Company's provisions to prevent mental health issues and support our employees. The policy was launched with supplementary compulsory training for all. In addition, further training resources will be made available in 2021 to support managers, HR and Health and Safety colleagues, and mental health first aiders.

In the UK, Northern Ireland and parts of Benelux, employees gained access to an Employee Assistance Programme (EAP) throughout the year to access support, advice and counselling for any issues they may be experiencing – at home or at work. The service is available 24/7.

Regular communication campaigns were issued, commencing in the second half of the year across the Group and locally, offering a monthly focus on different topics and relevant to current worldwide and local trends and activities. A calendar of events and communications is planned for 2021.

An Employee Health and Wellbeing working forum was introduced on a quarterly basis with representatives from all countries, creating a network of champions supporting mental health and wellbeing. The purpose of the group is to discuss ideas, share best practice and drive activity.

## Whistleblowing policy and procedure

We are committed to achieving and maintaining high standards regarding behaviour at work, service to the public and ethical working practices. Employees are expected to conduct themselves with integrity, impartiality and honesty, and are empowered and encouraged to challenge inappropriate behaviour or unethical practice at all levels. As such, we operate a Whistleblowing policy and procedure for reporting genuine concerns about malpractice, illegal acts or failures to comply with recognised standards of work.

In the year, we updated and relaunched our Whistleblowing policy, supported by online training and a communications campaign across the Group. We offer a number of ways to report any concerns, including an impartial, global hotline provided by Navex Global. Employees, customers or members of the public can confidentially raise concerns from any of our operating companies, and issues are investigated thoroughly.



## Covid-19

**The ongoing challenges that we face as a result of the Covid-19 pandemic have changed work routines for all of our people. The Group is proud of the flexibility and commitment that has been demonstrated by all of its people, and, importantly, how teams have come together to support each other during this time.**

Colleagues in Germany launched an internal campaign ‘#webuilduponeachother’, to encourage people to share tips, experiences and motivational stories during lockdown periods via the internal social media platform.

Our Germany business also made a donation to a non-profit organisation that distributes food parcels, helping the charity purchase a specialised refrigerated vehicle to carry out deliveries during the pandemic.

In the UK, James Jackson (Internal Sales Executive, Oxford) took annual leave and volunteered as a driver during the lockdown periods to deliver PPE

products to the NHS and food parcels to people in need, as well as supporting Oxford Mutual Aid.

Every year, our team in the French distribution business LiTT create and commission T-shirts for our customers and colleagues across the office. This year, they focused the design on reminding everyone of the safety protocols related to Covid-19, with the message: “The LiTT team takes care of you”.

Our teams continue to demonstrate great resilience and care in supporting our partners, communities and each other.



# Environmental, social and governance: Environment, health and safety

## Links to SDGs



## Climate change and sustainability

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

### External

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

### Internal

- **Greenhouse gas emissions:** We target efficiencies in vehicle fuel consumption which contributes to 77.4% of our carbon footprint, through vehicle selection, driver training and efficient driving assessment.
- **Emissions:** Our emissions to the atmosphere from our manufacturing businesses are minimised by use of water-based solvents where practicable and filtered ventilation systems.

## Carbon management

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

We measure and report on our carbon footprint in accordance with the Streamlined Energy and Carbon Reporting Regulations (SECR), and the accounting process has been externally assessed to the ISO14064-3 standard.

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

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

## Transport

Emissions from road vehicle fuel consumption makes up 77.4% of the Group's total carbon footprint and is our primary KPI for reduction. Through the introduction of energy-efficient vehicles, the continual focus on driver assessment and training, and efficient vehicle routing, we continue to achieve annual reductions in emissions.

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

This year, we have reduced our emissions from road vehicle fuel by 14.7%.

## Energy

Carbon emissions from electricity consumption accounted for 9% of our Scope 1 and 2 emissions in 2020 (2019: 11.5%). This is our second highest priority for carbon management, with a focus on energy efficient choices for new and refurbished facilities, including installing movement and daylight sensor LED lighting systems, efficient heating and cooling systems, and efficient hand driers.

We audit our energy consumption and work in close partnership with our external partners to reduce our environmental impact. In 2020, this process was enhanced by the in-depth audits conducted through our Energy Saving Opportunity Scheme (ESOS) compliance. The opportunities for improvement have been communicated across the Group.

In 2020, our emissions from electricity consumption reduced by 35.4% (partly due to a reduction in the number of branches open during the Covid-19 pandemic).



## Greenhouse gas (GHG) emissions

We are committed to providing full and accurate data for our carbon footprint, with minimal reliance on estimates. In 2020, 93.2% of information is based on actual data (2019: 92.8%). Estimates are prepared based on agreed and verified accounting processes. We continue to improve our data collection and accounting processes, and the GHG information for the period October 2019 to September 2020 has been verified by Carbon Intelligence to ISO14064-3 to a limited level of assurance.

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

In order to provide the appropriate time and resource to enable more accurate carbon reporting and auditing of the process, our emission accounting period is non-coterminous with the Group's financial year. The current data year is to 30 September 2020.

We reported a decrease of 17.8% in Scope 1 and 2 emissions in the last reporting year, mainly as a result of the trading conditions due to Covid-19. Our overall footprint for Scope 1, 2 and 3 emissions showed a decrease of 18.1% in the last reporting year.

Our absolute emissions for 2020 have reduced compared to 2019; and the rate per £m revenue has decreased by 5.6% to 25.4.

Our carbon footprint includes all emission sources as required under The Companies Act 2006 (Strategic Report and Directors' Report) 2013 Regulations. Emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019, along with factors from The International Energy Agency (IEA) list for 2019 have been used to calculate our GHG disclosures. The data relating to CO<sub>2</sub> emissions has been collected, where practicable, from all the Group's material operations and is based on a combination of actual and estimated results where actual data is not available. The 2020 data includes the businesses classified as non-core in the Financial Statements for the year ended 31 December 2020.

## CO<sub>2</sub> emissions – Scope 1 – Direct

|                                               | Metric tonnes<br>2020<br>Group | Metric tonnes<br>2019<br>Group | Metric tonnes<br>2018<br>Group | Metric tonnes<br>2020<br>UK | Metric tonnes<br>2020<br>Europe |
|-----------------------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------------|
| Road vehicle fuel emissions <sup>1</sup>      | 36,818                         | 43,160                         | 51,497                         | 14,754                      | 22,064                          |
| Plant vehicle fuel emissions <sup>2</sup>     | 4,206                          | 4,858                          | 4,894                          | 2,066                       | 2,140                           |
| Natural gas <sup>3</sup>                      | 1,488                          | 2,024                          | 2,560                          | 507                         | 981                             |
| Coal/coke for heating <sup>4</sup>            | 40                             | 37                             | 56                             | 0                           | 40                              |
| Heating fuels (Kerosene and LPG) <sup>5</sup> | 490                            | 849                            | 632                            | 115                         | 375                             |
| Total                                         | 43,042                         | 50,928                         | 59,639                         | 17,442                      | 25,600                          |

Data source and collection methods

1. Fuel cards and direct purchase records in litres converted according to BEIS guidelines.
2. Direct purchase records in litres converted according to BEIS guidelines.
3. Consumption in kWh converted according to BEIS guidelines.
4. Purchases in tonnes converted according to BEIS guidelines.
5. Purchases in litres converted according to BEIS guidelines.

## CO<sub>2</sub> emissions – Scope 2 – Indirect

|                          | Metric tonnes<br>2020<br>Group | Metric tonnes<br>2019<br>Group | Metric tonnes<br>2018<br>Group | Metric tonnes<br>2020<br>UK | Metric tonnes<br>2020<br>Europe |
|--------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------------|
| Electricity <sup>1</sup> | 4,280                          | 6,622                          | 8,042                          | 1,722                       | 2,558                           |
|                          | kWh<br>2020<br>Group           |                                |                                | kWh<br>2020<br>UK           | kWh<br>2020<br>Europe           |
| Electricity              | 17,503,880                     |                                |                                | 7,352,079                   | 10,151,801                      |

Data source and collection methods

1. Consumption in kWh converted according to BEIS guidelines.

## CO<sub>2</sub> emissions – Scope 3 – Other indirect

|                                                            | Metric tonnes<br>2020<br>Group | Metric tonnes<br>2019<br>Group | Metric tonnes<br>2018<br>Group | Metric tonnes<br>2020<br>UK | Metric tonnes<br>2020<br>Europe |
|------------------------------------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------------|
| Third-party provided transport (air and rail) <sup>1</sup> | 249                            | 541                            | 454                            | 136                         | 113                             |

Data source and collection methods

1. Distance travelled converted according to BEIS guidelines.

## Emission per £m of revenue

|                                            | Metric tonnes<br>2020<br>Group | Metric tonnes<br>2019<br>Group | Metric tonnes<br>2018<br>Group | Metric tonnes<br>2020<br>UK | Metric tonnes<br>2020<br>Europe |
|--------------------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------|---------------------------------|
| Scope 1                                    | 23.0                           | 23.5                           | 24.5                           | 26.1                        | 21.2                            |
| Scope 2                                    | 2.3                            | 3.1                            | 3.3                            | 2.6                         | 2.1                             |
| Scopes 1 and 2 as required by GHG Protocol | 25.3                           | 26.6                           | 27.8                           | 28.7                        | 23.4                            |
| Scope 3                                    | 0.1                            | 0.3                            | 0.2                            | 0.2                         | 0.1                             |
| Scopes 1, 2 and 3                          | 25.4                           | 26.9                           | 28.0                           | 28.9                        | 23.5                            |

All CO<sub>2</sub> data is with Air Handling removed



# Environmental, social and governance: Environment, health and safety



## Environment

Our environmental management system for UK operations has been accredited to ISO14001 standard since 2006. Accreditation is externally verified by Intertek. We operate an integrated Health Safety and Environmental (HSE) policy.

We commit to maintaining appropriate environmental management standards across our operations to meet both our statutory and moral obligations.

## Waste management

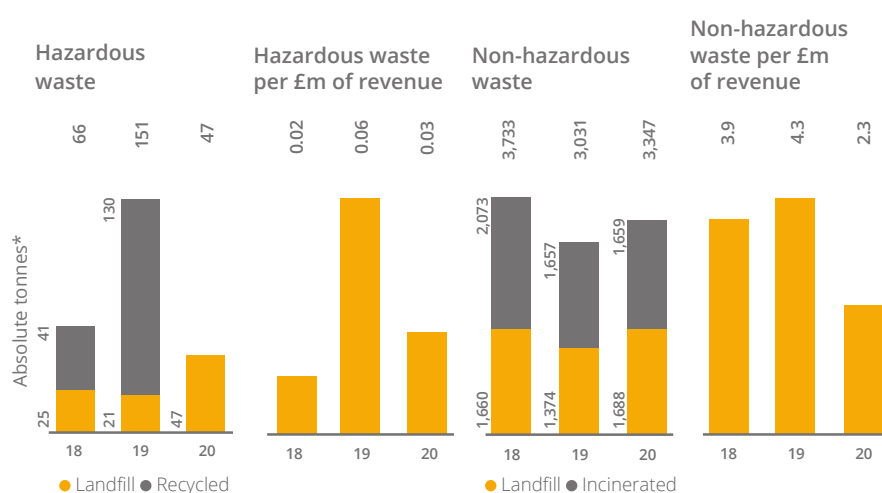
Our aim is to reduce the amount of waste we generate through our operations and reduce the amount we send to landfill. We achieve this by reusing or returning used packaging to our suppliers, and encouraging waste segregation and recycling at each of our locations.

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

Office waste is minimised through the adoption of paperless delivery processes, online activity reports and consolidating printing and photocopying facilities. We have provided segregated waste bins in our head office locations to ensure that waste is diverted from landfill where appropriate.

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

We are a member of the Valpak compliance scheme and we comply with our commitments under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007.



## Other waste diverted from landfill

|                                                   | Absolute tonnes* 2020 | Absolute tonnes* 2019 | Absolute tonnes* 2018 |
|---------------------------------------------------|-----------------------|-----------------------|-----------------------|
| WEEE (Waste, Electrical and Electronic Equipment) | 0.0                   | 0.8                   | 1.0                   |
| Glass                                             | 0.0                   | 5.1                   | 4.2                   |
| Wood                                              | 1,045.9               | 1,649.2               | 1,735.0               |
| Metal                                             | 408.4                 | 1,246.3               | 1,459.1               |
| Plasterboard                                      | 98.2                  | 128.5                 | 293.7                 |
| Paper/cardboard                                   | 540.6                 | 908.4                 | 723.5                 |
| Plastic                                           | 359.0                 | 252.3                 | 208.4                 |
| Other                                             | 1,935.3               | 6,358.2               | 6,167.2               |
| <b>Total</b>                                      | <b>4,387.4</b>        | <b>10,548.8</b>       | <b>10,592.1</b>       |

\* Volume per annum converted to tonnes.

## Water consumption

|                                                                                   | Litres ('000) 2020 | Litres ('000) 2019 | Litres ('000) 2018 |
|-----------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| Third-party provided water supply from national network for processes and welfare | 86,674             | 89,448             | 113,306            |

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



## Health and safety

SIG operates an integrated HSE policy aligned to the ISO45001 standard, with the UK health and safety management system accredited to the equivalent standard since 2006, through external verification by Intertek. SIG migrated to ISO45001 in January 2020.

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

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

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

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

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

Management and worker awareness of responsibilities, the hazards and risks associated with the operation, and safe ways of working are promoted through the delivery of training and communication programmes managed locally in each country. These include bespoke e-learning packages.

We have moved away from our previous reporting metric of the accident incident rate, to the Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Incident Rate (TRIR) recording method. This allows us to better compare our performance against similar industries and our competitors, and allows for more transparency within the reporting system.

The number of lost time incidents across the Group has reduced by 9.2% from 2019 to 2020. The LTIFR, which is calculated as

any injury resulting in any lost time per 1,000,000 hours worked, has remained at 11.3 from 2019 to 2020, with a reduction of 6.6% from 12.1 in 2018.

The total recorded incidents across the Group have reduced by 26.8% from 2019 to 2020. The TRIR, which is calculated as an incident resulting in injury or medical treatment being required, environmental detriment or property damage per 200,000 hours worked has reduced by 18.5% to 8.8 (2019: 10.8).

We have been awarded the RoSPA Silver Award for Occupational Health and Safety in 2020.

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

Throughout 2020, investment has been made in strengthening the Company's HSE team. We have recruited a highly experienced Health and Safety Director who has developed an energetic and forward-thinking strategy. The HSE team has been further strengthened by the expansion of operating company teams in a number of territories to ensure more in-depth investigation, support and training. Work is ongoing to redraft and improve policies both on a Group and operating company level, identify risk, to update the Safety Management System and ensure it meets the needs of all stakeholders.

During 2020, operating company HSE managers have been made part of the operating company Executive Leadership Team. This allows them to be an integral part of decision making within the operating company and enshrines health and safety within operating company leadership discussions.

### Total Recordable Incident Rate (TRIR)

Group TRIR



## Covid-19 response

The Covid-19 pandemic has provided new challenges for SIG. We have implemented Covid-19 specific risk assessments, along with safe systems of work, and specific reporting procedures have been put in place. We have invested in signage, PPE, testing equipment, home working equipment, large area disinfecting equipment and hygiene stations to ensure the safety of our stakeholders.

Sites are audited for compliance with Covid-19 procedures on a regular basis with continual support given to branch managers. All employees are temperature checked when they attend company premises and Covid-19 Return to Work meetings have been undertaken with all staff to ensure they are aware of the enhanced procedures, symptomology and social distancing regulations. We have conducted home working assessments to ensure that the new environment for our employees is suitable, ensured regular contact and wellbeing measures, and launched a Social Spotlight campaign to allow home working employees to keep in touch with colleagues and the business.

When an individual has symptoms of Covid-19, we ask that they self isolate as mandated by the relevant authorities. SIG have made the decision to pay any employees absent due to Covid-19 related symptoms, infection or government sanctioned reason, in full for the period of their self isolation, to support compliance with the regulations in the territory they reside.



# Environmental, social and governance: Environment, health and safety

## Occupational road risk

We recognise that our drivers act as representatives for our business whilst they are on the road and we promote a culture of safe and courteous driving through our training programmes. Driving is among the most hazardous tasks performed by our employees and is one of the critical hazards in our Safety Management Programme. The competence of our drivers and the condition of our vehicles are crucial to the safety of our drivers and other road users. Drivers are assessed for competence and selected through an authorisation and licence check procedure.

Our drivers, vehicles and fleet management are audited to ensure business compliance with fleet procedures. Significant issues are communicated to the Board and our insurers. We work in partnership with our vehicle designers and manufacturers to develop effective safety features for our vehicles; this and the effective management of the routine maintenance and inspection process are key to vehicle safety.

The Group's fleet of vehicles are fitted with vehicle management systems. The information obtained is used to educate and support drivers to improve their standard of driving and fuel efficiency. Driver alcohol and substance testing is conducted within the Group.



# Non-financial information statement

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

In compliance with the non-financial reporting directive, the below table summarises the requirements and where relevant information can be found within the Annual Report and Accounts.

Further information on our sustainability policies and corporate responsibility can be found on our website ([www.sigplc.com](http://www.sigplc.com)).

| Reporting requirement                                                                                                                               | Our response                                                                                                                                                                                                                                              | Relevant policies and frameworks                                                                                                                                                                                | Relevant risks                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Environmental matters</b><br><br>Read more on page 42           | <ul style="list-style-type: none"> <li>Committed to reducing carbon footprint</li> <li>Investment in safety initiatives</li> <li>Zero Harm programme</li> <li>Maintain ISO accreditation</li> </ul>                                                       | <ul style="list-style-type: none"> <li>Low Carbon Sustainability policy</li> <li>Waste management</li> <li>Health, Safety and Environment policy</li> <li>ISO14001 accreditation</li> </ul>                     | <ul style="list-style-type: none"> <li>Health and safety</li> <li>Environmental, social and governance</li> </ul>                             |
| <b>People and social</b><br><br>Read more on page 38               | <ul style="list-style-type: none"> <li>Annual employee engagement survey</li> <li>Responsible actions is a key strategic pillar</li> <li>Operate sustainably to benefit communities and environment</li> <li>Launch of new behaviour framework</li> </ul> | <ul style="list-style-type: none"> <li>Diversity and equal opportunities</li> <li>SIG Code of Conduct</li> <li>Diversity and Inclusion policy</li> <li>Gender diversity</li> <li>Employee engagement</li> </ul> | <ul style="list-style-type: none"> <li>Employee attraction, retention and engagement</li> <li>Environmental, social and governance</li> </ul> |
| <b>Human rights and anti-bribery</b><br><br>Read more on page 37 | <ul style="list-style-type: none"> <li>Raise awareness of policies</li> <li>Included in mandatory training</li> </ul>                                                                                                                                     | <ul style="list-style-type: none"> <li>Ethical Trading and Human Rights policy</li> <li>Anti-Bribery and Corruption policy</li> </ul>                                                                           | <ul style="list-style-type: none"> <li>Legal and regulatory change and compliance (non-principal risk)</li> </ul>                             |

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



Read more on page 08

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



Read more on page 30

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



Read more on page 14

The Section 172(1) Statement is set out on pages 64 to 71 of the Corporate Governance Report (providing information on how the directors have performed their duty to promote the success of the Company) and is incorporated by reference into the Strategic Report.

## Approval of the Strategic Report

The Strategic Report set out on pages 04 to 47 was approved by the Board of Directors on 25 March 2021 and signed on its behalf by:

### Steve Francis

Chief Executive Officer  
25 March 2021

### Ian Ashton

Chief Financial Officer  
25 March 2021







# Governance

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# Chairman's introduction

## Board Membership (during 2020 & 2021)

### Andrew Allner

Non-Executive Chairman

### Steve Francis

Chief Executive Officer  
(appointed 25 February 2020)

### Ian Ashton

Chief Financial Officer  
(appointed 1 July 2020)

### Kath Kearney-Croft

Interim Chief Financial Officer  
(appointed 25 February 2020  
and resigned as CFO on  
30 June 2020 and as a  
Director on 31 July 2020)

### Meinie Oldersma

Chief Executive Officer  
(resigned 24 February 2020)

### Nick Maddock

Chief Financial Officer  
(resigned 24 February 2020)

### Andrea Abt

Independent Non-  
Executive Director  
(retired 12 February 2020)

### Kate Allum

Independent Non-  
Executive Director (resigned  
31 December 2020)

### Bruno Deschamps (CD&R)

Non-Executive Director  
(appointed 10 July 2020)

### Shatish Dasani

Independent Non-  
Executive Director  
(appointed 1 February 2021)

### Kath Durrant

Independent Non-  
Executive Director  
(appointed 1 January 2021)

### Ian Duncan

Independent Non-  
Executive Director  
(resigned 31 January 2021)

### Gillian Kent

Independent Non-Executive  
Director

### Simon King

Independent Non-Executive  
Director (appointed 1 July 2020)

### Alan Lovell

Senior Independent Non-  
Executive Director

### Christian Rochat (CD&R)

Non-Executive Director  
(appointed 10 July 2020)

## Purpose and aims

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

## Key responsibilities

Establishing the Company's purpose, vision, strategy and behaviours, and satisfying itself that these and its culture are aligned. Ensuring that all Directors act with integrity, lead by example and promote the desired culture.

## Assessing and monitoring culture

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

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

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

## Terms of reference and matters reserved

During the year, the Board developed and adopted terms of reference and revised the matters reserved for its decision. Both can be found on the Company's website at [www.sigplc.com](http://www.sigplc.com).

## Evaluation

An internal evaluation was conducted for the Board, individual Directors and its Committees in line with the 2018 UK Corporate Governance Code (the "Code"). More details can be found on page 78.



High standards of corporate governance have never been more important than during 2020. This has been an unprecedented year as the Company navigated its way through the Covid-19 pandemic, changes in leadership, raising funds from Shareholders including the investment by CD&R and restructured its debt and, at the same time, building on its leading market positions and positioning the business for a return to profitable growth.

Andrew Allner, Chairman

## Dear Shareholder,

I am pleased to present SIG's Corporate Governance Report for the financial year ended 31 December 2020. At SIG, we believe that good governance comes from an effective and committed Board, which provides clear leadership and is fully engaged with its workforce and all stakeholders.

The Board believes that good governance is crucial to the successful delivery of SIG's strategic objectives. The Board's governance framework, which starts with the Board and runs throughout the business, supports well-informed decision making and the development and delivery of our strategy and risk management. This section of the Report outlines how the Board ensures the high standards of corporate governance are met.

The Board recognises that strong governance also underpins a healthy culture. This, in turn, brings benefits to the Group and its employees as well as to all our stakeholders. The Board is committed to leading by example and ensuring that good standards of behaviours permeate throughout all levels of the organisation.

2020 has been an unprecedented year and the pandemic has hampered some of the progress we had been hoping to make this year. Nevertheless, we have continued the journey we started last year. The Board, as a result of Covid-19, met more frequently to consider the needs of all stakeholders as the situation unfolded, as well as the long-term success of the Company. The Board was effective in managing these difficult times and has learnt lessons from the business issues that arose in 2019 and the early part of 2020, which resulted in the need to take prompt action. In the early part of the year, CEO, Meinie Oldersma, and CFO, Nick Maddock, resigned on 24 February 2020 and we recruited Steve Francis as CEO with effect from 25 February 2020, initially on an interim basis, and the appointment was made permanent on 24 April 2020. Steve is highly experienced in returning businesses to growth and has demonstrated strong leadership in the most testing circumstances since his appointment. His ability to navigate the effects of the Covid-19 environment, at the same time as getting the leadership team focused on the strategic priorities to ensure the future success of SIG, has been exceptional.

Kath Kearney-Croft assumed the role of interim CFO on 25 February 2020 following the departure of Nick Maddock. Ian Ashton was appointed on 1 July 2020 replacing Kath as the permanent CFO. Ian is a highly experienced senior executive with a strong record of driving change and is an extremely valuable addition to the team as we pursue the new strategy for growth as well as improved financial performance and governance.

The Board believes the new leadership has brought skills that drive rapid operational performance improvement, excellence in customer service and creates highly engaged teams.

Following the 2019 Board evaluation and assessment of board skills and experience, it was acknowledged that there was a need for more building products distribution experience and as a result Simon King was appointed as a Non-Executive Director on 1 July 2020. Simon brings extensive hands-on experience from a career spanning over 35 years, most recently serving on the Travis Perkins Executive Board and holding the position of Chief Executive Officer for Wickes. Simon's appointment has been valuable in our efforts to build on SIG's leading market positions and return the business to profitable growth. Additionally, Simon has also taken over from Kate Allum as the designated Non-Executive Director for workforce engagement and the whistleblowing champion with effect from 1 October 2020.

We were delighted to welcome Bruno Deschamps and Christian Rochat as Non-Executive Directors, (the CD&R Directors) appointed, with effect from 10 July 2020 in accordance with the terms of the relationship agreement dated 29 May 2020 between CD&R Sunshine S. a. r. l. (CD&R) and the Company. Both Bruno and Christian's deep industrial knowledge, allied to their extensive experience in driving and overseeing improved company performance, brings valuable and relevant experience and insights to the Board and they have already made a significant contribution.

Andrea Abt retired in February 2020 and both Ian Duncan and Kate Allum expressed a wish to step down from the Board. Therefore, at the end of December, Kate Allum stepped down as Non-Executive Director and Chair of the Remuneration Committee; she was replaced by Kath Durrant who joined the Board on 1 January 2021. I am delighted to welcome Kath who has more than 30 years' human resources experience with a strong operational and strategic track record and is an experienced Chair of Remuneration. She has significant industry knowledge gained from her roles at Ferguson and CRH. Kath also has extensive experience of working in businesses undergoing transformation, which will be valuable as we seek to restructure our UK operation.

Ian Duncan stepped down as a Non-Executive Director and Chair of the Audit Committee on 31 January 2021, and was replaced by Shatish Dasani, who joined the Board on 1 February 2021. Shatish is an experienced senior public company finance professional and Chair of Audit Committee. He has strong international experience across several sectors including industrial, building materials, technology, construction and infrastructure. Shatish has a proven track record of driving Shareholder value, which will be important as we seek to return the Company to profitable growth.

I would like to thank Ian Duncan and Kate Allum for their support and contribution during a very challenging period.

During 2020, female representation on the Board fluctuated as Andrea Abt stepped down, Kath Kearney-Croft joined the Board on 25 February and subsequently stepped down when a permanent CFO was appointed. For a period of time, we had 43% female representation on the Board; however, with the addition of the CD&R Directors we are now at 20%. Our aspiration is to endeavour to have at least 33% female representation in line with the Hampton-Alexander Review on FTSE Women leaders. We are delighted to report that, for 2021, we have at least one Director of colour with the appointment of Shatish, in line with the Parker Review Committee recommendations. We acknowledge that the Hampton-Alexander review target of 33% female representation in our Executive Leadership Team ("ELT") and direct reports to the ELT has not yet been met but our aspiration is to meet that target over the course of the next few years. This will be a key aspect of the focus of our Nominations Committee as it continues its review of succession planning and diversity within the business.

## Compliance with the UK Corporate Governance Code 2018

The UK Corporate Governance Code 2018 (the "Code") can be accessed at [www.frc.org.uk](http://www.frc.org.uk). During 2020, the Board has focused on embedding the Code and building on the activities that were commenced during 2019. At all levels of the organisation we have been continuing to build on our engagement activities with colleagues and other stakeholders. A Group-wide customer engagement survey was conducted for the first time, which indicated that the net promoter score for SIG was better than the average for the construction and logistics industry. A further survey will be conducted in 2021 and will be more locally focused.

During the year, the Board agreed a revised purpose/vision and a new strategy following the appointment of Steve Francis. The Matters Reserved for the Board and terms of reference for all Committees were reviewed in July 2020 following an annual review and the appointment of the CD&R Directors. Additionally, the Board agreed and published a Board Mandate that articulates the Board's role; the Company's purpose, vision and strategy; the Company's medium-term vision; the Company's health and safety goals; the Company's stakeholders; the Governance arrangements; the culture and desired behaviours; and its risk appetite. The Board Mandate can be found on our website at the following location [investors/corporate governance/terms of reference and policies](#).

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

# Chairman's introduction

During 2020 we were fully compliant with the Code except for Provision 32, that the Board should establish a Remuneration Committee of independent Non-Executive Directors. Following the appointment of Bruno Deschamps to the Remuneration Committee on the 10 July 2020 by CD&R, in accordance with the Relationship Agreement as part of the firm placing, placing and open offer undertaken in July 2020, this has not been the case. In accordance with Provision 10 of the Code, Bruno is not considered to be independent as he represents a significant Shareholder. Nevertheless, the Board believes that Bruno's contribution has been valuable and brings independent thought and challenge to the Remuneration Committee. Similarly, Christian Rochat, appointed by CD&R in accordance with the Relationship Agreement, is a member of the Nominations Committee; the majority of the members are independent, and I was independent on appointment, therefore the Company complies with Provision 17 of the Code.

In support of driving the highest standards in governance and effective leadership, a renewed focus was placed on Board involvement and engagement with key stakeholders throughout the year. All members of the Board are committed to providing strong and supportive leadership to achieve the goals set in the strategy. The Board is striving to continuously improve and in 2021 we will ensure there are further measures of improvement.

In particular, we wish to continue to build on our engagement with colleagues and this will continue to remain a key focus over the next year. As mentioned earlier, Simon King has taken over from Kate Allum as the designated Non-Executive Director for workforce engagement and held inaugural sessions with all parts of the Group during October and November by video calls. Face-to-face sessions had been scheduled by Kate Allum in April and May, but the pandemic prevented these from taking place as planned. We also have further work to do in embedding our new vision, purpose, culture and required behaviours within the business and plans to do this have been restarted following the successful capital raise. As there were a number of new members on the Board and ELT, each group participated in a session on the commitment culture in September prior to the culture programme restarting following its introduction at the Senior Leadership Team ("SLT") conference in January 2020. It was further agreed that the annual Board effectiveness survey would include specific questions to assess how the Board demonstrates the SIG behaviours (see page 78 for more details).

## Board evaluation

For 2020, the evaluation was conducted internally and led by our Company Secretary. Details of the process concerning this evaluation and its outcome are covered on page 78 of this Corporate Governance Report.

## Covid-19

The Board closely monitored the Covid-19 outbreak and the potential impact on the Company's businesses across the Group and on our people and continues to do so. Regular updates were provided by management and the Board also held additional meetings during the first lockdown to ensure that it was kept abreast of the situation on an ongoing basis. The need to preserve the health and safety of our colleagues, customers and suppliers has remained our primary concern during the outbreak. The Board ensured that the Group followed all local and national instructions issued by government authorities in its markets to curtail the spread and impact of Covid-19. The Group has been regularly reviewing this in every jurisdiction in which it operates.

During the pandemic, to support homeworking, the Group's IT infrastructure was strengthened, and where homeworking is possible, colleagues have been instructed to remain at home. Most meetings have been held by video calls and the Board, the ELT and the SLT hold regular video and telephone calls to monitor the position. All meetings continued to be held in this manner during the first lockdown, and face-to-face meetings were held when restrictions were lifted for a short period adhering to strict social distancing measures. During the second lockdown, meetings resumed by video call.

Where homeworking was not possible in the majority of our branches and operational parts of our business, stringent measures have been put in place to maintain strict hygiene and social distancing rules in each of our locations. Policies are in place in the event that a colleague contracts the virus or has a family member showing symptoms of the virus. Policies and procedures have also been put in place for those that need to care for dependents, especially with school closures.

As a result of the quick and agile response to the pandemic, the Group was able to mitigate the direct impact of Covid-19. The decisive actions taken across all functions and at all levels in the business mitigated the initial impact. The performance in H1 was materially affected by government lockdown responses to the pandemic in the countries we operate, notably in the UK and Ireland during March and April, although less than we had originally envisaged. With the easing of the lockdown restrictions in May and June, the Group saw a gradual improvement in the trading performance, accompanied by a corresponding improvement in profitability and this continued in H2. Despite further lockdowns and restrictions from October onwards, the business was able to trade normally throughout H2, albeit with new operating norms and protocols.

We supported our colleagues during the period of temporary closure and ensured that our UK colleagues continued to receive a proportion of their pay during a period of furlough and, in that context, we welcomed the introduction of the UK Government's Coronavirus Job Retention Scheme, which helped to support this. Similar government assistance to retain jobs in Ireland was also welcomed. However, we asked our UK and Ireland employees to take lower pay during the first lockdown and it was, therefore, also deemed appropriate for all members of the Board to take a pay reduction of up to 50% at this time, and for the Group ELT to take a pay reduction of up to 20% from 1 April 2020. The majority of sites reopened in mid-May, and it was deemed appropriate to reinstate the Executive Directors' pay to 80% (backdated to 1 April 2020) at the same time as colleagues were returning to work on full pay, and to reinstate to full pay from 1 July 2020. The fees for the Non-Executive Directors including the Chairman were returned to normal levels on 1 July 2020.



## Independent Review by PwC

As already mentioned on page 5, the Board instigated an independent review through the Group Investigation Committee, commissioning PwC to undertake an independent review of the Group's forecasting and monthly management accounts processes in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January 2020 Trading Update and market consensus of forecast profit prior to that announcement. The Board takes the findings of the PwC report very seriously. The Company voluntarily notified the FCA of the progress of the PwC review and has shared the PwC report with the FCA. The FCA confirmed to the Company on 6 October 2020 that they had closed their enquiry and did not intend to take any further action. Since SIG's receipt of the PwC report, in order to strengthen the Group's financial forecasting and internal reporting, KPMG was appointed to assist the Audit Committee in ensuring appropriate improvements have been implemented to the Company's financial systems, procedures and controls, including those recommended in the PwC report.

Further details on the actions taken (including actions taken during the year in relation to cultural changes) are included in the Corporate Governance Report on page 59. The Board had already agreed that additional focus was required during 2020 to embed the commitment culture, improve employee engagement and morale. This work also included the actions arising from the review. Further information on the PwC review and the actions the Company has implemented in response are set out in the Audit Committee Report on page 104.

## 2021 Annual General Meeting

In light of Covid-19 restrictions, it will not be possible to meet our Shareholders at the Annual General Meeting ("AGM") on 13 May 2021, therefore, if you have any questions, please email them to [cossec@sigplc.com](mailto:cossec@sigplc.com) in advance of the meeting. We will ensure the answers to your questions are provided at the meeting and further details for the arrangements of the AGM will be sent to shareholders shortly.

Any changes to the AGM 2021 arrangements will be published on our website.

**Andrew Allner**  
Chairman  
25 March 2021

## Compliance with the UK Corporate Governance Code 2018

Our Governance sections set out over the following pages, explain how the Group has applied the principles and complied with the provisions of the Code during the financial year ended 31 December 2020. During 2020 we were fully compliant with the Code except for Provision 32, which requires the Board to establish a Remuneration Committee of independent non-executive directors. However, since the appointment of Bruno Deschamps on 10 July 2020 as the nominated Director for CD&R, he is not considered to be independent under provision 10. Further details can be found on page 52.

### 1. Board Leadership and Company Purpose

See pages 57 to 63

### 2. Division of Responsibilities

See pages 72 to 74

### 3. Composition, Succession and Evaluation

See pages 75 to 80

**Nominations Committee Report**  
See pages 90 to 95

### 4. Audit, Risk and Internal Control

See pages 81 to 83

**Audit Committee Report**  
See pages 96 to 106

### 5. Remuneration

**Directors' Remuneration Report**  
See pages 107 to 131

# Board of Directors

## Andrew Allner BA, FCA

### Non-Executive Chairman<sup>1</sup>



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

#### External roles

Andrew is Chairman of Shepherd Building Group Limited and Fox Marble Holdings plc, an AIM traded company.

#### Experience and past roles

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

#### Key strengths

Substantial Board, leadership, strategy, international and general management, corporate transaction, governance and accounting expertise.

<sup>1</sup> The Chairman was independent on appointment

## Steve Francis MA

### Chief Executive Officer



### Appointed as an Executive Director and Chief Executive Officer on 25 February 2020.

#### External roles

Steve is a Non-Executive Director of Structured Software Limited and Fellow of The Institute of Turnaround.

#### Experience and past roles

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

#### Key strengths

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

## Ian Ashton BA, ACA

### Chief Financial Officer



### Appointed as an Executive Director and Chief Financial Officer on 1 July 2020.

#### External roles

Ian does not have any external roles.

#### Experience and past roles

Prior to joining SIG, Ian was Group Chief Financial Officer of Low & Bonar plc until its acquisition by the Freudenberg group. Before that, he was Chief Financial Officer of Labviva LLC, a US-based technology company. Ian worked for much of his career at Smith & Nephew plc, undertaking various financial roles in the UK, the US and Asia. Ian is a qualified chartered accountant and began his career at Ernst & Young LLP.

#### Key strengths

Highly skilled with broad global experience in a series of financial leadership roles. A strong track record in corporate transactions, driving change, accounting/finance and stakeholder engagement with significant international experience.

Meinie Oldersma and Nick Maddock were Executive Directors for part of 2020 and resigned as Directors and as Chief Executive Officer and Chief Financial Officer respectively on 24 February 2020.

Kath Kearney-Croft was an Executive Director during the Financial year and stepped down as a Director on 31 July 2020 and as Interim Chief Financial Officer on 30 June 2020.

Andrea Abt was an independent Non-Executive Director during the financial year and stepped down on 12 February 2020.

Kate Allum was an independent Non-Executive Director and Chair of the Remuneration Committee during the financial year and stepped down on 31 December 2020.

Ian Duncan was an independent Non-Executive Director and Chair of the Audit Committee during the financial year and stepped down on 31 January 2021.

## Shatish Dasani

MA, FCA, MBA

Non-Executive Director



(A) (R) (N) (I)

**Appointed as a Non-Executive Director and Chair of the Audit Committee on 1 February 2021.**

### External roles

Shatish is currently a Non-Executive Director and Chair of the Audit & Risk Committee of Renew Holdings plc and Speedy Hire Plc, and Trustee and Interim Chair of Unicef UK.

### Experience and past roles

Shatish has over 20 years' experience in senior public company finance roles across various sectors. He also has extensive international experience including as regional CFO based in South America. He was previously the Chief Financial Officer of Forterra plc and TT Electronics plc, and was also an alternate Non-Executive Director of Camelot Group plc and Public Member at Network Rail plc.

### Key strengths

Strategy development and execution, performance improvement, financial management, corporate finance, mergers and acquisitions. (including recent and relevant financial experience). Sector experience of building materials, advanced electronics, general industrial, business services and infrastructure.

## Bruno Deschamps

ISG Paris (MBA, marketing, finance)

Non-Executive Director



(R)

**Appointed as a Non-Executive Director on 10 July 2020.**

### External roles

CD&R Directorships: Kalle Group, SOCOTEC, Westbury Street Holdings and Chairman of Wolseley Limited.

### Experience and past roles

Bruno is the Chairman & CEO of Entrepreneurs LLP based in London. He is a Board member of Diversey (former Chairman), a global leader of hygiene & sanitation products, services and solutions to the institutional and industrial markets. Previously, he served as Chairman of the Advisory Board of Kloeckner Pentaplast, one of the world's largest suppliers of films for pharmaceuticals, medical devices, food, electronics and general packaging and, from 2008 to 2011, as Group Managing Partner of 3i plc (London). He served as a CD&R Operating Partner from 2002 to 2007 during which he was Chairman and CEO of Brakes and was involved in several portfolio companies (Revel, VWR & Culligan).

### Key strengths

Deep industrial knowledge, corporate transactions, extensive experience in driving and overseeing improved company performance.

## Kath Durrant

BA

Non-Executive Director



(A) (R) (N) (I)

**Appointed as Independent Non-Executive Director and Chair of the Remuneration Committee on 1 January 2021.**

### External roles

Non-Executive Director and Chair of the Remuneration Committee of Calisen plc and Non-Executive Director of Vesuvius plc.

### Experience and past roles

Kath has more than 30 years' Human Resources experience, with a strong operational and strategic track record, gained at a number of large global manufacturing companies. As well as working at GlaxoSmithKline plc and AstraZeneca plc, she has served as the Group Human Resources Director of Rolls-Royce plc, and was most recently Group HR Director of Ferguson plc and Chief HR Officer of CRH plc. She served as a Non-Executive Director and Chair of the Remuneration Committee of Renishaw plc from 2015 to 2018.

### Key strengths

Human Resources across a range of businesses, transformation and change management, construction industry and international experience.

# Board of Directors

Key: **A** Audit Committee **R** Remuneration Committee **N** Nominations Committee **C** Chair of Committee **I** Independent

**Gillian Kent**  
BA, CIM Diploma in  
Marketing

**Non-Executive  
Director**



**A R N I**

## External roles

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

## Experience and past roles

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

## Key strengths

Strong commercial, strategic, change management, stakeholder engagement, customer and digital/technology experience across a broad range of businesses.

**Simon King**  
AMP, Insead

**Non-Executive  
Director**



**A R N I**

**Appointed as a Non-Executive Director on 1 July 2020.**

## External roles

Simon does not have any external roles.

## Experience and past roles

Simon most recently served on the Travis Perkins Executive Board and held the position of CEO for Wickes. Prior to that, Simon was at Walmart as COO of Asda, CEO at Savola Group Middle East and held CEO roles for Tesco in Turkey and South Korea, leading the joint venture with Samsung. Before Tesco South Korea, Simon was Chief Commercial Officer for Tesco in central Europe.

## Key strengths

Over 35 years' experience leading international teams, building products distribution experience, change management, retail, distribution, marketing, technology/digital and stakeholder engagement experience particularly the workforce.

**Alan Lovell**  
MA, FCA

**Senior Independent  
Non-Executive  
Director**



**A R N I**

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

## External roles

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

## Experience and past roles

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

## Key strengths

Significant listed company Board experience. Accounting/ finance, corporate transactions and extensive construction industry and turnaround experience in the UK and Europe.

**Christian Rochat**  
BA, PhD, MBA

**Non-Executive  
Director**



**N**

**Appointed as Non-Executive Director on 10 July 2020.**

## External roles

Christian is a Partner of CD&R LLP. He is a Non-Executive Director of Belron Group SA, Socotec Group, WSH Limited and Wolseley Group Limited.

## Experience and past roles

Christian joined CD&R in 2004 and is a Partner based in London. He led the CD&R investments in Belron, Exova, Socotec, SPIE and Westbury Street Holdings. He also led the sale of Brakes Group and served as a Director of the company. Prior to joining CD&R, he was a Managing Director at Morgan Stanley Capital Partners, and a Director at Schroder Ventures (now Permira). He also worked in the London and New York offices of Morgan Stanley's mergers and acquisitions department. He is a Director of Belron, Socotec and WSH.

## Key strengths

Deep industrial knowledge, transformation, change management, strategy, stakeholder engagement, corporate transactions and extensive experience in driving and overseeing improved company performance.



# Corporate Governance Report

## BOARD LEADERSHIP AND COMPANY PURPOSE

### Board activities

#### Strategy and financing



- Following the Covid-19 outbreak, the Board met more frequently to review actions required to ensure the safety of employees and customers while allowing essential business to continue at local branches
- Regular updates and reviews throughout the year, to monitor the short-term cash position, medium-term plan and business plan
- Group's financial position and the ongoing liquidity of the Company especially following the Covid-19 outbreak
- Approval for the adoption of the new strategy and seven strategic pillars for the Company designed to return the business to profitable growth, including the strategic KPIs that sit beneath each pillar
- Monitored progress against the new strategy with presentations from the UK, France and Germany
- Approval of the debt restructure project and associated documentation
- Oversaw a process to raise new capital with a Firm Placing, Placing and Open Offer that successfully completed in July 2020, which included approving a prospectus and the associated documents
- Presentations from senior management on the digital strategy and health, safety and environment, as well as updates from external advisors
- Reviewed Executive and Non-Executive remuneration during lockdown and associated reduction in fees/salary
- Reviewed and approved actions from the independent PwC investigation
- Held a culture session on the commitment culture and SIG behaviours to ensure the new Board members understood the priorities and focus of the programme

#### Corporate reporting and performance monitoring



- Held additional meetings to monitor the ongoing cash flow and liquidity during the pandemic
- Continually reviewed the revised sales performance against targets and the trading performance of the Company
- Reviewed the rolling forecast against the approved 2020 budget and the full-year forecast
- Approved the 2021 budget and the three-year financial projections
- Implementing improved environmental reporting and reviewing methods to reduce environmental impact across the Group
- Ongoing review of the Company's ability to trade as going concern and viability
- Approved the 2019 full-year and 2020 Interim Results, and ensured work was on schedule for the production of the 2020 year-end Report and Accounts
- Approved the release of various trading updates in line with the Governance Code and Companies Act requirements
- Introduced a new Group reporting system with effect from January 2021.

#### Link to strategy:



Responsible actions



Valuable partnerships



Winning branches



Highest productivity



Superior service



Focused growth



Specialist expertise

#### Stakeholder engagement



- Considered analyst feedback following the announcement of the Company's 2019 full-year results in May, the Interims (September 2020) and various trading updates
- Appointed Simon King as the designated Non-Executive for workforce engagement and whistleblowing champion
- Employee survey done in September 2020 with the feedback reviewed to ensure any concerns raised were suitably addressed
- Reviewed feedback from the Board workforce engagement sessions held by Simon King and his site visits during the first three months of the year
- Received regular investor relations reports
- Regular updates from Brokers on market status and received feedback during the Firm Placing, Placing and Open Offer
- Feedback on the first Group-wide customer engagement survey undertaken
- Considered initiatives for collaborative working with suppliers in UK Distribution
- Reviewed the 2020 Group HR Strategy, including proposals for engagement with colleagues
- Reviewed the SIG Wellbeing and Mental Health policy including the action being taken to support employees particularly during the pandemic and remote working
- Consulted with Shareholders following the vote on Executive Remuneration at the General Meeting in July to fully understand and address their concerns
- Received reports from the Company's financial advisors in relation to its debt structure and the macro backdrop and sector dynamics that SIG was facing

#### Governance



- Approved a revised schedule of Matters Reserved for the Board
- Approved updated Terms of Reference for all Committees
- Evaluated the performance of the Board and its Committees and all Directors facilitated internally and agreed Board objectives for 2021
- Approved a Board Mandate and the Provision 4 statement of the 2018 Code
- Reviewed talent and capability of the Executive Team resulting in key appointments in the UK and Germany
- Received regular updates from the chairs of the Audit, Nominations and Remuneration Committees
- Approved a number of policies: Delegation of Authority, the tax strategy, whistleblowing and the corporate criminal offence, non-audit services and employment of former External Auditor employees policy

#### Risk management and internal control



- Regularly reviewed the latest government advice regarding Covid-19 safety measures to ensure that these were correctly implemented Group-wide, taking on board the various differences in approach between countries
- Reviewed and strengthened financial reporting protocols
- Monitored the potential risks arising from Brexit and in particular a 'no deal' exit to ensure the correct measures were in place
- Continued the review of cyber security, with particular attention paid to the increase in office staff homeworking, to ensure continued good practice and enhanced security
- Received regular updates from the Audit Committee Chair on the key areas discussed at those meetings
- Received regular reports on risk management and internal controls from the Chief Financial Officer
- Approved the year-end risk register, risk appetite and emerging risks
- Reviewed the framework for an Environment, Social and Governance plan for implementation in 2021

# Corporate Governance Report

## BOARD LEADERSHIP AND COMPANY PURPOSE

### Board attendance at meetings

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nominations Committees during the year to 31 December 2020:

|                                 | Scheduled Board<br>(9 meetings) <sup>1</sup> | Additional Board<br>(8 meetings) <sup>1</sup> | Audit<br>(5 meetings) | Remuneration<br>(9 meetings) | Nominations<br>(9 meetings) |
|---------------------------------|----------------------------------------------|-----------------------------------------------|-----------------------|------------------------------|-----------------------------|
| Andrea Abt <sup>2</sup>         | 0                                            | N/A                                           | N/A                   | N/A                          | N/A                         |
| Andrew Allner <sup>3</sup>      | 9                                            | 8                                             | N/A                   | 9                            | 9                           |
| Kate Allum                      | 9                                            | 8                                             | 5                     | 9                            | 9                           |
| Ian Ashton <sup>4</sup>         | 5                                            | 1                                             | N/A                   | N/A                          | N/A                         |
| Bruno Deschamps <sup>5</sup>    | 4                                            | 0                                             | N/A                   | 5                            | N/A                         |
| Ian Duncan <sup>6</sup>         | 9                                            | 8                                             | 5                     | 8                            | 9                           |
| Steve Francis <sup>7</sup>      | 8                                            | 8                                             | N/A                   | N/A                          | N/A                         |
| Kath Kearney-Croft <sup>8</sup> | 5                                            | 8                                             | N/A                   | N/A                          | N/A                         |
| Gillian Kent <sup>6</sup>       | 9                                            | 8                                             | 5                     | 8                            | 9                           |
| Simon King <sup>9</sup>         | 4                                            | 1                                             | 3                     | 5                            | 3                           |
| Alan Lovell                     | 9                                            | 8                                             | 5                     | 8                            | 9                           |
| Nick Maddock <sup>10</sup>      | 1                                            | N/A                                           | N/A                   | N/A                          | N/A                         |
| Meinie Oldersma <sup>10</sup>   | 1                                            | N/A                                           | N/A                   | N/A                          | N/A                         |
| Christian Rochat <sup>5</sup>   | 4                                            | 0                                             | N/A                   | N/A                          | 3                           |

1. This year there were nine scheduled Board meetings and eight additional Board meetings. The increased number of Board meetings were necessary due to the firm placing, placing and open offer, which took place in July 2020, and the Covid pandemic

2. Andrea Abt retired on 12 February 2020 and did not attend the meeting on 29 January 2020

3. The Chairman attended all five Audit Committee meetings

4. Ian Ashton was appointed on 1 July 2020 and attended all scheduled meetings he was entitled to attend. In addition to this, he attended one Board meeting as a guest prior to his formal appointment and attended three Audit Committee meetings

5. Bruno Deschamps and Christian Rochat were appointed to the Board on 10 July 2020 and attended scheduled meetings they were entitled to attend

6. Ian Duncan and Gillian Kent were unable to attend the Remuneration Committee meeting on 4 November 2020 as it was called at very short notice and were updated by email

7. Steve Francis was appointed on 25 February 2020 and attended all scheduled meetings he was entitled to attend. In addition, he also attended all five Audit Committee meetings

8. Kath Kearney-Croft was appointed on 25 February 2020 and resigned on 31 July 2020. During her time with the Company, she attended all scheduled meetings she was entitled to attend as well as attending two Audit Committee meetings

9. Simon King was appointed to the Board on 1 July 2020 and attended all scheduled meetings he was entitled to attend

10. Nick Maddock and Meinie Oldersma resigned from the Company on 24 February 2020

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

The Chairman also holds meetings with the Non-Executive Directors without the Executive Directors present. During 2020, ten such meetings were held. The Senior Independent Director also meets with the other independent Non-Executive Directors without the Chairman present, in particular when the performance of the Chairman is being considered. During 2020, this meeting was held in November 2020. All Directors attended the 2020 AGM, 9 July 2020 General Meeting held to approve the Firm Placing, Placing and Open Offer and the 17 November 2020 General Meeting held to approve the new Remuneration Policy. In light of the pandemic, all meetings were held as closed meetings; Shareholders were invited to submit questions in advance of the meetings and all questions were addressed in advance of the meetings. Shareholders were able to listen into all three meetings.

## Directors' conflicts

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

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

As part of the review of conflicts this year, Directors have also confirmed they have no connection with the following external search firms:

- Savannah Group – initial appointment of Steve Francis;
- Odgers Berndtson – appointment of Ian Ashton;
- Barry Gould Consulting – appointment of Simon King and the search process for a permanent CEO; and
- Ridgeway Partners – appointment of Shatish Dasani and Kath Durrant.

The Savannah Group and Odgers Berndtson are used for other senior executive appointments.

All Directors were required to complete a gifts and hospitality form confirming receipt of gifts or hospitality provided as a result of their directorship of the Company.

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

## Culture and purpose

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

## Annual employee survey

An employee engagement survey was launched in September 2020 and a new provider was appointed. The Net Promoter Score methodology was used, which focuses around "how likely is it that you would recommend SIG as an employer?". A further set of statements were also included around key themes: vision and strategy, culture and environment, management and leadership, job satisfaction, health, safety and wellbeing, communication and customer focus. The scores varied across countries but the improvement areas were consistent, these were management and leadership, the Company's vision and strategy, communication and information and compensation and benefits. The highest scoring areas across the Group were health, safety and wellbeing, teamwork and collaboration.

Pulse surveys will be conducted throughout 2021 for consistent and ongoing measurement to take place.

## Focus following the survey

Most countries are holding focus groups with a cross section of employees from across their business to have meaningful discussions with employees. Actions will be agreed per country and monitored monthly.

## Focus on data

The Board received reports on the data sets recommended in the guidelines produced by the FRC to review to monitor culture and engagement within the business. These regular reports included the following information:

- training data;
- recruitment;
- exit interviews;
- reward;
- promotion decisions;
- whistleblowing data;
- employee surveys;
- Board interaction with senior management and workforce;
- health and safety data, including near misses; and
- attitudes to regulators, internal audit and employees.

The Board receives reports as a matter of its regular routine business at each meeting on diversity data, compliance training completion rates per operating company and Group, head count, turnover and absence rates, recruitment, whistleblowing data, health and safety data including near misses, and Covid-19 cases. It also receives reports from individual Board members and operating company Managing Directors on their meetings with employees. The Board also received feedback immediately after the launch of the commitment culture programme at the SLT conference in January 2020.

## Culture programme

The Board, with the assistance of members of the ELT, articulated a new SIG purpose and vision, and reviewed SIG's culture and behaviours. The revised purpose agreed by the Board is articulated as "To enable modern living and working environments in the communities we operate".

## Work on a commitment culture

Throughout the year, extensive work took place to define a supporting culture framework. The defined behaviours will drive the consistent and shared actions to advance performance and conduct. The launch and implementation of the new culture programme began in January 2020 and was restarted in September 2020 following the changes in management and the successful refinancing of the Company.

The commitment culture is one driven by a clear sense of purpose with clearly defined behaviours that underpin it.

The SIG behaviours have been articulated as "Be bold in what you do", "Be flexible and agile" and "Make a positive difference". Read more on page 39.

# Corporate Governance Report

## BOARD LEADERSHIP AND COMPANY PURPOSE

### Engagement with employees

The revised organisational culture and behaviours were defined during 2019 by the Board, ELT and focus groups from across the business, and launched in January 2020 via the SLT business conference and operating company roadshows.

Following the appointment of Steve Francis, a new strategy was launched. As part of this new strategy for growth, there was greater focus on reconnecting with employees across the Group, the Board Workforce Engagement programme sought to augment the existing employee engagement activities, for example, the Employee Engagement Survey, which was launched in September 2020, to provide further insights and provide our employees with the opportunity to offer opinions, feedback and suggestions and drive actionable improvements.

Simon King replaced Kate Allum as the designated Non-Executive Director for workforce engagement with effect from 1 October 2020. He held virtual sessions in October and November with all operating companies and Group employees. See more about this on page 62.

### Further work

As there were several new members of the Board and ELT, both groups participated in the commitment culture sessions in September prior to the restart of the culture programme following its initial introduction in January 2020. It was also agreed that the annual Board effectiveness survey would have specific questions included to specifically assess how the Board demonstrates the SIG behaviours (see page 78 for more details).

Following this, "taking a leap" sessions took place in all operating companies during October/November. These sessions provide a reminder of the commitment culture and SIG behaviours focusing on activating the behaviours and agreeing actions to embed the culture. There has been positive feedback from all teams. The culture framework, including the purpose, vision and strategic pillars, have been refined further as result of feedback from colleagues across the Group. New internal branding and further communication materials were launched in January 2021. See page 38 for more details.



Picture taken before lockdown restrictions were in place.





The Board is aware, from its regular reports, that retention figures require improvement and in certain areas there is low morale after three years of transformation within the business. The Board recognises that there is further work to be done to improve culture, morale and engagement within the business, and embed the commitment culture and align it to the new vision and purpose. This will continue to be an important area of focus for the Board during 2021 and the Board will be closely monitoring key data sets to ensure that the necessary improvements are made to the culture and to monitor the behaviours rolled out to the Group, to set the appropriate tone from the top.

See page 104 of the Audit Committee Report for other actions the Company has implemented as a result of the PwC report.

Following his appointment, the CEO commenced an in-depth review of customer, supplier and employee feedback based upon structured interviews with customers and suppliers, and feedback from employees at branch roadshows.

Pricing and loss of key relationships were raised as key issues for customers, whilst customer focus and product range were highlighted by suppliers. Feedback from employees also highlights a need for increased focus on building customer relationships and service proposition. The new strategy and strategic pillars focus on customers, suppliers and employees by reigniting growth through SIG's expertise, service and proximity to customers.

### Workforce engagement

The Directors consider that, whilst workforce engagement improved during 2019, more could be done. In December 2019, we announced the appointment of Kate Allum as Non-Executive Director responsible for workforce engagement with effect from 1 January 2020. With the assistance of the Company Secretary, Kate had planned to hold sessions with colleagues during April and May 2020, but these could not go ahead because of Covid-19. On 1 October 2020, Simon King replaced Kate Allum as the designated Non-Executive Director for workforce engagement. With the assistance of the Company Secretary, virtual engagement sessions were held with all operating companies and Group employees. Further details can be found on page 62.

During 2020, the Board had planned to rotate meetings and had scheduled to visit sites in Manchester, Dublin and Hanau (Germany). However, as a result of Covid-19, the planned meetings could not go ahead. Visits by the Board and individual ones will be reinstated at the earliest opportunity subject to ongoing restrictions.

More details on employee engagement activities in each operating company are set out on page 65.

In October 2019, the Company commenced the process of publishing to all employees and contractors a full suite of updated policies. These include our health and safety procedures, GDPR, code of conduct, anti-bribery and corruption, alcohol and substance misuse, and gifts and hospitality. Useful videos were produced alongside these. All employees, including the Board, and contractors were then asked to complete online training on each of the policies.

Completion of the modules is tracked with reminders being issued to ensure that training is completed. As new policies are developed, such as the Whistleblowing policy that was launched in January 2021, training is provided to all employees.

The Company is committed to investing in and rewarding its workforce. It operates a share incentive plan scheme and provides regular training opportunities. In addition, local recognition programmes were developed to align with the new behaviours, and replace the previous values-based schemes. Our teams use these programmes to recognise outstanding work, efforts or achievements that are aligned to the behaviours. Moving into 2021, there are plans to develop our recognition schemes further and on a Group-wide basis.

# Corporate Governance Report

## BOARD LEADERSHIP AND COMPANY PURPOSE

I am looking forward to meeting many more colleagues from across the business. My initial impression is that there is a **great sense of pride** about working for SIG and I would like to see what we can do to improve and build on that to make SIG **a truly great business**.

**Simon King,**

Designated Non-Executive Director  
for workforce engagement



### Branch visits

As a new Non-Executive Director joining SIG, I had planned to visit each of our major operating companies including a number of the UK sites. However, we were just coming out of the first Covid-19 lockdown across Europe and, therefore, I focused on the UK where travel was permitted.

The purpose of these visits was to meet members of the local management teams and colleagues at all levels in the organisation and to hear first-hand how employees were feeling and their views on the new strategy for growth centered on expertise, service and proximity with a key emphasis on customers, suppliers and employees. This helped me learn about our operations in detail and to listen to the opportunities, risks and challenges the business faces in the current environment.

In July, following a visit to the Sheffield head office, I also visited the Sheffield Distribution branch. I met with the team that included a tour of the building and the yard. It was abundantly clear that there was a real team spirit about making sure each of their colleagues were safe and healthy. Another observation was the breadth of service and experience in this branch, there were people with 30 years' service, some recent arrivals from competitors and new starters in their first jobs. This created a dynamic discussion about our business and the sector, with many great ideas for improvement. A visiting manager from Leicester was very helpful in providing some historical context and stimulating the discussion about what needed to be done to be more successful in the future. There was a sense of confidence that a more local, customer-centric strategy prevailed throughout all my other visits.

In my subsequent visits to St Ives, Edmonton and Manchester, colleagues were more focused on discussing customers and their desire to win them back with new, improved levels of customer service. Again, I sensed a rise in confidence in the strategy and the energy Phil Johns was personally bringing back to the business. I learned how a significant increase in volume could be managed by the existing team and equipment across three very different formats. The change in leadership of the UK business was having a positive impact.

On my visits to Valor Park, Barking and Ash Vale, I was heartened by the discussions and desire to have the right behaviours across the business. This confirmed that the Company was making good progress on ensuring all employees understood the new framework for behaviours across the Group.

These teams were also passionate about achieving growth through improved customer service. Their drive to give better service with the right stock levels for example, again demonstrated the drive and commitment in the business to look after customers and colleagues. Furthermore, I was grateful for their ideas and suggestions for improving the business, which I was able to relay to my Board colleagues. One such idea that I could take to the Board was for a simple intranet/platform for connectivity and communication between branches and countries, which was being explored by the Corporate Affairs team.

Additionally, it also became apparent that there were different issues facing teams who were customer facing working in branches and those who were able to work from home. SIG has launched a Wellbeing and Mental Health policy to provide support to employees and to ensure that they know where they can go for help.

### Workforce engagement

After joining the SIG Board in July 2020, I was delighted to be appointed as the Non-Executive Director responsible for workforce engagement and the whistleblowing champion with effect from 1 October 2020.

Aside from our obligations as part of the Code and part of the new strategy for growth, and greater focus on reconnecting with colleagues across the Group, the Board Workforce Engagement programme seeks to augment the existing employee engagement activities, for example, the Employee Engagement Survey launched in September 2020, to provide further insights and provide our employees with the opportunity to offer opinions, feedback and suggestions and drive actionable improvements.

Kate Allum was originally appointed as the designated Non-Executive Director for workforce engagement in January 2020. During the first quarter of 2020, her intention had been to visit sites in the UK, France, Germany, Poland, Benelux and Ireland. However, due to the Covid-19 pandemic these sessions were unable to go ahead as planned.

I took over the role from Kate and, with the assistance of the Company Secretary, we held video conferencing sessions during October and November with employees from the UK, Germany, France, Benelux, Poland, Ireland and Corporate Functions.

A cross section of employees were invited to participate in the programme, representing all levels, regions and functions to support our strategic priority of reconnecting with employees. The format of the meetings was informal, with discussion taking place on the positives and negatives from around the business covering the last six months, and the key priorities and opportunities for improvements. Where required, in order to increase inclusivity, the sessions were translated.

I was delighted with the hugely positive response from colleagues with many of them expressing their appreciation of a chance to meet with a Board member and their sentiment of being listened to and valued by the organisation.

I reported to the Board in November the key themes raised by employees which can be summarised as follows:

- Employees felt that the response to the pandemic was handled positively;
- Teamwork and collaboration had improved and at branch level teams were supporting each other;
- The messaging around the refocus on customers was positive; and
- Communication over the last six months had improved particularly on health and safety.

Some areas for improvement were also highlighted as follows:

- Employees requested more learning and development opportunities;
- Increased support on wellbeing and mental health;
- A better induction framework for new hires; and
- More focus on improving the delivery and customer experience.

In December, I provided the key priorities and opportunities for improvement to ensure the Board reflects the feedback in its decision-making process. I have also taken the opportunity to provide high level feedback to each of the operating company Managing Directors to enable them to make a difference on a more local level. Of course, any plans for engagement will only truly work if there are followed up with actions and outcomes.

I am pleased to say that work has started on a Group induction framework to ensure new employees are provided with the relevant tools and information to support them being able to be effective in their roles as quickly as possible. This induction framework will continue to be enhanced and refined following feedback from recent hires. Wellbeing has also been highlighted by colleagues as increasingly important and a Group-wide policy was launched in October 2020. These actions, together with all the other work on the culture and new strategy, will make a huge difference to making SIG a really great business.

Reconnecting with our employees is an ongoing strategic priority and engagement actions from each programme will continue to be rolled out throughout 2021 and beyond.



### Investment by CD&R

At the date of this report, CD&R hold just over 28% of SIG shares and we were delighted to welcome them to the Group in July. A summary of the key terms of the Relationship Agreement is set out below including the involvement of the CD&R nominated Directors in our business.

Involvement governed by the Relationship Agreement:

- CD&R have the right to nominate two non-independent Non-Executive Directors ("NED") and on 10 July 2020 we welcomed Bruno Deschamps and Christian Rochat to the Board;
- Bruno serves on the Remuneration Committee, while Christian serves on the Nominations Committee. An observer from CD&R attends Audit Committee meetings;
- the Agreement regulates the appointment and removal of such nominees or observer; and
- where any conflicts arise (actual or potential) between the Group and the nominee director or observer, the conflict must be declared and the nominee director/observer may also be prevented from voting on such matter(s).

The key mechanism for the CD&R Directors to provide insight and experience is through monthly Operating Review meetings attended by the Chairman, CD&R NEDs and the Audit observer, CEO, and CFO. These meetings are very useful and enable deep dives into the operations of the Group's major subsidiaries. Operating Company management are invited to attend and present progress they are making against their strategy, budgets and targets. Bruno and Christian also have been ideally placed as a further sounding board and constructive challenge to the CEO and Executive team.

How it works in practice:

- Papers for the Operating Review meetings are circulated to all Board members and matters arising from these meetings are subsequently reported to the Board;
- CD&R make a positive contribution to the Board. They understand and are sensitive to the responsibilities of the Board and as Directors to all shareholders and to comply with PLC Corporate Governance rules; and
- CD&R also own Wolseley. Whilst Bruno acts as Chairman of Wolseley this company competes in a different market to SIG and no areas of conflict have arisen to date.

Overall, the Board believes that CD&R have provided a very valuable contribution to date to the Company for the benefit of all shareholders. See page 85 for further information on the Relationship Agreement.

# Corporate Governance Report

## SECTION 172 STATEMENT



### Section 172 and Stakeholder Engagement

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

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

### How the Directors have applied their Section 172 duties

The Board has considered its key stakeholders and the methods of engagement with each of those stakeholders, both at Board level and across the business. It receives regular reports from management to enable it to monitor the quality and effectiveness of the arrangements for stakeholder engagement. Specific examples of the way in which the Directors have performed their fiduciary duty under Section 172 are provided in relation to the preparations for the capital raise as well as the Board's actions and decisions during Covid-19.

The Board has approved a training programme to ensure that, in preparing proposals for Board consideration, managers are aware of the Section 172 requirements in Director decision making, ensuring that Directors will have the assurance that all relevant stakeholder interests and other relevant matters, are being set out for their consideration. As indicated on page 76, the Board also received training from Allen and Overy and the Company's Brokers.

In addition, as part of their decision-making process, the Board also carefully consider the principal risks of the Company as highlighted on pages 34 and 35.

### Shareholders

#### Why we engage

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

#### Engagement activities

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

#### Issues raised

- Support for strategy of UK transformation and return to profitable growth
- Encouragement for continuing profit improvement
- Concern over weaker market conditions
- Concern over deterioration in sales, especially in the UK
- Proposal for new Restricted Share Plan and Executive Directors' remuneration

#### Actions taken subsequently

- Feedback reflected in emerging strategy, focusing on core operations and developing investor communications
- Listened to feedback from Shareholders regarding the one-off cash payment made to the CEO and the Restricted Share Plan, and worked with them to find a solution acceptable to all parties and resulted in overwhelming Shareholder approval of the new Remuneration policy in November 2020
- Successful capital raise undertaken to enable delivery of the Group's objectives





## Colleagues

### Why we engage

The Directors consider that a commitment culture, underpinned by defined behaviours with a clear vision and purpose for the future, is vital for the future growth of the business, and that engagement with the workforce is key to success of the business. This is reflected across the strategic pillars with colleagues encouraged to demonstrate the SIG's behaviours "Be bold in what you do", "Be flexible and agile", and "Make a positive difference".

### Engagement activities

Whilst originally planned to launch in early 2020, the Board Workforce Engagement programme was delayed due to the Covid-19 restrictions. However, good progress was made from September 2020 with the launch of the Employee Engagement Survey and the Board Workforce Engagement programme recommenced in October 2020. A cross section of employees across the Group were invited to participate in the programme, representing all levels, regions and functions together with the Board-designated NED to meet and discuss informally the positives and negatives from around the business, covering the previous six months to identify key priorities and opportunities for improvement. In addition to this, there were also communication cascades, SLT broadcasts for onward transmission to employees, Group-wide broadcasts by the CEO and internal newsletters.

### Issues raised

- People felt that the Company's response to the Covid-19 outbreak had, in general, been very good, particularly in being flexible both in serving customers and the flexibility offered to employee
- People were keen to roll out the behaviours/culture programme
- People appreciated the new employee broadcasts as a good use of technology and a good way to share information
- Learning and Development needs more investment, particularly at branch level, as some staff had not received training for several years
- Better sales and product training was needed so that customers could be offered the best service
- There was a need to prioritise what is most important and focus on delivering those projects well

### Actions taken subsequently

- Employee survey launched across the Group to demonstrate commitment to listening to employees
- New internal branding to build SIG team culture and alignment to new strategy
- Establishment and communication of a new purpose, culture and vision for the Company
- Investments made in compliance training and staff development, especially at branch level
- Investments in health and safety approved
- New Wellbeing and Mental Health policy launched
- Provision of a global Employee Assistance Programme
- Updated Whistleblowing policy launched including a new system implemented in January 2021
- Investment in sites in UK and Europe
- Communications improved with comprehensive employee engagement plan and greater Director visibility using video calls during the pandemic to continue engagement with branch staff
- Induction process improved and new framework introduced
- Restarted the commitment culture roll out following the new leadership appointments
- Appointed Simon King as designated Non-Executive Director for workforce engagement and whistleblowing champion

## Employee engagement activities by operating company are set out below:

|                    |  |  |  |  |
|--------------------|--|--|--|--|
| UK Distribution    |  |  |  |  |
| UK Exteriors       |  |  |  |  |
| Ireland            |  |  |  |  |
| Corporate          |  |  |  |  |
| Benelux            |  |  |  |  |
| Germany            |  |  |  |  |
| France             |  |  |  |  |
| Poland             |  |  |  |  |
| Building solutions |  |  |  |  |

### Key:

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

# Corporate Governance Report

## SECTION 172 STATEMENT



### Customers

#### Why we engage

The profitability of the business is underpinned by providing effective partnerships with customers, so understanding their needs and requirements is extremely important. Customers are recognised within the strategic pillars and, as a result, the Group's sales capacity and productivity is being strengthened to provide the best customer service.

#### Engagement activities

During the pandemic, the Group has taken care to communicate the safety measures implemented to keep customers safe. SIG Poland has launched a comprehensive SIGup marketing programme rewarding customers for purchases and loyalty. Customer service teams in Ireland contact top customers on a regular basis to check service levels and contact dormant accounts quarterly. Many activities across France, Benelux and Germany have been paused due to the current restrictions, such as branch training courses for customers on new products, in-branch social events. However, regular contact has been maintained via telephone and video calls where possible. The Group also carried out a customer survey see page 14.

#### Issues raised

- Fast and easy purchasing processes, making it easy for customers to place orders
- Make it easier to obtain advice by phone and ensure staff on site are trained to advise customers appropriately
- Improve delivery of products to avoid delays
- Range and availability of product; requires focus with a larger stock of materials
- Sense that loyalty is valued and rewarded; want to feel appreciated

#### Actions taken subsequently

- Introduced online purchasing, dedicated points of contact, customer specific portals for pricing
- Product training, coaching by managers, improved recruitment and retention of knowledgeable staff to make branch staff more responsive to key relationships
- Measured "on time, in full" differently to increase productivity and increase use of the delivery app to keep customers better informed
- Reviewing branch stock levels and giving branch directors more input
- More social events are being planned at branches for customers post-Covid
- Improvements being made to recruitment and training processes
- Acquisition of S M Roofing Supplies Ltd to extend SIG's geographical reach



### Suppliers

#### Why we engage

The Directors understand that SIG adds value by operating as the supply chain partner of choice. Valuable Partnerships is one of the key strategic pillars for the Group to partner closely with suppliers to understand our joint opportunities and to create win-win strategies.

#### Engagement activities

Strategy meetings were held with the top 20 suppliers in the UK. We are in the process of setting up an Infrastructure Alliance, where 50 suppliers have already signed up, and the first conference was held virtually. We have also strengthened the Category team with industry expertise and relationships. There has been active participation in online supplier events and training courses in Ireland and Poland. In Germany and Benelux, connections with all major suppliers have been re-established at the top level and dedicated category managers are responsible for maintaining relationships. In France, regular meetings have been set up and there are hopes that the bi-annual sales event will be able to take place once restrictions have been lifted.

#### Issues raised

- Lack of senior management personal contact with suppliers
- Looking for more support when introducing new products
- Need to improve levels of trust and willingness to co-operate

#### Actions taken subsequently

- Follow-up meetings for senior management scheduled to maintain relationships
- Reconnecting with all major suppliers and active participation, where possible, to supplier events to build relationships
- Ongoing contact between suppliers and SIG sharing project information
- Development of EDI solution to reduce administrative costs for both parties
- Preparation of regional plans to grow product offering and availability
- Introduction of new products



### Lenders

#### Why we engage

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

#### Engagement activities

Regular trading updates, meetings with the CFO and Group Treasurer, and on occasions the CEO.

#### Issues raised

- Support for strategy of transformation and return to profitable growth
- Encouragement for continuing profit improvement
- Concern over weaker market conditions as a result of Covid-19
- Concern over deterioration in sales, especially in the UK
- Concern over liquidity position, cash and covenant headroom
- Appetite for debt reduction and reduction revolving credit facility commitments

#### Actions taken subsequently

- Feedback reflected in emerging strategy and developing lender communications
- Engaged equity advisors and raised capital via a placing and open offer
- Reduction in revolving credit facility commitments and repayments of private placement notes
- Engaged debt advisors and renegotiated and restructured debt facilities including extended maturities and relaxation of covenants
- Enhanced cash flow covenant headroom forecasting, monitoring and reporting



## Pension scheme members and trustees

### Why we engage

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

### Engagement activities

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

### Issues raised

- Dialogue welcomed. Members keen to maintain ongoing communication around implications for Company's covenant of transformational change and business disposals in particular the use of Air Handling proceeds
- Concern over value of security held by pension scheme via the asset-backed arrangement as a result of Covid-19 and temporary closure of branches in the UK

### Actions taken subsequently

- Maintaining regular and more frequent dialogue during Covid-19
- Consulted on temporary amendments to the terms & conditions in the asset-backed arrangement (these were not required)



## Local community

### Why we engage

The Directors appreciate that close relationships with communities where the business operates will foster the long-term success of the business and recognise that the actions of the Group can have a beneficial impact on local communities.

### Engagement activities

There have been various collaborations across the Group with local school and sports club projects, such as training and workshops for young people during Covid-19 lockdown, traffic awareness initiatives, assistance for charities supporting the elderly and other local community charity events.

### Issues raised

- Engagement has been difficult during lockdown
- Positive feedback but acknowledgement that need to do more as a business
- A more systematic approach would be helpful across the Group
- Acknowledged that real help had been provided for young people during difficult times
- Appreciation for support given

### Actions taken subsequently

- ESG strategy developed for implementation during 2021
- Plan to set up a UK Charity Committee
- Continuing safe driving training
- Continuing community first aid training
- Development and wellbeing activities for local community and employees' families



## Environment

### Why we engage

The Directors appreciate that environmental matters are increasingly important to all stakeholders and links with the Group's strategic pillar "Responsible Actions where our people feel safe, proud and valued and we operate sustainably to benefit communities and the environment".

### Engagement activities

2020 saw the start of a review of the environmental impact of the Group as part of a wider ESG review and this will continue into 2021.

### Issues raised

- Carbon emissions
- Sustainability of materials
- Recycling of materials

### Actions taken subsequently

- ESG strategy was being developed for implementation during 2021
- Developing a fleet decarbonisation plan with operating companies
- Developing clean energy supply methods
- Developing end-to-end waste management processes
- Developing a Green Supply Chain Methodology

# Corporate Governance Report

## SECTION 172 STATEMENT



### Government

#### Why we engage

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

#### Engagement activities

Engagement with DVLA (road safety), lobbying as a member of the Consumer Protection Association (CPA), input into insulation and quality standards. Application to Ministry of Finance in Poland for participation in a pilot programme of monitoring; this involved several meetings with Ministry representatives via video calls and one with the Minister himself. Final participation in this will make it possible to help influence the shaping of tax law and reduce sanctions/penalties for errors in tax computations/returns. Occasional contact with FRC and FCA in relation to regulatory matters.

#### Issues raised

- Company performance not consistent
- Value proposition not always understood

#### Actions taken subsequently

- Routes to market improved
- Ongoing dialogue





## Examples of how the Directors have applied their Section 172 duties

### Capital Raise

In considering the undertaking of a Capital Raise, the Directors had regard to their duties under Section 172 of the Act. They considered the interests of a number of different stakeholders, maintaining the Company's reputation for high standards of business conduct, relevant risks and to deliver the Company's objectives. These being to (a) provide ongoing support to customers and suppliers and to preserve employment in a viable business; (b) emerge from the Covid-19 crisis with the financial resources required to deliver its new strategy, recapture market share and strengthen the Group's position as a market leader across its operating businesses; (c) ensure access to capital that will provide the Group with greater certainty, flexibility and balance sheet strength to pursue future growth opportunities; (d) support the deleveraging of the Group's balance sheet, in line with the Board's medium-term target of covenant leverage of below 1.5x; and (e) avoid an Equity Failure Event – Event of Default under the Amended Debt Facilities Agreements.

They considered the interests of different stakeholders in the following manner:



#### Shareholders

Development of a longer-term business with the new strategy for growth. The restructuring of the debt facilities together with the successful capital raise provides a firm and stable foundation for the delivery of the strategy. Shareholders were consulted and feedback considered by the Board.



#### Financial Advisors and Brokers

The Board worked closely with the Company's Financial Advisors and Brokers to ensure that the capital raise was undertaken in a manner that would give the best results for the Group. Oversight and gave consideration to the Prospectus through every step of its production.



#### Colleagues

Communication of the strategy that the capital raised will allow and the long-term benefits for the success of the Group. Building sustainable winning sales teams that have the necessary autonomy, incentives and support to succeed. Revised people strategy to encourage a culture of entrepreneurship, commitment and empowerment



#### Customers

The new strategy will have a renewed focus on strengthening customer relationships. Maintaining and improving geographical coverage for customers. Continue to provide customers with a system of products, alongside deep technical expertise that can be leveraged to deliver innovative solutions to customers. Re-establish the Group's specialist focus and expertise



#### Suppliers

Reassurance for suppliers that the Group remains creditworthy. Strengthening partnerships with suppliers. Being a primary customer to key suppliers through scale, coverage and intimate knowledge of their business and our markets



#### Pension trustees

Engaged and kept informed of the reasons for the capital raise and the aims of the new strategy.

### Risks and mitigation

There was a risk that the significant investment proposed from CD&R would be rejected by other Shareholders. Steps were taken, with the assistance of the Brokers, to ensure that this step was properly explained so that all Shareholders and stakeholders remained well informed and reassured. Furthermore, the Company provided detailed information on the risks factors as set out in part two of the prospectus on pages 15 to 37.

# Corporate Governance Report

## SECTION 172 STATEMENT

### Covid-19

During the Covid-19 pandemic, the Board met more frequently (twice weekly) during the first lockdown and considered the needs of all stakeholders as the situation unfolded. Management was initially meeting on a daily basis, moving to bi-weekly then weekly; feedback on these meetings was being provided to the Board on an ongoing basis. The Board regularly reviewed the position keeping at the forefront of their mind the need to preserve the safety of employees, suppliers and customers. In making any decisions, the Board also considered maintaining the Company's reputation for high standards of business conduct as well as its success in the longer term. The Group has been able to trade safely, working closely and flexibly with employees, customers and suppliers to adapt to new Covid-19 norms.

#### Stakeholders and matters considered during the decision-making process:

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

#### Summary of actions taken as a result of Covid-19 are as follows:

- Instigated home working and enhanced the IT capability by purchasing additional laptops and VPN licences to facilitate as many people as possible to work from home. Additional fraud measures were put in place to further protect SIG systems from outside parties gaining access. Moved all meetings to video calls.
- Enforced and adhered to the government's strict hygiene, social distancing and cleaning standards in all countries where branches/sites remained open.
- Temporarily closed the majority of UK and Ireland operations but remained open to service critical and emergency projects only, such as for the NHS, energy and food sectors, and to ensure that there was an orderly closure programme. Reopened the majority of sites by mid-May.

- Furloughed c.2,070 colleagues but committed to maintain a proportion of pay. Colleagues took a pay reduction of up to 20% and the Board agreed to take up to 50% from 1 April 2020 for three months until 30 June 2020. In mid-May when colleagues returned to work on full pay the CEO and CFO were reinstated to 80% from 1 April 2020.
- In the UK, helplines have been set up so colleagues can get free advice and support on mental health, financial and legal issues. Introduced a new Wellbeing and Mental Health policy and associated training.
- Engagement with some of the Company's major Shareholders by the Chairman on the impact of the crisis and the steps it has taken as a result. Announced that the Company would not be declaring a final dividend for 2019, nor to consider any return to Shareholders from the proceeds of the recent Air Handling disposal.
- Engagement with customers and suppliers by operating companies to discuss the market environment, their needs/ concerns and stock demand and availability.
- The Board received updates from its financial advisors, lawyers and brokers.
- Group Risk designed and rolled out a crisis response checklist to each operating company. The checklist comprises a set of short, medium and long-term risks with activities for consideration by management. Each operating company has been able to use the checklist to ensure it has coverage of the fuller spectrum of risks and to prompt consideration of additional activity, especially in relation to changes in response by governments.
- The Board also regularly monitored the liquidity of the Group and put in place strengthened cash control measures. The Group has been able to preserve its liquidity position and has remained in dialogue with its lending group in order to release additional liquidity as required.
- SIG also made use of tax relief, as well as accessing other available government measures.
- For more information on Covid-19 risks and mitigating actions see page 33.



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

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

Following the Company's trading update in September 2020, when the Group reported lower like for like sales on prior year and a loss before tax, both were impacted by Covid-19. Net debt was down having been helped by the sale of the Air Handling division at the end of the previous year. A new leadership team was appointed and a restructuring of the Group's financing facilities and capital raise had successfully concluded in July (see page 69 for more details) and included a significant equity investment from CD&R. The substantial liquidity headroom provided security against ongoing market uncertainty and confidence to invest in the new growth strategy. The CEO and CFO updated major Shareholders on these matters, as well as providing an update on the branch and customer-centric restructuring in the UK which were progressing to plan. In addition, Germany and Benelux were refocusing under a new combined management team. The CEO and CFO also updated major Shareholders following the Trading Update in January 2021.

The Chairman believes in regular and transparent communication with Shareholders and makes himself available as required during the year. The Chairman has held numerous discussions with SIG's large institutional Shareholders during the year. His meetings with Shareholders have enabled him to understand their views on governance and performance against the strategy of the business as well as relaying the direction and strategy of the business, particularly in the period leading up to the refinancing of the Company. Contact is also maintained, where appropriate, with Shareholders to discuss overall remuneration plans and policies. The Chairman and the Senior Independent Director are available to discuss governance and strategy with major Shareholders if requested, and both are available for contact with individual Shareholders, should any specific areas of concern or enquiry be raised. The Chair of the Audit Committee and the Chair of the Remuneration Committee are also available for contact with Shareholders should there be any matters raised which are relevant to their area of responsibility and both are available to answer questions at our AGM.

Throughout the year, the Company responds to correspondence received from Shareholders on a wide range of issues and also participates in a number of surveys and questionnaires submitted by a variety of investor research bodies. Whilst Non-Executive Directors make themselves available to meet the Company's Shareholders, no such meetings have been requested during the year. Additionally, they regularly review the presentations of the annual and interim results. The Chairman also ensures that the Board as a whole has a clear understanding of the views of Shareholders and a regular report is provided by the CFO on investor relations at each Board meeting.

The Board welcomed majority support at the General Meeting in July 2020 for resolution 5 (the "Resolution") but acknowledged that a significant number of votes (44.07%) were cast against it. Resolution 5 was seeking approval of the payment of a one-off bonus to the CEO. Following the General Meeting in July, and at the same time as consulting on our new Directors' Remuneration Policy, the Remuneration Committee ("the Committee") consulted with our largest institutional Shareholders in order to understand the reasons behind the voting result. Shareholders indicated that the main reasons for the votes against the Resolution were: (i) a policy of opposing one-off awards; and (ii) questions around the timing of the payment and whether it would have been more prudent to wait until the end of the year to determine whether the payment was warranted. In addition, some Shareholders expressed disappointment that the Committee had still made the payment given the number of votes against the Resolution and said they would have expected the Company to reconsider its position. The Committee listened closely to the feedback and considered the concerns raised.

As a result, the Committee incorporated a number of changes into the new Directors' Remuneration Policy, that was tabled at the Company's most recent General Meeting in November 2020, and following further consultation with the largest institutional Shareholders, some further changes were made to reflect shareholder views and the new Directors' Remuneration Policy was approved by a majority of 92.63% of Shareholders voting and this is now in place. This statement in accordance with Provision four of the Code was published on the Company's website on 9 December 2020.

The AGM notice of meeting is sent to Shareholders at least 21 days before the meeting. The Company provides a facility for Shareholders to vote electronically and the form of proxy provides Shareholders with the option of withholding their vote on a resolution if they so wish. At the AGM in May 2021 Shareholders will be asked to vote on a poll, rather than a show of hands, following best practice. This also allows the meeting to be held virtually, in line with the Company's Articles, should Covid-19 lockdown restrictions still be in place, without any significant alteration in voting procedure. The Company Secretary ensures that votes are properly received and recorded. Details of the proxies lodged on all resolutions and of all abstentions are published on the Company's website immediately after the AGM.

# Corporate Governance Report

## DIVISION OF RESPONSIBILITIES

### Board and Committees

The Board has delegated certain responsibilities to its principal Committees. Each of the Committees operates under written terms of reference, which are consistent with current best practice. The terms of reference of each of the Committees were reviewed and updated by the Board during the year and can be found on the Company's website ([www.sigplc.com](http://www.sigplc.com)). The Board also appoints Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve the preliminary and interim results announcements, the firm placing and open offer, debt refinancing and acquisitions.

### The Board

- Promotes the long-term sustainable success of the Company and its subsidiaries, generating value for Shareholders and contributing to wider society.
- Establishes the Company's purpose, vision and strategy and satisfying itself that these and its culture are aligned.
- Assesses and monitors culture and behaviours.
- Ensures that the matters set out in Section 172 of the Companies Act 2006 are considered in Board discussions and decision making.
- Ensures that all Directors act with integrity, lead by example and promote the desired culture.
- Ensures that the necessary resources are in place for the Company to meet its objectives and assesses the basis on which the Company generates and preserves value over the long term.
- Reviews whistleblowing arrangements, ensuring that arrangements are in place for proportionate and independent investigation and follow-up action (a new policy, associated training and a new platform were launched in early January 2021).



#### Audit Committee

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

The Committee comprises only independent Non-Executive Directors. The Chair of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's Report is set out on pages 96 to 106.



#### Nominations Committee

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

The Committee comprises the Chairman, the independent Non-Executive Directors and one other Non-Executive Director (from 10 July 2020). The meetings of the Committee are chaired by the Chairman. The Chair of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's Report is set out on pages 90 to 95.



#### Remuneration Committee

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

The Committee comprises four independent Non-Executive Directors, one other Non-Executive Director (from 10 July 2020) and the Chairman (from 1 January 2020), who was independent on appointment. The Chair of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's Report is set out on pages 107 to 131.



### Executive Leadership Team Committee

The Committee addresses operational issues and is responsible for implementing Group strategy and policies, day-to-day management and monitoring performance. The Committee meets weekly and has more in-depth monthly meetings. Members include those individuals listed on page 74.



## Board roles

Each of the Independent Non-Executive Directors are considered by the Board to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Non-Executive Directors, appointed under the Relationship Agreement with CD&R, are not considered to be independent under Provision 10 of the Code, however, are considered to be independent of management and are important in ensuring appropriate independent challenge. The Chairman was assessed by the Board as being independent on appointment. The composition of the Board is such that it includes an appropriate combination of Executive, Non-Executive Directors (CD&R Directors) and independent Non-Executive Directors, and no one individual or group of individuals dominates the Board's decision making. The roles of the Chairman and Chief Executive Officer are separate and clearly defined, and are undertaken by different individuals, ensuring that there is a clear division of responsibilities between the leadership of the Board and the executive leadership. More details of the roles and responsibilities can be found on the company's website at [www.sigplc.com](http://www.sigplc.com).

### Chairman

- Leading the Board, responsible for its overall effectiveness in directing the Company.
- Shaping the culture in the boardroom, ensuring that all Directors, particularly the Non-Executive Directors, make an effective contribution.

### Chief Executive Officer

- Responsible for proposing and then delivering the strategy approved by the Board.
- Responsible for setting an example to the Company's workforce, for communicating to them the expectations in respect of the Company's culture and for ensuring that operational policies and practices drive appropriate behaviour.

### Senior Independent Director

- Available for approach by (or representations from) Shareholders, where communications through the Chairman or Executive Directors may not seem appropriate.
- Leads the evaluation of the Chairman's performance at least once a year, meeting with the Non-Executive Directors, without the Chairman being present.

### Non-Executive Directors

- Appointed for their wide-ranging experience and backgrounds.
- They each provide constructive challenge, strategic guidance and specialist advice, holding management and individual Executive Directors to account against agreed performance objectives.

### Group Company Secretary

- Independent advisor to the Board.
- Ensures Board procedures are followed and decisions implemented.
- Ensures best practice governance arrangements are followed.

# Corporate Governance Report

## DIVISION OF RESPONSIBILITIES

### Executive Leadership Team as at 25 March 2021



**Ian Ashton**  
Chief Financial Officer

Highly skilled senior executive with broad global experience in financial leadership roles.

**Key career highlights**

- CFO, Low & Bonar Plc
- CFO, Labiva LLC
- Various senior roles with Smith and Nephew plc



**Steve Francis**  
Chief Executive Officer

Seasoned CEO in turbulent times.

**Key career highlights**

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



**Ronald Hoozemans**  
Managing Director Germany and Benelux

Over 16 years' experience in leadership across the construction and healthcare industry.

**Key career highlights**

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



**Philip Johns**  
Managing Director SIG UK

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

**Key career highlights**

- Chief Commercial Officer, IBMG Group
- CEO, MKM Building Supplies
- Managing Director, SIGE (2006–15)
- Joined SIG in 1987



**Julien Monteiro**  
Managing Director France

Over 13 years' global experience in the specialist industrial distribution industry.

**Key career highlights**

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



**Marcin Szczygiel**  
Managing Director Poland

Over 22 years' experience in the specialist construction distribution industry.

**Key career highlights**

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



**Kevin Windle**  
Managing Director Ireland

Over 21 years' experience in finance leadership roles in the building merchandising industry.

**Key career highlights**

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



**David Clegg**  
Group Health, Safety and Environment Director

David is an accomplished HSE and Operations executive with 40 years international experience.

**Key career highlights**

- Director HSE, Logistics and Risk, MOL Pakistan
- Director HSE and Risk, Daewoo E&P Myanmar
- Director HSE and Risk Sub-Saharan Africa, Worley Parsons



**Kulbinder Dosanjh**  
Group Company Secretary

Over 21 years' global experience in business administration across both public and private companies.

**Key career highlights**

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



**Andrew Watkins**  
Group General Counsel

Over 18 years' experience in legal counsel across both public and private companies.

**Key career highlights**

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

# Corporate Governance Report

## COMPOSITION, SUCCESSION AND EVALUATION

### Time commitments

The Board has satisfied itself that there is no compromise to the independence of those Directors who have other appointments in outside entities. The Board considers that each of the Non-Executive Directors bring their own senior level of experience and expertise, and that the balance between non-executive and executive representation encourages healthy independent challenge. Prior to their appointment, Directors are required to disclose their significant other appointments and the Board is satisfied that each of the Non-Executive Directors can dedicate sufficient time to their role and responsibilities. Directors are aware that they must not take on additional external appointments without the prior approval of the Board. During 2020, approval was given to Gillian Kent prior to her taking up the role of Non-Executive Director of Dignity plc on 11 June 2020 and to Alan Lovell before he joined Mitie Group plc as a Non-Executive Director on 1 January 2021. The Executive Directors do not have any FTSE company Non-Executive Director appointments or other significant appointments.

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

### Information and support

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

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

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

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

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

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

### Composition and succession

During the year, a number of new Directors joined the Board as follows. Further details can be found in the Nominations Committee Report on pages 91 to 92.

- Two new Executive Directors, Steve Francis (CEO) and Kath Kearney-Croft (interim CFO), joined the Board replacing Meinie Oldersma and Nick Maddock respectively on 25 February 2020;
- Ian Ashton was appointed as the permanent CFO on 1 July 2020; replacing Kath Kearney-Croft;
- Simon King was appointed as an independent Non-Executive Director on 1 July 2020;
- Bruno Deschamps and Christian Rochat were appointed as the CD&R nominated Non-Executive Directors on 10 July 2020 in accordance with the Relationship Agreement signed on 29 May 2020;
- Kath Durrant was appointed as an independent Non-Executive Director and Chair of the Remuneration Committee, replacing Kate Allum with effect from 1 January 2021; and
- Shatish Dasani was appointed as an independent Non-Executive Director and Chair of the Audit Committee, replacing Ian Duncan with effect from 1 February 2021.

Further details of this process, which the Board regards as formal, rigorous and transparent, are included on pages 92 to 93.

The Board has also focused on ensuring that succession plans for the Board and senior management were appropriate. The Board, through the Nominations Committee, gives appropriate consideration to the skills and expertise required on the Board now and in the future. The Nominations Committee also reviews senior management succession and development but recognises that development of a more formal talent pipeline (including diversity) should continue to be a focus during 2021. For further details see page 94.

### Election and re-election of Directors

Under the Articles of Association, all Directors are subject to election at the AGM immediately following their appointment and to re-election every three years. However, in accordance with the Code, all Directors will seek election or re-election at the Company's AGM each year. In accordance with Provision 18, the Board should set out the skills and experience that each Director has, and why their contribution is and continues to be important to the Company's long-term sustainable success. The Board believes the success of the Company going forward will be achieved by the new 2020 strategy of returning to profitable growth by maintaining a leading market position, with a modernised operating model, effective partnerships with customers and suppliers, developing high-performing people and being a responsible business. The contribution of the whole Board is essential in delivering the new strategy with a number of very experienced Non-Executive Directors and Executive Directors.

**Andrew Allner** brings varied and substantial board and general management experience to the Group. He has an in-depth understanding of corporate governance having served as a director and chairman of several listed companies. Since his appointment in November 2017, he has led the process for the appointment of a number of new Non-Executive Directors and two new Executive Directors. He has managed the CEO and CFO succession and worked very closely with the new CEO in the development of the strategy, people and organisational changes, a successful capital raise including the CD&R investment and refinancing debt.

# Corporate Governance Report

## COMPOSITION, SUCCESSION AND EVALUATION

**Steve Francis** brings significant turnaround and leadership experience across a range of multi-site international businesses together with considerable executive management experience including strategic consultancy, mergers and acquisitions, corporate finance and banking. He has expertise in driving rapid operational and performance improvements and restoring profitable growth.

**Ian Ashton** is a highly skilled senior executive with broad global experience in financial leadership roles. He has a strong track record of driving change and is a valuable addition to the team as SIG pursues its new strategy for growth.

**Alan Lovell** brings significant listed company board experience, both as an executive and non-executive director. He has extensive experience in the Group's key sector of construction both in the UK and Europe, the Group's key markets. He is also a turnaround expert, all of which is pertinent to the Group's strategy of improving the performance in the UK and returning the business to profitable growth.

**Gillian Kent** is an experienced non-executive director having served on a number of listed boards and as a member of audit, remuneration and nomination committees. She brings a valuable perspective with specialist knowledge in the development of e-commerce and software businesses and expertise in building product markets and brands, which will be important in driving innovation and digitising our business.

**Simon King** brings extensive, hands-on experience in building products and distribution businesses from a career spanning over 35 years. He also has change management, retail, distribution, marketing and customer proposition, technology, digital and stakeholder engagement (particularly workforce engagement) experience. Simon's skills and experience will be valuable in our efforts to build on SIG's leading market positions and returning the business to profitable growth.

**Bruno Deschamps'** skills and experience include deep industrial knowledge, corporate transactions, extensive experience in driving and overseeing improved company performance, which is important as SIG improves the performance in the UK.

**Christian Rochat's** skills and experience include deep industrial knowledge, transformation, change management, strategy, stakeholder engagement, corporate transactions and extensive experience in driving and overseeing improved company performance. His experience and knowledge will be of value as SIG seeks to improve its trading performance and return to profitable growth.

**Kath Durrant** is an experienced Chair of Remuneration. She has significant international and industry knowledge gained from her roles at Ferguson and CRH. Kath also has extensive experience of working in businesses undergoing transformation, which will be valuable as we seek to restructure our UK operation.

**Shatish Dasani** is an experienced public company CFO and Chair of Audit Committee as well having strong international experience across several sectors relevant to the business. He has a proven track record of driving shareholder value, which will be important as we seek to return the Company to profitable growth and continue to enhance the financial performance and measurement within the Company.

Therefore, to enable Shareholders to make an informed decision, the 2021 notice of AGM includes biographical details and a detailed statement as to why the Company believes that the Directors should be elected/re-elected.

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

The Chairman intends to confirm at the AGM that, as confirmed by the 2020 Board evaluation process, the performance of each individual continues to be effective, that each Director acts with integrity, leads by example, promotes the desired culture and demonstrates commitment to the role.

The terms of the Directors' service contracts are disclosed in the Directors' Remuneration Report on page 131. Full details of Directors' remuneration, interests in the share capital of the Company and of share options held are set out on page 130 in the Directors' Remuneration Report.

Directors' service contracts and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office and will be available at the 2021 AGM.

### Skills and experience

The Board evaluation review process, detailed on pages 78 to 80, identified that the Board encompasses a wide range and combination of different skills, experience and knowledge, ranging from accounting to sales and marketing to digital. Following the 2019 evaluation, the Board decided that they would seek to enhance the Board in 2020 with the appointment of an additional Non-Executive Director who would bring more building products distributions experience. A review of skills was undertaken in November 2020 and the Board concluded no specific skills were required to be enhanced during 2021.

### Training and induction

The Chairman regularly reviews and agrees with each Director their training and development needs. During the year, a number of the Directors attended training courses and seminars on various subjects. The Board as a whole received training from Allen & Overy on their Directors' duties, responsibilities of a premium listed issuer and their liability for the contents of a prospectus, as well as continuing obligations of a company admitted to the premium listing segment of the Official List of the FCA. The Company's brokers, as sponsors of the 2020 capital raise, also provided a session on the continuing obligations of a premium listed company.

The Board receives regular presentations from advisors and senior management on a range of topical issues such as from the Company's financial advisors in relation to its debt structure and the macro backdrop and sector dynamics that SIG faces.

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



On appointment, Directors receive a full induction to the Company. This involves meetings with each of the Board members, members of the ELT, external advisors (such as Brokers, Auditors and Financial Advisors) ordinarily visits to a number of branch locations (lockdown restrictions have hampered these) and receipt of a full pack of corporate materials including, corporate policies and procedures, details of insurance, financial framework and Shareholders. The programme ensures that they are fully briefed on current key Board topic areas, the Company strategy, vision and structure, stakeholder engagement activities, Group operations, finance and the industry.

### Diversity Policy

Whilst succession within the organisation is based on objective performance criteria, the Board recognises that diversity of gender, social and ethnic backgrounds and cognitive and personal strengths are hugely important to the success of the organisation and a key focus of the Nominations Committee working with the HR team will be to develop diversity within the organisation going forward. In relation to Board succession planning, the Board recently reviewed and updated its Board Diversity policy and reviewed the Board succession plan. The Board Diversity policy is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)). Further details can be found on page 94.

## Induction undertaken with Kath Durrant



**The induction programme was thorough and comprehensive and provided me with valuable insight into our business and strategic direction.**

**Kath Durrant**

### Meetings with Board, key members of management team and external advisors covering:

- Key Board topics
- Long-term strategy
- Commitment culture, purpose and vision
- Group operations, finance and performance
- Executive and senior management remuneration and policy
- Industry and stakeholder engagement
- Senior management team
- Governance framework

\* Site visits will be resumed at the earliest opportunity post lockdown and in line with Covid-19 protocols.

# Corporate Governance Report

## BOARD EVALUATION

### Board evaluation

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

### Process

The Company Secretary prepared a questionnaire that was made available to Directors through the Board portal. The Company Secretary also interviewed all Board members to gather further insights. Directors were asked about the performance of the Board, the Audit, Remuneration and Nominations Committees and individual Directors. The Board was asked to confirm whether the Chairman promotes relationships and open communication both inside and outside the boardroom between Non-Executive Directors and the Executive team. They were also asked to consider what further could be done to promote and encourage equal contribution, candid discussion and critical thinking in the boardroom. Additionally, questions were also asked on how well the Board understands what the expected behaviours are in SIG (launched as part of the commitment culture) and whether the Board demonstrates them and to also make suggestions for improvement to set the appropriate tone from the top.

### Skills matrix

Each year, Directors complete a matrix detailing their skills and experience covering a number of different areas including stakeholder and workforce engagement, technology, digital, health and safety, treasury management, accounting, environmental/ESG, international, property management and corporate transactions. Responses were collated, in an unattributed manner, into a report produced by the Company Secretary. The Chairman also held individual one-to-one discussions with each of the Directors to discuss their individual performance and appraisal.

### Assessment of Chairman's performance

The Non-Executive Directors, chaired by the Senior Independent Director Alan Lovell, met without the Chairman present to assess his performance, taking into account the views of the Executive Directors. Following his conversations with other Board members, the Senior Independent Director then met with the Chairman to review his performance. Overall, Directors concluded that the Chairman demonstrated good judgement, worked tirelessly to steer SIG through a challenging period and encourages the contribution of all Non-Executive Directors. Lockdown restrictions have hampered face-to-face meetings, which would further enhance collaborative relationships amongst the Board given the number of new members that have joined the Board in 2020 and the early part of 2021.

### Progress with 2020 priorities

As part of the review process, the Board considered the progress made against Board priorities in 2020, good progress was made on all of the priorities set out below. Nevertheless, the Board recognises that enhancing Board effectiveness was a continuous journey and further improvements could be made going forward.

## Priorities 2020

### 1. Culture

Although good progress has been made, more could be achieved in embedding the culture across the organisation and setting the tone from the top. Steps had been taken to develop a dashboard to monitor culture in 2019, which would be enhanced further in 2020.

## Progress Made

This has been an unprecedented year for the Company from a leadership, strategy and culture perspective as well as dealing with the Covid-19 pandemic.

A commitment culture was launched in 2020 at the two-day SLT conference held in January 2020, which was attended by some Board members. Immediately after the conference, the Board was provided with the results of the pulse survey, which indicated that the commitment culture was an extremely positive step forward for the Company. A commitment culture session was also held with the Board and ELT to ensure all new members understood the commitment culture and the behaviours that everyone in the Company was expected to demonstrate.

The commitment culture was restarted in Q4 with new branding launched in January 2021.

To monitor culture, regular reports have also been provided to the Board on Group turnover rates by operating company and function. Data is also provided on headcount, recruitment, diversity, gender breakdown, age and tenure across the Group and Senior Leadership population. The journey to embed the culture was a continuous one and will continue to be a priority for the Board going forward.

## Priorities 2020

## Progress Made

### 2. Composition, talent, succession

Although the Board has been enhanced significantly during 2019, the plan had been to enhance the composition further in 2020. Two new Executive Directors have joined given that the essential restructuring of the Group had largely been completed, the Board believed that it was time for a new leadership team, with skills in driving rapid operational performance improvements through strong customer relationships, excellence in customer service and creating highly engaged teams. The Board, through the Nominations Committee, would focus more on talent, capability and succession of the Managing Directors of the operating companies and their direct reports. Improve the recruitment, retention of talent and support the Company's diversity and inclusion aims.

During the year, the Board focused on succession planning for Executive Directors with the appointment of a new permanent CEO and CFO. In addition, the Board reviewed the talent, capability and succession of the Managing Directors of the operating companies. Several significant appointments were made to strengthen the leadership of the operating companies. A new highly experienced Managing Director with 30 years industry experience was hired for the UK, amalgamating the leadership of UK Distribution and Exteriors businesses. The Board sought to improve retention of talent and expanded the role of the Managing Director of the Benelux to also include the leadership of the German business.

Simon King was appointed as a result of the skills review undertaken at the end of 2019. Two new independent Non-Executive Directors were appointed at the end of 2020 and early 2021.

### 3. Employee and stakeholder engagement

More information and debate around people issues. The appointment of a designated Non-Executive Director for workforce engagement should formalise the process and assist the Board to gain a deeper understanding of colleague feedback. Continue with Board visits and meetings with the management teams of the operating companies in addition to engaging more with suppliers and customers. Develop more understanding of who they are, ensure effective understanding of their views and develop KPIs/dashboard to monitor progress.

The impact of Covid-19 has hindered the Workforce Engagement programme that had been envisaged for 2020. This was restarted in Q4 through video calls. Initial feedback to the Board was provided in November and ideas suggested by employees were provided in December. A Group-wide employment engagement survey was launched in September and feedback was provided to the Board in January 2021.

A Group-wide multi-lingual customer survey was launched in September and feedback was provided to the Board in January 2021. Dashboards/KPIs are provided for SIG's top customers by all operating companies.

New strategic focus to partner with suppliers to develop joint strategies has been commenced by all operating companies and they all provide regular updates against the seven strategic pillars.

Meetings and visits by Board members were hampered by the pandemic, and some visits were undertaken where permitted in line with social distancing protocols. Visits and meetings will be reinstated at the earliest opportunity, subject to ongoing restrictions.

### 4. Board information and support

To continue to improve the rigour and discipline around Board information and support. Ensure papers are concise, distributed in a timely and user-friendly manner through the digital portal. Continue embedding the arrangements developed as a result of the Code. Develop more robust procedures around Board and Committee meetings.

The rigour and discipline around Board information has improved and continues to improve. Papers are being distributed in a timelier fashion. Board paper guidelines have been developed during 2020 and distributed to the ELT.

### 5. Environment and sustainability strategy

Whilst SIG had again been recognised as a constituent member of the FTSE4 Good Index Series, demonstrating strong environmental, social and governance practices, there is a need for further clarity on the Group's priorities around environmental, social and governance and sustainability matters and the rationale behind the direction of travel.

ESG is a key priority for the Board. An ESG framework for SIG has been developed together with the Group priorities for the next few years. A plan and way forward were presented to the Board in January 2021.

# Corporate Governance Report

## BOARD EVALUATION

2020 annual effectiveness findings and Board objectives for 2021

### Key Strengths

#### 1. The Board continued to operate effectively in a challenging year

The Chairman leads the Board well and sets a good tone at meetings, encourages equal participation. The new Directors appointed during the year have added new skills and insights, such as experience in building products distribution, transformation and stakeholder engagement. The Board understood the expected behaviours and demonstrated them to an appropriate level.

#### 2. Purpose, vision, strategic direction understood and supported

The Board was extremely supportive and understood the strategy well. The ability and capability of management to execute the strategy was effective.

#### 3. Board information and governance

The Board has received more detailed information on how the business is performing and the issues facing the Company. Board papers and support around meetings has improved. Driving strong governance was a focus and included under pillar one of the Company's strategy. This has been a particular focus of the CEO and CFO and has seen a material level of change and improvement during 2020.

#### 4. Board Committees are all considered to be operating broadly effectively

The Committees are in the main effectively chaired and managed. The Board considers that the Committees are effective at dealing with matters delegated to them. However, all Committees could make improvements on how they are led and managed. Two new Chairs have been appointed for the Remuneration and Audit Committees, which should provide a fresh perspective on how these Committees are managed and led going forward.

### Objectives for 2021

#### 1. Focus on delivering the turnaround plan

Develop a positive and collegiate Board culture and a disciplined agenda that supports the Executive Directors and management across the organisation to focus on and deliver the UK turnaround plan. Ensure Board processes are efficient, reduce the number of projects and priorities, and demonstrate that the Board lives the Group's behaviours to set the appropriate tone from the top.

#### 2. Develop best-in-class leadership and management capability

Monitor results and leadership style, coach and develop management and continually challenge them to undertake meaningful talent assessments in all areas of the business and across all geographies.

#### 3. Improve employee engagement and promote new winning entrepreneurial culture

Employees should feel safe, valued and proud that SIG operates to high standards and is a winner.

Compensation policies should be competitive (particularly incentives) and should be honest and motivating for colleagues at all levels in the Company.

#### 4. Regularly review strategic challenges and opportunities and build a business for the future

As the year progresses and when the turnaround is well underway, the Board will seek to review opportunities to further grow and improve the business, including in areas such as digital, e-commerce, new products and service opportunities. Beyond 2021, the Board will focus further on environmental, sustainability and diversity plans and strategic digitisation.



# Corporate Governance Report

## AUDIT, RISK AND INTERNAL CONTROL

### Risk management and Internal Control

The Board has ultimate responsibility for the Group's risk management and system of internal control and for reviewing its effectiveness. It establishes the structure for risk management, sets strategic objectives, sets the risk appetite and ensures that risk management and internal control structure and frameworks are robust. The Board delegates responsibility to the Audit Committee to consider the adequacy of the risk management and internal control framework and to agree the risk-based internal audit programme.

The ELT has responsibility for ensuring that risk management is embedded into all processes and for ensuring that risk profile is in line with the approved risk appetite. Local controls managers support process owners to develop controls and to test their effectiveness. Group Internal Audit is responsible for providing independent assurance on the quality of the risk management processes, developing a risk-based internal audit programme and providing independent assurance to the Board and the Audit Committee that controls in place are designed appropriately and operating effectively.

The Group Internal Audit function comprises of an in-house team supported by a co-source arrangement with KPMG LLP who provide input on specialist areas. The Board regularly reviews the need for the Group Internal Audit function and the effectiveness of the co-source arrangement.

Information on audit can be found in the Audit Committee Report on pages 96 to 106.

### Key elements of ongoing process for risk management and internal control

The key elements of the existing systems for risk management and internal control, in accordance with the FRC's Guidance on Risk Management and Internal Control and Related Financial and Business Reporting (September 2014) ("FRC's Guidance"), are as follows:

#### Risk management:

- The documented Group risk management framework, approved by the Audit Committee, provides an overview of the agreed risk management processes within the Group and gives practical guidance to operating companies and individual functions on the management of risk. Essentially, it is a toolkit to help manage strategic, financial, operational, people and compliance risk. The Group risk management framework is supported by a simple pack of slides (Managing Your Risks) which helps management to explain the risk management system to their teams. The Group Risk function supports with practical assistance where required. The Group risk management framework was formally issued to leadership teams in February 2019 and revised and updated in December 2020.
- In accordance with the Group risk management framework, operating companies and central function leadership teams maintain their own local risk registers.
- The Board maintains an overall Group risk register, the content of which is determined and assessed through regular input from the Audit Committee. A review of the Group's principal risks and how it manages or mitigates them is presented in the Strategic Report on pages 30 to 35.
- The Group risk register contains the principal risks faced by the Group and assesses the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). It outlines the current controls in place to mitigate the risk and any further actions required to bring the risk to within risk appetite. Each Group risk is owned by a member of the ELT and sponsored by either the CEO or CFO. New and emerging risks are identified

through horizon scanning, review of relevant media publications, external insights, risk workshops held with management teams and discussion with senior management and external advisors. Once identified, emerging risks are assessed by identifying and mapping out the core elements of the risk, identifying owners for each element in the operating companies, holding workshops with risk owners to assess the level of risk, identifying potential mitigating actions that reduce the impact of the risk and seeking external guidance if required. Potential emerging risks are monitored and assessed at least twice a year by the Audit Committee and Board for their relevance and significance.

The Board regularly assesses the Group's emerging and principal risks and considers that its assessment is robust.

#### Internal control:

Key control activities include:

- A defined organisation structure with levels of approval governed by the Group Delegation of Authority policy. This was updated in January 2020 to accommodate changes in operating models and organisational structures across the Group and refreshed following the annual review in December 2020.
- In light of the changes to business practices as an impact of Covid-19, there was a further tightening of approval levels for the payment of invoices relating to non-trade, government payments and capex projects. This was included as a change to the Delegated Authorities policy updated in September 2020.
- Clear responsibilities on the part of financial management for the maintenance of good financial controls and the production and review of detailed, accurate and timely financial management information.
- A comprehensive system of financial reporting, which includes an annual process for operating company budgets, to be approved by the CEO.
- In-depth reviews of operating company performance completed with the CEO and CFO attending local management meetings to discuss any significant changes and adverse variances against budget.
- Monthly provision to the Board of relevant, accurate and timely information including relevant key performance indicators.
- The Key Controls Framework (KCF) launched in 2018 utilised across the Group setting out 33 control assertions across a number of entity-level, financial, operational and IT control areas against which operating companies are required to self-certify on a quarterly basis using a Red, Amber or Green (RAG) rating. Design and implementation of the KCF controls by leaders in the business represent the first line of defence in the organisation. They rely on the Group controls managers, the second line of defence and some of whom are aligned to Operating Companies, to advise on controls and to test these on a rolling basis. Group Internal Audit, as the third line of defence, provides independent assurance over those controls. This self-certification process is reported to the Audit Committee on a quarterly basis. The three lines of the defence model are addressed in further detail in the Strategic Report on page 30, and further detail in relation to the KCF is provided in the Audit Committee Report on page 102.
- The KCF self-certifications received from operating companies have been reviewed to understand the potential heightening of risk due to Covid-19 and its impact on working practices, i.e. relocation of staff and inaccessibility of some locations. This review also looked to understand the measures implemented across the Group to ensure an adequate and appropriate level of control.

# Corporate Governance Report

## AUDIT, RISK AND INTERNAL CONTROL

- The interim measures implemented included communication with suppliers and additional support provided by the UK Shared Service Centre to ensure that supplier invoices are received and processed swiftly, in light of branch closures, and a review of customer credit limits to reflect the uncertainty around cash collections from customers and thus mitigate the risk of bad debts. Some customer credit limits have been set to zero, so customers are required to make advance payments before orders can be raised.
- Regular monthly reports on risk management, KCF and internal controls at each Board and Audit Committee meeting from the CFO.
- Regular cash and treasury reporting to the CFO and periodic reporting to the Board on the Group's tax and treasury position. Since Covid-19, the Board has been reviewing regular cash forecasts at every meeting; an update on cash has been provided as part of the monthly management accounts since July.
- Any significant issues or control weaknesses identified are reported to the ELT, Audit Committee and the Board.
- The overall internal controls framework is regularly monitored by the Audit Committee on behalf of the Board to ensure continuous improvement.
- A structured and approved programme of audits undertaken by Group Internal Audit, would ordinarily include regular site visits to and interaction with the operating companies across the Group, however, as a result of the lockdown restrictions this has been done by video call. The implementation of recommended actions is monitored as part of a continuous programme of improvement. The Group Internal Audit manual approved by the Audit Committee in March 2019 was not updated during the year, as the overall methodology for identifying audits, testing and reporting on controls was working effectively. A Group Internal Audit effectiveness survey was conducted in January 2021 for the year ended 31 December 2020 and further details can be found in the Audit Committee Report on page 105.

### Covid-19 controls

Due to the impact of the global Covid-19 pandemic, the Board and ELT took swift action to put in place a number of new controls to comply with governmental advice, protect the business and its people and mitigate against the risks arising from remote working. These include:

- Improved governance arrangements initially through daily ELT calls (moved to weekly) to identify and resolve common issues in order to build resilience. Instigation of bi-monthly Board meetings which returned to approximately monthly from July. Operating company Leadership teams also met several times a week to respond to local issues.
- Strengthening of cyber security controls through acceleration of plans to defend against the increased risk of phishing attacks.
- Measures in place in branches to protect employees, customers and suppliers from risk of infection. Head office locations were closed with many employees working remotely. Reporting of confirmed Covid-19 cases and those employees who were self-isolating.
- Introduction of a Homeworking policy to ensure the safety and wellbeing of employees working remotely. All operating companies put in place detailed communication plans and have established clear lines of communication with regular Group and individual contact points. Most operating companies have put a support hotline in place for employees who have queries or require support.

- Group-wide Covid-19 response checklist was developed and deployed to address key risks presented by the pandemic in the short, medium and long term, giving the Audit Committee visibility into measures implemented. The areas covered were supply chain failure, people, liquidity and finance, legal and regulatory, health and safety, customer service, change management and governance and business continuity risk and IT (including fraud).

In addition to these new measures, finance teams have focused on improving the accuracy of weekly cash forecasting and the limits on the Delegation of Authority have been decreased so that payments are authorised at more senior levels. Controls have also been strengthened over customer credit limits.

### Financial reporting:

- In addition to the general internal controls and risk management processes described on pages 81 to 83, the Group also has specific systems and controls to govern the financial reporting process and preparation of the Annual Report and Accounts.
- These systems include clear policies and the procedures for ensuring that the Group's financial reporting processes and the preparation of its Financial Statements comply with all relevant reporting requirements.
- The policies and procedures are comprehensively detailed in the Group Finance manual, which is used by all businesses in the preparation of their results.
- Financial reporting control requirements are also set out in the Group Finance manual, which is regularly updated to include changes to accounting and reporting policies such as IFRS 16.

### Independent review by PwC

As already mentioned on page 5, the Board instigated an independent review through the Group Investigation Committee commissioning PwC to undertake an independent review of the Group's forecasting and monthly management accounts processes in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January 2020 Trading Update and market consensus of forecast profit prior to that announcement. The Board takes the findings of the PwC report very seriously. The Company voluntarily notified the FCA of the progress of the PwC report and has shared the PwC report with the FCA. The FCA confirmed to the Company in October 2020 that they would be taking no further action. Following SIG's receipt of the PwC report, in order to strengthen the Group's financial forecasting and internal reporting, KPMG was appointed to assist the Audit Committee in ensuing appropriate improvements were implemented to the Company's financial systems, procedures and controls recommended in the PwC report.

Further details on the actions taken (in relation to culture changes) are included in the Corporate Governance Report on pages 59 to 60. The Board had already agreed that additional focus was required during 2020 to embed the commitment culture, improve employee engagement and morale and also included the actions arising from the review. Further background on the scope of the PwC review and the actions the Company implemented in response are set out in the Audit Committee Report on page 104.

## Annual assessment of the effectiveness of systems of risk management and internal control systems

During 2020, the Board conducted a review of the effectiveness of the Group's system of risk management and internal controls. This review covered all controls including operational, compliance and risk management procedures, as well as financial controls.

To complete the review, the Board and Audit Committee requested, received and reviewed reports from the Director of Risk and Internal Audit (including from the in-house team and co-source partner KPMG), the CFO and the External Auditor.

As noted in the 2019 Annual Report the Board was not fully sighted of all of the risks to the full year profit forecast in 2019, however, it considers that it has taken the appropriate steps to improve forecasting controls and the culture within which they operate. The approach to improving culture is outlined in this section on pages 59 to 60 and the action plan in relation to PwC's findings as well as the Group's approach to its continued focus on controls is given in the Audit Committee's Report on pages 103 to 104.

Other improvements in internal controls have been identified throughout the year and action plans devised and put in place. Progress towards completion of actions is regularly monitored by management and the Board.

Save as identified by the PwC report and the findings that have been addressed, the Board considers that the information that it receives is sufficient to enable it to review the effectiveness of the Group's risk management and internal controls in accordance with the FRC's guidance. The Board considers that the framework of controls in place is effective and enables risk to be assessed and managed. The Board also considers its risk management and internal control processes provide it with the assurance that all the necessary resources are in place for the Company to meet its objectives and to measure performance against them for 2020 and up to and including the date of this report.

## Directors' Report

### Substantial shareholdings

At the date of approval of the 2020 Annual Report and Accounts, the Company had received notification of the following shareholdings in its issued share capital pursuant to the Disclosure Guidance and Transparency Rules ("DTRs") of the Financial Conduct Authority as at 31 December 2020 and 25 March 2021. Information provided by the Company pursuant to the DTRs is publicly available via the regulatory information services and on the Company's website.

### Substantial Shareholdings

| Shareholder                                     | Interests disclosed to the Company as at 31 December 2020 | %            | Nature of holding as per disclosure                                                     | Interests disclosed to the Company as at 25 March 2021 | %            | Nature of holding as per disclosure                                                     |
|-------------------------------------------------|-----------------------------------------------------------|--------------|-----------------------------------------------------------------------------------------|--------------------------------------------------------|--------------|-----------------------------------------------------------------------------------------|
| CD&R Sunshine S. a. r. l.                       | 331,577,934                                               | 28.06%       | Direct Interest                                                                         | 331,577,934                                            | 28.06%       | Direct Interest                                                                         |
| IKO Enterprises Limited                         | 174,743,803                                               | 14.79%       | Indirect Interest (1.0816%)                                                             | 174,743,803                                            | 14.79%       | Indirect Interest (1.0816%)                                                             |
| Tameside MBC re Greater Manchester Pension Fund | 43,779,826                                                | 3.71%        | Direct Interest                                                                         | 43,779,826                                             | 3.71%        | Direct Interest                                                                         |
| Aberforth Partners LLP                          | 38,723,309                                                | 3.28%        | Indirect Interest                                                                       | 38,723,309                                             | 3.28%        | Indirect Interest                                                                       |
| Goldman Sachs International                     | 34,049,953                                                | 2.88%        | Indirect Interest (0.005%)<br>Securities Lending (1.24%)<br>Swap (1.16%)<br>CFD (0.48%) | 34,049,953                                             | 2.88%        | Indirect Interest (0.005%)<br>Securities Lending (1.24%)<br>Swap (1.16%)<br>CFD (0.48%) |
| Templeton Investment Counsel LLP                | 29,358,556                                                | 2.48%        | Indirect Interest                                                                       | 29,358,556                                             | 2.48%        | Indirect Interest                                                                       |
| Artemis Investment Management LLP               | 28,820,324                                                | 2.44%        | Indirect Interest                                                                       | 28,820,324                                             | 2.44%        | Indirect Interest                                                                       |
| Massachusetts Financial Services Company        | 26,799,365                                                | 2.27%        | Indirect Interest                                                                       | 26,799,365                                             | 2.27%        | Indirect Interest                                                                       |
| Schroder Investment Management Limited          | 23,005,522                                                | 1.95%        | Indirect Interest                                                                       | 23,005,522                                             | 1.95%        | Indirect Interest                                                                       |
| Norges Bank                                     | 16,746,018                                                | 1.42%        | Direct Interest (1.33%)<br>Shares on loan (right to recall) (0.09%)                     | 16,746,018                                             | 1.42%        | Direct Interest (1.33%)<br>Shares on loan (right to recall) (0.09%)                     |
| JP Morgan Securities plc                        | Less than 5%                                              | Less than 5% | Indirect Interest                                                                       | Less than 5%                                           | Less than 5% | Indirect Interest                                                                       |
| Leucadia Investment Management Limited          | Less than 5%                                              | Less than 5% | Indirect Interest (0.005%)                                                              | Less than 5%                                           | Less than 5% | Securities Lending (1.24%)                                                              |

# Corporate Governance Report

## DIRECTORS' REPORT

### Whistleblowing

The Group has in place a Whistleblowing policy under which employees may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters. A copy of this policy is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

The Group also has a confidential hotline in place, which is available to all Group employees and provides a facility for them to bring matters to management's attention on a confidential basis. The hotline is provided by an independent third party. During 2020, these systems were operational throughout the Group.

A full investigation is carried out on all matters raised and a report is prepared for feedback to the complainant. Where a whistleblowing report has been investigated, an update is provided to the Audit Committee as part of the Director of Risk and Internal Audit's report.

The General Counsel also reports to the Board each month on reports made under the policy and the state of ongoing investigations and conclusions reached. During 2020 Group employees used this system to raise concerns about a number of separate issues, all of which were appropriately responded to. Additionally, following recommendations from the PwC report, the Board initially appointed Kate Allum as the Board whistleblowing champion (with effect from 27 April 2020), who was then replaced by Simon King on 1 October 2020. A written remit was agreed, a revised Whistleblowing policy was launched in January 2021 together with migration to a new external whistleblowing platform with enhanced features. A plan was put in place to further enhance awareness and effectiveness of the new whistleblowing arrangements. The ELT and finance functions across the Group were given specific awareness training. Training for the new Whistleblowing policy has been rolled out Group-wide through SIG's online compliance platform.

### Statement of the Directors on the disclosure of information to the Auditor

The Directors who held office at the date of approval of the Directors' Report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each Director has taken all steps that they ought to have taken as a Director 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 section 418 of the Companies Act 2006.

### Going concern

The going concern statement can be found on page 28 of the Strategic Report.

### Viability statement

The viability statement can be found on pages 27 to 28 of the Strategic Report.

### Independent Auditor

On the recommendation of the Audit Committee (see page 106), in accordance with Section 489 of the Companies Act 2006, resolutions are to be proposed at the AGM for the reappointment of Ernst & Young LLP as Auditor of the Company and to authorise the Audit Committee to fix its remuneration. The remuneration of the Auditor for the year ended 31 December 2020 is fully disclosed in note 4 to the Financial Statements on page 161.

### Publication of Annual Report and notice of AGM

Shareholders are to note that the SIG plc Annual Report 2020 together with the notice convening the AGM have been published on the Company's website ([www.sigplc.com](http://www.sigplc.com)). If Shareholders have elected to receive Shareholder correspondence in hard copy, then the Annual Report and notice convening the AGM will be distributed to them.

### Principal activity

The principal activity of the Group is the supply of specialist products to construction and related markets in the UK, Ireland and mainland Europe. The main product sectors supplied during the year are insulation and interiors, roofing and exteriors.

The Chairman's Statement and Strategic Report on pages 4 to 47 contain a review of these activities and comment on the future outlook and developments. The financial risk management objectives, policies and key performance indicators of the Company are also set out in the Strategic Report.

### Political donations

It is the Group's policy not to make political donations and no political donations were made during the year (2019: £nil). Details of the Group's policies in relation to Corporate Governance are disclosed on page 37.

### Group results and dividends

The Consolidated Income Statement for the year ended 31 December 2020 is shown on page 136. The movement in Group reserves during the year is shown on page 139 in the Consolidated Statement of Changes in Equity. Segmental information is set out in Note 1 to the Financial Statements on pages 153 to 158.

The Board has taken the decision not to declare a final dividend for the year (2019: nil), recognising that this is in the best interest of preserving the Group's liquidity position. An interim dividend was not paid in 2020 (2019: 1.25p). Therefore, the total dividend paid in 2020 was nil (2019: 1.25p).

### Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are detailed in the Strategic Report on page 43 of the Sustainability Report.

### Employees

Details of the Group's policies in relation to employees (including disabled employees) are disclosed in the Sustainability Report on pages 38 to 41. Further information on employee engagement and consultation can be found in the Strategic Report on page 40 and the Corporate Governance Report on pages 59 to 60.

### Stakeholder engagement

Further information on stakeholder engagement, including on our business relationships with suppliers, customers and others, can be found in the Corporate Governance Report on pages 64 to 71.

### Post balance sheet events

Details of post balance sheet events are included in Note 36 on page 205 of the Financial Statements.

### Related party transactions

Except as disclosed in Note 33 to the Financial Statements on page 202, and except for Directors' service contracts and the Relationship Agreement with CD&R, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in the periods in which any Director is or was materially interested.



## Summary of key terms of the CD&R Relationship Agreement

The Company entered into a Relationship Agreement with CD&R on 29 May 2020, which will remain effective as long as CD&R is entitled to exercise 10% or more of the votes able to be cast on matters at general meetings of the Company. The Relationship Agreement regulates the Company's relationship with CD&R. It includes agreement by CD&R that it shall (and ensure that its associates shall), among other things, conduct all transactions with the Group at arm's length and on normal commercial terms, not take actions that would have the effect of preventing the Group from carrying on its business independently and not take any action that would prevent the Company from complying with its obligations under the Listing Rules and other applicable laws and regulations. More details on the content of the Relationship Agreement can be found in the prospectus, which is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)). As far as the Company is aware the undertakings included in the Relationship Agreement have been complied with during the period under review.

Further details on the CD&R relationship in practice can be found on page 63.

## Directors' and officers' liability insurance and indemnities

The Company purchases liability insurance cover for Directors and officers of the Company and its subsidiaries, which gives appropriate cover for any legal action brought against them. The

Company has also provided an indemnity, which was in force during the financial year for its Directors to the extent permitted by the law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly.

No claims or qualifying indemnity provisions and no qualifying pension scheme indemnity provisions have been made either during the year or by the date of approval of this Directors' Report.

## Financial instruments

Information on the Group's financial risk management objectives and policies on the exposure of the Group to relevant risks arising from financial instruments is in Note 20 to the Financial Statements on pages 182 to 188.

## Future developments

Possible future developments are disclosed in our strategy section of the Strategic Report on pages 10 to 15.

## Acquisitions and disposals

Details of acquisitions made, and businesses identified for sale or closure are covered in Note 15 on page 177 and Note 11 on page 169 of the Financial Statements.

## Group companies

A full list of Group companies (and their registered office addresses) is disclosed on pages 232 to 233.



# Corporate Governance Report

## DIRECTORS' REPORT

### Share capital

The Company has a single class of share capital, which is divided into ordinary shares of 10p each. At 31 December 2020, the Company had a called-up share capital of 1,181,556,977 divided into ordinary shares of 10p each (2019: 591,556,982).

During 2020, 589,999,995 ordinary shares of 10p each were allotted with an aggregate nominal value of £58,999,999.50 and the consideration received for this allotment was £165m.

During the year ended 31 December 2020, options were exercised pursuant to the Company's share option schemes. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. Details of outstanding options under the Group's employee and executive schemes are set out in Note 27 on pages 195 to 196, which also contains details of options granted over unissued share capital.

### Rights attaching to shares

The rights attaching to the ordinary shares are defined in the Company's Articles of Association. The Articles of Association may be changed by special resolution of the Company. A Shareholder whose name appears on the Company's Register of Members can choose whether their shares are evidenced by share certificates (e.g. in certificated form) or held in electronic (e.g. uncertificated) form in CREST (the electronic settlement system in the UK).

Subject to any restrictions below, Shareholders may attend any general meeting of the Company and, on a show of hands, every Shareholder (or their representative) who is present at a general meeting has one vote on each resolution and, on a poll, every Shareholder (or their representative) who is present has one vote on each resolution for every ordinary share of which they are the registered Shareholder.

A resolution put to the vote of a general meeting is decided on a show of hands unless before or on the declaration of the result of a vote on a show of hands, a poll is demanded by the Chairman of the meeting, or by at least five Shareholders (or their representatives) present in person and having the right to vote, or by any Shareholders (or their representatives) present in person having at least 10% of the total voting rights of all Shareholders, or by any Shareholders (or their representatives) present in person holding ordinary shares in which an aggregate sum has been paid up of at least one-tenth of the total sum paid up on all ordinary shares.

Shareholders can declare final dividends by passing an ordinary resolution, but the amount of such dividends cannot exceed the amount recommended by the Board. The Board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide provided the distributable profits of the Company justify such payment. The Board may, if authorised by an ordinary resolution of the Shareholders, offer any Shareholder the right to elect to receive new ordinary shares, which will be credited as fully paid, instead of their cash dividend.

Any dividend that has not been claimed for 12 years after it became due for payment will be forfeited and will then belong to the Company, unless the Directors decide otherwise.

If the Company is wound up, the liquidator can, with the sanction of an extraordinary resolution passed by the Shareholders, divide among the Shareholders all or any part of the assets of the Company and they can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members. No Shareholders can be compelled to accept any asset which would give them a liability.

Under the Company's Share Incentive Plan (the "SIP"), the SIP trustee holds shares on behalf of employee participants. In accordance with the SIP trust deed and rules, the SIP trustee must act in accordance with any directions given by a SIP participant in respect of their SIP shares. In the absence of any such directions from a SIP participant the SIP trustee will not take any action in respect of SIP shares.

Under the SIG employee benefit trust (the "EBT"), the EBT trustee holds shares on behalf of employee participants, to be used for the settlement of awards granted under the Company's incentive plans. The EBT trustee has, under the trust deed establishing the EBT, waived all rights to vote in respect of any shares held in the EBT, except any shares participants own beneficially, in respect of which it will invite participants to direct how the trustee shall act in relation to the shares held on their behalf. The number of shares held in the EBT on 25 March was 125,429. The EBT trustee has also waived dividends on shares held in the EBT.

Further information relating to the change of control provisions under the Company's incentive plans appears within the Remuneration policy available on the Company's website.

### Voting at general meetings

Any form of proxy sent by the Company to Shareholders in relation to any general meeting must be delivered to the Company, whether in written or electronic form, no less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

The Board may determine that the Shareholder is not entitled to exercise any right conferred by being a Shareholder if they or any person with an interest in shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and they or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered.

These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 Notice, whichever is the earlier.

### Transfer of shares

The Board may refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless: (i) the instrument of transfer is lodged, duly stamped (if necessary), at the registered office of the Company or any other place decided by the Board accompanied by a certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfer of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.





# Corporate Governance Report

## DIRECTORS' REPORT

### Variation of rights

If at any time the capital of the Company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either:

- (i) With the written consent of the holders of at least 75% in nominal value of the issued shares of the class; or
- (ii) With the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

The Company can issue new shares and attach any rights to them. If there is no restriction by special rights attaching to existing shares, rights attaching to new shares can take priority over the rights of existing shares, or the new shares and the existing shares are deemed to be varied (unless the rights expressly allow it) by a reduction of paid up capital, or if another share of that same class is issued and ranks in priority for payment of dividend, or in respect of capital or more favourable voting rights.

### Election and re-election of Directors

The Company may, by ordinary resolution, of which special notice has been given in accordance with the Companies Act, remove any Director before the expiration of their period of office. The office of a Director shall be vacated if:

- (i) They cease to be a Director by virtue of any provision of law or is removed pursuant to the Company's Articles of Association or he/she becomes prohibited by law from being a Director;
- (ii) They become bankrupt or compounds with their creditors generally;
- (iii) They become of unsound mind or a patient for any purpose of any statute relating to mental health and the Board resolves that their office is vacated;
- (iv) They resign;
- (v) They fail to attend Board meetings for six consecutive months without leave of absence from the Board and the Board resolves that the office is vacated;
- (vi) Their appointment terminates in accordance with the provisions of the Company's Articles;

- (vii) They are dismissed from executive office;
- (viii) They are convicted of an indictable offence and the Directors resolve that it is undesirable in the interests of the Company that they remain as a Director; or
- (ix) The conduct of the Director is the subject of an investigation and the Directors resolve that it is undesirable in the interests of the Company that they remain a Director.

The Board may, from time to time, appoint one or more Directors as Managing Director or to fulfil any other executive function within the Company for such term, remuneration and other conditions of appointment as it may determine, and it may revoke such appointment (subject to the provisions of the Companies Act).

### Agreements with employees and significant agreements (contracts of significance)

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

The Company's banking arrangements are terminable upon a change of control of the Company. Certain other indebtedness becomes repayable if a change of control leads to a downgrade in the credit rating of the Company. Bank consent is required for any major acquisition or disposal of assets.

### Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the current open market value of the Group's interests in land and buildings.

### CREST

The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

### 2021 Interim Report

Current regulations permit the Company not to send hard copies of its Interim Reports to Shareholders and therefore the Company intends to publish its Interim Report on its website at [www.sigplc.com](http://www.sigplc.com).





### Authority to purchase own ordinary shares

Shareholders' authority for the purchase by the Company of 59,155,698 of its own shares existed at the end of the year. The Company has made no purchases of its own ordinary shares pursuant to this authority. The Company will seek to renew this.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4R can be found in the following locations:

| Section | Topic                                                    | Location                                |
|---------|----------------------------------------------------------|-----------------------------------------|
| (1)     | Interest capitalised                                     | Not applicable                          |
| (2)     | Publication of unaudited financial information           | Not applicable                          |
| (3)     | Details of long-term incentive schemes                   | Remuneration Committee Report, page 119 |
| (4)     | Waiver of emoluments by a Director                       | Not applicable                          |
| (5)     | Waiver of future emoluments by a Director                | Remuneration Committee Report, page 118 |
| (6)     | Non pre-emptive issues of equity for cash                | Not applicable                          |
| (7)     | Item (7) in relation to major subsidiary undertakings    | Not applicable                          |
| (8)     | Parent participation in a placing by a listed subsidiary | Not applicable                          |
| (9)     | Contracts of significance                                | Not applicable                          |
| (10)    | Provision of services by a controlling Shareholder       | Not applicable                          |
| (11)    | Shareholder waivers of dividends                         | Not applicable                          |
| (12)    | Shareholder waivers of future dividends                  | Not applicable                          |
| (13)    | Agreements with controlling Shareholders                 | Not applicable                          |

### Cautionary statement

The cautionary statement can be found on page 29 of the Strategic Report.

### Content of Directors' Report

The Corporate Governance Report (including the Board biographies) can be found on pages 50 to 89, the Audit Committee Report on pages 95 to 106, the Nominations Committee Report on pages 90 to 97, and the Directors' Responsibility Statement on page 132 are incorporated by reference and form part of this Directors' Report. The Directors' Report, together with the Directors' Remuneration Report on pages 107 to 131, fulfils the requirements of the Corporate Governance Statement for the purposes of DTR 7.2.6.

The Board has prepared a Strategic Report (including the Business review), which provides an overview of the development and performance of the Company's business in the year ended 31 December 2020 and its position at the end of the year and covers likely future developments in the business of the Company and Group. The Sustainability Report forms part of the Strategic Report.

For the purposes of compliance with DTR 4.1.8R, the required content of the Management Report can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference SIG has been mindful of the best practice guidance published by Defra and other bodies in relation to environmental, community and social KPIs when drafting the Strategic Report. The Board has also considered social, environmental and ethical risks, in line with the best practice recommendations of the Association of British Insurers. Management, led by the CEO, has responsibility for identifying and managing such risks, which are discussed extensively in this Annual Report and Accounts.

All the information cross-referenced is hereby incorporated by reference into this Directors' Report.

### Approval of the Directors' Report

The Directors' Report set out on pages 84 to 89 was approved by the Board of Directors on 25 March 2021 and signed on its behalf by:

**Kulbinder Dosanjh**  
Company Secretary  
25 March 2021

# Nominations Committee Report

## Committee Membership (during 2020 & 2021)

**Andrew Allner<sup>1</sup>**  
Chairman

**Andrea Abt**  
Independent Non-Executive Director (resigned 12 February 2020)

**Kate Allum**  
Independent Non-Executive Director (resigned 31 December 2020)

**Ian Duncan**  
Independent Non-Executive Director (resigned 31 January 2020)

**Gillian Kent**  
Independent Non-Executive Director

**Simon King**  
Independent Non-Executive Director (appointed 1 July 2020)

**Alan Lovell**  
Senior Independent Non-Executive Director

**Christian Rochat**  
Non-Executive Director (appointed 10 July 2020)

**Kath Durrant**  
Independent Non-Executive Director (appointed 1 January 2021)

**Shatish Dasani**  
Independent Non-Executive Director (appointed 1 February 2021)

<sup>1.</sup> Independent on appointment

## Purpose and aims

To lead the process for Board appointments, ensure plans are in place for orderly succession to both Board and senior management positions and oversee the development of a diverse pipeline for succession.

The Committee aims to maintain the appropriate balance of skills, knowledge, experience, diversity and independence of the Board and its Committees to ensure their continued effectiveness.

## Key responsibilities

- To review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and in the light of future challenges affecting the business.
- To make recommendations to the Board regarding any changes, to ensure that plans are in place for the orderly succession and development of Directors and other senior executives and to oversee the development of a diverse pipeline for succession.
- Working with the Group HR Director, to take an active role in setting and meeting diversity objectives and strategies for the Group as a whole.

## Terms of reference

During the year the Board reviewed and agreed terms of reference. These can be found on the Company's website at [www.sigplc.com](http://www.sigplc.com).

## Evaluation

An internal evaluation was conducted for the Committee in line with the Code. More details can be found on page 78.



**The Committee understands the importance of its role in ensuring the Board has the right mix of skills, experience and behaviours to support the business strategy.**

**Andrew Allner,**  
Chair of the Nominations Committee

## Dear Shareholder,

I am pleased to present SIG's Nominations Committee Report for the financial year ended 31 December 2020 on behalf of the Board.

The composition of the Nominations Committee meets with the requirements of the Code with the majority of members being independent (five out of seven members were independent and I was independent on appointment) but, in line with good practice, membership is reviewed annually. The Committee reviewed the structure and composition of the Board and made several changes to the Board during 2020 as set out below.

During 2020, the Committee dealt with the resignation of the Executive Directors, Meinie Oldersma and Nick Maddock on 24 February 2020 followed by the recruitment of two new Executive Directors, Steve Francis and Kath Kearney-Croft on an interim basis. We announced on 24 April 2020 that Steve would become the Chief Executive on a permanent basis.

In addition, Ian Ashton was appointed as permanent Group CFO with effect from 1 July 2020. Ian is a highly experienced senior executive with a strong track record of driving change and is a valuable addition to the team as we pursue our new strategy for growth. Ian replaced Kath Kearney-Croft, who assumed the role of Interim CFO on 25 February 2020.

The Committee undertakes a regular review of skills, experience and behaviours and acknowledged that more business experience in building products distribution was required on the Board. A search was undertaken which resulted in Simon King being appointed on 1 July 2020.

Simon brings extensive, hands-on experience from a career spanning over 35 years, most recently serving on the Travis Perkins Executive Board and holding the position of Chief Executive Officer for Wickes. Simon's appointment is valuable in our efforts to build on SIG's leading market positions and return the business to profitable growth. Further detail on our recruitment process is provided later in this report.

Furthermore, in accordance with the terms of the Relationship Agreement dated 29 May 2020 between CD&R and the Company, Bruno Deschamps and Christian Rochat were appointed as Non-Executive Directors with effect from 10 July 2020. Both Bruno's and Christian's deep industrial knowledge, allied to their extensive experience in driving and overseeing improved company performance, is proving to be of great benefit to the Group and they are making an extremely positive contribution to the Board. On appointment, Christian became a member of the Nominations Committee and Bruno a member of the Remuneration Committee.

The Committee also commenced the recruitment of two new Non-Executive Directors, and I was delighted to welcome Kath Durrant and Shatish Dasani. Kath replaced Kate Allum as Chair of the Remuneration Committee on 1 January 2021. Kate stepped down from the Board on 31 December 2020. Shatish replaced Ian Duncan as Chair of the Audit Committee on 1 February 2021. Ian stepped down from the Board on 31 January 2021. Both Kath and Shatish became members of the Committee on appointment.

In line with best practice the Committee recommended to the Board my appointment to the Remuneration Committee to ensure adequate Board oversight effective from 1 January 2020.

The Committee's work for 2021 over and above its normal duties, will continue to focus on supporting the return to profit by ensuring it undertakes appropriate succession planning and have a more structured review of talent management, performance and capability, which includes diversity in the broadest sense.

### **Andrew Allner**

**Chair of the Nominations Committee**

25 March 2021

### **Meetings and membership**

During the year, the Committee met on nine occasions. The quorum is three members, the majority of whom must be independent Non-Executive Directors. Members of the Committee are not involved in matters affecting their own position.

As at 10 July 2020, the Committee comprised the Chairman and the five independent Non-Executive Directors and one Non-Executive Director of the Company. No Executive Directors are appointed to the Committee; however, they may attend by invitation if the matters to be discussed require their participation.

Attendance at meetings is set out on page 58.

### **Board succession planning**

The Nominations Committee gives full consideration to succession planning for Directors, both Non-Executive and Executive, and other senior management of the Company in the course of its work, taking into account the challenges and opportunities facing the Company and determining what skills, knowledge and expertise will be required on the Board in the future. During the year, the Committee also reviewed the senior management succession and leadership development but recognises that development of a more formal talent pipeline (including diversity) should continue to be a focus during 2021.

A review of skills and experience was undertaken, which highlighted that more business experience of building products distribution was required on the Board. Simon King was appointed and is invaluable in our efforts to build on SIG's leading market positions and return the business to profitable growth. Simon does not have any other appointments and, therefore, the Committee was confident he would be able to devote sufficient time to SIG.

Bruno and Christian joined the Board as Non-Executive Directors following the investment from CD&R in accordance with the Relationship Agreement.

The Committee also considered the replacement of both Kate Allum and Ian Duncan who indicated they wished to step down from the Board. Ian wanted to reduce his time commitments. A search was commenced in 2020. Kath Durrant replaced Kate Allum as Chair of the Remuneration Committee with effect from 1 January 2021. Kath has more than 30 years' Human Resources experience, with a strong operational and strategic track record, gained at a number of large global companies. She also has extensive experience of working in businesses undergoing transformation, which will be valuable as SIG seeks to restructure its UK operations.

Shatish Dasani replaced Ian Duncan with effect from 1 February 2021 as Chair of the Audit Committee. Shatish has over 20 years' experience in senior public company finance roles across various sectors including building materials, advanced electronics, engineering, general industrial, business services, construction and infrastructure. He also has a proven track record of driving shareholder value which will be important as SIG seeks to return the Company to profitable growth.

For more information on biographical details for each Director see pages 54 to 56.

# Nominations Committee Report

At the time of their appointments, a review of their outside appointments was undertaken to ensure they would both have sufficient time to dedicate to SIG.

Simon, Bruno, Christian, Kath and Shatish will offer themselves for election at the 2021 Annual General Meeting.

In making recommendations for the annual re-election of the Chairman and Non-Executive Directors, the Committee considers the skills, knowledge, experience, independence and also the time commitments of each Director to ensure that they have sufficient time to fulfil their responsibilities to the business.

2020 was an unprecedented year as the Company navigated its way through the Covid-19 pandemic, changes in the leadership, raising funds from Shareholders including the investment by CD&R and restructured its debt and, at the same time, building on its leading market positions and positioning the business for a return to profitable growth. The Chairman has also demonstrated a significant time commitment to SIG during the year over and above his normal duties as Chairman for a period of six months in order to secure the stability of the Company, as well as providing additional support during the period of absence of the previous CEO. Andrew also provided extra support to the two new Executive Directors, Steve Francis and Kath Kearney-Croft appointed on 25 February 2020, and to Ian Ashton during the Covid-19 pandemic along with all other Board members. He assisted the CEO and CFO with engagement with Shareholders on the Firm Placing, Placing and Open Offer and restructuring the Company's debt, leading to daily calls with key advisors during this time. The Board confirmed the Chairman retained his non-executive status during the period he provided significant support.

At the end of 2019, the Committee considered a proposal to appoint Kate Allum as the designated Non-Executive Director with responsibility for workforce engagement. During 2020, Kate was also appointed as whistleblowing champion. However, following the appointment of Simon King and his keen interest in workforce engagement it was agreed that he would replace Kate. In addition, he was also appointed as the Board's whistleblowing champion in October 2020 which will complement his role as the designated Non-Executive Director for workforce engagement. Again, the Committee reviewed Simon's time commitments to ensure he would be able to discharge the duties under these roles adequately and therefore recommended the appointment to the Board.

The Committee also considered the reappointment of Andrew Allner to the Board. Andrew was originally appointed on 1 November 2017 for an initial three-year term until 31 October 2020. Having considered his other time commitments, the Committee recommended his reappointment to the Board for a further three-year term until November 2023.

Taking into account the above and having considered the time commitments of the other Non-Executive Directors, in addition to the Board evaluation review process detailed on page 78, the Committee and the Board have confirmed they are satisfied that both the Chairman and the other Non-Executive Directors have sufficient time and the necessary skills and experience to fulfil our responsibilities to the business. Further details on skills and experience of each Director and why the Board believes their contribution is and continues to be important to the Company is set out on pages 75 to 76.

All Directors will accordingly be put forward for election or re-election at the 2021 AGM.

## Board recruitment

In general terms, when considering candidates for appointment as Directors of the Company, the Nominations Committee, in conjunction with the Board, drafts a job specification and candidate profile. In drafting this, consideration would be given to the existing experience, knowledge and background of Board members as well as the strategic and business objectives of the Group.

Once a detailed specification has been agreed with the Board, the Committee would then work with an appropriate external search and selection agency to identify candidates of the appropriate calibre and with whom an initial candidate shortlist could be agreed. The consultants are required to work to a specification that includes the strong desirability of producing a full list of candidates who meet the essential criteria, whilst reflecting the benefits of diversity in the broadest sense and goes beyond ethnicity and gender. The Board will only engage such consultants who are signed up to the voluntary code of conduct on gender diversity on corporate boards.

Shortlisted candidates would then be invited to interview with members of the Committee and, if recommended by the Committee would ordinarily be invited to meet the entire Board before any decision is taken relating to their appointment.

The process, in connection with the appointment of Simon King, Kath Durrant and Shatish Dasani is described in detail on page 93. Barry Gould Consulting was engaged for the appointment of Simon King and Ridgeway Partners was engaged for the appointment of Kath Durrant and Shatish Dasani.

The process for the appointment of Steve Francis was broadly the same, the Savannah Group was involved in leading the search for an interim CEO. Interviews for the interim candidates were held on this occasion with the Chairman and the Senior Independent Director. Barry Gould Consulting was engaged to lead the search process for a permanent CEO, both producing a short-list of candidates matching the required skills. This search process, led by the Chairman, assessed both external and internal candidates and concluded that Steve was the outstanding candidate for the role of CEO. Odgers Berndtson was engaged for the appointment of Ian Ashton for the role of CFO. Barry Gould Consulting Group and Ridgeway Partners do not have any other connections with the Company whereas the Savannah Group and Odgers Berndtson have been employed for senior executive appointments. All the recruitment firms have signed up to the Executive Search Firms' Voluntary Code of Conduct.



## Key activities during 2020

- Resignation of Meinie Oldersma and Nick Maddock in February 2020
- Recommendation of the appointment of Steve Francis as Executive Director and interim then permanent CEO and Ian Ashton as an Executive Director and CFO
- Recommendation of reappointment of Andrew Allner as Chairman at the end of his initial three-year term of office, including reviewing his other time commitments
- Approval of updated Committee terms of reference, taking into account the appointment of CD&R nominees and the revised ICSA model Terms of Reference for recommendation to the Board
- Review of Board succession plans for 2020/2021 and senior management succession and leadership development
- Recommendation for re-election of Directors at 2020 AGM
- Gave approval for Gillian Kent to join the Board of Dignity plc and Alan Lovell to join the Board of Mitie Group plc as a Non-Executive Directors following a review of their time commitments
- Recommendation of appointment of Simon King, Kath Durrant and Shatish Dasani as Non-Executive Directors
- Recommendation of appointment of Simon King as designated Non-Executive Director responsible for workforce engagement and whistleblowing champion, including reviewing his other time commitments
- Review of the analysis of Board skills
- Reviewed and agreed the Board diversity and inclusion policy for recommendation to the Board
- Review of Committee evaluation report and agreed areas of focus for 2021
- Structure and composition of the Board and its Committees, taking account of succession planning for the Board, Directors' other time commitments and the skills, knowledge and experience of Directors
- Talent management within the Group taking into account, Group strategy and the challenges and opportunities facing the Group

## Areas of focus in 2021

In 2021, the Committee in addition to its normal duties will be to:

- Continue its focus on succession planning for the Board, Executives and Senior Leadership team; and
- Undertake a more structured and formal review of talent management, performance and capability against the Company's strategic goals.

## Process for recruitment of two additional Non-Executive Directors\*

### The objective

The Committee had been advised that both Kate Allum and Ian Duncan wished to step down and therefore the objective was to recruit replacements for the Chair of the Audit and Remuneration Committees.



### The brief

We constructed a detailed brief for recruitment consultants, including a detailed candidate profile and job specification, identifying the skills required of the new Non-Executive Directors, having regard to the balance of skills, knowledge and experience of existing Board members and the strategy and future challenges and objectives of the business. The importance we place on diversity within our Board was stressed within the brief.



### The engagement

Ridgeway Partners was engaged to lead the search process. They have no other connection to the Group and are signatories to the Lord Davies' Voluntary Code of Conduct for Executive search firms promoting diversity in recruitment.



### The search

The Chairman and Senior Independent Director reviewed a long-list, prepared by Ridgeway Partners, of potential candidates whose skills matched the criteria within the brief. This contained a high proportion of female candidates, diverse educational backgrounds and people of colour. Thereafter, a shortlist of candidates was prepared containing only women and/or people of colour.



### The interviews

Interviews were held with the Chairman and Senior Independent Director. Followed by interviews with the CEO and the CD&R Directors. The final two candidates then met with members of the wider Board and following the receipt of suitable references, were thereafter recommended to the Board for appointment.



### The induction

A structured and tailored induction took place for both of the newly appointed Directors. Details of the induction are included on page 77.

\* A similar process was undertaken for the appointment of Simon King where the brief for Barry Gould Consulting had been to find someone with experience of building products distribution and again the importance of diversity was stressed. The short list, however, was not as diverse as we would have liked, but we are delighted to have secured someone with Simon's relevant expertise as the ex-CEO of Wickes.

# Nominations Committee Report

## Diversity

### Within the Board

The Board acknowledges the importance of diversity in its broadest sense in the boardroom as a driver of Board effectiveness. The Board recognises that gender, ethnic, social and cultural diversity of Boards are significant aspects of diversity and acknowledges the role that women and those of different ethnic, social and cultural backgrounds with the right skills, experience, cognitive and personal strengths can play in contributing to diversity of perspective in the boardroom.

The policy on Board diversity was reviewed by the Board during the year and is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)). An example of how the Board diversity policy was implemented during 2020 is the process that led to the appointment of the new Non-Executive, Kate Durrant who joined the Board on 1 January 2021 and replacing Kate Allum as Chair of the Remuneration Committee.

Diversity in the broadest sense was a key element in the brief provided to the search firm which resulted in a short-list that contained only women, and those with a with a diverse educational background. The Board recognises that gender diversity is a significant aspect of diversity and acknowledges the Hampton-Alexander Review recommendations, which aim to increase the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 company boards by 2020. In 2020, female representation on the Board fluctuated during the year as Andrea Abt stepped down, Kath Kearney-Croft joined the Board on 25 February and subsequently stepped down when a permanent CFO was appointed. For a period, we had 43% female representation on the Board but with the addition of the CD&R Directors and Simon King we are now at 20%.

Furthermore, during the process to replace Ian Duncan as Chair of the Audit Committee, again diversity was a key element in the brief provided to the search firm and we were pleased to see a shortlist that contained a mixture of women and people of colour. In 2019, the Board made it clear it would aspire to achieve the recommendation of the Parker Review Committee to have at least one Director of colour by 2024. We are delighted that in finding the best candidate for the role we have met this aspiration with the appointment of Shatish Dasani.

Our aspiration is to endeavour to have at least 33% female representation in line with the Hampton-Alexander Review and will consider this for any future Board appointments.

### Within the Group

The Committee continues to monitor diversity and inclusion more widely within the Group and particularly at senior management level. Information on the gender balance of senior management and their direct reports is on page 39.

During the year, the Committee initiated a review of the Company's approach to diversity and inclusion to understand where activity needs to be increased and the efforts being undertaken to further promote diversity across the Group. Further details can be found on page 39. The Committee receives regular information on diversity from across the Group except from those countries where the law does not permit such information to be gathered.

The Group diversity and inclusion policy defining the Group's standards and expectations was updated and issued to employees in December 2019 and can be found at [www.sigplc.com](http://www.sigplc.com). The Company continues to ensure where possible that recruitment for any new roles has a short list of diverse candidates.

As at 31 December 2020, 20% of the Executive Committee were female and we have one person of colour. We acknowledge that the Hampton-Alexander Review target of 33% female representation in our ELT and direct reports to the ELT has not yet been met but our aspiration is to meet that target over the course of the next few years.

Board diversity will be a key aspect and focus of the Nominations Committee as it continues its review of succession planning and diversity within the business.

The Committee also noted that the new commitment culture programme approved by the Board and launched in January 2020 and restarted in September 2020, includes behaviours designed to foster a commitment to diversity and inclusion. These behavioural expectations will be integrated into key people processes such as the performance management, recruitment, recognition, and induction programmes. Further details of the culture programme can be found on page 38.

## Committee performance

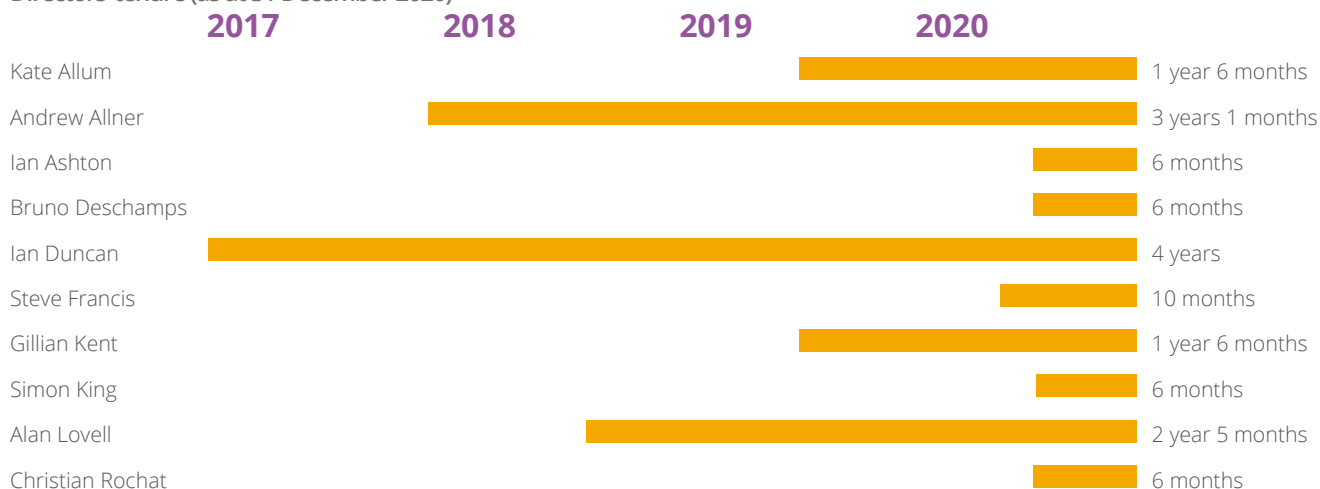
As part of corporate governance, the Committee reviews its own performance annually and considers what improvements can be made. The Committee's performance and effectiveness was reviewed in December 2020 as part of the annual evaluation of the Board and Committee effectiveness, which was undertaken by the Company Secretary and further details can be found on page 78. The questionnaire focused on the following key areas: (1) the effectiveness of the Committee in managing talent and succession planning for the Executive Directors and senior management; and (2) the performance of the Committee Chair.

The evaluation concluded that the Committee had been effective in dealing with the matters delegated to it by the Board in very challenging and unprecedented circumstances. In more normal times and with time available, the Committee acknowledged that matters would be managed differently and more in line with best practice. Progress had been made against the 2020 areas of focus; the Committee had reviewed the structure and composition of the Board and made a number of appointments as set out earlier in this report. The Committee received regular reports on diversity through Board reports from the Chief People Officer and talent within Group was reviewed in light of the introduction of a new customer-centric strategy to return the Group to profitable growth and win back market share. A number of significant appointments were made during 2020. The UK businesses were amalgamated under a highly experienced Managing Director. The Benelux and German businesses were also amalgamated under one Managing Director and a new highly experienced Group Health, Safety and Environment Director was appointed.

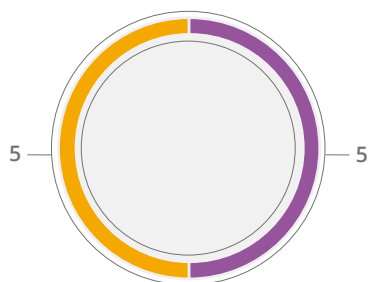
Following this review, the Committee determined that during 2021 it would:

- Have a continued focus on succession planning for the Board, Executives and Senior Leadership team; and
- Have a more structured and formal review of talent management, performance and capability against the Company's strategic goals.

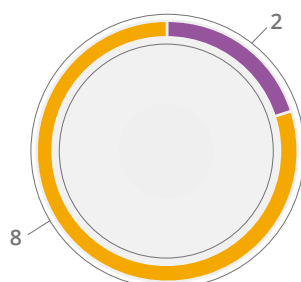
## Directors' tenure (as at 31 December 2020)



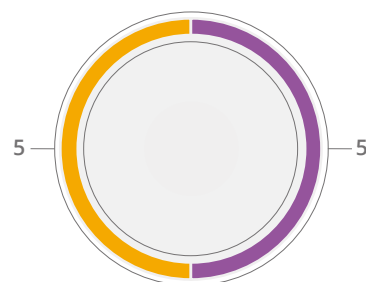
## Independence of Directors as at 31 December 2020



## Board gender diversity as at 31 December 2020



## Age of Directors as at 31 December 2020



● Independent ● Not Independent

<sup>1</sup> The Chairman was independent on appointment

● Female ● Male

● 50-59 ● 60-70

## Summary of Directors' skills as at 31 December 2020

|                           |    |                                 |    |
|---------------------------|----|---------------------------------|----|
| Strategy                  | 10 | Transportation/fleet management | 8  |
| Transformation/turnaround | 10 | Health and safety               | 10 |
| Change management         | 10 | Accounting/auditing             | 10 |
| Stakeholder engagement    | 9  | Treasury management             | 10 |
| Workforce engagement      | 10 | Marketing                       | 9  |
| Cultural engagement       | 9  | Corporate transactions          | 10 |
| Retail                    | 6  | Property management             | 8  |
| Distribution              | 10 | International                   | 10 |
| Technology/digital        | 8  | Environmental/ESG               | 9  |

● Number of Directors possessing relevant skill

# Audit Committee Report

## Committee Membership (during 2020 & 2021)

### Shatish Dasani

Committee Chair and Independent Non-Executive Director (appointed 1 February 2021)

### Ian Duncan

Former Committee Chair and Independent Non-Executive Director (resigned 31 January 2021)

### Andrea Abt

Independent Non-Executive Director (resigned 12 February 2020)

### Kate Allum

Independent Non-Executive Director (resigned 31 December 2020)

### Alan Lovell

Senior Independent Non-Executive Director

### Gillian Kent

Independent Non-Executive Director

### Simon King

Independent Non-Executive Director (appointed 1 July 2020)

### Kath Durrant

Independent Non-Executive Director (appointed 1 January 2021)

## Purpose and aims

To provide effective oversight and governance over the financial integrity of the Group's financial reporting to ensure that the interests of the Company's Shareholders and other key stakeholders are considered and protected.

To make recommendations on the reporting, control, risk management and compliance aspects of the Directors' and Group's responsibilities, providing independent monitoring, guidance and challenge to executive management in these areas.

The Committee's aim is to ensure high standards of corporate and regulatory reporting, an appropriate control environment, a robust risk management framework and effective compliance monitoring. The Committee believes that excellence in these areas enhances the effectiveness and reduces the risks of the business.

## Key responsibilities

- The accounting principles, practices and policies applied in, and the integrity of, the Group's Financial Statements.
- The adequacy and effectiveness of the Internal Control environment.
- The effectiveness of the Group's Internal Audit function.
- The appointment, independence, effectiveness and remuneration of the Group's External Auditor, including the policy on non-audit services.
- The conduct of any tender process for the Group's External Auditor.
- External financial reporting and associated announcements, including significant financial reporting judgement contained in them.
- The Group's risk management systems, processes and performance.
- The Group's compliance with the audit related provisions of the UK Corporate Governance Code.

## Terms of reference

During the year, the Board carried out a review and adopted revised terms of reference. These can be found on the Company's website [www.sigplc.com](http://www.sigplc.com).

## Evaluation

An internal evaluation was conducted for the Committee in line with the Code. More details can be found on page 78.



During 2020, continuing progress was made in improving the control environment, which included addressing the majority of the deficiencies highlighted by the PwC report.

**Shatish Dasani,**  
Chair of the Audit Committee

## Dear Shareholder,

I am pleased to present SIG's Audit Committee Report for the financial year ended 31 December 2020 on behalf of the Board. The Committee was chaired during the year by Ian Duncan and I replaced him from 1 February 2021.

The Group continues to strengthen its internal control environment and is making steady progress in the development of a robust internal control framework. The management team are actively working towards ensuring that detailed control frameworks are in place to enable a risk-based approach to continuous monitoring of control implementation and effectiveness.

The Covid-19 pandemic delayed the completion of the 2020 Group Internal Audit plan but good recovery was made in the second half of the year; of the 32 audits planned for completion in 2020, 20 have been completed and issued, and 12 were in progress at 31 December 2020 and due for completion in the first quarter of 2021. In addition, Covid-19 has altered the delivery of the audit work with fieldwork being conducted remotely. This has taken longer to complete and, in some cases, the approach has been altered, for example, Operating Company branch stock management audits have been conducted via video calls as on-site visits have been restricted.

During 2020, the Group Controls team's priorities included:

- The development of control frameworks covering Order to Cash ("O2C") and Procure to Pay ("P2P") processes across the Group;
- Continuing to develop additional control frameworks for key financial processes with the aim that the Group has a full suite of financial control frameworks;
- Development of a rolling programme of review against a Key Control Framework ("KCF");
- A programme of 'light touch' testing against the control frameworks developed in 2019 and the frameworks that were finalised during 2020;



- Development of a framework encompassing entity level controls such as performance management, Delegation of Authority, GDPR, anti-bribery and corruption, employee attraction and retention, and business continuity; and
- Development of an IT general controls framework.

The Committee has worked to ensure that:

- Brexit preparations were in place for impacted Operating Companies. Risks assessed were largely in line with the prior assessment submitted to the Committee, with increased tariffs, supply shortages, delays at borders and clarity over procedures at the Republic of Ireland/Northern Ireland border the main potential risks. Mitigations were implemented to address these risks, including changes to inventory holdings, amendments to import terms and the engagement of a third-party customs services provider to ensure compliance with the new regulation;
- The annual review of the Risk management framework was completed. Key updates included:
  - A refreshed approach to risk reviews and timetable with the scheduled twice-yearly planned reviews of larger Operating Company risk registers to be reduced to annual and in-depth reviews of selected Group risks to be introduced; and
  - The update of risk appetite statements as proposed by the ELT. Actions plans have been put in place to improve the Group's response to risks and to bring the net risk within appetite;
- A policy management process was introduced, including a central policy repository. This was required as part of the FPPP review performed by KPMG during the equity raise. Through collaboration with the Group Communications team, a Group policy repository is now hosted on SharePoint, with a selection of Group policies now available in five different languages. Group finance policies are also included, as well as the recently updated Group Delegation of Authority policy;
- The business continues to self-assess the control environment using the KCF, with Operating Companies required to self-certify on a quarterly basis against the assertions using an agreed RAG criteria. This framework is supported by detailed control frameworks underpinned by detailed risk and control matrices;
- Environmental, Social and Governance ("ESG") has been identified as strategically important, and work is ongoing with the Group Health, Safety and Environmental Director to finalise a formal assessment of this risk and steps to mitigate it;
- Following the implementation in 2019 of the Risk management framework, this has been reviewed in December 2020 and updated to reflect changes in personnel and coverage of the ELT meetings at which risk matters are presented. We report further on emerging risks identified during the year on page 31;
- Group function risk registers have been completed, following risk workshops with key stakeholders. Mitigating controls have been documented and action plans identified; and
- A review of the measures put in place to support employees due to the Covid-19 outbreak. This resulted in an update to the Group Wellbeing and Mental Health Policy and an associated action plan. A ten-step action plan for wellbeing and mental health was identified and key actions included the provision of a new Employee Assistance Programme (EAP), training on mental health first aid and a communications campaign.

In addition to this, a Group Internal Audit Plan for 2021 has been approved and will continue to focus on key internal controls, with more than half of the 2021 plan dedicated to these types of audits. The 2021 plan also includes risk-based audits with a proportion reserved for management requests and investigations. In addition, the 2021 plan will consider the potential ongoing impact of Covid-19 on key business processes and include relevant audits to swiftly provide the Committee with adequate assurance over any modified controls and procedures.

Although going concern is a matter for the whole Board (see page 28), a review is undertaken by the Audit Committee of the Group's headroom under its covenants and undrawn facilities in relation to the Group's financial forecasts and sensitivity analysis.

The Committee has sought to ensure that the audit process with the External Auditor, Ernst & Young LLP, is conducted and managed smoothly and efficiently, that there is collaborative communication and engagement between management and the External Auditor and that required information is provided in a timely fashion to enable appropriate audit evidence to be compiled.

During the year we welcomed Kath Kearney-Croft who was appointed as the interim CFO on 25 February 2020 replacing Nick Maddock who resigned on 24 February 2020. Ian Ashton subsequently replaced Kath following his appointment as the permanent CFO on 1 July 2020. Additionally, we appointed a new Group Financial Controller during 2020.

The Company has complied during the financial year ended 31 December 2020 with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 that are applicable to it.

## Shatish Dasani

### Chair of the Audit Committee

25 March 2021

# Audit Committee Report

## Key activities during 2020<sup>1</sup>

### April

- Reviewed progress of annual year-end audit
- The Group Internal Audit Effectiveness Report was presented, and actions agreed
- External Auditor Report reviewed in particular what matters had been concluded for the year and those that were outstanding

#### Spotlight risk review:

- Covid-19 and consequences for the Group



### May

- Impairment review
- Going concern assessment
- Review of spend on professional fees
- Internal controls update
- Update on KPMG FPPP Report and Project Steel action plan
- Contingent liability review
- Review of Annual Report and Accounts 2019
- Review of principal risks
- Review of Audit Committee report
- Review of procedures for confirming Disclosures of Information to Auditor's Statement for recommendation to the Board
- Annual review of effectiveness of risk management and Provision 29 of the Code
- Action plan presented on the annual Group Internal Audit Effectiveness survey
- Fraud risk assessment

### July

- Rolling 12-month internal audit programme reviewed and approved
- Review of Group risk register
- Update on response to PwC Project Steel actions and KPMG FPPP Report
- Review of EY's year-end control observations
- Internal Controls update
- Annual review and assessment of 2019 Audit and External Auditor
- Approval of Audit fees
- Senior Accounting Officer Review for 2019
- 2020 Annual Planner and updated Terms of Reference for approval
- Reviewed the periodic assessment of IIA standards
- Reviewed Q2 KCF self-assessments

### December

- Review of Group risk register which includes the risk appetite, emerging risks and risk management framework
- Assessment of compliance against Provision 29 of the Code
- Approved EY draft engagement letter
- Reviewed Q3 KCF self-assessments
- Report on credit card controls
- Review of the proposed 2021 Group Internal Audit Plan (part of the rolling 12-month plan)
- Review policies on Auditor non-audit fees and employment of former employees of Auditor
- Annual Tax and Treasury update (including the annual tax strategy)
- Corporate Criminal Offence policy reviewed
- Accounting and Reporting update which includes Impairment year-end indicators
- Brexit Update
- Employee support review
- Update on annual audit process
- Proposal for the annual Group Internal Audit Effectiveness review
- Review of Committee effectiveness

#### Spotlight risk review:

- Cyber Security

### September

- Review of going concern and significant accounting matters and judgement areas for interim results
- Review of Interim Results for 2020 for recommendation to the Board
- Audit fees for 2020
- Year-end 2020 Audit planning
- Principal risks – half-year review
- Internal Controls update

#### Spotlight risk review:

- Business growth

### At every main meeting the Audit Committee also considers:

- Report of the Chief Financial Officer
- Report of the External Auditor
- Report of the Director of Risk and Internal Audit, updating on risk, internal audit and controls
- Minutes and actions from previous meetings

1. Five meetings were held in the year. Given 2020 was an exceptional year, the normal meeting programme had to be adjusted accordingly.

## Audit Committee membership

The Board considers that each member of the Committee was independent throughout the year, and remains so, and there are no circumstances that are likely to impair their independence according to the factors set out in the Code or otherwise. The knowledge and experience of the Committee members means that the Committee as a whole is competent in the sector in which the Company operates. Ian Duncan, as Chair of the Committee during 2020, is a chartered accountant and had recent and relevant financial experience for the purposes of the Code. Shatish Dasani as the new Chair of the Audit Committee from 1 February 2021 is a chartered accountant and has recent and relevant financial experience for the purposes of the Code.

Attendance by individual members of the Committee is on page 58. The Committee Chair regularly invites senior company executives to attend meetings of the Committee to discuss or present specific items. The interim CFO, Kath Kearney-Croft, and the new CFO, Ian Ashton attended all meetings in 2020 that they were entitled to attend. The External Auditor and the Director of Risk and Internal Audit (or their reports) also attended all meetings of the Committee in 2020 and have direct access to the Committee Chair.

The Committee meets regularly with the External Auditor and the Director of Risk and Internal Audit (or his reports) without the Executive Directors being present and the Committee Chair also meets with the External Auditor, CFO and Director of Risk and Internal Audit in advance of Committee meetings.

In accordance with the relationship agreement with CD&R as part of the firm placing, placing and open offer undertaken in July 2020, they are entitled to nominate an observer to the Audit Committee. Since 10 July 2020, Diego Straziota has attended all meetings he is entitled to. As an observer Diego is entitled to attend meetings but cannot influence the decision making of the Committee.

## Audit Committee structure

The Committee operates under written terms of reference, which can be found on the Company's website ([www.sigplc.com](http://www.sigplc.com)). They are reviewed annually by the Committee and changes are recommended to the Board for approval. The terms of reference are reviewed at least annually and were updated in July 2020, following the annual review and to reflect the Relationship Agreement signed with CD&R.

The Committee has in its terms of reference the power to engage outside advisors and to obtain its own independent external advice at the Company's expense, should it be deemed necessary. During 2020, the Committee engaged the services of KPMG LLP to provide advice on the Company's approach to risk appetite. KPMG LLP also support the Group's Internal Audit function providing specialist support with targeted audits. The Chair of the Committee reports to the subsequent meeting of the Board (unless all Board members attended the Committee meeting) on the key issues covered by the Committee, identifying any matters on which it considers that action or improvement is needed, and makes recommendations on the steps to be taken.

## Audit Committee evaluation

As part of corporate governance, the Committee reviews its own performance annually and considers where improvements can be made. The Committee's performance and effectiveness was reviewed in November and December 2020 as part of the review of Board and Committee effectiveness conducted by the Company Secretary, further details are on pages 78 to 80. The questionnaire focused on the following key areas: (1) the Audit Committee's ability to understand and give appropriate consideration to internal control testing conducted by management; (2) the ability of the

Board in identifying and evaluating significant risks; (3) Leadership of the Audit Committee; and (4) the Audit Committee's relationship with key personnel and the External Auditors.

The Committee was rated well in most areas and therefore could conclude that it is being effectively chaired and managed. The strengths of the Committee were considered to be:

- **Leadership** – the Chair of the Committee is well prepared, considerate and focuses on the key areas; and
- **Relationships** – the Committee has a good relationship with the External Auditors.

It was agreed that the key priorities for 2021 should include the continued improvement in the internal control environment; ensuring that there is an effective external audit process; the continued improvement in the way the Board identifies and evaluates significant risks; and prioritising how resource is deployed in the risk, audit and control functions.

## Meetings

The Committee meets regularly throughout the year, with five meetings being held during 2020 along with the audit close meeting. The audit close meeting is normally held in the early part of the year following the year-end; however, this was done later than planned due to the outbreak of Covid-19 and the delay to the publication of the 2019 results. In addition, a further meeting was held at the end of April 2020 to review the progress of the audit. Its agenda is linked to events in the Company's financial calendar. Key matters considered at meetings of the Audit Committee during the year are listed on page 98.



# Audit Committee Report

## Significant financial judgements

The Committee considered a number of significant issues during the year. These related to areas requiring management to exercise particular judgement or a high degree of estimation. The Committee assesses whether the judgements and estimates made by management are reasonable and appropriate. The issues and how they were addressed by the Committee are set out below:

| Key financial reporting and significant financial judgements considered in relation to the Financial Statements |                                                                                                                                                                                                                                                                                                                        | How the issue was addressed by the Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Going concern basis and viability statement</b>                                                              | The Group is required to assess if it has access to sufficient resources to continue as a going concern and assess the period of viability.                                                                                                                                                                            | The going concern disclosures were carefully considered and the Group no longer considered it necessary to include any material uncertainties. The Group had successfully agreed amended facilities with its RCF lenders and private placement noteholders in June 2020, together with a successful equity raise of £165m in July 2020. The Group had also seen an improved trading performance since the most extreme Covid-19 restrictions have been lifted. The Committee's review and conclusions in this area are set out separately on pages 27 to 28.                                                                            |
| <b>Discontinued operations</b>                                                                                  | Following the announcement in October 2019 to sell the Air Handling business the sale completed in January 2020. The sale of Building Solutions was aborted in May 2020, and the Committee considered the accounting treatment and presentation for each of these in the financial statements.                         | Consistent with the treatment adopted in the 2019 Annual Report and Accounts, Air Handling is presented as a discontinued operation in accordance with IFRS 5, as it had been a separate major line of business of the Group.<br><br>As a sale of the Building Solutions business is no longer being pursued, the business is now considered to form part of the ongoing trading activities of the UK business under the combined UK management structure and strategy. It is therefore no longer considered to be non-core and will be presented within the underlying results for the full year 2020.                                 |
| <b>Recognition and measurement of supplier rebate income</b>                                                    | Procedures and controls are in place to ensure that the reporting, reviewing and accounting for supplier rebate income is properly managed and that supplier rebates are recognised appropriately in the Group Financial Statements.                                                                                   | The Committee considered the adequacy of work performed in the year to continue to strengthen the way in which the recoverability of supplier rebates is controlled, including the internal review processes and the technology in place to assist in the calculation of supplier rebate income.                                                                                                                                                                                                                                                                                                                                        |
| <b>Carrying value of goodwill and intangible assets</b>                                                         | The carrying value of goodwill and intangible assets is systematically reviewed at each mid-year point and at year-end. The Group estimates a recoverable amount for each individual cash-generating unit based on forecast revenues, operating margins and appropriate discount rate risk adjusted where appropriate. | The forecasts used in the impairment review at 31 December 2019 were before Covid-19, as this was a non-adjusting post balance sheet event. An impairment was required at 30 June 2020 to reflect the loss that was forecast in UK Distribution and UK Exteriors for the H2 period, and a further impairment is recognised in UK Distribution at 31 December 2020 reflecting the slower return to growth as the business continues to recover from the impact of Covid-19 and continues the implementation of the new strategy. The Committee considered the appropriateness of the assumptions and the sensitivity analysis performed. |



| Key financial reporting and significant financial judgements considered in relation to the Financial Statements | How the issue was addressed by the Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Impairment of SAP implementation costs</b>                                                                   | Following a period of pause and a change in direction and scope of the SAP 1HANA implementation project as agreed in December 2020, costs incurred and recognised on the balance sheet to date have been reviewed to assess whether they continue to have any future economic benefit. Future contractual commitments have also been reviewed to assess to what extent the Group will derive future benefit or whether they represent an onerous contract.                                                         | The Committee considered the review undertaken and the conclusions reached in light of the revised project scope and timing. The Committee considered that it was appropriate to fully impair the £13.6m costs previously recognised on the balance sheet and to recognise onerous contract provision of £11.4m in relation to future committed costs for SAP and other licence fees.                                                                                                                                                                                                                                                                                                                                            |
| <b>Accounting for the Debt Refinancing</b>                                                                      | The Group renegotiated its borrowing facilities and new agreements were signed in June 2020. The RCF was treated as an extinguishment of the previous agreement and recognition of a new liability. The amendments to the private placement notes ("PPN") have been treated as a modification of the existing agreement, which resulted in the recognition of a loss on modification, effectively recognising the increased finance costs on the PPNs immediately rather than over the remaining term of the debt. | The Committee considered the accounting for the amendments to the borrowing facilities and concluded that the treatment adopted is appropriate and in line with the accounting standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Covid-19 schemes and deferrals</b>                                                                           | As a result of Covid-19, the Group has received a number of government support packages and other forms of assistance. These include the Coronavirus Job Retention Scheme (furlough) support in the UK, Ireland, France and Benelux; social tax savings in France; and payment deferrals in relation to VAT, social taxes, corporation tax and rent in certain operating companies.                                                                                                                                | The main accounting consideration for the Committee was whether the measures met the definition of Government grants in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". It was determined that the Job Retention Scheme involves a transfer of resources from government to the entities concerned and therefore met the definition of a grant.<br><br>Disclosure of the nature and extent of government grants is required in the Financial Statements, together with an indication of any other forms of government assistance, such as tax and VAT payment deferrals and the Committee is satisfied that these are being sufficiently covered in the Financial Statements. |
| <b>Disclosure of other items</b>                                                                                | The Group presents Income Statement items in the middle column of the Consolidated Income Statement entitled Other items where they are significant in size and nature, and either do not form part of the trading activities of the Group or their separate presentation enhances understanding of the financial performance of the Group.                                                                                                                                                                        | The Committee carefully considered the judgements made in the separate disclosure of Other items. In particular, the Committee sought to ensure that the treatment followed consistent principles and that reporting in the Group Financial Statements is suitably clear and understandable.                                                                                                                                                                                                                                                                                                                                                                                                                                     |

# Audit Committee Report

## Internal controls

Internal control issues are presented to and discussed at every Audit Committee meeting and reported to each Board meeting, and an active focus on them has been continued throughout the year. The controls remediation dashboard received as a regular report to the Audit Committee allows them to identify and assess progress against any control weaknesses identified by the External Auditor, through the audit process or the KCF.

In addition to the internal controls' improvement plan endorsed by the Audit Committee, detailed control frameworks developed during the year underpin the key assertions in the KCF, comprising operating company specific RACMs. These frameworks now ensure that ownership of specific controls sits with identified individuals, increasing accountability and improving both control awareness and control implementation across the Group. In particular, detailed frameworks for cash management, supplier rebates and financial close have been developed to map controls against the Group risks schedules and a programme of testing against the cash management and supplier rebate control frameworks has been completed across the Group. Testing of further RACMs is planned.



KCF self-certifications are received from all operating companies and all control improvement actions are logged on 4Action, the Group's action-tracking software. The results are presented to the Board in summary form and reviewed by the Committee on a quarterly basis.

All high-priority and overdue actions are reported through the controls action dashboard to the action owners and through regular reporting to the Committee.

New Controls Managers have been recruited in the main operating companies to further develop and strengthen their local controls. The Group Internal Audit team has been strengthened to help implement and monitor the local controls.

## Going concern basis and viability statement

The Group is subject to financial covenants related to its committed bank facilities and private placement notes as set out on page 28.

In June 2020 the Group successfully renegotiated the debt facility arrangements with its lenders. Under the revised agreements the Group would be subject to covenant testing as follows:

- Leverage (net debt/EBITDA) and interest cover (EBITA/interest) not tested until March 2022, after which tested every quarter, the tests being applied to the prior 12 months;
- Until 28 February 2022 the Group has to ensure that Consolidated Net Debt (CND) does not exceed £225m for each quarterly test date in 2021 (2020: £125m);
- Minimum Liquidity (available cash and undrawn revolving credit facility commitments) of £40m at all times; and
- Consolidated Net Worth (CNW) must at all times not be less than £250m.

Whilst the Group has significant available liquidity, and on the basis of current forecasts is expected to remain in compliance with all banking covenants throughout the forecast period to 31 March 2022, on 1 March 2021 the Group agreed with its lending banks and private placement noteholders to amend certain financial covenants to better align the tests and to provide additional headroom on the interest cover covenant under stress test scenarios from March 2022. The amended covenants under the revised agreements are as follows:

- The interest cover testing does not start until June 2022 and is at lower levels than previously until December 2022;
- The leverage covenant threshold is now slightly lower than previously at March 2022 and June 2022;
- The Consolidated Net Debt threshold is lowered to £200m and extended to December 2022; and
- No change to the CNW or Minimum Liquidity covenants.

In July 2020 the Group successfully completed an equity raise for proceeds of £165m.

During the year, the Group responded effectively to the Covid-19 pandemic, and continues to do so, to maintain its liquidity position.

The Committee reviewed management's assessment of going concern with consideration of forecast cash flows, including sensitivity to Covid-19 and sales improvement plans. The Committee reviewed the Group's forecast adherence to the financial covenants up to 31 March 2022, including consideration of reasonably possible downsides scenarios to the forecasts. The Committee reviewed the long-term viability statement as set out on pages 27 to 28.

In forming an assessment of the Group's ability to continue as a going concern and recommend approval of the viability statement, the Group no longer considered it necessary to include any material uncertainties. The Committee has considered all of the above factors and believe it is appropriate to prepare the Financial Statements on a going concern basis, together with approval of the viability statement.

### Corporate culture

The Committee considered measures undertaken to transform the culture of the business in 2019 including strengthening of the senior management team and removal of historic working silos and hierarchy. During 2020, the Committee endorsed further actions to ensure that the necessary resources were in place to improve controls. A new Group Financial Controller and Group Head of Tax and Treasury were appointed during the year reporting to the CFO, Ian Ashton, who joined in July 2020. During 2020, the resource in the finance team and UK shared service centre had been increased to enable focus on the control environment. The Committee endorsed the strengthening of both teams and the importance of building a strong and sustainable Senior Leadership team. Since the introduction of the new Executive Management team the quality and expertise of the Finance team had been enhanced further, with progress to continue during 2021.

### Oversight of risk management and internal controls

The Audit Committee has responsibility for reviewing the adequacy and effectiveness of the Group's risk management systems. The Committee receives reports from the Director of Risk and Internal Audit on key issues in relation to the Group's risk management systems and processes at every meeting. These updates include commentary on risk appetite, emerging risks, significant changes to risk scores (and actions) and significant changes to the risk management framework itself. All Group risks are assessed systematically against the 4x4 risk matrix, as part of the Group's risk management framework and an assurance mapping exercise is completed to identify assurance gaps for principal risks. Any risk where the net score is above the agreed risk appetite has an action plan documented to bring the risk within appetite and a review of the completion of these action plans is reported annually to the Committee.

The process for identifying, assessing and reporting on emerging risks was reviewed by the Committee in May 2020 to align with year-end reporting. Any potential emerging risks are included in a tracker and, where required, assessed in more detail and added to the Group risk register for regular review and updating. At its meeting in July 2020, the impact of a second Covid-19 lockdown was reviewed from a reforecasting perspective together with the practical safety risks to employees and customers. A new internal audit was added to the 2020 Group Internal Audit Plan to review the operational health and safety controls relating to Covid-19. The Covid-19 risk was also reviewed with additional audits added to the plan to more broadly assess the impact on areas such as the supply chain, receivables, and furloughed employees amongst others. Health and Safety has seen its risk rating increase during the year following a review, which highlighted gaps across the Group that will be addressed going forward. These concerns overlap with the expectations covered by the Health and Safety team under the leadership of the new Health, Safety and Environment Director and significant progress is expected during 2021.

In order to enhance visibility into assurance processes across the Group, an Integrated Assurance Framework is being developed, for which a mapping exercise of assurance activity is being undertaken. As part of this, sources of assurance across the Group have been documented. This includes, but is not limited to, controls monitoring, risk assessments, management of self-certification, internal audits and reporting. Where gaps have been identified, these will be flagged, and appropriate activity introduced. This Assurance Framework will link directly into activities planned for 2021. The Assurance Framework will support the ongoing process of identification, evaluation and management of significant risks faced by the Group and provides a structured means for illustrating the assurance activities underpinning Director's key disclosure statement on internal control and risk management. The aim of the framework is to ensure that:

- Individual sources of assurance are clearly understood;
- An appropriate level of consistency is achieved across the Group;
- Existing activities and tools are consolidated or merged where practical;
- The individual sources of assurance link together and there is clear oversight from activities conducted from branch to SIG Board level; and
- All aspects of control (financial and non-financial) are considered so that risks are managed across all Operating Companies and business functions.

The Group Chief Information Security Officer (CISO) has been working with Group Internal Audit, with assistance from KPMG as the co-source partner, to develop and implement an IT Control Framework. This Framework has now been completed and is in place. The Group CISO will work with the operating company IT teams in 2021 on an appropriate scope of review.

As part of the FPPP review performed by KPMG in 2020, an action to implement a policy management process was agreed, including a central policy repository. Through collaboration with the Group Communications team, a Group policy repository is now being hosted in SharePoint, with a selection of Group policies now available in five different languages. Going forward, the Group Controls team will perform ongoing monitoring to ensure that policies are reviewed and updated in light of business change or alternatively, as part of an annual review process.

The Board reviews the Group risks twice yearly for the level of and type of risk, suitability of controls to manage those risks and the actions planned to bring net risk to within appetite. The overall risk appetite is reviewed for the Group at the half and full year. Group risks feed into the creation of the annual Group Internal Audit plan.

Specific spotlight Group risks (such as Covid-19, Business Growth: France and cyber security) are normally presented quarterly to the Committee but this year this timetable was impacted by the pandemic and followed with a report to the Board as part of the CFO's Board report. Further detail in respect of risk management processes and assurance is provided separately on page 81.

The Board reviewed and approved the revisions to the Group's Delegation of Authority policy in both 2019 and during Q1 2020 and deemed the approval levels set by this document to be appropriate for the Group's day-to-day operations. The Group's Delegation of Authority policy was reviewed and updated again in September and approved in December by the Board, to reflect the changes to the UK organisational structure and to update approval limits after input from the Group's new CFO. Recommendations from the Group Internal Audit function were also included, and also clearly sets out those matters that require Board approval.

# Audit Committee Report

The Committee considered a report from the Director of Risk and Internal Audit in relation to Provision 29 of the UK Corporate Governance Code assessing the effectiveness of risk management and internal controls in December 2020.

The Committee also has responsibility for reviewing the adequacy and effectiveness of the Group's internal control systems. Reports on the findings from Group Internal Audit reviews, investigations and management agreed actions are provided at every meeting. As part of the Committee's role in approving an annual Group Internal Audit plan, it now approves a rolling Group Internal Audit plan. This provides greater visibility of audits to the Committee and it receives regular progress reports and any issues arising are highlighted.

## PwC report

PwC were commissioned to undertake an independent review of the communication and level of explanation of the Group's underlying financial forecasts and the associated risks and opportunities, in light of the disparity between the forecast level of underlying profit before tax for the financial year 2019 set out in the January 2020 Trading Update and market consensus of forecast profit prior to that announcement. Following a thorough and detailed review of internal documents and interviews with relevant employees, PwC delivered its confidential written report to the Company on 21 April 2020.

The PwC report made recommendations as they relate to the Group's processes, controls and wider organisational environment in relation to four key areas linked to their findings.

The actions the Company has taken to implement the recommendations are as follows:

- **Better availability and consistency of data.** The Group produces daily sales information against phased forecasts in order to clearly understand Group performance within the month. Daily cash and debt balances are also reported. From 1 January 2021, the Group deployed a new consolidation and reporting tool, which will improve the efficiency and effectiveness of reporting and budgeting. Financial forecasts are updated regularly, and risk and opportunities against forecasts clearly reported.
- **A continued embedding of the Group's commitment culture where people are encouraged to be bold and 'call out' behaviours that are not consistent with the expectations of the Group.** The new senior management team are committed to drive through necessary changes and set the right 'tone from the top'. Group-wide webcasts by the CEO have reinforced the expectation of employees to behave in a manner consistent with the Group's commitment to its cultural values.
- **A refreshed approach to whistleblowing through appointment of a Board-level whistleblowing champion.** A new Board whistleblowing champion has been appointed and a simplified and more accessible Whistleblowing policy has been drafted. All employees received training with more targeted input for specific functions/individuals. There has been improved reporting of whistleblowing incidents and trend analysis of such incidents to the Board. A new Group-wide policy, training and system was launched in January 2021.

The Audit Committee tracked these actions, and the further recommendations from KPMG, through the Group's standard process to ensure that they were delivered fully.





## Covid-19

In response to the Covid-19 pandemic, Group Risk designed and rolled out a crisis response checklist to each Operating Company. The checklist comprised a set of short, medium and long-term mitigating activities for consideration by management in response to operational, financial and people risks posed by the pandemic. Each Operating Company has leveraged the checklist to ensure coverage of the fuller spectrum of risks and to prompt consideration of additional activity, especially in relation to changes in response by governments. Key areas of focus included liquidity and finance, supply chain, health and safety and cyber risk. The Group's risks have also been re-evaluated in light of Covid-19, with a newly defined risk for access to finance and liquidity identified in early 2020 and an increase in the net risk rating for health and safety. Further details can be found on page 33.

Group Internal Audit has targeted testing on payment controls (including analytics for fraudulent payments), cyber security, health and safety, the UK Coronavirus Job Retention Scheme, general IT Controls and maintained a focus on key financial controls such as balance sheet reconciliations. The Group Internal Audit plan has been kept under review and adjusted to take into account the effects of the pandemic with the audit process being adapted whilst travel restrictions remain in place.

In addition, Group Internal Audit has continued to take advice from professional services firms on how best to adapt its audit plan to the pandemic.

## Brexit

The United Kingdom ended the transition period for its exit from the EU with a trade deal which will require renegotiation every five years. There was a rigorous risk assessment carried out to cover both leaving with and without a deal in place. The risk identified as the greatest potential risk to SIG remained the uncertainty over the Republic of Ireland/Northern Ireland border and potential delays at the UK border generally. Additional administrative tax measures have been identified and mitigated, through amendments to the terms in place with SIG UK suppliers from the EU and the appointment of an agency. The Committee continues to monitor the changes as they are rolled out and further specific tax considerations will be assessed following detailed analysis performed by the Group Head of Tax and Treasury.

## Oversight of Internal Audit

The Group Internal Audit function provides independent assurance to senior management and the Board on the adequacy and effectiveness of SIG's risk management framework. Group Internal Audit forms an independent and objective assessment as to whether risks have been adequately identified, adequate internal controls are in place to manage those risks, and those controls are working effectively. KPMG LLP continue to provide additional co-sourced support to Group Internal Audit to cover specialist areas.

The results of all audits have been presented to the Audit Committee during the year. Areas of weakness identified during the year result in a detailed action plan and a follow-up audit check to establish that actions had been completed appropriately.

As per 2019, the Committee agreed the process for the evaluation of the performance of the Group's Internal Audit function in December 2020. A questionnaire tailored for participants was used and the survey was completed in January 2021. The questionnaire was sent to the Committee, Executive Directors, Managing Directors and Finance Directors of the operating companies, the External Auditors, and other key individuals in functional areas.

The Director of Risk and Internal Audit and the Group Head of Internal Audit were also asked to complete a questionnaire by way of self-assessment. The evaluation confirmed that the Group Internal Audit function was competent, adds value, reports on the right things, maintains its independence, provides a broad range of assurance and is effective overall.

However, a few areas of focus for 2021 were agreed by the Committee as follows:

1. Audit plan for 2021 and beyond to be based on risk assessment, business needs and controls findings from prior internal and external audits;
2. Focus audits to demonstrate benefits obtained by operating companies as well as providing reassurance to management and the Board; and
3. Reports to provide a clearer summary of key findings and actions, with consideration of introducing an overall control rating.

## Oversight of External Auditor

Ernst & Young LLP were appointed as the Group's External Auditor in July 2018 following a tender process initiated in May 2018. Shareholders formally approved their appointment at the June 2020 Annual General Meeting. There is no intention to conduct any retendering exercise currently, but this will be reviewed annually, taking into account the performance and effectiveness of the Auditor, as assessed by the Committee.

## External Auditor performance evaluation

For the year ended 31 December 2019, the Group assessed the External Auditor's performance using a questionnaire issued to Operating Company Finance Directors together with certain members of the Group Finance team, and all members of the Board (as at 30 June 2020). The questionnaire comprised of 34 questions covering different topics ranging from performance, communication, governance and efficiency. The assessment asked individuals to rate EY on a scale of 1 to 5 where "1" was very unsatisfied and "5" very satisfied or they could respond "n/a". Individuals also had the opportunity to add comments alongside their score. In total, 25 completed returns were received (seven from the Board), with an average of 76% of all questions being rated with a response other than "n/a".

Overall, the External Auditor's performance and effectiveness was rated at a similar level as the previous year, performing best in the areas of governance and independence, partners and reputation. Audit fees, team and communication were areas which received the lowest scores and were identified therefore as areas for improvement. The Committee having reviewed the performance and effectiveness of the External Auditor, were satisfied with the independence, objectivity, expertise, resources and general effectiveness of Ernst & Young LLP, and that the Group was subjected to a rigorous audit process.

## External Auditor independence assessment

The Board is aware of the need to maintain an appropriate degree of independence and objectivity on the part of the Group's External Auditor.

The External Auditor reports to the Committee each year on the actions taken to comply with professional and regulatory requirements and best practice designed to ensure its independence, including the rotation of key members of the external audit team. Ernst & Young LLP has formally confirmed its independence to the Board in respect of the period covered by these Financial Statements.

# Audit Committee Report

## Policy on non-audit services

The Group has an agreed policy with regard to the provision of audit and non-audit services by the External Auditor, which operated throughout 2020. The policy is based on the principle that they should undertake non-audit services only where they are the most appropriate and cost-effective provider of the service, and where the provision of non-audit services does not impair, and could not be reasonably perceived to impair, the External Auditor's independence and objectivity. It categorises such services as auditor-permitted services, auditor-excluded services and auditor-authorised services. The fees permissible for non-audit services should not exceed 70% of the average audit fees paid to the Group's External Auditor in the last three consecutive financial years. The policy was reviewed during 2020 and will be reviewed annually and can be viewed on the Company's website ([www.sigplc.com](http://www.sigplc.com)). It defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any auditor-authorised services. In all cases, any instruction must be pre-approved by the CFO and the Audit Committee Chair before the External Auditors are engaged. The External Auditor cannot be engaged to perform any assignment where the output is then subject to their review as External Auditor. The Committee regularly reviews an analysis of all services provided by the External Auditor. The policy and the external Auditor's fees are reviewed and set annually by the Committee and are approved by the Board.

The total fees payable by the Group to its External Auditor for non-audit services (relating to the Interim Review) in 2020 were £0.2m (2019: £0.2m). The total fees payable, including discontinued operations, to the External Auditor for audit services in respect of the same period were £3.3m (2019: £2.3m). The current year costs include £0.7m costs in relation to the 2019 audit.

The ratio of audit to non-audit fee was 13:1. Details of each non-audit service and reasons for using the Group's External Auditor are provided in Note 4 to the Financial Statements on page 161.

A full breakdown of External Auditor fees are disclosed in Note 4 to the Financial Statements on page 161.

## Resolution to reappoint External Auditor

The Committee recommends, and the Board agrees, that a resolution for the reappointment of Ernst & Young LLP as Auditor of the Company for a further year will be proposed at the 2021 Annual General Meeting.

## Fair, balanced and understandable

The Board had the opportunity to review early drafts of the Annual Report and Accounts and provided input. Following this the Committee has reviewed the contents of this year's Annual Report and Accounts and advised the Board that, in its view, the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information to enable Shareholders to assess the position and performance, strategy and business model of the Company.

In reaching this conclusion the Committee has considered the following:

- The preparation of the Annual Report is a collaborative process between Finance, Legal, Company Secretariat, Human Resources and Communications functions within SIG, ensuring the appropriate professional input to each section. External guidance and advice are sought where appropriate.
- The co-ordination and project management are undertaken by a central team to ensure consistency and completeness of the document.
- An extensive review process is undertaken, both internally and using external advisors.
- A final draft is reviewed by the Audit Committee members prior to consideration by the Board.

## Shatish Dasani

### Chair of the Audit Committee

25 March 2021

# Directors' Remuneration Report

## Committee Membership (during 2020 & 2021)

**Kath Durrant**  
Chair and Independent Non-Executive Director (from 1 January 2021)

**Kate Allum**  
Chair and Independent Non-Executive Director (until 31 December 2020)

**Andrew Allner**  
Chairman

**Bruno Deschamps**  
Non-Executive Director (from 10 July 2020)

**Ian Duncan**  
Independent Non-Executive Director (until 31 January 2021)

**Gillian Kent**  
Independent Non-Executive Director

**Simon King**  
Independent Non-Executive Director (from 1 July 2020)

**Alan Lovell**  
Senior Independent Non-Executive Director

**Shatish Dasani**  
Independent Non-Executive Director (from 1 February 2021)

Attendance at meetings is on page 58.

## Purpose and aims

To provide effective oversight and governance over the integrity of the Group's remuneration arrangements for senior executives to ensure that the interests of the Company's Shareholders are protected at all times.

The Committee's aim is to ensure that remuneration arrangements support the strategic aims of the Company and enable the recruitment, motivation and retention of senior leaders to deliver sustainable long-term performance in line with the purpose and culture of the business.

## Key responsibilities

The Committee's key responsibilities are to assist the Board in discharging its responsibilities for:

- Reviewing the broad policy for the senior management;
- Recommending and monitoring the level and structure of remuneration for senior management;
- Governing all share plans; and
- Reviewing any major changes in employee compensation and benefit structures throughout the Company or Group.

## Terms of reference

During the year, the Committee adopted revised terms of reference in July 2020 and in December 2020. The latest version can be found on the Company's website at [www.sigplc.com](http://www.sigplc.com).

## Evaluation

An internal evaluation of the functioning of the Committee was conducted in line with the Code. More details can be found on page 78.



**The Committee is committed to supporting the business return to profitable growth through the effective deployment of the remuneration policy and its incentive structures. It remains mindful of the challenges Company performance and Covid-19 have created for colleagues, customers, suppliers and shareholders.**

**Kath Durrant**

Chair of the Remuneration Committee

## Contents

In this report we set out:

1. The Annual Statement from the Chair of the Remuneration Committee.
2. The Annual Report on Remuneration which explains how we have paid our Directors under the previous and new policies this year and how our framework aligns with our wider strategy and corporate governance best practice, as well as how we consider remuneration of the wider workforce in relation to Executive Pay.

As in previous years, the Annual Report on Remuneration and this Annual Statement are subject to an advisory shareholder vote at the 2021 AGM.

## Dear Shareholder,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for 2020.

I find myself in the unusual position of presenting this report having joined the Board on 1 January, 2021, following Kate Allum's decision to step down from the Board and her role as Chair of the Remuneration Committee at the end of 2020.

## Background

The year was tumultuous for SIG starting with a significant profit warning, and the departure of both the CEO, Meinie Oldersma, and CFO, Nick Maddock, in February. Key steps were taken to address critical issues including the appointment of Steve Francis

# Directors' Remuneration Report

initially as interim CEO, of Kath Kearney-Croft as interim CFO, and the requirement of the Chairman, Andrew Allner to step in to ensure stabilisation of the business over a six month period. Ian Ashton was appointed as the permanent CFO in July 2020. The new leadership team operated decisively to re-establish a firmer footing for the business.

This included:

- A successful refinancing of the business, with a capital raise of £165m, putting the business in a more secure financial position and helping to address the net debt position;
- The implementation of corrective actions following a PwC investigation commissioned by the Board into the disparity between the forecast level of underlying profit before tax for 2019 set out in the January 2020 Trading Update and market consensus of forecast profit prior to that announcement;
- The appointment of KPMG to support the implementation of the required improvements in financial processes, reporting and communications;
- The appointment of new leadership for the UK business with deep sector experience;
- The development of a new strategy focused on excellence in core operational disciplines, customer and employee engagement, strengthening supplier relationships and returning key businesses to growth; and
- Effective management of the effects of the Covid-19 pandemic.

Shareholders will understand that the effects of the Covid-19 pandemic compounded an already challenging situation, providing an unprecedented and complex backdrop for the new leadership team. As set out in the CEO's Report (on pages 19) the health and safety of colleagues, and other key stakeholders has had the highest priority. Appropriate PPE, enhanced cleaning regimes, and additional training have been provided. A wellbeing programme operates to support the mental health of all colleagues. It is notable in a business that has continued to operate for much of the year that the instances of Covid-19 infection have been consistently lower than national averages in all Group companies. The efforts of all colleagues in assuring Covid-19 secure operations, maintaining customer delivery and improving customer satisfaction through the year is recognised by the Committee, and points to the resilience referred to in the Chairman's statement.

Where available the Company accessed government assistance to protect jobs, for example in the UK where the government's furlough scheme was used for a part of the year for colleagues unable to work from home. During the year, approximately 2,000 employees were furloughed and no employees were made redundant because of the pandemic. During this period, furloughed colleagues received 80% of base remuneration unless their pay was £30,000 or less in which case, the Company topped pay up to 100%. Other colleagues, including the Executive Directors, voluntarily received 80% of pay. Non-Executive Directors including the Chairman received 50% of normal fees for the period April to June. The Company also took advantage of business rates relief and HMRC tax deferral arrangements, though as at the date of this report no tax is outstanding.

During the year there was a focus on cost saving measures and working capital and cash management, whilst targeting investment in essential capabilities and a strategic commitment to normalise payment arrangements with suppliers, avoiding delays in payments at mid-year and full year points as in the past.

As Shareholders you will be aware that a final dividend was not paid in respect of 2019, and a dividend for 2020 will not be paid.





All the above informed the decisions of Committee at various points during and at the end of the year, with an overriding concern to ensure the appropriate leadership of the business was in place and the basis for a return to profitable growth was established.

## Company Performance

### Strategic and operational highlights

- Return to Growth strategy delivering to plan:
  - UK business rebuilt and relaunched
  - Reconnection with customers, suppliers and employees well advanced
- Strong finish to 2020, ahead of expectations; like-for-like sales up 4% in Q4, reflecting broad-based growth across all major markets, including the UK
- Significantly strengthened balance sheet provides confidence to invest in new growth strategy and security against short term market uncertainty
- Group continues to adapt successfully to trade safely to new Covid-19 norms, working closely and flexibly with our employees, customers and suppliers

### Financial results

- Full year like-for-like sales down 13%, with a solid recovery in the second half
- Underlying gross margin down 80bps due to lower sales volumes over the year
- Underlying operating loss of £53.3m (2019: £42.5m profit)
- Underlying loss before tax of £76.3m (2019: £17.7m profit before tax), with statutory loss before tax from continuing operations of £202.3m (2019: £112.7m loss before tax), reflecting £126.0m of Other Items, including £76.1m of impairment charges in the UK business and £13.2m onerous contract costs
- Net debt, pre IFRS 16, down to £4.1m (2019: £162.8m), helped by the sale of Air Handling division in January and £152m capital raise in July; post IFRS 16 net debt down to £238.2m (2019: £455.4m)

### New 2020 Remuneration policy

The Company obtained Shareholder approval for a new 2020 Remuneration policy at a General Meeting of the Company on 17 November 2020 with a vote of 92.63% in favour.

In the normal course of events, we would have been seeking shareholder approval for a new Remuneration policy in 2021, three years after the approval of the current policy in 2018. However, there were a number of reasons that the Committee felt that it was appropriate to bring forward a new policy in 2020:

- To support the refocusing of the Company strategy;
- To reflect our new team of Executive Directors and a desire to align their interests with Shareholders as soon as possible;
- A desire to simplify our remuneration; and
- A desire to incentivise the creation of long-term shareholder returns through sustainable long-term performance of the Company.

The main change between the 2018 Remuneration policy and the new 2020 Remuneration policy was the replacement of the SIG plc Long-Term Incentive Plan (the "LTIP") with the SIG plc 2020 Restricted Share Plan (the "RSP").

### Restricted Share Plan ("RSP")

- Reduction in maximum award from 300% of salary under the LTIP to 125% of salary under the RSP;
- The initial award for both the CEO and CFO was 100% of salary under the RSP using a share price of 30 pence (the placement price);
- The intention of the Committee is to make future awards by reference to the share price at the time of grant and from 2022 to review whether to increase the grant level to the maximum under the Policy;
- Three-year vesting period and two-year holding period; and
- Underpin for the Committee to adjust vesting if business performance, individual performance, windfall gains or wider Company considerations mean in their view that an adjustment is required.

### Other policy changes

- Alignment of Executive Director pension contributions with the wider workforce at a maximum of 7.5% of salary;
- Introduction of post-cessation of employment shareholding requirement (300% of salary for the Executive Directors) to apply for two years following cessation; and
- Expansion of the malus and clawback provisions to refer specifically to risk management failure and corporate failure.

### Why did the Committee believe that the 2020 Remuneration policy was right for the Company and, in particular, the RSP? The introduction of the RSP:

- Enables the build-up and maintenance of a long-term shareholding, which ensures Executive Directors focus on recovering and enhancing Shareholder value;
- Ensures management have the same ownership experience as Shareholders;
- Ensures a focus on the long-term sustainable performance of the Company reflecting the outputs of the strategy allowing a flexible and nimble approach to managing the business; and
- Simplifies the remuneration for the Executive Directors.

You can find the full 2020 Remuneration policy in the Company's Notice of General Meeting dated 29 October 2020 at [www.sigplc.com/investors/information-for-shareholders/AGM-notices-and-results](http://www.sigplc.com/investors/information-for-shareholders/AGM-notices-and-results).

### Remuneration Decisions in respect of FY2020

#### Departures

Both the CEO, Meinie Oldersma, and CFO, Nick Maddock, left the business and the Board in February 2020 and commenced a period of garden leave. They were provided with the contractual entitlements relating to their cessation of employment. This comprised salary, benefits and pension contribution for their notice period. It meant that:

- No bonus was paid in respect of the financial year in which they departed;
- Deferred bonus shares from previous years lapsed; and
- Subsisting LTIP awards also lapsed.

Kath Kearney-Croft, interim CFO, left in August 2020, following a handover during July and August to Ian Ashton. Kath left with good leaver status, which meant:

- Payment in lieu of notice (salary and benefits);
- An amount equal to target bonus (half of the maximum bonus), prorated for four months of 2020; and
- No LTIPs were granted.

# Directors' Remuneration Report

## Salary Increases

The Committee determined that there would be no salary increases for the Executive Directors during FY2020.

## Chairman's Fees

The Committee determined that in accordance with the Remuneration Policy, the Chairman should be paid an additional fee, for the period where he worked significantly in excess of the normal expectations of a Chairman for six months whilst the Company was stabilised, the new leadership appointed and new capital raised. The Committee approved an additional 6 months of fees which after taking into account the 50% reduction from April to June resulted in an additional fee of four and a half months (£81,850). He chose to invest the majority of the additional fee (97%) after tax in the Company's shares as part of the placing and open offer. He subsequently purchased a further 40,000 shares in September.

## Pension

There is now a policy alignment between the pension contribution rates for the majority of UK employees and the Executive Directors at 7.5% of salary. A 5% contribution is actually paid which is lower than the maximum permissible.

## Annual bonus outcomes for 2020

The Remuneration Committee followed the structured approach set out below when considering the annual bonus outcomes for FY2020:

| Step                                      | Element                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Committee Decision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Performance Conditions and Targets</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Setting performance conditions</b>     | <p>The Committee set out in the shareholder consultation and the Notice of Meeting seeking approval the 2020 Remuneration Policy, the type of performance conditions which would be used for the Bonus. The actual targets were set at the point the Committee felt that it had sufficient clarity on the future state of the business later in the financial year.</p>                                                                                                                                                                               | <p>The Committee has measured the satisfaction of these targets to establish whether any bonus would have been earned on the application of the formulaic approach to their measurement.</p> <p>The Committee exercised a downward discretion on formulaic outcomes in respect of its determination regarding the CFO's bonus.</p> <p>The bonus determination only applied to the CFO as the Committee had determined that following the bonus payment to the CEO of £375,000 following Shareholder approval on 9 July 2020, that no further bonus payment would be made to the CEO in respect of FY2020.</p> <p>See below for additional information.</p> |
| <b>Shareholder Experience</b>             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Share price</b>                        | <p>The Committee considered the reasons behind the substantial fall in the share price and determined that this was a result of:</p> <ul style="list-style-type: none"> <li>■ The significant profit warning early in the year, and in the prior year;</li> <li>■ The departure of the previous CEO and CFO;</li> <li>■ Decisions which negatively affected operational performance in key markets; and</li> <li>■ Markets impacted by Covid-19.</li> </ul> <p>and was not because of omissions or decisions made by the new Executive Directors.</p> | <p>The Committee determined that the fall in share price was not driven by the actions or omissions of the new Executive Directors, who were appointed to provide the appropriate leadership to return the Company to profitable growth. Therefore, this would not be considered in the final bonus determination.</p>                                                                                                                                                                                                                                                                                                                                     |
| <b>Dividends</b>                          | <p>The Company did not pay a final dividend in respect of 2019 and does not intend to pay a dividend for 2020.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>The Committee agreed that as no dividend was declared for Shareholders, that this should be reflected in any bonus payable to the Executive Directors.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Capital Raising July 2020</b>          | <p>The Committee recognises that the additional funds from shareholders were essential to ensure the Company's ongoing viability.</p>                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>The Committee considers that the new CEO was fundamental to the capital raising process and the new CFO to the stabilisation of the business and improvement in its accounting practices. The requirement to raise funds was not because of omissions or decisions made by the new Executive Directors.</p>                                                                                                                                                                                                                                                                                                                                             |

| Step                                  | Element                                                                                                                                                                                                                                                                                                               | Committee Decision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Government assistance</b>          |                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>CJRS support</b>                   | The Company participated in the CJRS with approximately 2,000 people furloughed in the UK. The majority of employees returned to work by 18 May. At the date of this Report no employees are furloughed and all employees are being paid solely by the Company.                                                       | <p>The Executive Directors took a 20% reduction in their salaries from April 2020 to June 2020 to demonstrate commitment and reflect an alignment with the general employee experience. As the UK reopened in mid-May it was agreed that the Executive Directors would be paid their full salary from 1 July.</p> <p>The fees of the Non-Executives Directors including the Chairman were reduced by 50% to reflect an alignment with the general employee experience for the period April 2020 to June 2020.</p> <p>All employees took a pay reduction for the month of April unless they earned £30,000 or less, in which case the Company maintained pay at 100%.</p> <p>The Committee took into account the experience of the workforce during this period.</p> |
| <b>Business rates relief</b>          | The Company benefited from the business rates relief as did all qualifying companies. Therefore, the Committee does not feel that this is a particular factor for SIG to take into account in any bonus determination.                                                                                                | The Committee determined not to make any adjustment to the bonus because of business rates relief.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Deferral of the payment of tax</b> | The Company took advantage of the terms offered by HMRC to defer various tax payments. At the date of this Report all amounts owing to HMRC have been paid and therefore the Committee does not believe this is relevant to the bonus outcome for 2020.                                                               | The Committee believes that, because the payments have now been made, they are not relevant for the bonus determination for 2020.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Other Stakeholders</b>             |                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Employees</b>                      | <p>The objective of the Board has been to retain and support our employees through this challenging period and no redundancies have been made as a result of Covid-19.</p> <p>In addition, it is intended to pay bonuses to eligible employees for 2020.</p>                                                          | The Committee believes that the employee experience was relevant to the final bonus determinations for the Executive Directors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Customers</b>                      | The Company has provided good customer service during this period as evidenced by our recent customer satisfaction NPS score of 43.                                                                                                                                                                                   | The Committee would have considered poor customer service over the recent period as a factor that was relevant to the final bonus determinations for the Executive Directors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Other</b>                          |                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Company's reputation</b>           | The Committee recognises the strong brand the Company has in the eyes of the public and this has been a key consideration of the Committee when determining the remuneration for Executive Directors. The Committee and the Board do not want to make remuneration decisions that negatively impact on the SIG brand. | This was an underlying consideration behind all the Committee's remuneration decisions in respect of 2020 including the bonus determination.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

# Directors' Remuneration Report

The Committee recognised the challenging position it found itself in when looking at the above factors and determining whether any bonus should be provided to the Executive Directors: -

## CEO

The Committee recognised that a number of the Company's Shareholders would not support a bonus paid to the CEO in recognition of the hard work he put in to stabilise the Company on the basis of the factors set out in the table above and that it would also be viewed as a transaction bonus, which a number of Shareholders do not support as a matter of principle. The Committee, however, felt morally and legally obliged to pay a bonus on the successful fund raising as it was a term of the original interim agreement on which the CEO was appointed. In addition, the Committee took the following mitigating steps:

- It did not make the bonus determination under the existing 2018 Remuneration policy, but made the payment of the bonus of £375,000 subject to a separate binding Shareholder vote at the General Meeting of the Company on 9 July 2020. The resolution was subsequently passed with 55.93% of Shareholders supportive;
- The CEO invested £150,000 (75%) of the net of tax sum received in shares in the Company and retains these shares against his minimum Shareholding requirement; and
- The Committee determined that there would be no further bonus entitlement for the CEO for the remainder of FY2020.

## CFO

Again the Committee recognised that a number of the Company's Shareholders would take the view that no bonus should be paid because of the factors set out in the above table. The Committee, however, took the view that it would be inequitable for the CFO who joined after the majority of employees had returned to work, to be the only member of the Senior Management team of the

Company not to receive a pro-rated bonus for the period of time he worked during the year. The Committee understands and sympathises with the view of a number of Shareholders and their representative bodies that bonuses should not be paid in the current circumstances. However, the Committee's overarching view was that without the hard work and effort of the new Executive Directors there was a real possibility that SIG would have been a corporate failure with the significant effect that this would have had on all Stakeholders. It was because of this that the Committee became comfortable with the bonuses paid to the Executive Directors. However, the Committee determined that it would use its discretion to reduce the bonus based on formulaic outcomes. In the ordinary course of events a maximum bonus of 100% or 50% prorated for time, would have been payable to the CFO. The Company decided that a payment of just under half of the opportunity pro-rated for time should be paid to the CFO. The CFO received a bonus in respect of FY2020 of £93,750 (25%) of salary.

See page 117 for details of the bonus performance conditions and their level of satisfaction used to determine the bonus payable to the CFO.

## Long-term incentive awards vesting during 2020

The new Executive Directors have no LTIP awards. The first awards under the new RSP were granted during the year. These awards will vest in 2023 subject to continued employment by the participant and assessment of the underpin by the Committee before vesting can take place. Any shares that vest will subsequently be released following a further two-year holding period.

## Covid-19 Remuneration Decisions

The following table summarises the key components of executive remuneration and the decisions made by the Committee:

| Element of Remuneration    | Committee Decision                                                                                                                                                                                                                                                                                                                                              | Rationale                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FY2019 bonus</b>        | There was no bonus earned by the former Executive Directors in respect of FY2019.                                                                                                                                                                                                                                                                               | The performance conditions were not met.                                                                                                                                                                                                                                                                                                                                          |
| <b>FY2020 salary rises</b> | There were no salary rises made to the new Executive Directors in respect of FY2020.                                                                                                                                                                                                                                                                            | The new Executive Directors were hired during the year at base salaries of 94% (CEO) and 101% (CFO) of the prior incumbents.                                                                                                                                                                                                                                                      |
| <b>FY2020 salaries</b>     | The Executive Directors took a 20% reduction in their salaries from 1 April 2020 to 30 June 2020 to reflect an alignment with the general employee experience.<br><br>The fees of the Non-Executives Directors including the Chairman had a 50% reduction to reflect an alignment with the general employee experience over the period April 2020 to June 2020. | The Committee felt that this was a fair alignment of the Executive Directors with the broader employee population.<br><br>The salaries of the Executive Directors reverted to their normal level from 1 July when the vast majority of employees had returned to work.                                                                                                            |
| <b>FY2020 bonus</b>        | The Committee determined the bonus outcome as set out in the table above.                                                                                                                                                                                                                                                                                       | The Committee felt that this was an equitable outcome considering all the factors considered.                                                                                                                                                                                                                                                                                     |
| <b>FY2020 RSP Award</b>    | The Committee determined to make the award to the Executive Directors in line with the new 2020 Remuneration policy. The awards were made at a level of 100%, lower than the new Policy permits.                                                                                                                                                                | The Committee felt it was important to grant the first award following Shareholder approval to provide some lock in and incentivisation for the Executive Directors given that they were newly appointed.<br><br>The Committee will review on a regular basis the underpin tests, including windfall provisions, and has the flexibility to amend the award at or before vesting. |



| Element of Remuneration    | Committee Decision                                                                                                                                                                                                            | Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FY2021 salary rises</b> | Salary rises of 1.5% for Executive Directors.<br>Average employee salary rises of 1.5%.                                                                                                                                       | The Committee felt it was appropriate to increase the salaries for the Executive Directors in line with the general workforce increase.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>FY2021 bonus</b>        | The Committee is proposing to operate the 2021 bonus in line with the new 2020 Remuneration Policy applying the performance conditions set out on page 117. The bonus opportunity of the CFO will increase to 125% of salary. | The Committee feels that it is appropriate to use performance conditions which reward the Executive Directors for the successful implementation of the new Company strategy.<br><br>The CFO was recruited on the basis of a bonus opportunity for 2020 of 100%, during a period where a revised policy was in consultation with shareholders. The approved policy allows for a bonus opportunity up to 150%. The Remuneration Committee believes an opportunity of 125% is appropriate for the CFO role and provides a competitive opportunity level that ensures he is fairly rewarded in his role as the business returns to profitability. |
| <b>FY2021 RSP Award</b>    | The Committee intends to continue to make awards in line with the new 2020 Remuneration Policy.                                                                                                                               | The Committee will review the size of grants taking into account business and individual performance and other factors the Committee considers relevant.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

### Company Stakeholders

The Company has been keen to ensure that its key stakeholders have been considered in all its remuneration decisions during FY2020. The following summarises how the Company has taken into account each of its main stakeholders:

| Stakeholder         | Decision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Employees</b>    | <ul style="list-style-type: none"> <li>■ The primary focus of the Company has been to maintain jobs over this period. A modest additional recruitment of employees resulted in an overall increase in employees despite the challenges the business faced.</li> <li>■ All employees have been treated consistently: <ul style="list-style-type: none"> <li>- Those on furlough in the UK received 80% or 100% of their salary supported by the CJRS (for employees who earned £30,000 or less, the Company maintained 100% of salary), this was recognised by the Board through reductions in Board salaries and fees over this period;</li> <li>- Bonuses were paid to all eligible staff; and</li> <li>- Terms and conditions of employment have been maintained.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Customers</b>    | <ul style="list-style-type: none"> <li>■ Customers have been supported through our technology and remote working teams and our frontline staff keeping our premises open for business. Our plans have been centered around providing the normal SIG customer experience wherever possible.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Shareholders</b> | <ul style="list-style-type: none"> <li>■ The objective of the Board has been to maintain our core business over this challenging period and its scalability to ensure SIG has a leading position when the market recovers and is therefore able to generate the Shareholder returns over the longer term expected by our investors.</li> <li>■ The Remuneration Committee has taken into account the experience of Shareholders over this period in all its determinations in relation to Executive remuneration for FY2020.</li> </ul> <p>It should be noted that, prior to introducing the new 2020 Remuneration policy, the Committee consulted with the Company's top 20 Shareholders, Glass Lewis, the IA and ISS on the new policy. Details of the main areas of discussion, comments or amendments suggested by Shareholders, the Committee's response and rationale for the final position set out in the new 2020 Remuneration policy can be found in the Notice of General Meeting issued on 29 October 2020. The Committee at the same time as the new Policy was discussed with the Company's shareholders also consulted 44.07% vote against the CEO's bonus that sought shareholder approval in July. The reasons for the vote against and changes the Company made as a result are set out on page 109 of the Corporate Governance Report. During FY2020, no further consultation was undertaken by the Remuneration Committee.</p> |

# Directors' Remuneration Report

## Advisers to the Remuneration Committee

### External

To ensure that the Group's remuneration practices are in line with best practice, the Committee appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ("PwC"), through a competitive tender process in 2018. PwC attends meetings of the Committee by invitation and continued as external advisors throughout 2020.

During the year, the Committee sought advice from PwC in relation to emerging market practices, especially in relation to the impact of Covid-19 on executive remuneration, general matters related to remuneration and in relation to peer group remuneration analysis.

PwC is one of the founding members of the Remuneration Consultants Group and adheres to its Code of Conduct in its dealings with the Committee. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice. The fees for the advice provided by PwC in 2020 were £58,250 (2019: £55,500). The fees were fixed on the basis of agreed projects. Other services provided by PwC in the year included support and advice on the New Remuneration policy 2020.

The Company also uses PwC for unrelated pensions, tax, mobility and payroll advice as well as for an independent investigation.

### Internal

During the year the Committee sought internal support from the CEO, CFO, Chief People Officer and the Company Secretary, whose attendance at meetings was by invitation from the Committee Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of the senior management team. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

## Focus for the year ahead

Looking ahead, the Committee will:

- Monitor:
  - The impact of the turnaround plan, execution of the strategy, operational performance, and achievement of bonus targets; and
  - The impact of the Covid-19 pandemic on the Group and its impact on the outcomes of Executive Remuneration, particularly in the context of 2020 RSP awards.
- Continue to ensure:
  - Consistency of approach and fair pay conditions across the Group;
  - High-quality remuneration advice and information to inform decisions;
  - Company performance is appropriately reflected in any performance-related pay element of remuneration; and
  - Compliance with the Code.
- Approve:
  - Annual Bonus Plans and corresponding targets; and
  - Level of the RSP grant.
- Review:
  - Updates received from the Group Director of Reward in relation to developments in employee reward, incentive, and benefit structures; and
  - Ongoing assessment of all underpin requirements of the future vesting of RSPs.

## Concluding remarks

The Group has faced significant headwinds during FY2020 but has weathered the storm with grit and determination from a dedicated workforce and new leadership team. The Committee appreciates that not all decisions made during the year received unanimous support from Shareholders. It is grateful for the feedback received and the significant support garnered for the new 2020 Remuneration policy at the General Meeting of the Company held on 17 November 2020. Looking forward, the Committee remains focused on supporting the business to achieve a significant improvement in performance and continuing to operate with rigour and transparency. We trust that this report will answer any questions you may have in respect of remuneration, and we would be glad to receive your support at the 2021 AGM in respect of the advisory vote on the Annual Report on Remuneration.

## Kath Durrant

Chair of the Remuneration Committee

25 March 2021

# Directors' Remuneration Report

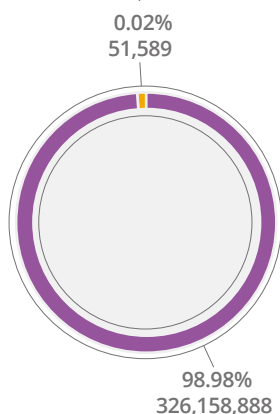
## ANNUAL STATEMENT

### At a glance

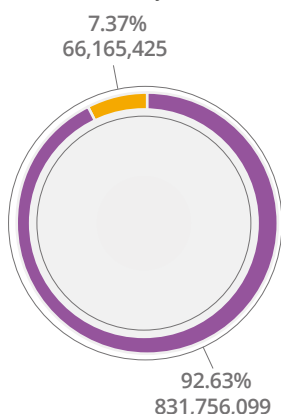
#### Voting outcomes

The following table shows the results of the advisory vote on the 2019 Directors' Remuneration Report at the AGM held on 30 June 2020 and the results of the binding vote on the Remuneration Policy at the General Meeting held on 17 November 2020:

2019 Directors' Remuneration Report\*



Current Directors' Remuneration Policy\*



● Total votes for ● Total votes against

\* The total votes cast includes for and against, a vote withheld is not a vote in law and not counted. A total of 27,892,813 votes were withheld for the 2019 Directors' Remuneration (DR) Report and 23,395,204 votes were withheld for the current 2020 DR Policy.

#### SIG Executive pay

##### SIG Executive pay Components of Remuneration

The Directors' Remuneration Report is colour coded as follows:

|                                     |   |
|-------------------------------------|---|
| Salary                              | ● |
| Pension                             | ● |
| Benefits                            | ● |
| Bonus                               | ● |
| Restricted Share Plan               | ● |
| Shareholding Ownership Requirements | ● |

##### Business Context 2020 out-turns against KPIs

##### KPI and Out-turn

|                                 |        |
|---------------------------------|--------|
| Like-for-Like Sales             | 13.3%  |
| Operating margin                | (2.8)% |
| Gross margin                    | 25.1%  |
| Operating costs as a % of sales | 27.9%  |
| Total recordable incident rate  | 8.8    |



# Directors' Remuneration Report

## ANNUAL STATEMENT

### How do our incentive performance measures align to our strategy?

In executing our strategy, we aim to focus on recovering and enhancing value for Shareholders and all other stakeholders. As set out in our new 2020 Remuneration policy, the RSP does not have a primary set of performance targets but operates a general underpin on vesting allowing the Committee to review holistically the overall performance of the Company, individual performance, and wider Company considerations. In addition, we continually consider the performance measures we use for the annual bonus incentives to ensure they support the delivery of our strategy.

### Our strategic pillars

#### To re-ignite growth, through our expertise, service and proximity



#### Responsible actions

Our people feel safe, proud and valued and we operate sustainably to benefit communities and the environment



#### Winning branches

Our branch teams are trusted, capable, and empowered to achieve success



#### Superior service

Our strengthened entrepreneurial and agile sales teams provide best-in-class customer service



#### Specialist expertise

Our empowered local branches are known again for specialist focus and expertise acquired through long-term experience



#### Valuable partnerships

We partner closely with suppliers to understand our joint opportunities and to create win-win strategies



#### Highest productivity

Our efficient support functions are consistently productive and drive strong standards, governance and financial discipline



#### Focused growth

We focus on our core business to drive growth in branches and through acquisition opportunities



### Our key performance indicators



Like-for-Like sales

Operating margin

Gross margin

Operating costs as a % of sales

Total recordable incident rate

Net promoter score (NPS)

Market share growth



### Annual bonus

| Measures                          | Link to strategy                                                                                                                                                                   | Link to KPIs                                                              |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <b>EBIT</b>                       | <ul style="list-style-type: none"> <li>Focus on growth in sales and returns</li> <li>Key measure of organic growth</li> <li>Linked to Shareholder value</li> </ul>                 | <ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul> |
| <b>Average net debt</b>           | <ul style="list-style-type: none"> <li>Focus on operational efficiency</li> <li>Focus on sustainable investment</li> <li>Linked to Shareholder value</li> </ul>                    | <ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul> |
| <b>Strategic Objectives</b>       | <ul style="list-style-type: none"> <li>Strategic objectives for the bonus are commercially sensitive and will be disclosed retrospectively</li> </ul>                              | <ul style="list-style-type: none"> <li>✓</li> </ul>                       |
| <b>Health and safety override</b> | <ul style="list-style-type: none"> <li>All employees, customers and suppliers should be able to work in a safely managed environment across every part of the SIG Group</li> </ul> | <ul style="list-style-type: none"> <li>✓</li> </ul>                       |

### Restricted Share Plan

| Measures                       | Link to strategy                                                                                                                                                                                                                                                                          | Link to KPIs                                                   |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| <b>General underpin</b>        | <ul style="list-style-type: none"> <li>Focus on long-term sustainable performance.</li> <li>Allows overall performance of the Company, individual performance and wider Company considerations such as the level of employee and customer engagement to be taken into account.</li> </ul> | <ul style="list-style-type: none"> <li>✓</li> <li>✓</li> </ul> |
| <b>Shareholding guidelines</b> | <ul style="list-style-type: none"> <li>Linked to Shareholder value.</li> </ul>                                                                                                                                                                                                            | <ul style="list-style-type: none"> <li>✓</li> </ul>            |



## Remuneration in respect of 2020

What did our Executive Directors earn during the year?

| Steve Francis     | Ian Ashton        | Kath Kearney-Croft | Meinie Oldersma  | Nick Maddock     |
|-------------------|-------------------|--------------------|------------------|------------------|
| Salary: £436,303  | Salary: £187,500  | Salary: £156,485   | Salary: £86,550  | Salary: £55,650  |
| Pension: £21,818  | Pension: £9,375   | Pension: £5,179    | Pension: £12,983 | Pension: £6,848  |
| Benefits: £16,726 | Benefits: £10,841 | Benefits: N/A      | Benefits: £3,693 | Benefits: £3,363 |
| Bonus: £375,000   | Bonus: £93,750    | Bonus: £61,384     | Bonus: £0        | Bonus: £0        |

Note: Meinie Oldersma and Nick Maddock stepped down from their respective roles as CEO and CFO on 24 February 2020 and left the Board at that time and commenced a period of garden leave until 30 June 2020 and 3 July 2020 respectively. Payments in respect of their time as Executive Directors are shown above and payments in respect of their garden leave are shown on page 129. Steve Francis was appointed as interim CEO on 25 February 2020 at a salary of £568,400 and became the permanent CEO from 24 April at a salary of £540,000. Ian Ashton took over from Kath Kearney-Croft (who acted as Interim CFO following the departure of Nick Maddock) as CFO on 1 July 2020. Payments for Kath Kearney-Croft are shown above and payments in respect of lieu of notice are shown on page 129.

### 2020 bonus out-turn

In 2020, Steve Francis (CEO) received a one-off cash payment of £375,000 (representing 86% of salary earned during the year and 57% of his ongoing bonus opportunity) for his support in developing a new strategy for the Group and leading the Company through the Capital Raising in his role as interim CEO. The terms on which the CEO was employed on an interim basis prior to his full appointment as CEO provided for a bonus. Shareholders approved this payment via an ordinary resolution on 9 July 2020. The Committee determined at the same time as this payment was made, that no further bonus would be payable to the CEO for the financial year 2020 irrespective of performance. The maximum potential bonus opportunity for Steve Francis (CEO) was 150% of salary. See the Chair's Annual Statement for further information on the Committee's considerations.

The maximum potential bonus opportunity for Ian Ashton (CFO) was 100% of salary and for Kath Kearney-Croft (interim CFO) was 100% of salary and the table below sets out the PBT targets and level of satisfaction that were considered when determining the bonus. The Committee also considered the targets that would apply to the Senior Leadership Team for FY2020, which were based on EBIT rather than PBT.

| Performance condition   | Actual   | Threshold   | Target      | Maximum      | Outcome | CFO (IA) Actual<br>£'000 | Interim<br>CFO (KKC) Actual<br>£'000 |
|-------------------------|----------|-------------|-------------|--------------|---------|--------------------------|--------------------------------------|
|                         |          | 30% payable | 65% payable | 100% payable |         |                          |                                      |
| Underlying PBT          | £(76.3)m | £(102.0)m   | £(90.0)m    | £(78.0)m     | 100%    |                          |                                      |
| Health & Safety gateway | Met      |             |             |              |         |                          |                                      |
| Total                   |          |             |             |              |         | 94                       | 61                                   |

In the ordinary course of events a bonus of 100% (or 50% pro-rated for time) would have been payable to the CFO. The Committee determined that it would use its discretion to reduce the bonus based on formulaic outcomes. The Committee took into account the pace with which the CFO got up to speed after joining in July 2020, the improved performance in the second half of the year, the positive role he has played in stabilising the business, extensive work with regard to ongoing financing, the improvements made in the finance function and work undertaken to address and improve accounting practices. Ian joined at a time where his skills were essential and as part of a new leadership team created to resolve the series of issues that existed in early 2020 and return the business to profitable growth. However, given the experience of other stakeholders, particularly employees and Shareholders, it decided that a payment no greater than the amount payable for target performance should be paid. Furthermore, the Committee decided to exercise their discretion to reduce the payment further to 50% of salary (£375,000). This means when pro-rated for time a bonus of 25% of his annual salary will be paid. Payment will be made in line with the Remuneration policy, two-thirds in cash and one-third in deferred shares.

Meinie Oldersma (outgoing CEO) and Nick Maddock (outgoing CFO) were not entitled to an annual bonus for 2020.

### 2018 LTIP out-turn

As disclosed in our 2019 Directors' Remuneration Report, all in-flight LTIP awards lapsed on cessation of employment of the outgoing CEO and CFO and so no LTIP award vested during the year.

# Directors' Remuneration Report

## ANNUAL STATEMENT

### What is our new 2020 Remuneration policy?

In this section we provide a summary of the key elements of the new 2020 Remuneration policy for Executive Directors approved by Shareholders at our General Meeting on 17 November 2020. In addition, we have set out how the previous and the new policies were operated in 2020 and how it is intended that the new policy will be operated in 2021. You can find the full current Remuneration policy in the Company's Notice of General Meeting dated 29 October 2020 at [www.sigplc.com/investors/information-for-shareholders/agm-notices-and-results](http://www.sigplc.com/investors/information-for-shareholders/agm-notices-and-results).

The Company's policy is to provide remuneration packages that fairly reward the Executive Directors for the contribution they make to the business and that are appropriately competitive to attract, retain and motivate Executive Directors and senior managers of the right calibre. A significant proportion of remuneration takes the form of variable pay, which is linked to the achievement of specific and stretching targets that align with the creation of Shareholder value and the Company's strategic goals.

| Element and link to strategy                                                                                                                                                                    | Period over which earned | How we implemented the current policy in 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | How we will implement the new policy in 2021                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Salary</b><br>Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Group's strategy. | 2020                     | <b>Executive Director salaries for 2020 were as follows:</b> <ul style="list-style-type: none"> <li>■ Outgoing CEO – £577,000</li> <li>■ Outgoing CFO – £371,000</li> <li>■ Interim CEO (SF) – £568,400</li> <li>■ Interim CFO (KKC) – £371,000</li> <li>■ Incoming CEO (SF) – £540,000</li> <li>■ Incoming CFO (IA) – £375,000</li> </ul> <p>In light of Covid-19, the Company announced that all Board members would take a reduction in salary of 50% with effect from 1 April 2020 until 30 June 2020. Subsequently, the Company announced on 30 April that the majority of sites in the UK would be open by mid-May, therefore, the Executive Directors' pay was reinstated to 80% from 1 April 2020.</p> | Executive Director salaries for 2021 are as follows: <ul style="list-style-type: none"> <li>■ CEO – £548,100</li> <li>■ CFO – £380,625</li> </ul> <p>The general employee base salary increase was 1.5%.</p> |
| <b>Pension</b><br>Provides a fair level of pension provision for all employees.                                                                                                                 | 2020                     | <p>From 1 January to 24 February, the former Executive Directors received a pension allowance of 15% of salary.</p> <p>From 25 February, the new Executive Directors received a pension allowance of 5% of salary. This is 2.5% of salary below what is permissible under the Policy.</p>                                                                                                                                                                                                                                                                                                                                                                                                                      | No change.                                                                                                                                                                                                   |
| <b>Benefits</b><br>Provides a market standard level of benefits.                                                                                                                                | 2020                     | <p>No change.</p> <p>The benefits received were as follows:</p> <ul style="list-style-type: none"> <li>■ Car Allowance</li> <li>■ Private Medical Insurance</li> <li>■ Group Income Protection</li> <li>■ Group Life Assurance</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | No change.                                                                                                                                                                                                   |

| Element and link to strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Period over which earned                                             | How we implemented the current policy in 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                     | How we will implement the new policy in 2021                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Annual bonus</b><br><p>The Annual Bonus Plan provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company's strategy and the creation of value for Shareholders.</p> <p>Bonus operation for 2020 and 2021:</p> <ul style="list-style-type: none"> <li>■ 1/3rd of any bonus earned up to 100% of salary is deferred in shares.</li> <li>■ All bonus earned above 100% of salary is deferred in shares.</li> <li>■ All shares deferred for 3 years and subject to continued employment;</li> <li>■ 2 year holding period following vesting for deferred shares.</li> </ul>                                                                                                       | <p>2021 – 2024 deferral period</p> <p>2024 – 2026 holding period</p> | <p>Maximum opportunity in 2020 was as follows:</p> <ul style="list-style-type: none"> <li>■ Outgoing CEO and CFO – n/a</li> <li>■ Interim CFO – 100% of base salary</li> <li>■ Incoming CEO – n/a (see note below table)</li> <li>■ Incoming CFO – 100% of base salary</li> </ul> <p>Any bonus is subject to a health and safety override, where the Committee will review the H&amp;S performance of the business for the year in question.</p> <p>See page 117 for bonus outcomes for 2020.</p> | <p>Maximum opportunity in 2021 will be as follows:</p> <ul style="list-style-type: none"> <li>■ CEO – 150% of base salary</li> <li>■ CFO – 125% of base salary</li> </ul> <p>The performance measures for 2021 are EBIT (60%), Average Net Debt (20%) and Strategic Objectives (20%).</p> <p>It is the view of the Committee that the targets for the bonus are commercially sensitive as they are primarily related to budgeted future profit and debt levels in the Company and therefore their disclosure in advance is not in the interests of the Company or Shareholders. The Committee will, however, provide full retrospective disclosure to enable Shareholders to judge the level of award against the targets set.</p> |
| <b>Restricted Share Plan (RSP)</b><br><p>Awards are designed to incentivise the Executive Directors over the longer-term to successfully implement the Company's strategy.</p> <p>RSP operation:</p> <ul style="list-style-type: none"> <li>■ Maximum annual award up to 125% of salary based on the market value at the date of grant.</li> <li>■ Awards vest at the end of a three-year period subject to: <ul style="list-style-type: none"> <li>– continued employment to the date of vesting; and</li> <li>– the satisfaction of an underpin (whereby the Committee can adjust vesting for business, individual and wider company performance).</li> </ul> </li> <li>■ A two-year holding period will apply following the three-year vesting period.</li> </ul> | <p>2020 – 2023 vesting period</p> <p>2023 – 2025 holding period</p>  | <p>RSP awards granted in 2020 were as follows:</p> <ul style="list-style-type: none"> <li>■ CEO – 100% of base salary</li> <li>■ CFO – 100% of base salary</li> </ul>                                                                                                                                                                                                                                                                                                                             | <p>If the share price remains at its present level at the date of grant then the RSP awards for 2021 are anticipated to be:</p> <ul style="list-style-type: none"> <li>■ CEO – 100% of base salary</li> <li>■ CFO – 100% of base salary</li> </ul> <p>The Committee will review whether to make awards up to the maximum permitted under the Policy as the share price recovers.</p>                                                                                                                                                                                                                                                                                                                                               |

# Directors' Remuneration Report

## ANNUAL STATEMENT

| Element and link to strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Period over which earned | How we implemented the current policy in 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | How we will implement the new policy in 2021                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Share ownership requirements</b><br><p>The Company has established the principle of requiring Executive Directors to build up and maintain a beneficial holding of shares in the Company. It is expected that this should be achieved within five years of the approval of the new Policy. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. Executive Directors will be required to retain 100% of the post-tax amount of vested Shares from the Company incentive plans until the minimum shareholding requirement is met and maintained.</p> | n/a                      | <p>Share ownership requirements:</p> <ul style="list-style-type: none"> <li>■ CEO – 300% of base salary</li> <li>■ CFO – 300% of base salary</li> </ul> <p>The Committee introduced a post-cessation shareholding requirement of the full in-employment requirement (or the Executive's actual shareholding on cessation if lower) for two years following cessation of employment.</p>                                                                                                                                                                                                                                    | No change.                                                                                             |
| <b>Chairman and NED fees</b><br><p>Provides a level of fees to support recruitment and retention of a Chair and Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.</p>                                                                                                                                                                                                                                                                                                                                              | 2020                     | <p>There were no increases in fees in 2020. Fees for 2020 were as follows:</p> <ul style="list-style-type: none"> <li>■ Chairman - £218,255</li> <li>■ NED fee - £60,900</li> <li>■ Senior Independent Director - £10,000</li> <li>■ Remuneration Committee Chair - £12,000</li> <li>■ Audit Committee Chair - £12,000</li> </ul> <p>In light of Covid-19, all Non-Executive Directors including the Chairman had a reduction of 50% in their fees from 1 April 2020 for a period of three months until 30 June 2020.</p> <p>For actual fees paid during the year please refer to the single figure table on page 128.</p> | Fees were reviewed in January 2021 and it was agreed that there would be no increase in fees for 2021. |

Note – The incoming CEO received a one-off cash payment of £375,000 for his support in developing a new strategy for the Group and leading the Company through the capital raising in his role as interim CEO. This payment was subject to Shareholder approval. See the Chair's Annual Statement for more detail.

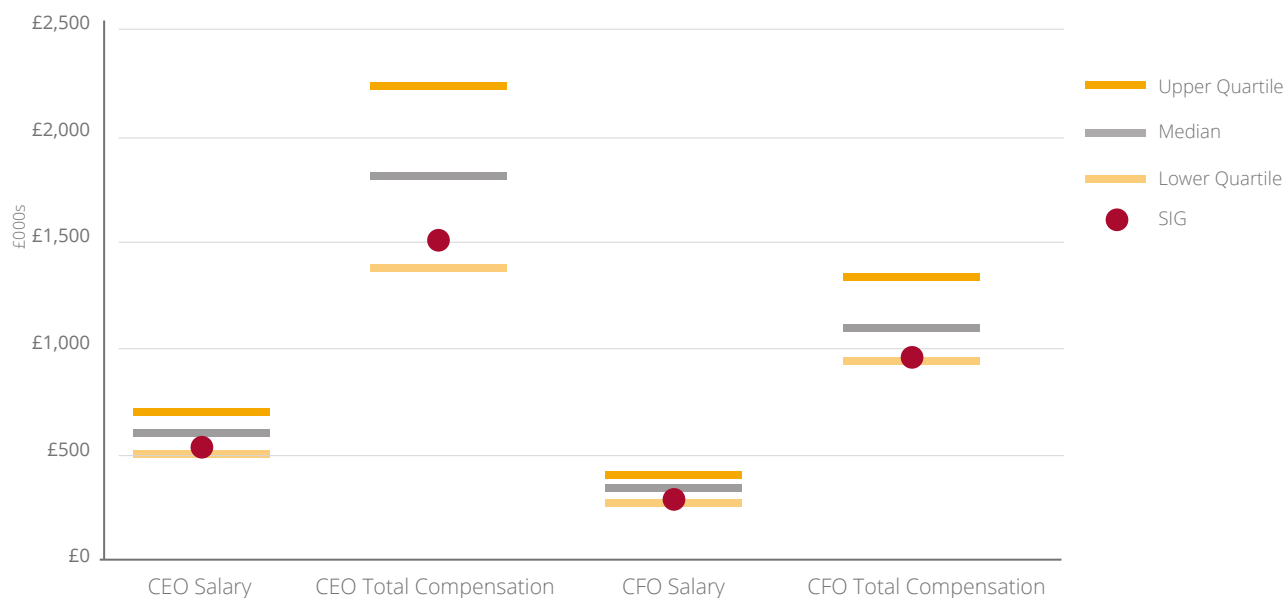


## Additional context to our Executive Directors' pay

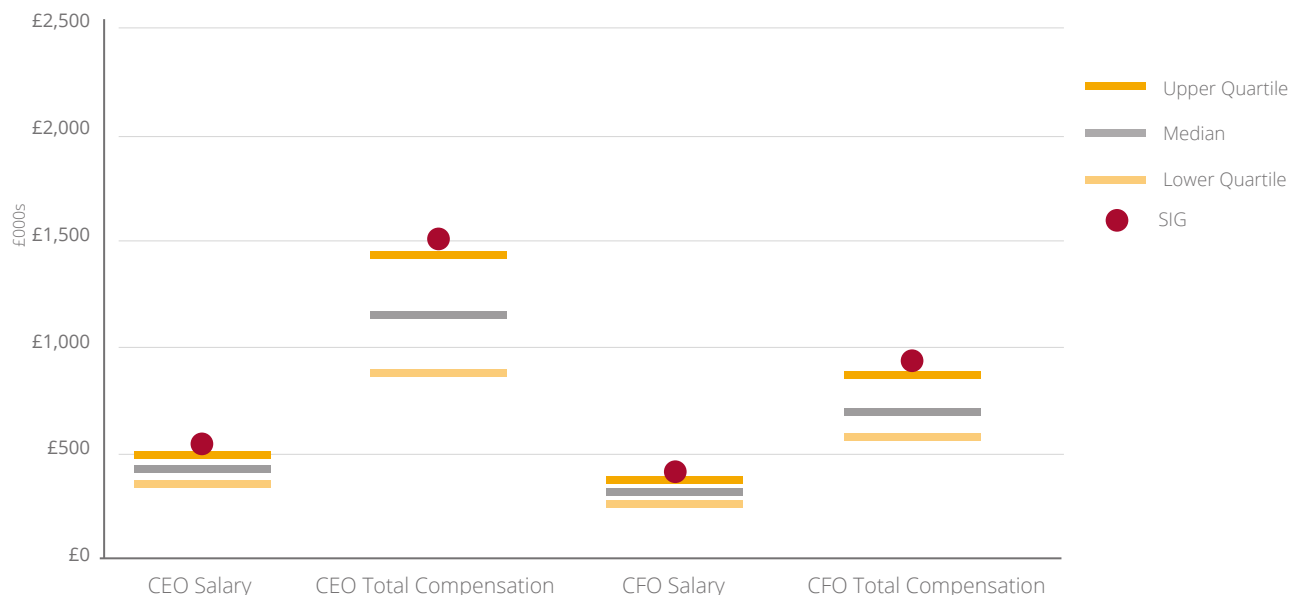
### How does our target total compensation compare to our peers?

The following charts show the relative position of salary and target total compensation of the new policy for our Executive Directors in role during 2020 compared to our peers.

#### Expected value of new policy vs FTSE 250



#### Expected value of new policy vs FTSE SmallCap



When we set the target total compensation for the Executive Directors, one of the factors the Committee considers is the competitive market for our Executive Directors, which we believe is both the FTSE 250 and the FTSE Small Cap.

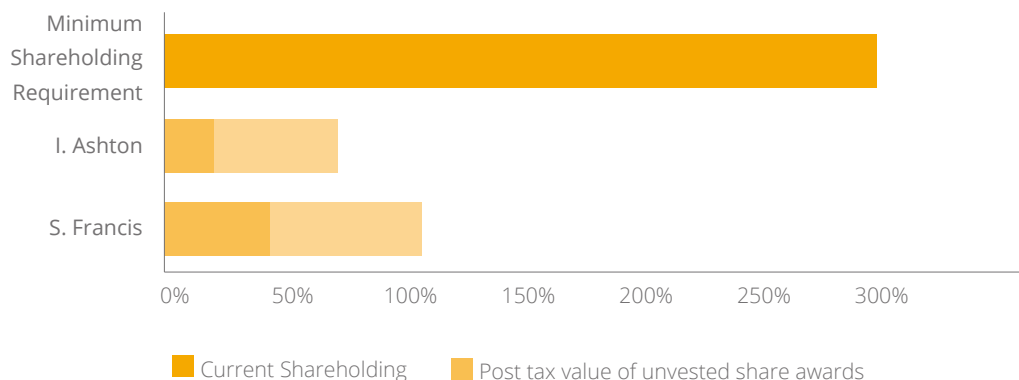
The charts above demonstrate the Committee's approach of having regard to the FTSE 250 and FTSE Small Cap when setting total compensation.

# Directors' Remuneration Report

## DIRECTORS' REMUNERATION POLICY

### What is our minimum share ownership requirement, and has it been met?

Given that our current Executive Directors only joined the business in 2020, neither as yet have met their share ownership requirements. The chart below shows the shareholding values as at 31 December 2020 for the current CEO and CFO.



## Remuneration principles

Our remuneration principles remain relevant and are designed to support and reinforce our commitment culture and behaviours. They provide a best practice framework for the design, implementation and operation of Group and local reward policies and practices and apply across the Group.

## Alignment and fairness

### In action

- Clear and appropriate governance structures are in place for decision making at all levels;
- Remuneration programmes and processes are run fairly, with integrity and are supported with clear communication to individuals; and
- Pay arrangements are fair and equitable across the Group.

## Rewarding contribution and performance

### In action

- Bonus plans are designed for the Executives and all other employees to incentivise the turnaround of the business and help us to return to profitable growth;
- Incentive plans reward the delivery of our business strategy, targets are appropriately stretching, and objectives are focused on value creation;
- Performance measures are reviewed regularly, personal and strategic objectives are accurately assessed, and targets are set relative to strategic priorities; and
- Health and safety is a feature of all management and executive plans.

## Transparency and participation

### In action

- There is a focus on effectively communicating remuneration decisions through stakeholder engagement; and
- Incentive and benefits plans are clear, simple and understood by participants to maximise engagement.

The Code requires the Committee to determine the Policy and practices for Executive Directors in line with a number of factors set out in Provision 40, and further details on our remuneration principles and how we have addressed the requirements are set out in the Notice in which the 2020 Remuneration Policy is set out in full: [www.sigplc.com/~media/Files/S/SIG-Corp/SIG%20General%20Meeting%20Circular-2020%20Final.pdf](http://www.sigplc.com/~media/Files/S/SIG-Corp/SIG%20General%20Meeting%20Circular-2020%20Final.pdf).

### Wider Workforce Considerations

The Committee considers the wider workforce when making pay decisions and it reviews employee policies and practices to ensure reward and incentives are aligned with SIG's strategy, vision, and culture.

In addition to the Executive Directors, its remit extends to Senior Management teams operating across all countries within the Group and the annual bonus plan and share incentive plans are structurally consistent with the Executive Directors, creating a shared strategic focus.

The Committee believes that it is important to be transparent with how decisions on reward are made and this section seeks to provide context to our Director pay by providing information on whether our approach to Executive remuneration is consistent with the wider workforce.

### Wider workforce remuneration

Delivery of our strategy depends on attracting and recruiting an engaged workforce that has the right skills and demonstrates the right behaviours to make a valuable contribution to our business. The Board is focused on employee engagement and the Remuneration Committee specifically is committed to ensuring that appropriate engagement takes place with employees to explain how executive remuneration aligns with SIG's approach to wider Company pay. This proved challenging in 2020 as we responded to changes in working practices brought about by the pandemic. However, Executive remuneration was discussed with employees as part of the workforce engagement sessions led by Simon King, see page 62 for further details on these sessions. It will be a key focus in 2021 and we will explain how this has been undertaken in next year's report.

# Directors' Remuneration Report

## DIRECTORS' REMUNERATION POLICY

### Incentives

Over half of our employees can share in the success of the Company through incentive arrangements. In line with market practice, the level of incentive compensation and whether it is paid solely in cash or in a mixture of cash and shares depends on the level of seniority of the employee. The incentive approach applied to the Executive Directors aligns with the wider Company policy on incentives, which is to have a higher percentage of at-risk performance pay with seniority of the role, and to increase the amount of incentive deferred, provided in equity and / or measured over the longer term for roles with greater seniority. The Group believes that it is necessary to operate on this basis to attract and retain high-quality leaders.

### Key elements

The Committee reviews all key elements of remuneration across the Group annually. The levels and types of remuneration vary across the Company depending on the employee's level of seniority, country of operation and role. In the UK, the Company operates a broad range of benefits including an all-employee Share Incentive Plan. In June 2020, SIG launched Benefits Connect, an employee benefits hub allowing employees to manage their benefits online. This provided an excellent opportunity to review our offering and through Benefits Connect, we significantly expanded the range of benefits on offer, streamlined our administration and enhanced our communication to UK employees.

It is important to highlight that the Committee is not looking for an homogeneous approach across the Group; however, when conducting its review, it pays particular attention to:

- Whether the element of remuneration is consistent with the Company Remuneration Principles (see page 123);
- If there are differences, they are objectively justifiable; and
- If the approach seems fair and equitable in the context of other employees.

A summary of the remuneration structure and how it compares to the Executive Directors is below:

| Pay Element           | Employees                                                                                                                                                                                                                                       | Executive Directors                                                                                                                                                                                                                                                      |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Salary                | We conduct an annual pay review for all employees. In setting the budget, many factors are considered such as market rates, economic context, business performance and affordability.<br><br>The general workforce increase for 2020 was 1.5%.  | Salary increases are considered in the context of the wider workforce review and performance of the Company.<br><br>No increase was awarded to the Executive Directors in 2020.                                                                                          |
| Pensions and benefits | We offer market-aligned benefits packages reflecting normal practice in each country in which we operate. Where appropriate, we offer benefit choices to our employees.                                                                         | For 2020, pension contributions were aligned with those provided to UK employees.<br><br>Benefits are aligned to the Senior Leadership Team in the country of operation.                                                                                                 |
| Bonus Plan            | Just over half of our workforce participate in a cash bonus. The level and performance factors differ depending on the role and country of operation.                                                                                           | CEO annual bonus of up to 150% of base salary, CFO annual bonus of up to 100% of base salary (125% for 2021).<br><br>2/3rds payable in cash up to 100% of salary; 1/3rd payable in shares up to 100% of salary and all bonus in excess of 100% of salary paid in shares. |
| Restricted Share Plan | The Senior Leadership team (44 employees) and a further 60 key roles were invited to participate in the RSP in 2020, with a range of annual awards between 20% to 100%. A holding period does not apply below the level of Executive Directors. | Maximum annual award of 125% of salary; three-year vesting period; two-year holding period with underpin on vesting.                                                                                                                                                     |
| Share Incentive Plan  | All UK employees are invited to participate in the SIP.                                                                                                                                                                                         | Executive Directors are invited to participate in the SIP.                                                                                                                                                                                                               |

In summary the Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. Further, that in the Committee's opinion the approach to executive remuneration aligns with the wider Company pay policy and that there are no anomalies specific to the Executive Directors.

### CEO pay ratio

| Financial Year | Method Used                | 25th percentile pay ratio | 50th percentile pay ratio | 75th percentile pay ratio |
|----------------|----------------------------|---------------------------|---------------------------|---------------------------|
| 2020           | Option B (Gender Pay data) | 44:1                      | 38:1                      | 31:1                      |

In determining the quartile figures the hourly rates were annualised using the same number of contractual hours as the CEO. One UK employee with the relevant annual salary was then chosen for each quartile and the single total remuneration figure was calculated for them to compare to the CEO.

For 2020, the Company has used Option B given the availability of data, in order that a direct comparison can be shown against last year. Gender Pay for 2020 has been calculated in line with the guidance and details of the data used in the analysis can be found in the Gender Pay Gap Report which is published on our website ([www.sigplc.com](http://www.sigplc.com)).

The Company feels that using gender pay data ensures that these individuals are reasonably representative of pay levels at the 25th, 50th and 75th percentile as the single total remuneration figure for these individuals is similar to other employees with a similar annual salary. It determines that the increase in ratio for 2020 is directly as a result of the bonus paid to the CEO for his support in developing a new strategy for the Group and leading the Company through the capital raising.

|              | 2020    |        |        |        | 2019    |        |        |        |
|--------------|---------|--------|--------|--------|---------|--------|--------|--------|
|              | CEO     | 25th   | 50th   | 75th   | CEO     | 25th   | 50th   | 75th   |
| Basic salary | 522,853 | 20,250 | 23,063 | 28,730 | 577,000 | 19,759 | 23,696 | 31,842 |
| Benefits     | 20,419  | 111    | 63     | 157    | 24,435  | 89     | 53     | 383    |
| Pension      | 34,801  | 1,215  | 619    | 1,724  | 86,550  | 1,482  | 711    | 2,388  |
| Bonus Plan   | 375,000 | 0      | 1,153  | 143    | –       | –      | –      | –      |
| Total Pay    | 953,073 | 21,576 | 24,898 | 30,994 | 687,985 | 21,330 | 24,460 | 34,613 |

CEO Pay for 2020 has been calculated for the period 1 January to 31 December (Meinie Oldersma from 1 January to 24 February and Steve Francis from 25 February to 31 December)

For the purpose of the calculations the following elements of pay were included in the single total remuneration figure for the employee at each quartile in the year to 31 December 2020:

- Annual basic salary
- Bonus earned in the year in question
- Employer Pension contribution
- Car/Car Allowance
- Private Medical Insurance value
- Group Life Assurance value
- Group Income Protection value
- Employer Share Incentive Plan contribution

No pay elements were omitted or adjusted to calculate CEO pay. Non-guaranteed overtime was omitted for employees due to its variable nature.

We set out below a table showing changes in the ratios from 2018 onwards, which is when we first disclosed the ratios.

| Financial Year | Method | 25th percentile pay ratio | 50th percentile pay ratio | 75th percentile pay ratio |
|----------------|--------|---------------------------|---------------------------|---------------------------|
| 2020           | B      | 44:1                      | 38:1                      | 31:1                      |
| 2019           | B      | 32:1                      | 28:1                      | 20:1                      |
| 2018           | B      | 33:1                      | 27:1                      | 20:1                      |

The Committee continues to be committed to ensuring that CEO pay is commensurate with performance. In 2018 and 2019 the ratios were relatively stable as a result of nil incentive outcomes. For 2020, the CEO was paid a bonus as it was part of the initial interim agreement on which the CEO was appointed. In future years we expect there to be significant volatility in this ratio over time and we believe that this will be caused by the following:

- Our CEO pay is made up of a higher proportion of incentive pay than that of our employees, in line with the expectations of our Shareholders. Success in executing the turnaround strategy will result in an increased level of bonus payments. Both the structure of remuneration and the intention to reward success introduces a higher degree of variability in pay each year which affects the ratio.
- We recognise that the ratio is driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the CEO and wider workforce.
- Where the structure of remuneration is similar, for example for the Executive Committee and the CEO, the ratio is much more stable over time.



# Directors' Remuneration Report

## DIRECTORS' REMUNERATION POLICY

### CEO pay in the last 10 years

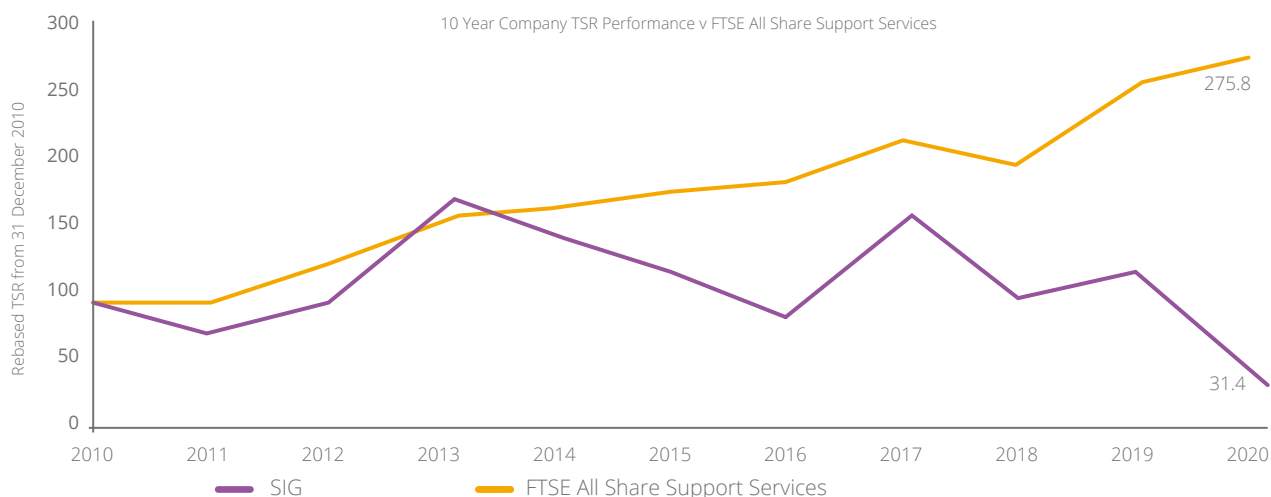
The table below shows how pay for the CEO role has changed in the last 10 years.

| Year                          | 2011         | 2012         | 2013                      | 2013                         | 2014            | 2015            | 2016            | 2016                   | 2017      | 2017                         | 2018            | 2019            | 2020                         | 2020                       |
|-------------------------------|--------------|--------------|---------------------------|------------------------------|-----------------|-----------------|-----------------|------------------------|-----------|------------------------------|-----------------|-----------------|------------------------------|----------------------------|
|                               | £'000        | £'000        | £'000                     | £'000                        | £'000           | £'000           | £'000           | £'000                  | £'000     | £'000                        | £'000           | £'000           | £'000                        | £'000                      |
| Incumbent                     | Chris Davies | Chris Davies | Chris Davies <sup>1</sup> | Stuart Mitchell <sup>2</sup> | Stuart Mitchell | Stuart Mitchell | Stuart Mitchell | Mel Ewell <sup>4</sup> | Mel Ewell | Meinie Oldersma <sup>6</sup> | Meinie Oldersma | Meinie Oldersma | Meinie Oldersma <sup>7</sup> | Steve Francis <sup>8</sup> |
| Single figure of Remuneration | 1,065        | 1,024        | 1,031                     | 987                          | 968             | 765             | 581             | 100                    | 150       | 794                          | 669             | 688             | 258                          | 850                        |
| % of max annual bonus earned  | 96           | 54           | 50                        | 60.5                         | 57              | 0 <sup>3</sup>  | n/a             | n/a                    | n/a       | 70                           | 0               | 0               | 0                            | 57                         |
| % of max LTIP awards vesting  | 0            | 0            | 0                         | n/a                          | n/a             | 19.5            | n/a             | n/a                    | n/a       | n/a                          | n/a             | 0               | n/a                          | n/a                        |

- The figures shown pertain to the period 1 January 2013 to 31 December 2013 (includes remuneration in lieu of salary, pension and other benefits after 1 March 2013).
- Stuart Mitchell was appointed to the Board on 10 December 2012 and became the CEO on 1 March 2013. The 2013 figure pertains to the period 1 January 2013 to 31 December 2013.
- Stuart Mitchell took the decision to waive his entitlement to the 2015 annual bonus.
- Stuart Mitchell stepped down as CEO with effect from 11 November 2016, and his remuneration relates to the period served. He did not receive a bonus for 2016, and his outstanding LTIP awards lapsed.
- Mel Ewell was appointed as Interim CEO with effect from 11 November 2016 and stepped down on 31 March 2017. He continued as an Executive Director until 20 April 2017, and his remuneration relates to the period served as CEO. Mel Ewell did not participate in any Group incentive schemes.
- Meinie Oldersma was appointed CEO on 3 April 2017. The 2017 figure pertains to the period 3 April 2017 to 31 December 2017.
- Meinie Oldersma stepped down as CEO with effect from 24 February 2020, and his remuneration relates to the period served. He did not receive a bonus for 2020, and his outstanding LTIP awards lapsed.
- Steve Francis was appointed CEO on 25 February 2020. The 2020 figure pertains to the period 25 February 2020 to 31 December 2020. His single figure reflects the temporary 20% salary reduction between 1 April 2020 and 30 June 2020 as a result of the Covid-19 pandemic as well as the one-off bonus arrangement received for 2020.

### Total Shareholder Return (TSR)

The graph below shows the Company's (TSR) performance (share price plus dividends paid) compared with the performance of the FTSE All Share Support Services Index over the ten-year period to 31 December 2020. This index has been selected because the Company believes that the constituent companies comprising the FTSE All Share Support Services Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors to SIG.



### Percentage change in Directors' remuneration

The table below shows how the percentage increase in each Director's salary/fees, benefits and bonus between 2020 and 2019 compared with the average percentage increase in each of those components of pay for the UK-based employees of the Group as a whole. Disclosure for all Directors in addition to the CEO has been added this year in line with new requirements under the EU Shareholder Rights Directive II and over time a five-year comparison will be built up.

## Year-on-year increase in pay for Directors compared to the average employee increase

| % change<br>Director                      | FY2020 vs FY2019 |          |       |
|-------------------------------------------|------------------|----------|-------|
|                                           | Salary/fees      | Benefits | Bonus |
| Steve Francis                             | –                | –        | –     |
| Ian Ashton                                | –                | –        | –     |
| Kath Kearney-Croft                        | –                | –        | –     |
| Meinie Oldersma                           | –                | –        | –     |
| Nick Maddock                              | –                | –        | –     |
| Andrew Allner                             | 38               | –        | –     |
| Ian Duncan                                | (15)             | –        | –     |
| Alan Lovell                               | (14)             | –        | –     |
| Kate Allum                                | –                | –        | –     |
| Gillian Kent                              | –                | –        | –     |
| Bruno Deschamps                           | –                | –        | –     |
| Simon King                                | –                | –        | –     |
| Christian Rochat                          | –                | –        | –     |
| Andrea Abt                                | –                | –        | –     |
| Average percentage increase for employees | (1)              | (4)      | 40    |

- The bonus figures are for UK-based employees who participate in a bonus arrangement.
- Steve Francis, Ian Ashton and Kath Kearney-Croft commenced employment on 25 February 2020, 1 July 2020 and 20 January 2020 respectively so no changes are available for this year.
- Kate Allum and Gillian Kent were appointed as NEDs on 1 July 2019 and Andrea Apt retired on 12 February 2020 therefore fee changes are not representative for comparison purposes.
- Bruno Deschamps, Simon King and Christian Rochat were appointed as NEDs on 10 July 2020, 1 July 2020 and 10 July 2020 respectively so no fee changes are available for this year.
- The increase in fees for Andrew Allner is due to the additional fee he received for the period where he worked in excess of the normal expectations of a Chairman whilst the Company was stabilised, new leadership appointed and new capital raised.
- The percentage change for Directors and employees is due to reduced fees/salaries during the pandemic and resulting lower pension contributions for employees.

The Committee monitors the changes year-on-year between our Director pay and the average employee increase, shown in the table. As per our policy, salary increases applied to Executive Directors will typically be in line with those of the wider workforce.

## Annual Report on remuneration

The following section provides details of how SIG's 2018 and 2020 Remuneration policies were implemented during the financial year ended 31 December 2020.

### Single total figure of remuneration for Executive Directors (Audited)

The table below sets out the single total figure of remuneration received by each Executive Director for the year to 31 December 2020 and the prior year.

| Executive Director              |             | Base salary <sup>1</sup> | Taxable benefits <sup>2</sup><br>£'000 | Annual bonus <sup>4</sup><br>£'000 | LTIP <sup>3</sup><br>£'000 | Pension <sup>5</sup><br>£'000 | Other <sup>6</sup><br>£'000 | Total remuneration<br>£'000 | Total fixed remuneration<br>£'000 | Total variable remuneration<br>£'000 |
|---------------------------------|-------------|--------------------------|----------------------------------------|------------------------------------|----------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------------|--------------------------------------|
|                                 | <b>2020</b> | <b>436</b>               | <b>17</b>                              | <b>0</b>                           | <b>0</b>                   | <b>22</b>                     | <b>375</b>                  | <b>850</b>                  | <b>475</b>                        | <b>375</b>                           |
| Steve Francis <sup>7</sup>      | 2019        | –                        | –                                      | –                                  | –                          | –                             | –                           | –                           | –                                 | –                                    |
|                                 | <b>2020</b> | <b>188</b>               | <b>11</b>                              | <b>94</b>                          | <b>0</b>                   | <b>9</b>                      | <b>0</b>                    | <b>302</b>                  | <b>208</b>                        | <b>94</b>                            |
| Ian Ashton <sup>8</sup>         | 2019        | –                        | –                                      | –                                  | –                          | –                             | –                           | –                           | –                                 | –                                    |
|                                 | <b>2020</b> | <b>156</b>               | <b>0</b>                               | <b>61</b>                          | <b>0</b>                   | <b>5</b>                      | <b>0</b>                    | <b>222</b>                  | <b>161</b>                        | <b>61</b>                            |
| Kath Kearney-Croft <sup>9</sup> | 2019        | –                        | –                                      | –                                  | –                          | –                             | –                           | –                           | –                                 | –                                    |
|                                 | <b>2020</b> | <b>87</b>                | <b>4</b>                               | <b>0</b>                           | <b>0</b>                   | <b>13</b>                     | <b>0</b>                    | <b>103</b>                  | <b>103</b>                        | <b>0</b>                             |
| Meinie Oldersma <sup>10</sup>   | 2019        | 577                      | 24                                     | 0                                  | 0                          | 87                            | 0                           | 688                         | 688                               | 0                                    |
|                                 | <b>2020</b> | <b>56</b>                | <b>3</b>                               | <b>0</b>                           | <b>0</b>                   | <b>7</b>                      | <b>–</b>                    | <b>66</b>                   | <b>66</b>                         | <b>0</b>                             |
| Nick Maddock <sup>10</sup>      | 2019        | 371                      | 21                                     | 0                                  | 0                          | 56                            | 0                           | 448                         | 448                               | 0                                    |

The figures in the table above have been calculated as follows:

1. Base salary: amount earned for the year as Directors, taking account of any waiver between 1 April 2020 and 30 June 2020.
2. Benefits: include, but are not limited to, company car, car allowance (£15,000) and private medical insurance, life assurance, income protection.
3. LTIP: There is no vesting in respect of either 2019 or 2020.
4. Annual bonus: payment for performance during the year (including any deferred portion).
5. Pension: The Company's pension contribution during the year of 15% of salary and 5% of salary for outgoing and incoming Executive Directors respectively, an amount of which was paid by salary supplement.
6. Other: includes SIP, value based on the face value of matching shares at grant. As per HMRC guidance, there are no performance measures relating to the SIP. For the incoming CEO, 'Other' also includes the one-off cash payment received for his support in developing a new strategy for the Group and leading the Company through the Capital Raising from 25 February 2020 to 23 April 2020 and subsequently as CEO of the Company. See page 112 for details.
7. Steve Francis became interim CEO on 25 February 2020 with a salary of £568,400 and ongoing CEO on 24 April with a salary of £540,000 and his remuneration reflects payments earned from 25 February.
8. Ian Ashton became CFO on 1 July 2020 and his remuneration reflects payments earned from that date.
9. Kath Kearney-Croft was appointed interim CFO on 25 February 2020 and stepped down from the Board on 31 July 2020. Her 2020 remuneration reflects payments earned between these dates. Payments made in lieu of notice are shown on page 129.
10. Meinie Oldersma and Nick Maddock resigned from the Board on 24 February 2020. Their 2020 remuneration reflects payments earned to that date. Payments in respect of garden leave are shown on page 129.

# Directors' Remuneration Report

## DIRECTORS' REMUNERATION POLICY

|                                     | CEO<br>£'000 | CFO<br>£'000 |
|-------------------------------------|--------------|--------------|
| Total single figure of remuneration |              |              |
| 2020                                | 850          | 302          |
| 2019                                | 688          | 448          |
| 2018                                | 677          | 441          |
| 2017                                | 794          | 626          |

### 2020 Restricted Share Plan Awards (Audited)

Steve Francis and Ian Ashton were granted restricted share awards of 100% of salary on 1 December 2020 under the new 2020 Remuneration policy approved at the General Meeting on 17 November 2020. No consideration was paid for the grant of the awards which are structured as nil cost options. The number of Ordinary Shares granted was based on an Ordinary Share price of 30 pence per share (the recent placing and open offer price) as set out in the General Meeting Circular and Notice of Meeting.

The normal vesting date of the awards will be 1 December 2023, being the third anniversary of the award date. The awards will ordinarily vest after three years subject to continued service and a discretionary underpin that allows the Remuneration Committee to make adjustments to the level of vesting if it believes due to business performance, individual performance or wider Company considerations that the vesting should be adjusted. This will include consideration of all relevant factors, including any windfall gains. Once vested, the awards will normally be exercisable until the day before the tenth anniversary of the award date. The awards are subject to a two-year holding period commencing on vesting.

| Executive Director | Date of grant   | % of award<br>for minimum<br>performance | Shares subject<br>to award | Face value at<br>date of award |
|--------------------|-----------------|------------------------------------------|----------------------------|--------------------------------|
| Steve Francis      | 1 December 2020 | 100%                                     | 1,800,000                  | £600,840                       |
| Ian Ashton         | 1 December 2020 | 100%                                     | 1,250,000                  | £417,250                       |

It should be noted that the 2018 and 2019 LTIP awards lapsed on the cessation of employment of Meinie Oldersma and Nick Maddock.

The 2020 RSP award was granted at a share price of 30p, however the share price on the date of award was 33.38p which has been used to calculate the face value.

### Single total figure of remuneration for NEDs (Audited)

The table below sets out the single total figure of remuneration received by each NED for services rendered to the Company as a NED for the year to 31 December 2020 and the prior year.

|                                       | Base fee      |               | Committee Chair / Senior<br>Independent Director<br>fees |               | Additional Advisory<br>Board fees |               | Total fees    |               |
|---------------------------------------|---------------|---------------|----------------------------------------------------------|---------------|-----------------------------------|---------------|---------------|---------------|
|                                       | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000                                            | 2019<br>£'000 | 2020<br>£'000                     | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Andrew Allner (Chairman) <sup>1</sup> | 191           | 217           | –                                                        | –             | 109                               | –             | 300           | 217           |
| Ian Duncan                            | 53            | 61            | 9                                                        | 12            | –                                 | –             | 62            | 73            |
| Alan Lovell                           | 53            | 61            | 8                                                        | 10            | –                                 | –             | 61            | 71            |
| Kate Allum <sup>2</sup>               | 53            | 30            | 9                                                        | 6             | –                                 | –             | 62            | 36            |
| Gillian Kent <sup>3</sup>             | 53            | 30            | –                                                        | –             | –                                 | –             | 53            | 30            |
| Andrea Abt <sup>4</sup>               | 7             | 61            | –                                                        | –             | –                                 | –             | 7             | 61            |
| Bruno Deschamps <sup>5</sup>          | 29            | –             | –                                                        | –             | –                                 | –             | 29            | –             |
| Simon King <sup>6</sup>               | 30            | –             | –                                                        | –             | –                                 | –             | 30            | –             |
| Christian Rochat <sup>5</sup>         | 29            | –             | –                                                        | –             | –                                 | –             | 29            | –             |

- The Chairman took a 50% reduction along with the other Non-Executive Directors from April to June 2020 which partially offset the amount of additional fee awarded due to his exceptional time commitment.
- Kate Allum was appointed Chair of the Remuneration Committee with effect from 1 July 2019.
- Gillian Kent was appointed as a NED on 1 July 2019.
- Andrea Abt retired as a NED on 12 February 2020.
- Bruno Deschamps and Christian Rochat were appointed as NEDs on 10 July 2020. The fees paid to Bruno and Christian are not retained by them individually but paid to CD&R.
- Simon King was appointed as a NED on 1 July 2020.

## Payments for loss of office (Audited)

### Payments to outgoing CEO

Meinie Oldersma stepped down from his role as CEO on 24 February 2020. In line with SIG's policy for loss of office, in force at that time, and the rules of the annual bonus and the LTIP, he was entitled to his salary and benefits only for his contractual notice period. All in-flight LTIPs lapsed on cessation of employment and no bonus was paid for FY2019 or FY2020. The Committee determined that the deferred share bonus should also lapse. The table below summarises what the outgoing CEO was entitled to:

| Element                     | Treatment applied                                        |
|-----------------------------|----------------------------------------------------------|
| Payment for garden leave    | Salary and benefits paid during notice period - £158,036 |
| Annual bonus – cash awards  | No bonus awarded for FY19 or FY20                        |
| Annual bonus – share awards | Deferred bonus share awards lapsed                       |
| LTIP                        | All in-flight LTIPs lapsed on cessation of employment    |

### Payments to outgoing CFO

Nick Maddock stepped down from his role as CFO on 24 February 2020. In line with SIG's policy for loss of office, in force at that time, and the rules of the annual bonus and the LTIP. As a result, he was entitled to his salary and benefits only for his contractual notice period. All in-flight LTIPs lapsed on cessation of employment and no bonus was paid for FY2019 or FY2020. The Committee determined that the deferred share bonus should also lapse. The table below summarises what the outgoing CFO was entitled to:

| Element                     | Treatment applied                                        |
|-----------------------------|----------------------------------------------------------|
| Payment for garden leave    | Salary and benefits paid during notice period - £158,152 |
| Annual bonus – cash awards  | No bonus awarded for FY19 or FY20                        |
| Annual bonus – share awards | Deferred bonus share awards lapsed                       |
| LTIP                        | All in-flight LTIPs lapsed on cessation of employment    |

### Payments to outgoing interim CFO

Kath Kearney-Croft was appointed interim CFO on 25 February 2020 and stepped down from this role on 30 June 2020 and from the Board on 31 July 2020 but remained available to the Company until 31 August 2020 to ensure orderly handover. In line with SIG's policy for loss of office and the rules of the annual bonus, the Committee determined she was a good leaver and therefore entitled to the following:

| Element                     | Treatment applied                                                                                                  |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------|
| Payment in lieu of notice   | Salary and benefits paid for notice period - £97,388                                                               |
| Annual bonus – cash awards  | 50% of max bonus paid, pro-rata for four months of 2020 – £61,384 to reflect time as CFO during the financial year |
| Annual bonus – share awards | None granted.                                                                                                      |
| LTIP                        | None granted.                                                                                                      |

## Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and Shareholder distribution (i.e. dividends and share buybacks) from the financial year ended 31 December 2019 to the financial year ended 31 December 2020.

|                              | 2020<br>£m | 2019<br>£m | % change |
|------------------------------|------------|------------|----------|
| Distribution to Shareholders | -          | 22.2       | n/a      |
| Employee remuneration*       | 267.4      | 268.2      | 0.3%     |

\*Continuing operations employee remuneration.

The Company has declared that no final dividend would be paid for 2020 and no interim dividend was paid in 2020 (2019: 1.25p).

# Directors' Remuneration Report

## DIRECTORS' REMUNERATION POLICY

### Directors' interests in SIG shares (Audited)

The interests of the Directors in office during the year to 31 December 2020, and their families, in the ordinary shares of the Company at the dates below were as follows:

|                                                  | Shares held               |                                      | Nil-cost options held    |                                                |                                  | Shareholding required (% basic salary) <sup>1</sup> | Current shareholding as a % of basic salary <sup>2</sup> | Requirement met <sup>2</sup> |
|--------------------------------------------------|---------------------------|--------------------------------------|--------------------------|------------------------------------------------|----------------------------------|-----------------------------------------------------|----------------------------------------------------------|------------------------------|
|                                                  | Owning outright or vested | Vested but subject to holding period | Vested but not exercised | Unvested subject to Vesting and holding period | Unvested and subject to deferral |                                                     |                                                          |                              |
| Steve. Francis <sup>3</sup>                      | 815,769                   | –                                    | –                        | 1,800,000                                      | –                                | 300                                                 | 103                                                      | No                           |
| Ian Ashton <sup>4</sup>                          | 166,666                   | –                                    | –                        | 1,250,000                                      | –                                | 300                                                 | 70                                                       | No                           |
| Kath Kearney-Croft <sup>5</sup><br>(interim CFO) | 66,666                    | –                                    | –                        | –                                              | –                                | 300                                                 | N/A                                                      | N/A                          |
| Meinie Oldersma <sup>6</sup><br>(outgoing CEO)   | 371,388                   | –                                    | –                        | –                                              | –                                | 300                                                 | –                                                        | N/A                          |
| Nick Maddock <sup>6</sup><br>(outgoing CFO)      | 154,072                   | –                                    | –                        | –                                              | –                                | 300                                                 | –                                                        | N/A                          |
| Andrew Allner                                    | 238,800                   | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Kate Allum                                       | Nil                       | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Ian Duncan                                       | Nil                       | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Gillian Kent                                     | Nil                       | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Alan Lovell                                      | 250,000                   | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Bruno Deschamps <sup>7</sup>                     | Nil                       | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Simon King <sup>8</sup>                          | 166,666                   | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Christian Rochat <sup>7</sup>                    | Nil                       | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |
| Andrea Abt <sup>9</sup>                          | 8,500                     | –                                    | –                        | –                                              | –                                | –                                                   | –                                                        | –                            |

1. Executive Directors are expected to achieve target shareholding within five years of appointment.

2. Based on SIG share price of 31.49p as at 31 December 2020. The post tax value of the RSP granted in December 2020 has been included in the current shareholding figure. Note that both the current Executive Directors were appointed in 2020, consequently they have not yet built up the required holding.

3. Steve Francis was appointed as CEO on 25 February 2020.

4. Ian Ashton was appointed as CFO on 1 July 2020.

5. Kath Kearney-Croft was appointed as interim CFO on 25 February 2020.

6. Meinie Oldersma and Nick Maddock stepped down as CEO and CFO respectively on 24 February 2020.

7. Bruno Deschamps and Christian Rochat were appointed as Directors on 10 July 2020.

8. Simon King was appointed as Director on 1 July 2020.

9. Andrea Abt retired as a Director on 12 February 2020.

There have been no changes to shareholdings between 1 January 2021 and 25 March 2021.

No Directors exercised any share options during the year such that the aggregate gain on exercise was nil (2019: nil).

It should be noted that rights to unvested shares lapsed on the cessation of employment of Meinie Oldersma and Nick Maddock on 24 February 2020.



## Additional information

The following table sets out the additional information required in the Annual Report on Remuneration and where relevant its location:

| Element                                       | Information/Page     |
|-----------------------------------------------|----------------------|
| Annual bonus in respect of 2020 (Audited)     | See page 117         |
| RSP: 2020 awards (Audited)                    | See page 128         |
| Payments for loss of office                   | See page 129         |
| Payment to Former Directors                   | None                 |
| Implementation of Remuneration policy in 2021 | See pages 118 to 120 |
| Percentage change in CEO Remuneration         | See page 126         |
| TSR performance graph                         | See page 126         |

## Executive Director service contracts

Executive Directors have service agreements with an indefinite term, and which are terminable by either the Group or the Executive Director on six months' notice in the case of the Chief Executive Officer and the Chief Financial Officer.

| Executive Director | Date of service contract |
|--------------------|--------------------------|
| Steve Francis      | 24 April 2020            |
| Ian Ashton         | 1 July 2020              |

## NEDs

The NEDs including the Chairman, do not have service contracts. The Company's policy is that NEDs are appointed for specific terms of three years unless otherwise terminated earlier in accordance with the Articles of Association or by, and at the discretion of, either party upon three months' written notice. NED appointments are reviewed at the end of each three-year term. NEDs will normally be expected to serve two three-year terms, although the Board may invite them to serve for an additional period. NED letters of appointment are available to view at the Company's registered office. Summary details of terms and notice periods for NEDs are included below:

| NED                     | Date of current letter of appointment | Effective date of appointment | Expiry of current term |
|-------------------------|---------------------------------------|-------------------------------|------------------------|
| Andrew Allner           | 7 April 2020                          | 1 November 2020               | 31 October 2023        |
| Ian Duncan <sup>1</sup> | 7 April 2020                          | 29 June 2020                  | N/A                    |
| Alan Lovell             | 28 June 2018                          | 1 August 2018                 | May 2021               |
| Kate Allum <sup>2</sup> | 5 June 2019                           | 1 July 2019                   | N/A                    |
| Gillian Kent            | 5 June 2019                           | 1 July 2019                   | May 2022               |
| Bruno Deschamps         | 10 July 2020                          | 10 July 2020                  | 10 July 2023           |
| Simon King              | 22 May 2020                           | 1 July 2020                   | 30 June 2023           |
| Christian RoCHAT        | 10 July 2020                          | 10 July 2020                  | 10 July 2023           |
| Andrea Abt <sup>3</sup> | 5 March 2015                          | 12 March 2015                 | N/A                    |

1. Ian Duncan resigned on 31 January 2021

2. Kate Allum resigned on 31 December 2020

3. Andrea Abt retired as a Director on 12 February 2020

## Kath Durrant

Chair of the Remuneration Committee

25 March 2021

# Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union. The Directors have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for that period.

In preparing the Parent Company Financial Statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Group at that time and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 25 March 2021 and is signed on its behalf by:

**Steve Francis**  
Chief Executive Officer  
25 March 2021

**Ian Ashton**  
Chief Financial Officer  
25 March 2021







# Financial Statements

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# Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2020

|                                                            | Note | Underlying*<br>2020<br>£m | Other items**<br>2020<br>£m | Total<br>2020<br>£m | Underlying*<br>2019<br>Restated^<br>£m | Other items**<br>2019<br>Restated^<br>£m | Total<br>2019<br>£m |
|------------------------------------------------------------|------|---------------------------|-----------------------------|---------------------|----------------------------------------|------------------------------------------|---------------------|
| <b>Continuing operations</b>                               |      |                           |                             |                     |                                        |                                          |                     |
| Revenue                                                    | 1    | 1,872.7                   | 1.8                         | 1,874.5             | 2,143.0                                | 17.6                                     | 2,160.6             |
| Cost of sales                                              |      | (1,402.7)                 | (1.3)                       | (1,404.0)           | (1,587.6)                              | (13.9)                                   | (1,601.5)           |
| <b>Gross profit</b>                                        |      | <b>470.0</b>              | <b>0.5</b>                  | <b>470.5</b>        | 555.4                                  | 3.7                                      | 559.1               |
| Other operating expenses                                   | 2    | (523.3)                   | (114.9)                     | (638.2)             | (512.9)                                | (134.1)                                  | (647.0)             |
| <b>Operating (loss)/profit</b>                             |      | <b>(53.3)</b>             | <b>(114.4)</b>              | <b>(167.7)</b>      | 42.5                                   | (130.4)                                  | (87.9)              |
| Finance income                                             | 3    | 0.7                       | –                           | 0.7                 | 0.5                                    | –                                        | 0.5                 |
| Finance costs                                              | 3    | (23.7)                    | (11.6)                      | (35.3)              | (25.3)                                 | –                                        | (25.3)              |
| <b>(Loss)/profit before tax from continuing operations</b> | 4    | <b>(76.3)</b>             | <b>(126.0)</b>              | <b>(202.3)</b>      | 17.7                                   | (130.4)                                  | (112.7)             |
| Income tax (expense)/credit                                | 6    | (10.7)                    | 4.1                         | (6.6)               | (16.3)                                 | 4.9                                      | (11.4)              |
| <b>(Loss)/profit after tax from continuing operations</b>  |      | <b>(87.0)</b>             | <b>(121.9)</b>              | <b>(208.9)</b>      | 1.4                                    | (125.5)                                  | (124.1)             |
| <b>Discontinued operations</b>                             |      |                           |                             |                     |                                        |                                          |                     |
| Profit/(loss) after tax from discontinued operations       | 12   | –                         | 69.7                        | 69.7                | –                                      | (0.4)                                    | (0.4)               |
| <b>(Loss)/profit after tax for the year</b>                |      | <b>(87.0)</b>             | <b>(52.2)</b>               | <b>(139.2)</b>      | 1.4                                    | (125.9)                                  | (124.5)             |
| <b>Attributable to:</b>                                    |      |                           |                             |                     |                                        |                                          |                     |
| Equity holders of the Company                              |      | (87.0)                    | (52.2)                      | (139.2)             | 1.4                                    | (125.9)                                  | (124.5)             |
| <b>Loss per share</b>                                      |      |                           |                             |                     |                                        |                                          |                     |
| From continuing operations:                                |      |                           |                             |                     |                                        |                                          |                     |
| Basic                                                      | 8    |                           |                             | (24.0)p             |                                        |                                          | (21.0)p             |
| Diluted                                                    | 8    |                           |                             | (23.9)p             |                                        |                                          | (21.0)p             |
| Total:                                                     |      |                           |                             |                     |                                        |                                          |                     |
| Basic                                                      | 8    |                           |                             | (16.0)p             |                                        |                                          | (21.0)p             |
| Diluted                                                    | 8    |                           |                             | (15.9)p             |                                        |                                          | (21.0)p             |

^ The 2019 comparatives have been restated to include Building Solutions within underlying results consistent with the current year. See the Statement of Significant Accounting Policies for further details.

\* Underlying represents the results before Other items. See the Statement of Significant Accounting Policies for further details.

\*\* Other items have been disclosed separately in order to give an indication of the underlying earnings of the Group. Other items are defined in the Statement of Significant Accounting Policies on page 141 and further details are disclosed in Note 2.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Income Statement.

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

|                                                                                                                         | Note | 2020<br>£m     | 2019<br>£m |
|-------------------------------------------------------------------------------------------------------------------------|------|----------------|------------|
| <b>Loss after tax for the year</b>                                                                                      |      | <b>(139.2)</b> | (124.5)    |
| <b>Items that will not subsequently be reclassified to the Consolidated Income Statement:</b>                           |      |                |            |
| Remeasurement of defined benefit pension liability                                                                      | 31   | (1.7)          | (1.8)      |
| Deferred tax movement associated with remeasurement of defined benefit pension liability                                | 24   | 0.3            | (6.6)      |
| Current tax movement associated with remeasurement of defined benefit pension liability                                 | 6    | 0.4            | 0.4        |
|                                                                                                                         |      | <b>(1.0)</b>   | (8.0)      |
| <b>Items that may subsequently be reclassified to the Consolidated Income Statement:</b>                                |      |                |            |
| Exchange difference on retranslation of foreign currency goodwill and intangibles                                       |      | 5.1            | (7.4)      |
| Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)           |      | 13.2           | (16.1)     |
| Exchange and fair value movements associated with borrowings and derivative financial instruments                       |      | (11.0)         | 10.9       |
| Tax credit on fair value movements arising on borrowings and derivative financial instruments                           |      | –              | (2.1)      |
| Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations |      | (5.9)          | (0.1)      |
| Gains and losses on cash flow hedges                                                                                    |      | (0.5)          | 0.4        |
| Transfer to profit and loss on cash flow hedges                                                                         |      | (0.7)          | 0.9        |
|                                                                                                                         |      | <b>0.2</b>     | (13.5)     |
| <b>Other comprehensive expense</b>                                                                                      |      | <b>(0.8)</b>   | (21.5)     |
| <b>Total comprehensive expense</b>                                                                                      |      | <b>(140.0)</b> | (146.0)    |
| <b>Attributable to:</b>                                                                                                 |      |                |            |
| Equity holders of the Company                                                                                           |      | <b>(140.0)</b> | (146.0)    |
|                                                                                                                         |      | <b>(140.0)</b> | (146.0)    |

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Statement of Comprehensive Income.

# Consolidated Balance Sheet

AS AT 31 DECEMBER 2020

|                                                                         | Note | 2020<br>£m     | 2019<br>£m |
|-------------------------------------------------------------------------|------|----------------|------------|
| <b>Non-current assets</b>                                               |      |                |            |
| Property, plant and equipment                                           | 10   | 63.2           | 58.6       |
| Right-of-use assets                                                     | 25   | 229.6          | 255.2      |
| Goodwill                                                                | 13   | 128.8          | 159.0      |
| Intangible assets                                                       | 14   | 22.9           | 42.3       |
| Lease receivables                                                       | 25   | 3.6            | 4.4        |
| Deferred tax assets                                                     | 24   | 5.7            | 4.4        |
| Derivative financial instruments                                        | 20   | 0.1            | 1.7        |
|                                                                         |      | <b>453.9</b>   | 525.6      |
| <b>Current assets</b>                                                   |      |                |            |
| Inventories                                                             | 16   | 170.3          | 156.5      |
| Lease receivables                                                       | 25   | 0.7            | 0.8        |
| Trade and other receivables                                             | 17   | 294.4          | 294.7      |
| Current tax assets                                                      | 17   | –              | 0.9        |
| Derivative financial instruments                                        | 20   | –              | 0.9        |
| Cash at bank and on hand                                                | 20   | 235.3          | 110.0      |
| Assets classified as held for sale                                      | 11   | –              | 258.4      |
|                                                                         |      | <b>700.7</b>   | 822.2      |
| <b>Total assets</b>                                                     |      | <b>1,154.6</b> | 1,347.8    |
| <b>Current liabilities</b>                                              |      |                |            |
| Trade and other payables                                                | 18   | 301.4          | 327.4      |
| Lease liabilities                                                       | 18   | 50.6           | 51.5       |
| Bank loans                                                              | 18   | –              | 99.6       |
| Private placement notes                                                 | 18   | –              | 175.5      |
| Deferred consideration                                                  | 18   | 0.5            | –          |
| Other financial liabilities                                             | 18   | 0.5            | 1.5        |
| Derivative financial instruments                                        | 18   | 0.5            | 0.2        |
| Current tax liabilities                                                 | 18   | 4.2            | 3.7        |
| Provisions                                                              | 23   | 10.5           | 6.7        |
| Liabilities directly associated with assets classified as held for sale | 11   | –              | 115.7      |
|                                                                         |      | <b>368.2</b>   | 781.8      |
| <b>Non-current liabilities</b>                                          |      |                |            |
| Lease liabilities                                                       | 19   | 211.6          | 224.1      |
| Bank loans                                                              | 19   | 67.7           | –          |
| Private placement notes                                                 | 19   | 144.5          | –          |
| Deferred consideration                                                  | 19   | 0.4            | –          |
| Derivative financial instruments                                        | 19   | 0.4            | 1.9        |
| Other financial liabilities                                             | 19   | 1.2            | 1.4        |
| Other payables                                                          | 19   | 3.5            | 1.0        |
| Retirement benefit obligations                                          | 31   | 25.1           | 24.8       |
| Provisions                                                              | 23   | 25.7           | 18.6       |
|                                                                         |      | <b>480.1</b>   | 271.8      |
| <b>Total liabilities</b>                                                |      | <b>848.3</b>   | 1,053.6    |
| <b>Net assets</b>                                                       |      | <b>306.3</b>   | 294.2      |
| <b>Capital and reserves</b>                                             |      |                |            |
| Called up share capital                                                 | 27   | 118.2          | 59.2       |
| Share premium account                                                   |      | 447.7          | 447.3      |
| Treasury shares reserve                                                 |      | (0.2)          | –          |
| Capital redemption reserve                                              |      | 0.3            | 0.3        |
| Share option reserve                                                    |      | 2.0            | 1.8        |
| Hedging and translation reserves                                        |      | 10.5           | 10.2       |
| Cost of hedging reserve                                                 |      | 0.2            | 0.3        |
| Merger reserve                                                          |      | 92.5           | –          |
| Retained losses                                                         |      | (364.9)        | (224.9)    |
| <b>Attributable to equity holders of the Company</b>                    |      | <b>306.3</b>   | 294.2      |
| <b>Total equity</b>                                                     |      | <b>306.3</b>   | 294.2      |

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Balance Sheet.

The Financial Statements were approved by the Board of Directors on 25 March 2021 and signed on its behalf by:

**Steve Francis**      **Ian Ashton**  
Director                  Director

Registered in England: 00998314

**SIG plc** Annual Report and Accounts for the year ended 31 December 2020

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

|                                                 | Called up share capital<br>£m | Share premium account<br>£m | Treasury shares reserve<br>£m | Capital redemption reserve<br>£m | Share option reserve<br>£m | Hedging and translation reserves<br>£m | Cost of hedging reserve<br>£m | Merger reserve<br>£m | Retained (losses)/ profits<br>£m | Total<br>£m  |
|-------------------------------------------------|-------------------------------|-----------------------------|-------------------------------|----------------------------------|----------------------------|----------------------------------------|-------------------------------|----------------------|----------------------------------|--------------|
| At 31 December 2018                             | 59.2                          | 447.3                       | –                             | 0.3                              | 1.7                        | 21.7                                   | 1.0                           | –                    | (68.3)                           | 462.9        |
| Impact of adoption of IFRS 16                   | –                             | –                           | –                             | –                                | –                          | –                                      | –                             | –                    | (0.6)                            | (0.6)        |
| Adjusted balance at 1 January 2019              | 59.2                          | 447.3                       | –                             | 0.3                              | 1.7                        | 21.7                                   | 1.0                           | –                    | (68.9)                           | 462.3        |
| Loss after tax                                  | –                             | –                           | –                             | –                                | –                          | –                                      | –                             | –                    | (124.5)                          | (124.5)      |
| Other comprehensive expense                     | –                             | –                           | –                             | –                                | –                          | (12.8)                                 | (0.7)                         | –                    | (8.0)                            | (21.5)       |
| Total comprehensive expense                     | –                             | –                           | –                             | –                                | –                          | (12.8)                                 | (0.7)                         | –                    | (132.5)                          | (146.0)      |
| Transfer of reserves                            | –                             | –                           | –                             | –                                | –                          | 1.3                                    | –                             | –                    | (1.3)                            | –            |
| Credit to share option reserve                  | –                             | –                           | –                             | –                                | 0.1                        | –                                      | –                             | –                    | –                                | 0.1          |
| Dividends paid to equity holders of the Company | –                             | –                           | –                             | –                                | –                          | –                                      | –                             | –                    | (22.2)                           | (22.2)       |
| At 31 December 2019                             | 59.2                          | 447.3                       | –                             | 0.3                              | 1.8                        | 10.2                                   | 0.3                           | –                    | (224.9)                          | 294.2        |
| Loss after tax                                  | –                             | –                           | –                             | –                                | –                          | –                                      | –                             | –                    | (139.2)                          | (139.2)      |
| Other comprehensive income/(expense)            | –                             | –                           | –                             | –                                | –                          | 0.3                                    | (0.1)                         | –                    | (1.0)                            | (0.8)        |
| Total comprehensive income/(expense)            | –                             | –                           | –                             | –                                | –                          | 0.3                                    | (0.1)                         | –                    | (140.2)                          | (140.0)      |
| Issue of share capital                          | 59.0                          | 0.4                         | –                             | –                                | –                          | –                                      | –                             | 92.5                 | –                                | 151.9        |
| Transfer of unallocated treasury shares         | –                             | –                           | (0.2)                         | –                                | –                          | –                                      | –                             | –                    | 0.2                              | –            |
| Credit to share option reserve                  | –                             | –                           | –                             | –                                | 0.2                        | –                                      | –                             | –                    | –                                | 0.2          |
| <b>At 31 December 2020</b>                      | <b>118.2</b>                  | <b>447.7</b>                | <b>(0.2)</b>                  | <b>0.3</b>                       | <b>2.0</b>                 | <b>10.5</b>                            | <b>0.2</b>                    | <b>92.5</b>          | <b>(364.9)</b>                   | <b>306.3</b> |

The share option reserve represents the cumulative equity-settled share option charge under IFRS 2 "Share-based payment" less the value of any share options that have been exercised.

The hedging and translation reserves represents movements in the Consolidated Balance Sheet as a result of movements in exchange rates and movements in the fair value of cash flow hedges which are taken directly to reserves as detailed in the Statement of Significant Accounting Policies on page 141. Amounts were reclassified during the prior year to clarify the effects of hedging between retained (losses)/ profits and the cash flow hedging reserve and to separately identify the cash flow hedging reserve and foreign currency retranslation reserve. See Note 20 for further details.

The treasury shares reserve relates to shares purchased by the SIG Employee Share Trust to satisfy awards made under the Group's share plans which are not vested and beneficially owned by employees. Shares have become unallocated during the year and have therefore been transferred to the treasury share reserve.

The merger reserve represents the premium on ordinary shares issued during the year through the use of a cash box structure. See Note 27 for further details.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Statement of Changes in Equity.

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2020

|                                                                   | Note | 2020<br>£m | 2019<br>£m |
|-------------------------------------------------------------------|------|------------|------------|
| <b>Net cash flow from operating activities</b>                    |      |            |            |
| Cash (used in)/generated from operating activities                | 28   | (43.0)     | 166.0      |
| Income tax paid                                                   |      | (9.7)      | (10.8)     |
| Net cash generated from operating activities                      |      | (52.7)     | 155.2      |
| <b>Cash flows from investing activities</b>                       |      |            |            |
| Finance income received                                           |      | 0.7        | 0.6        |
| Purchase of property, plant and equipment and computer software   |      | (20.8)     | (34.5)     |
| Proceeds from sale of property, plant and equipment               |      | 5.6        | 7.6        |
| Net cash flow arising on the purchase of businesses               | 15   | (0.8)      | –          |
| Net cash flow arising on the sale of businesses                   | 11   | 147.8      | 8.4        |
| Net cash flow from investing activities                           |      | 132.5      | (17.9)     |
| <b>Cash flows from financing activities</b>                       |      |            |            |
| Finance costs paid                                                |      | (23.3)     | (25.1)     |
| Repayment of lease liabilities                                    |      | (54.8)     | (59.9)     |
| Acquisition of non-controlling interests                          |      | –          | (0.9)      |
| Repayment of loans/settlement of derivative financial instruments |      | (55.2)     | –          |
| Additional drawdown/(repayment) of revolving credit facility*     |      | (30.0)     | 42.4       |
| Net proceeds from equity raise                                    | 27   | 151.9      | –          |
| Dividends paid to equity holders of the Company                   | 7    | –          | (22.2)     |
| Net cash flow from financing activities                           |      | (11.4)     | (65.7)     |
| <b>Increase in cash and cash equivalents in the year</b>          | 29   | 68.4       | 71.6       |
| Cash and cash equivalents at beginning of the year                | 30   | 145.1      | 78.8       |
| Effect of foreign exchange rate changes                           | 30   | 21.8       | (5.3)      |
| <b>Cash and cash equivalents at end of the year**</b>             | 30   | 235.3      | 145.1      |

\* As part of the changes to the debt facility agreements on 18 June 2020 (see Note 18), £70.0m drawn under the existing revolving credit facility was converted into a £70.0m term facility, with no additional repayment or drawdown made.

\*\* Cash and cash equivalents comprise cash at bank and on hand of £235.3m (2019: £145.1m) less bank overdrafts of £nil (2019: £nil).

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Cash Flow Statement.



# Statement of Significant Accounting Policies

The significant accounting policies adopted in this Annual Report and Accounts for the year ended 31 December 2020 are set out below.

## Basis of preparation

The Consolidated Financial Statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

The Financial Statements have been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The qualifying partnership, The SIG 2018 Scottish Limited Partnership, which is included in these consolidated financial statements, is entitled to exemption from the requirements of Regulations 4 to 6 of Part 2 of The Partnerships (Accounts) Regulations 2008 in relation to preparation and audit of annual financial statements of the partnership.

The Financial Statements have been prepared on a going concern basis as set out below.

## Going concern

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

On 18 June 2020, the Group agreed amended debt facility agreements in respect of its Revolving Credit Facility (RCF) and private placement notes, with key changes as set out in Note 19 of the Consolidated Financial Statements. On 10 July 2020 the Group also completed the successful raising of £165m of equity through a firm placing and placing and open offer, in order to reduce net debt and strengthen the Group's balance sheet.

Under the June 2020 revised debt facility agreements the Group was subject to covenant testing as follows:

- Leverage (net debt/EBITDA) and interest cover (EBITA/interest) not tested until March 2022, after which tested every quarter, the tests being applied to the prior 12 months;
- Until 28 February 2022 the Group to ensure that Consolidated Net Debt (CND) does not exceed £225m for each quarterly test date in 2021 (2020: £125m);
- Minimum Liquidity (available cash and undrawn revolving credit facility commitments) of £40m at all times; and
- Consolidated Net Worth (CNW) must at all times not be less than £250m.

The Group was in compliance with these covenants at 31 December 2020.

Whilst the Group has significant available liquidity, and on the basis of current forecasts is expected to remain in compliance with all banking covenants throughout the forecast period to 31 March 2022, on 1 March 2021 the Group agreed with its lending banks and private placement noteholders to amend certain financial covenants to better align the tests and to provide additional headroom on the interest cover covenant under stress test scenarios from March 2022. The amended covenants under the revised agreements are as follows:

- The interest cover testing does not start until June 2022 and is at lower levels than previously until December 2022;
- The leverage covenant threshold is now slightly lower than previously at March 2022 and June 2022;

- The Consolidated Net Debt threshold is lowered to £200m and extended to December 2022; and

- No change to the CNW or Minimum Liquidity covenants.

In arriving at their opinion on going concern, the Directors have considered the Group's forecasts for the period to 31 March 2022, and specifically the ability to meet the covenant tests above. These forecasts reflect the assumption of more normal trading levels since the worst of the Covid-19 impact, as well as the expected positive impact of the strategic actions being undertaken to improve future performance under the "Return to Growth" strategy.

Management have continued to manage liquidity very closely, such that cashflow performance was better than initial expectations throughout 2020. The base forecasts indicate that the Group will be able to operate within the covenants for the forecast period to 31 March 2022.

The Directors have considered the following principal risks and uncertainties that could potentially impact the Group's ability to fund its future activities and adhere to its future banking covenants, including:

- A decline in market conditions resulting in lower than forecast sales;
- Implementation of the new strategy taking longer than anticipated to deliver forecast increases in revenue and profit;
- A further wave of the Covid-19 pandemic; and
- The terms of the Group's revised lending arrangements and whether these could limit investment in growth opportunities.

The forecasts on which the going concern assessment is based have been subject to sensitivity analysis and stress testing to assess the impact of the above risks. The Group has considered a plausible downside scenario, factoring in a reduction in sales volumes and a reduction in gross margin, offset by reductions in direct expenditure and discretionary operating costs. The results showed that under this scenario the Group will still be able to operate within the covenants with adequate headroom for the forecast period to 31 March 2022.

In considering the impact of these stress test scenarios the Directors have also reviewed realistic additional mitigating actions that could be taken over and above those already included in the downside scenario forecast to avoid or reduce the impact or occurrence of the underlying risks. These include further reductions to operating costs, cutting discretionary capital expenditure and disposing of non-core assets.

On consideration of the above, the Directors believe that the Group has adequate resources to continue in operational existence for the forecast period to 31 March 2022 and the Directors therefore consider it is appropriate to adopt the going concern basis in preparing the 2020 Financial Statements.

## New standards, interpretations and amendments adopted

The following amendments and interpretations apply for the first time in 2020, but have not had a material impact on the Financial Statements of the Group:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

# Statement of Significant Accounting Policies continued

## New standards, amendments and interpretations not yet adopted

At the date of authorisation of these Financial Statements, the only standard or interpretation which is in issue but not yet effective is Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). This is not expected to have a material impact on the Group and has not been early adopted by the Group.

## Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and each of its subsidiary undertakings after eliminating all significant intercompany transactions and balances. The results of subsidiary undertakings acquired or sold are consolidated for the periods from or to the date on which control passed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Shareholders of the Company.

Profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the previous carrying amount of the net assets (including goodwill and intangible assets) of the businesses.

## Goodwill and business combinations

All business combinations are accounted for by applying the purchase method. Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets (including intangible assets) and liabilities of the business acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ('CGUs') expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Right-of-use assets recognised on adoption of IFRS 16 are included in the carrying amount of the CGU, with cash flows and discount rates adapted accordingly to calculate value in use on a consistent basis. An impairment loss recognised on goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of remaining goodwill relating to the entity disposed of is included in the determination of any profit or loss on disposal.

Goodwill recorded in foreign currencies is retranslated at each period end. Any movements in the carrying value of goodwill as a result of foreign exchange rate movements are recognised in the Consolidated Statement of Comprehensive Income.

Any excess of the fair value of net assets over consideration arising on an acquisition is recognised immediately in the Consolidated Income Statement.

## Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair values less costs to sell. Assets and liabilities classified as held for sale are presented separately as current items in the Consolidated Balance Sheet.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A disposal group qualifies as a discontinued operation if it is a component of an entity that has either been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 12. All other notes to the Financial Statements include amounts for continuing operations, unless indicated otherwise. The Air Handling business met the criteria above as it was a separate major line of business of the Group and is therefore classified as a discontinued operation in the current and prior year.

The Building Solutions business was classified as held for sale at 31 December 2019, as a sale had been agreed and was due to complete in the first half of 2020 subject to approval from the UK Competition & Markets Authority (CMA). On 21 May 2020, the Group announced that the parties had agreed to terminate the sales agreement as terms could not be agreed for the extension of the agreement to enable the completion of the CMA phase 2 investigation. The business no longer meets the criteria to be presented as held for sale at 31 December 2020 and is no longer classified as non-core. The comparatives for the year ended 31 December 2019 have been re-analysed to present net operating profits of £2.9m attributable to the Building Solutions business within underlying results, consistent with the current year.

## Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency and converted at actual exchange rates at the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Consolidated Income Statement.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at that date.

On consolidation, assets and liabilities of overseas subsidiary undertakings are translated into Sterling at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated into Sterling at the average rate of exchange for

the year as an approximation where actual rates do not fluctuate significantly.

Exchange differences arising on translation of the opening net assets and results of overseas operations, and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the Consolidated Statement of Comprehensive Income.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to the Consolidated Income Statement.

### Consolidated income statement disclosure

Income statement items are presented in the middle column of the Consolidated Income Statement entitled Other items where they are significant in size and nature, and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the financial performance of the Group.

Items classified as Other items are as follows:

#### ■ Costs related to acquisitions

The Group has made a number of acquisitions in previous years. There are a number of specific costs relating to these acquisitions which make comparison of performance of the businesses and segments difficult. Therefore the following items are recorded as Other items to provide a more comparable view of the businesses and enhance the clarity of the performance of the Group and its businesses to the readers of the Financial Statements:

- (i) amortisation of intangible assets acquired through business combinations;
- (ii) expenses related to contingent consideration required to be treated as remuneration for acquired businesses;
- (iii) costs and credits arising from the re-estimation of deferred and contingent consideration payable in respect of acquisitions; and
- (iv) costs related to the acquisition of businesses.

#### ■ Impairment charges

Impairment charges related to non-current assets are non-cash items and tend to be significant in size. The presentation of these as Other items further enhances the understanding of the ongoing performance of the Group. Impairments of property, intangible assets and other tangible fixed assets are included in Other items if related to a fundamental restructuring project or other fundamental project. Other impairments are included in underlying results.

#### ■ Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges

The gain or loss on the sale or closure of businesses tends to be significant in size and irregular in nature and is related to businesses that will not be part of the continuing Group. The gain or loss on the sale or closure of these businesses is therefore included within Other items.

#### ■ Net operating losses attributable to businesses identified as non-core

Operating results from businesses identified as non-core do not form part of the ongoing trading activities of the Group and they are therefore recorded separately in Other items in order to enhance the understanding of the ongoing financial performance of the Group and its businesses. Non-core businesses are those businesses that have been closed or disposed of or where the Board has resolved to close or dispose of the business by 31 December 2020 and which don't meet the criteria to be classified as a discontinued operation. The presentation is applied retrospectively, so businesses classified as non-core subsequent to the period end before the Financial

Statements are signed are included in the Other items column in the reporting period, and prior year comparatives are restated for businesses identified as non-core subsequent to signing of the prior year Annual Report and Accounts.

#### ■ Net restructuring costs

Restructuring costs are classified as Other items if they relate to a fundamental change in the organisational structure of the Group or a fundamental change in the operating model of a business within the Group. Costs may include redundancy, property closure costs and consultancy costs, which are significant in size and will not be incurred under the ongoing structure or operating model of the Group. These costs are therefore recorded as Other items in order to provide a better understanding of the ongoing financial performance of the Group. Careful consideration is applied by management in assessing whether these costs relate to fundamental restructuring and changing the structure and operating model of the business as opposed to costs incurred in the normal course of business.

#### ■ Investment in omnichannel retailing

Costs incurred in the year in relation to the Group's investment in developing an omnichannel retailing platform have been included within Other items as they are significant in size and do not relate to the ongoing trading activities of the Group

#### ■ Costs associated with refinancing

Costs associated with the refinancing and changes to debt facility agreements during the year are included within Other items as they are significant in size, do not form part of the underlying trading activities and will not be incurred on an ongoing basis. This includes the loss on modification of the private placement notes and the write-off of arrangement fees in relation the previous RCF which has been extinguished, which are included within non-underlying finance costs.

#### ■ Onerous contract costs

Onerous contract costs in relation to the SAP 1HANA implementation and other licence fee commitments are included within Other items as they are significant in size and do not relate to the ongoing trading activities of the Group.

#### ■ Other specific items

Other specific items are recorded in Other items where they do not form part of the underlying trading activities of the Group in order to enhance the understanding of the financial performance of the Group. This includes, for example, profit on sale of property not related to ongoing operations (i.e. related to a branch or business closure) or property sold as part of a fundamental restructuring programme. Profit on the sale of property in connection with branch or office moves in the normal course of business is included within underlying results. A full breakdown of other specific items is included in Note 2 to the Consolidated Financial Statements.

#### ■ Other items within finance income and finance costs

The unwinding of provision discounting for provisions that have been included as Other items is included within Other items consistent with the classification of the provision. Other provision discounting is included within underlying finance costs. The loss on modification in relation to the private placement notes and the write-off of the arrangement fees in relation the previous RCF, both incurred in relation to the refinancing during the year, are also included within Other items.

#### ■ Taxation

The taxation effect of Other items, the effect of the change in rates of taxation on deferred tax and tax adjustments in respect of previous years' Other items are shown within Other items in order to enhance the understanding of the underlying tax position of the Group.

# Statement of Significant Accounting Policies continued

## Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

### a) Sale of goods

The majority of the Group's revenue arises from contracts with customers for the sale of goods, with one performance obligation. Revenue is recognised at the point in time that control of the goods passes to the customer, usually on delivery to the customer. Standard payment terms vary across the different businesses but generally range from 8 to 60 days from end of month. The amount of revenue recognised is impacted by the following:

#### *Volume rebates*

The Group provides retrospective volume rebates to certain customers, which give rise to variable consideration.

The Group estimates the expected volume rebates using an expected value approach based on expected volumes and thresholds in the contracts. The Group then applies the constraint regarding variable consideration and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Expected volume rebates due to customers are recognised as a reduction to trade receivables.

#### *Early settlement discounts*

Early settlement discounts are estimated using the expected value approach based on past experience and are recognised at the time of recognising the revenue, subject to the constraint regarding variable consideration that it is highly probable that a change in estimate would not result in a significant reversal of the cumulative revenue recognised.

### b) Construction contracts

The Group has the following revenue streams which fall under the category of "construction contracts":

#### i) *Air Handling projects (discontinued operations)*

The goods and services supplied as part of an air handling contract are significantly integrated and considered to be one performance obligation. The criteria for recognition over time are considered to apply as the entity's performance creates and/or enhances an asset controlled by the customer, the assets created do not have an alternative use as the installations are on the customers' premises, and the entity has an enforceable right to payment for performance completed to date. Progress towards completion is measured on the basis of costs incurred as this reflects the progress towards satisfaction of the performance obligation.

#### ii) *Contracts for provision of industrial services*

The Group's business in Ireland provides industrial painting, coating and repair services. Revenue from these contracts is recognised over time, as the entity's performance enhances a customer-controlled asset, using an output method to measure progress towards completion, based on agreed rates and/or valuation schedules agreed with the customer which confirm the amounts invoiced each month, depending on individual contract terms.

Any earned consideration that is conditional is recorded as a contract asset. A contract asset becomes a receivable when receipt is conditional only on the passage of time. Therefore, revenue recognised from construction contracts described above which has not yet been invoiced is recognised as a contract asset, which is shown as a separate line item on the Consolidated Balance Sheet rather than as part of trade and other receivables (€nil in 2020 and 2019). Invoices are raised

as the contract progresses based on agreed milestones, rates or valuation schedules depending on the terms of individual contracts, with subsequent payment in accordance with agreed payment terms.

### c) Presentation and disclosure requirements

The Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group has also disclosed information about the relationship between the disclosure of disaggregated revenue and the revenue information disclosed for each reportable segment. Refer to Note 1 for the disclosure on disaggregated revenue.

## Supplier rebates

Supplier rebate income is significant to the Group's results, with a substantial proportion of purchases covered by rebate agreements.

Some supplier rebate agreements are non-coterminous with the Group's financial year, and firm confirmation of amounts due may not be received until after the balance sheet date.

Where the Group relies on estimates, these are made with reference to contracts or other agreements, management forecasts and detailed operational workbooks. Supplier rebate income estimates are regularly reviewed by senior management.

Outstanding amounts at the balance sheet date are included in trade payables when the Group has the right to offset against amounts owing to the supplier and therefore settles on a net basis, in line with IAS 32 criteria. Where the supplier rebates are not netted off the amounts owing to that supplier, the outstanding amount is included within prepayments and accrued income. The carrying value of inventory is reduced by the associated amount where the inventory has yet to be sold at the balance sheet date.

## Operating profit

Operating profit is stated after charging distribution costs, selling and marketing costs and administrative expenses, but before finance income and finance costs.

## Taxation

Income tax on the profit or loss for the periods presented comprises both current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated Statement of Comprehensive Income or the Statement of Changes in Equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax treatments are accounted for in accordance with IFRIC 23. The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.



In accordance with IAS 12, the following temporary differences are not provided for:

- goodwill not deductible for taxation purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; or
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Equity settled share-based payments are measured at fair value at the date of grant based on the Group's estimate of the number of shares that will eventually vest. The fair value determined is then expensed in the Consolidated Income Statement on a straight-line basis over the vesting period, with a corresponding increase in equity. The fair value of the options is measured using the Black-Scholes or Monte Carlo option pricing model as appropriate.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

For equity-settled share options, at each balance sheet date the Group revises its estimate of the number of share options expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Consolidated Income Statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The SIG Employee Share Trust ("the EBT") purchases shares in the Company in order to satisfy awards made under the Company's share plans. The EBT is included in the Consolidated Financial Statements of the Group. Shares held by the EBT which are

not vested and beneficially owned by employees are treated as treasury shares and a deduction is computed in the Company's issued share capital for the purpose of calculating earnings per share.

### Intangible assets

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. The Group recognises two types of intangible asset: acquired and purchased. Acquired intangible assets arise as a result of applying IFRS 3 "Business Combinations" which requires the separate recognition of intangible assets from goodwill on all business combinations. Purchased intangible assets relate primarily to software that is separable from any associated hardware.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

|                        | Amortisation period         | Current average useful life |
|------------------------|-----------------------------|-----------------------------|
| Customer relationships | Life of the relationship    | 7 years                     |
| Non-compete contracts  | Life of the contract        | 3 years                     |
| Computer software      | Useful life of the software | 3-10 years                  |

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

### Property, plant and equipment

Property, plant and equipment is shown at original cost to the Group less accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost less the estimated residual value of property, plant and equipment on a straight-line basis over their estimated useful lives as follows:

|                                                | Current average useful life  |
|------------------------------------------------|------------------------------|
| Freehold buildings                             | 50 years                     |
| Leasehold buildings                            | Period of lease              |
| Plant and machinery (including motor vehicles) | 3-8 years or length of lease |

Freehold land is not depreciated.

Residual values, which are based on market rates, are reassessed annually.

Assets in the course of construction are carried at cost, with depreciation charged on the same basis as all other assets once those assets are ready for their intended use.

### Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition the Group has chosen to apply the cost model. Investment properties are therefore recognised at cost and depreciated over the useful life and are impaired when appropriate in accordance with IAS 16 "Property, plant and equipment".

Transfers are made to or from investment property only when there is a change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.



# Statement of Significant Accounting Policies continued

## Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## Leases and hire purchase agreements

Leases and hire purchase agreements are recognised in accordance with IFRS 16 "Leases".

### a) The Group's leasing activities

The Group leases various offices, warehouses, branches, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 10 years but may have extension or early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

### b) How leases are accounted for

A lease liability is recognised based on the discounted present value of total future lease payments, with a corresponding right-of-use asset recognised and depreciated over the lease term. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be determined, the lessee's incremental borrowing rate.

Where a lease liability relates to an onerous lease contract the right-of-use asset is assessed for impairment. Payments due under the lease continue to be included in the lease liability, therefore a separate provision is no longer required. The lease liability is also remeasured upon the occurrence of certain events, which is generally also recognised as an adjustment to the right-of-use asset. Provisions for short-term onerous lease contracts continue to be recognised.

#### i) Definition of a lease

A lease is a contract (i.e. an agreement between two or more parties that creates enforceable rights and obligations), or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. It is determined whether a contract is a lease or contains a lease at the inception of the contract.

Under IFRS 16, an identified asset can be either implicitly or explicitly specified in a contract.

#### ii) Lease term

In accordance with IFRS 16, the lease term is defined as the non-cancellable period of the lease, together with:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

#### iii) Variable lease payments

Variable lease payments based on an index or a rate are part of the lease liability. Variable lease payments are initially measured

using the index or the rate at the commencement date. Forecast future changes in rates are not included; these are only taken into account at the point in time at which lease payments change.

The Group has a few property leases where rentals are based on an index but with a cap and collar, and for such leases the minimum future increase is included in the initial recognition of the lease liability where relevant.

Other variable payments, for example additional costs based on usage or vehicle mileage, are not included in the lease liability.

#### iv) Asset restoration costs

Where there is an obligation under a lease contract to dismantle and/or restore the asset to its original condition, provision is made for this in accordance with IAS 37, and the initial carrying amount of this provision is added to the right-of-use asset on inception of the lease. The liability continues to be recorded as a separate provision on the balance sheet (i.e. it is not included in the IFRS 16 lease liability).

#### v) Exemptions

The Group has certain assets with lease terms of 12 months or less and leases of equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The Group has considered the amendments within the Covid-19-Related Rent Concessions (Amendment to IFRS 16) Standard allowing companies with rent concessions meeting the criteria in the amendment to choose to take advantage of the practical expedient not to assess whether a rent concession is a lease modification as all of the following conditions were met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The only changes as a result of Covid-19 have been changes in the timing of payments (for example from quarterly to monthly) and there are therefore no significant amounts recognised in the Income Statement from Covid-19-related rent concessions during the year.

## Inventories

Inventories are stated at the lower of cost (including an appropriate proportion of attributable overheads, supplier rebates and discounts) and net realisable value. The cost formula used in measuring inventories is either a weighted average cost, or a first in first out basis, depending on the most appropriate method for each particular business. Most businesses use weighted average, with the exception of Poland and Ireland, where first in first out is used.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Consolidated Cash Flow Statement.

Cash held but not available for use by the Group is disclosed as restricted cash within Note 29.

Lease payments are presented as follows in the Consolidated Cash Flow Statement:

- Short term lease payments and payments for leases of low-value assets that are not included in the measurement of the lease liabilities are presented within cash flows from operating activities;
- Payments for the interest element of recognised lease liabilities are included in 'Finance costs paid' within cash flows from financing activities; and
- Payments for the principal element of recognised lease liabilities are presented within cash flows from financing activities.

Cash flows in relation to the settlement of amounts payable for previous purchases of businesses related to consideration dependent on vendors remaining within the business are classified as an operating cash flow. Cash flows in relation to contingent or deferred consideration not dependent on vendors remaining within the business are classified as a cash flow from investing activities.

## Financial assets

Financial assets are classified as either financial assets subsequently measured at amortised cost, fair value through profit and loss ("FVPL") or fair value through other comprehensive income ("FVOCI").

The classification at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

The Group measures financial assets at amortised cost if both the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets are all measured at amortised cost, except for derivative financial instruments.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets include trade receivables, deferred consideration and cash and cash equivalents.

## Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments held at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables and contract assets, the Group applies the standard's simplified approach and

calculates ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

## Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's Consolidated Statement of Financial Position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are factored out to banks and other financial institutions without recourse to the Group are derecognised at the point of factoring as the risks and rewards of the receivables have been fully transferred. In assessing whether the receivables qualify for derecognition the Group has considered the receivables and receivable insurance contracts as two separate units of account. Therefore, the insurance is not included as part of the derecognition assessment on the basis that the insurance is not similar to the receivables. The Group has elected to recognise cash inflows from the sale of factored receivables as an operating cash flow.

## Financial liabilities

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities, except for derivative financial instruments (see below), are recognised initially at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate (EIR) method.

A financial obligation is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. Where a modification of a financial liability does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the loan's original EIR. Any consequent adjustment (gain or loss on modification) is recognised immediately in profit or loss. The gain or loss on modification will unwind over the remaining term of the liability, with the movement recognised in finance costs.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

When determining the fair value of financial liabilities, the expected future cash flows are discounted using an appropriate interest rate.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

# Statement of Significant Accounting Policies continued

## Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Balance Sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## Derivative financial instruments

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts, and cross-currency swaps to hedge its exposure to foreign currency exchange and interest rate risks arising from operational and financing activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, any derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are classified as non-current assets or non-current liabilities if the remaining maturity of the derivatives is more than 12 months and they are not expected to be otherwise realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivative financial instruments are recognised immediately at fair value. Subsequent to their initial recognition, derivative financial instruments are then stated at their fair value. The fair value of derivative financial instruments is derived from "mark-to-market" valuations obtained from the Group's relationship banks.

Unless hedge accounting is achieved, the gain or loss on remeasurement to fair value is recognised immediately and is included as part of finance income or finance costs, together with other fair value gains and losses on derivative financial instruments, within Other items in the Consolidated Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting, or when the Group revokes the hedging relationship. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement in the period.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- Hedges of a net investment in a foreign operation.

At the inception of the hedge relationship the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, along with its risk management objectives and its strategy for undertaking the hedging transaction.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument;
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

## Fair value hedges

The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is recognised in the Consolidated Income Statement within Other items. The change in the fair value of the hedging instrument is also recognised in the Consolidated Income Statement within Other items.

## Cash flow hedges

The effective part of any gain or loss on the hedging instrument is recognised directly in the Consolidated Statement of Comprehensive Income in the cash flow hedging reserve. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the Consolidated Statement of Comprehensive Income are reclassified into the Consolidated Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Consolidated Income Statement.

For cash flow hedges, the ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within Other items in the Consolidated Income Statement. The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in Other Comprehensive Income and accumulated in a separate component of equity under cost of hedging reserve.

## Hedges of net investment in foreign operations

The portion of any gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in the Consolidated Statement of Comprehensive Income. The ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within Other items within the Consolidated Income Statement. Gains and losses deferred in the foreign currency translation reserve are recognised immediately in the Consolidated Income Statement when foreign operations are disposed of.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## Leasehold dilapidations

Provisions are recognised in relation to contractual obligations to reinstate leasehold properties to their original state of repair. The provision is calculated based on both the liability to rectify or reinstate leasehold improvements and modifications carried out on the inception of the lease, recognised on inception with a corresponding fixed asset, and the liability to rectify general wear and tear which is recognised as incurred over the life of the lease.

## Pension schemes

SIG operates four defined benefit pension schemes. The Group's net obligation in respect of these defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in both current and prior periods. That benefit is discounted using an appropriate discount rate to determine its present value and the fair value of any plan assets is deducted.

Where the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated Income Statement, at the earlier of when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits.

The full service cost of the pension schemes is charged to operating profit. Net interest costs on defined benefit pension schemes are recognised in the Consolidated Income Statement. Discretionary contributions made by employees or third parties reduce service costs upon payment of these contributions into the plan.

Any actuarial gain or loss arising is charged through the Consolidated Statement of Comprehensive Income and comprises the difference between the expected returns on assets and those actually achieved, any changes in the actuarial assumptions for demographics and any changes in the financial assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within non-current assets in the Consolidated Balance Sheet.

For defined contribution schemes the amount charged to the Consolidated Income Statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within either accruals or prepayments in the Consolidated Balance Sheet.

## Dividends

Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Financial Statements until they have been approved by the Shareholders at the Annual General Meeting.

## Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The Group considered that the Coronavirus Job Retention Scheme in the UK and similar schemes in Ireland, France and Benelux in relation to Covid-19 during 2020 met the definition of government grants in accordance with IAS 20

"Accounting for government grants and disclosure of government assistance". Income received is netted off the related staff costs in the relevant period.

## Segmental reporting

In accordance with IFRS 8 "Operating Segments", the Group identifies its reportable segments based on the components of the business on which financial information is regularly reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about how resources are allocated. For SIG, the CODM is considered to be the Executive Leadership Team.

In 2019, the reportable operating segments were grouped on a line of business basis with subtotals for Specialist Distribution and Roofing Merchanting. There is no change to the reported operating segments from those reported in the 2019 Annual Report and Accounts, but the segments are now grouped on a geographical basis instead of on a line of business basis. This reflects the way in which information is reported and reviewed by the Chief Operating Decision Maker (CODM) following the change in management and strategy during 2020. Prior year comparatives have been restated to be consistent with the current year presentation.

# Statement of Significant Accounting Policies continued

## CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described on pages 141 to 149, the Directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the change takes place if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have had a significant effect on the amounts recognised in the Financial Statements. The judgements involving estimations are dealt with separately below.

### Classification of Other items in the Consolidated Income Statement

As described in the Statement of Significant Accounting Policies, certain items are presented in the separate column of the Consolidated Income Statement entitled Other items where they are significant in size or nature, and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the financial performance of the Group. Operating results from businesses identified as non-core (see Note 11 of the Financial Statements) do not form part of the ongoing trading activities of the Group and are therefore also recorded separately in Other items in order to enhance the understanding of the ongoing financial performance of the Group. The nature and amounts of the items included in Other items, together with the overall impact on the results for the year, is disclosed in Note 2 of the Financial Statements.

### Discontinued operations and assets held for sale

On 7 October 2019 the Group announced the sale of the Air Handling and Building Solutions businesses. The sale of the Air Handling business completed on 31 January 2020. The business was considered to meet the criteria to be classified as held for sale at 31 December 2019 on the basis that a sale had been agreed and was considered highly probable, which was confirmed by completion of the sale in January 2020. The Air Handling business was also considered to meet the definition of a discontinued operation as it was a major line of business of the Group. The results of the business in 2019 and for the period until sale in 2020 are therefore presented separately on the face of the Consolidated Income Statement. Further information on the discontinued operation is included in Note 12 of the Financial Statements.

The Building Solutions business was also classified as held for sale at 31 December 2019 as a sale had been agreed and was due to complete in the first half of 2020 subject to approval from the UK Competition & Markets Authority (CMA). The business was not considered to meet the definition of a discontinued operation as it was not a major line of the business of the Group. On 21 May 2020 it was announced that the parties had agreed to terminate the sale agreement as terms could not be agreed for the extension of the agreement to enable the completion of the CMA investigation. The business no longer meets the criteria to be presented as held for sale at 31 December 2020, and is no longer classified as non-core.

### Amendments to financing arrangements

On 18 June 2020 the Group amended the terms of its financing arrangements, involving both the Revolving Credit Facility (RCF) and private placement notes (PPNs). The Group has assessed whether the amendments to the facilities represents either a modification of the existing arrangement or an extinguishment of the previous arrangement and refinancing in accordance with IFRS 9.

The Group has determined the amendments to the RCF to be an extinguishment and new facility, as the present value of the estimated future cash flows discounted at the loan's original effective interest rate (EIR) differed by more than 10% compared to the previous cash flows. The balance of unamortised arrangement fees as at 18 June 2020 of £0.3m has therefore been written off in full through Finance costs within Other items, and the fees payable in relation to the new agreement are being amortised over the new term of the facility.

The Group has determined that amendments to the terms of the PPNs (see Note 19 for further details) meet the criteria to be accounted for as a modification of the existing arrangements, with the present value of future cash flows considered separately for each PPN, discounted at the original effective interest rate for the relevant PPN. A loss on modification of £11.3m has been recognised, reflecting the difference in the present value of future cash flows discounted at each loan note's original EIR, which has been recognised within finance costs within Other items (see Note 3). This will unwind over the remaining term of the PPNs, resulting in the finance cost recognised in future periods being lower than the actual amounts paid. The existing prepaid arrangement fees of £0.3m at the date of the new agreement will continue to be amortised over the original term.

Professional fees incurred in concluding the above amendments have been recognised as operating expenses within Other items within the Consolidated Income Statement.

### Impairment of intangible assets in relation to SAP 1HANA implementation

As disclosed in the 2019 Annual Report and Accounts, the project to implement SAP 1HANA in France and Germany was paused in April 2020 in light of the Covid-19 situation and the change in senior management. In the final quarter of 2020 a decision was made to recommence the project in 2021, but with a change in scope and direction and a locally managed implementation. Costs incurred and recognised on the balance sheet as at the date of pause have been reviewed to assess whether they continue to have any future economic benefit in relation to the implementation going forward. Following this review, an impairment of £13.7m has been recognised and no asset value is carried forward. An onerous contract provision of £9.6m has also been recognised in relation to future contracted licence fees which the Group believes have no future economic benefit. Both these items involved significant management judgement in terms of the level of future economic benefit to be derived in relation to the future project.

### Key sources of estimation uncertainty

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities within the next financial year are detailed below.



## Rebates receivable

Supplier rebate income is significant to the Group's result, with a substantial proportion of purchases covered by rebate agreements. Supplier rebate income affects the recorded value of cost of sales, trade payables, trade and other receivables, and inventories. The amounts payable under rebate agreements are often subject to negotiation after the balance sheet date. A number of agreements are non-coterminous with the Group's financial year, requiring estimation over the level of future purchases and sales. At the balance sheet date, the Directors estimate the amount of rebates that will become payable by and due to the Group under these agreements based upon prices, volumes and product mix. The Group has recognised income from supplier rebates of £198.5m from continuing operations for the year ended 31 December 2020 (2019: £245.2m). At 31 December 2020 trade payables is presented net of £29.9m (2019: £38.0m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement, and included within prepayments and accrued income is £36.7m (2019: £42.4m) due in relation to supplier rebates where there is no right to offset against trade payable balances. The majority of these balances relate to agreements which are coterminous with the financial year end and therefore this reduces the level of estimation involved. Based on experience in the current year, the amount received is not expected to vary from the amount recorded by more than £1.0m (2019: £1.0m).

## Post-employment benefits

The Group operates four defined benefit pension schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 "Employee Benefits". As detailed within the Statement of Significant Accounting Policies on page 141, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated Statement of Comprehensive Income.

For all defined benefit pension schemes, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality. Management considers the key assumption to be the discount rate applied. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds excluding university bonds. If the discount rate were to be increased/decreased by 0.1%, this would decrease/increase the Group's gross pension scheme deficit by £3.0m as disclosed in Note 31. At 31 December 2020 the Group's retirement benefit obligations were £25.6m (2019: £24.8m).

## Impairment of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that an impairment may be required. The impact of the Covid-19 pandemic led to indications of an impairment as at 30 June 2020 and therefore a full reassessment of the trading expectations of the Group was carried out leading to an impairment of goodwill in the UK businesses.

Determining whether goodwill is impaired requires an estimation of the value in use of the Cash Generating Units (CGUs) to which goodwill has been allocated, including all related assets. The key estimates made in the value in use calculation are those regarding

discount rates, sales growth rates, and expected changes to selling prices and direct costs to reflect the operational gearing of the business. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group and that also include a risk premium to factor in a certain element of risk over and above that already included in the forecast cash flows (for example the risk of historical accuracy of forecasting or the risk of delayed achievement of the "Return to Growth" strategy).

The Group performs goodwill impairment reviews by forecasting cash flows based upon management's three year projections, which include forecast sales growth based on management's best estimates and external data (construction PMI data and construction market growth forecasts), gross margin assumptions based on management's best estimates and previous experience, with annual growth rates based upon country specific inflation expectations (1.5%-2.3%) applied thereafter into perpetuity.

Assumptions regarding sales and operating profit growth, gross margin, and discount rate are considered to be the key areas of estimation in the impairment review process, and appropriate sensitivities have been performed and disclosed in Note 13.

Impairments are allocated initially against the value of any goodwill and intangible assets held within a CGU, with any remaining impairment applied to property, plant and equipment on a pro rata basis.

The carrying amount of relevant non-current assets at 31 December 2020 is £444.5m (2019: £515.1m) including right-of-use assets recognised in accordance with IFRS 16. The most recent results of the impairment review process are disclosed in Note 13. An impairment charge of £60.3m has been recognised in relation to the UK Distribution and UK Exteriors CGUs. The carrying value of non-current assets associated with the Group's other CGU's is considered supportable. Whilst the Directors consider the assumptions used in the impairment review to be realistic, if actual results are different from expectations then it is possible that the value of goodwill included in the Consolidated Balance Sheet could become impaired further. The remaining carrying value of goodwill after recognition of the impairment charge is £128.8m. Sensitivities are disclosed in Note 13. These indicate reasonably possible scenarios which could lead to further impairment.

## Provisions against receivables

At 31 December 2020 the Group has recognised trade receivables with a carrying value of £232.7m (2019: £226.4m). The Group recognises an allowance for expected credit losses (ECLs) in relation to trade receivables. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment. Changes in the economic environment or customer-specific circumstances could have an impact on the recoverability of amounts included on the Consolidated Balance Sheet at 31 December 2020. The total allowance for expected credit losses recorded at 31 December 2020 is £15.3m (2019: £19.5m). The bad debt to sales ratio of the Group has varied by up to 0.1% over recent periods, therefore this gives an indication that the bad debt experience could vary by c.£2m. Further detail on trade receivables and the allowance for expected credit losses recognised is disclosed in Note 17.

# Statement of Significant Accounting Policies continued

## CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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### Dilapidations provisions

The Group has a significant number of leasehold properties with contractual obligations to reinstate the properties to their original state of repair at the end of the lease contract. The Group has recognised a provision of £22.1m at 31 December 2020 (2019: £21.8m) in relation to this obligation (see Note 23). The total provision includes both the estimated cost of rectifying or reinstating leasehold modifications and improvements carried out, which is recognised at the inception of the lease with a corresponding asset recognised in fixed assets and depreciated over the term of the lease, together with the estimated cost of rectifying general wear and tear which is recognised as incurred over the life of the lease. Estimates are based on a combination of a sample of assessments by third party independent property surveyors, internal assessments by the Group's property experts and previous settlement history. Whilst the Directors consider the estimates to be reasonable based on latest available information, actual amounts payable could be different to the amount provided depending on specific circumstances of individual properties and counterparties at the expiry of each lease contract. The amount payable is not expected to be materially different to the amount provided in the following year but there could be a material adjustment over a longer timescale. The provision is reassessed each year on the basis of latest information, which could also result in a change in the value of the provision year on year of up to c.10% based on past experience.

### Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore requires estimation when no observable rates are available, such as for subsidiaries that do not enter into financing transactions. The Group estimates the IBR using observable inputs, such as market interest rates, when available and is required to make certain entity-specific estimates, such as the subsidiary's stand-alone credit rating.

# Notes to the Financial Statements

## 1. Revenue and segmental information

### Revenue

| 2020                                                            | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Eliminations<br>£m | Total<br>Group<br>£m |
|-----------------------------------------------------------------|--------------------------|-----------------------|----------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|--------------------|----------------------|
| <b>Type of product</b>                                          |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Interiors                                                       | 357.4                    | –                     | 357.4          | 168.1                        | –                         | 168.1                 | 370.7         | 91.6          | 462.3                                    | 46.3          | 142.6        | –                  | 1,176.7              |
| Exteriors                                                       | –                        | 310.1                 | 310.1          | –                            | 344.8                     | 344.8                 | –             | –             | –                                        | 34.2          | –            | –                  | 689.1                |
| Heating, ventilation<br>and air conditioning                    | –                        | –                     | –              | –                            | –                         | –                     | –             | –             | –                                        | –             | 6.9          | –                  | 6.9                  |
| Inter-segment revenue <sup>^</sup>                              | 1.5                      | 0.5                   | 2.0            | 0.9                          | 7.6                       | 8.5                   | 0.1           | 0.1           | 0.2                                      | 0.1           | –            | (10.8)             | –                    |
| <b>Total underlying<br/>revenue</b>                             | <b>358.9</b>             | <b>310.6</b>          | <b>669.5</b>   | <b>169.0</b>                 | <b>352.4</b>              | <b>521.4</b>          | <b>370.8</b>  | <b>91.7</b>   | <b>462.5</b>                             | <b>80.6</b>   | <b>149.5</b> | <b>(10.8)</b>      | <b>1,872.7</b>       |
| Revenue attributable to<br>businesses identified<br>as non-core | –                        | –                     | –              | –                            | 1.8                       | 1.8                   | –             | –             | –                                        | –             | –            | –                  | 1.8                  |
| <b>Total</b>                                                    | <b>358.9</b>             | <b>310.6</b>          | <b>669.5</b>   | <b>169.0</b>                 | <b>354.2</b>              | <b>523.2</b>          | <b>370.8</b>  | <b>91.7</b>   | <b>462.5</b>                             | <b>80.6</b>   | <b>149.5</b> | <b>(10.8)</b>      | <b>1,874.5</b>       |
| <b>Nature of revenue</b>                                        |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Goods for resale                                                | 358.9                    | 310.6                 | 669.5          | 169.0                        | 354.2                     | 523.2                 | 370.8         | 91.7          | 462.5                                    | 75.2          | 149.5        | (10.8)             | 1,869.1              |
| Construction contracts                                          | –                        | –                     | –              | –                            | –                         | –                     | –             | –             | –                                        | 5.4           | –            | –                  | 5.4                  |
| <b>Total</b>                                                    | <b>358.9</b>             | <b>310.6</b>          | <b>669.5</b>   | <b>169.0</b>                 | <b>354.2</b>              | <b>523.2</b>          | <b>370.8</b>  | <b>91.7</b>   | <b>462.5</b>                             | <b>80.6</b>   | <b>149.5</b> | <b>(10.8)</b>      | <b>1,874.5</b>       |
| <b>Timing of revenue<br/>recognition</b>                        |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Goods transferred at<br>a point in time                         | 358.9                    | 310.6                 | 669.5          | 169.0                        | 354.2                     | 523.2                 | 370.8         | 91.7          | 462.5                                    | 75.2          | 149.5        | (10.8)             | 1,869.1              |
| Goods and services<br>transferred over time                     | –                        | –                     | –              | –                            | –                         | –                     | –             | –             | –                                        | 5.4           | –            | –                  | 5.4                  |
| <b>Total</b>                                                    | <b>358.9</b>             | <b>310.6</b>          | <b>669.5</b>   | <b>169.0</b>                 | <b>354.2</b>              | <b>523.2</b>          | <b>370.8</b>  | <b>91.7</b>   | <b>462.5</b>                             | <b>80.6</b>   | <b>149.5</b> | <b>(10.8)</b>      | <b>1,874.5</b>       |

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

| 2019                                                            | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Eliminations<br>£m | Total<br>Group<br>£m |
|-----------------------------------------------------------------|--------------------------|-----------------------|----------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|--------------------|----------------------|
| <b>Type of product</b>                                          |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Interiors                                                       | 515.4                    | –                     | 515.4          | 184.5                        | –                         | 184.5                 | 381.5         | 103.0         | 484.5                                    | 56.4          | 149.6        | –                  | 1,390.4              |
| Exteriors                                                       | –                        | 346.5                 | 346.5          | –                            | 342.2                     | 342.2                 | –             | –             | –                                        | 38.5          | –            | –                  | 727.2                |
| Heating, ventilation<br>and air conditioning                    | 18.9                     | –                     | 18.9           | –                            | –                         | –                     | –             | –             | –                                        | –             | 6.5          | –                  | 25.4                 |
| Inter-segment revenue <sup>^</sup>                              | 11.9                     | 9.1                   | 21.0           | 0.1                          | 0.2                       | 0.3                   | 1.0           | 0.1           | 1.1                                      | –             | –            | (22.4)             | –                    |
| <b>Total underlying<br/>revenue</b>                             | <b>546.2</b>             | <b>355.6</b>          | <b>901.8</b>   | <b>184.6</b>                 | <b>342.4</b>              | <b>527.0</b>          | <b>382.5</b>  | <b>103.1</b>  | <b>485.6</b>                             | <b>94.9</b>   | <b>156.1</b> | <b>(22.4)</b>      | <b>2,143.0</b>       |
| Revenue attributable to<br>businesses identified<br>as non-core | 1.2                      | –                     | 1.2            | –                            | 1.9                       | 1.9                   | 14.5          | –             | 14.5                                     | –             | –            | –                  | 17.6                 |
| <b>Total</b>                                                    | <b>547.4</b>             | <b>355.6</b>          | <b>903.0</b>   | <b>184.6</b>                 | <b>344.3</b>              | <b>528.9</b>          | <b>397.0</b>  | <b>103.1</b>  | <b>500.1</b>                             | <b>94.9</b>   | <b>156.1</b> | <b>(22.4)</b>      | <b>2,160.6</b>       |
| <b>Nature of revenue</b>                                        |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Goods for resale                                                | 547.4                    | 355.6                 | 903.0          | 184.6                        | 344.3                     | 528.9                 | 397.0         | 103.1         | 500.1                                    | 88.7          | 156.1        | (22.4)             | 2,154.4              |
| Construction contracts                                          | –                        | –                     | –              | –                            | –                         | –                     | –             | –             | –                                        | 6.2           | –            | –                  | 6.2                  |
| <b>Total</b>                                                    | <b>547.4</b>             | <b>355.6</b>          | <b>903.0</b>   | <b>184.6</b>                 | <b>344.3</b>              | <b>528.9</b>          | <b>397.0</b>  | <b>103.1</b>  | <b>500.1</b>                             | <b>94.9</b>   | <b>156.1</b> | <b>(22.4)</b>      | <b>2,160.6</b>       |
| <b>Timing of revenue<br/>recognition</b>                        |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Goods transferred at<br>a point in time                         | 547.4                    | 355.6                 | 903.0          | 184.6                        | 344.3                     | 528.9                 | 397.0         | 103.1         | 500.1                                    | 88.7          | 156.1        | (22.4)             | 2,154.4              |
| Goods and services<br>transferred over time                     | –                        | –                     | –              | –                            | –                         | –                     | –             | –             | –                                        | 6.2           | –            | –                  | 6.2                  |
| <b>Total</b>                                                    | <b>547.4</b>             | <b>355.6</b>          | <b>903.0</b>   | <b>184.6</b>                 | <b>344.3</b>              | <b>528.9</b>          | <b>397.0</b>  | <b>103.1</b>  | <b>500.1</b>                             | <b>94.9</b>   | <b>156.1</b> | <b>(22.4)</b>      | <b>2,160.6</b>       |

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

# Notes to the Financial Statements

## 1. Revenue and segmental information *continued*

### Segmental Information

In accordance with IFRS 8 "Operating Segments", the Group identifies its reportable operating segments based on the way in which financial information is reviewed and business performance is assessed by the CODM. Reportable operating segments are grouped on a geographical basis as explained in the Statement of Significant Accounting Policies.

#### a) Segmental analysis

| 2020                                                                             | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Eliminations<br>£m | Total<br>Group<br>£m |
|----------------------------------------------------------------------------------|--------------------------|-----------------------|----------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|--------------------|----------------------|
| <b>Revenue</b>                                                                   |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Underlying revenue                                                               | 357.4                    | 310.1                 | 667.5          | 168.1                        | 344.8                     | 512.9                 | 370.7         | 91.6          | 462.3                                    | 80.5          | 149.5        | -                  | 1,872.7              |
| Revenue attributable to businesses identified as non-core                        | -                        | -                     | -              | -                            | 1.8                       | 1.8                   | -             | -             | -                                        | -             | -            | -                  | 1.8                  |
| Inter-segment revenue <sup>^</sup>                                               | 1.5                      | 0.5                   | 2.0            | 0.9                          | 7.6                       | 8.5                   | 0.1           | 0.1           | 0.2                                      | 0.1           | -            | (10.8)             | -                    |
| <b>Total revenue</b>                                                             | <b>358.9</b>             | <b>310.6</b>          | <b>669.5</b>   | <b>169.0</b>                 | <b>354.2</b>              | <b>523.2</b>          | <b>370.8</b>  | <b>91.7</b>   | <b>462.5</b>                             | <b>80.6</b>   | <b>149.5</b> | <b>(10.8)</b>      | <b>1,874.5</b>       |
| <b>Segment result before Other items</b>                                         | <b>(45.4)</b>            | <b>(7.4)</b>          | <b>(52.8)</b>  | <b>7.1</b>                   | <b>8.3</b>                | <b>15.4</b>           | <b>0.4</b>    | <b>2.5</b>    | <b>2.9</b>                               | <b>0.8</b>    | <b>2.0</b>   | <b>-</b>           | <b>(31.7)</b>        |
| Amortisation of acquired intangibles                                             | (0.9)                    | (4.3)                 | (5.2)          | -                            | (0.4)                     | (0.4)                 | -             | -             | -                                        | -             | -            | -                  | (5.6)                |
| Impairment charges                                                               | (50.6)                   | (11.8)                | (62.4)         | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                  | (62.4)               |
| Acquisition costs                                                                | -                        | (0.2)                 | (0.2)          | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                  | (0.2)                |
| Profits and losses on agreed sale or closure of non-core businesses (Note 11)    | (0.3)                    | -                     | (0.3)          | -                            | (0.9)                     | (0.9)                 | -             | -             | -                                        | -             | -            | -                  | (1.2)                |
| Net operating losses attributable to businesses identified as non-core (Note 11) | -                        | -                     | -              | -                            | (0.3)                     | (0.3)                 | -             | -             | -                                        | -             | -            | -                  | (0.3)                |
| Onerous contract costs                                                           | (1.0)                    | -                     | (1.0)          | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                  | (1.0)                |
| Net restructuring costs                                                          | (4.0)                    | (1.7)                 | (5.7)          | -                            | (0.1)                     | (0.1)                 | (0.5)         | (0.4)         | (0.9)                                    | -             | -            | -                  | (6.7)                |
| Other specific items                                                             | (0.1)                    | -                     | (0.1)          | -                            | 0.1                       | 0.1                   | 0.2           | -             | 0.2                                      | -             | -            | -                  | 0.2                  |
| <b>Segment operating profit/(loss)</b>                                           | <b>(102.3)</b>           | <b>(25.4)</b>         | <b>(127.7)</b> | <b>7.1</b>                   | <b>6.7</b>                | <b>13.8</b>           | <b>0.1</b>    | <b>2.1</b>    | <b>2.2</b>                               | <b>0.8</b>    | <b>2.0</b>   | <b>-</b>           | <b>(108.9)</b>       |
| Parent Company costs                                                             |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (21.6)               |
| Parent Company Other items*                                                      |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (37.2)               |
| <b>Operating loss</b>                                                            |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | <b>(167.7)</b>       |
| Net finance costs before Other items                                             |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (23.0)               |
| Non-underlying finance costs                                                     |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (11.6)               |
| <b>Loss before tax and discontinued operations</b>                               |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | <b>(202.3)</b>       |
| Income tax expense                                                               |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (6.6)                |
| Profit from discontinued operations                                              |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | 69.7                 |
| <b>Loss for the year</b>                                                         |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | <b>(139.2)</b>       |

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

\* Parent company Other items include impairment charges £13.7m, investment in omnichannel retailing £4.2m, costs associated with refinancing £7.4m, onerous contract costs £12.2m and other specific items £1.6m, offset by profit on agreed sale or closure of non-core businesses of £1.9m. See Note 2 for further details.

## 1. Revenue and segmental information continued

| 2019                                                                                                                           | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Eliminations<br>£m | Total<br>Group<br>£m |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------|----------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|--------------------|----------------------|
| <b>Revenue</b>                                                                                                                 |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    |                      |
| Underlying revenue                                                                                                             | 534.3                    | 346.5                 | 880.8          | 184.5                        | 342.2                     | 526.7                 | 381.5         | 103.0         | 484.5                                    | 94.9          | 156.1        | –                  | 2,143.0              |
| Revenue attributable to<br>businesses identified<br>as non-core                                                                | 1.2                      | –                     | 1.2            | –                            | 1.9                       | 1.9                   | 14.5          | –             | 14.5                                     | –             | –            | –                  | 17.6                 |
| Inter-segment revenue <sup>^</sup>                                                                                             | 11.9                     | 9.1                   | 21.0           | 0.1                          | 0.2                       | 0.3                   | 1.0           | 0.1           | 1.1                                      | –             | –            | (22.4)             | –                    |
| <b>Total revenue</b>                                                                                                           | <b>547.4</b>             | <b>355.6</b>          | <b>903.0</b>   | <b>184.6</b>                 | <b>344.3</b>              | <b>528.9</b>          | <b>397.0</b>  | <b>103.1</b>  | <b>500.1</b>                             | <b>94.9</b>   | <b>156.1</b> | <b>(22.4)</b>      | <b>2,160.6</b>       |
| <b>Segment result<br/>before Other items</b>                                                                                   | <b>7.9</b>               | <b>11.8</b>           | <b>19.7</b>    | <b>11.2</b>                  | <b>8.6</b>                | <b>19.8</b>           | <b>4.4</b>    | <b>5.2</b>    | <b>9.6</b>                               | <b>6.8</b>    | <b>4.3</b>   | <b>–</b>           | <b>60.2</b>          |
| Amortisation of<br>acquired intangibles                                                                                        | (0.9)                    | (4.4)                 | (5.3)          | –                            | (0.7)                     | (0.7)                 | –             | (0.2)         | (0.2)                                    | –             | –            | –                  | (6.2)                |
| Impairment charges                                                                                                             | (58.2)                   | (0.5)                 | (58.7)         | –                            | (32.2)                    | (32.2)                | –             | –             | –                                        | –             | –            | –                  | (90.9)               |
| Profits and losses on<br>agreed sale or closure<br>of non-core businesses<br>and associated<br>impairment charges<br>(Note 11) | (0.9)                    | (1.6)                 | (2.5)          | –                            | (1.6)                     | (1.6)                 | 6.0           | –             | 6.0                                      | (1.8)         | –            | –                  | 0.1                  |
| Net operating losses<br>attributable to<br>businesses identified<br>as non-core (Note 11)                                      | (0.8)                    | –                     | (0.8)          | –                            | (0.9)                     | (0.9)                 | 0.8           | –             | 0.8                                      | –             | –            | –                  | (0.9)                |
| Net restructuring costs                                                                                                        | (10.2)                   | (8.0)                 | (18.2)         | –                            | (2.1)                     | (2.1)                 | (6.6)         | (0.2)         | (6.8)                                    | –             | –            | –                  | (27.1)               |
| Other specific items                                                                                                           | 0.2                      | –                     | 0.2            | –                            | (0.2)                     | (0.2)                 | (0.1)         | –             | (0.1)                                    | (0.3)         | –            | –                  | (0.4)                |
| <b>Segment operating<br/>profit/(loss)</b>                                                                                     | <b>(62.9)</b>            | <b>(2.7)</b>          | <b>(65.6)</b>  | <b>11.2</b>                  | <b>(29.1)</b>             | <b>(17.9)</b>         | <b>4.5</b>    | <b>4.8</b>    | <b>9.3</b>                               | <b>4.7</b>    | <b>4.3</b>   | <b>–</b>           | <b>(65.2)</b>        |
| Parent Company costs                                                                                                           |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (17.7)               |
| Investment in<br>omnichannel retailing                                                                                         |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (5.7)                |
| Gain in fair value of<br>forward currency<br>option                                                                            |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | 0.7                  |
| <b>Operating loss</b>                                                                                                          |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | <b>(87.9)</b>        |
| Net finance costs<br>before Other items                                                                                        |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (24.8)               |
| <b>Loss before tax<br/>and discontinued<br/>operations</b>                                                                     |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | <b>(112.7)</b>       |
| Income tax expense                                                                                                             |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (11.4)               |
| Loss from discontinued<br>operations                                                                                           |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | (0.4)                |
| <b>Loss for the year</b>                                                                                                       |                          |                       |                |                              |                           |                       |               |               |                                          |               |              |                    | <b>(124.5)</b>       |

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.



# Notes to the Financial Statements

## 1. Revenue and segmental information continued

| 2020                                  | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total<br>UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Total<br>Group<br>£m |
|---------------------------------------|--------------------------|-----------------------|-------------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|----------------------|
| <b>Balance sheet</b>                  |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| <b>Assets</b>                         |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Segment assets                        | 153.2                    | 242.8                 | 396.0             | 67.6                         | 210.6                     | 278.2                 | 138.1         | 48.7          | 186.8                                    | 52.6          | 59.5         | 973.1                |
| <i>Unallocated assets:</i>            |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Right-of-use assets                   |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 1.4                  |
| Property, plant and equipment         |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 0.3                  |
| Derivative financial instruments      |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 0.1                  |
| Cash and cash equivalents             |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 174.9                |
| Other assets                          |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 4.8                  |
| <b>Consolidated total assets</b>      |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 1,154.6              |
| <b>Liabilities</b>                    |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Segment liabilities                   | 188.3                    | 112.1                 | 300.4             | 48.8                         | 104.9                     | 153.7                 | 79.5          | 9.6           | 89.1                                     | 31.9          | 28.3         | 603.4                |
| <i>Unallocated liabilities:</i>       |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Private placement notes               |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 144.5                |
| Bank loans                            |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 67.7                 |
| Derivative financial instruments      |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 0.9                  |
| Other liabilities                     |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 31.8                 |
| <b>Consolidated total liabilities</b> |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 848.3                |

| 2019                                  | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total<br>UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Total<br>Group<br>£m |
|---------------------------------------|--------------------------|-----------------------|-------------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|----------------------|
| <b>Balance sheet</b>                  |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| <b>Assets</b>                         |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Segment assets                        | 268.3                    | 204.1                 | 472.4             | 57.5                         | 211.1                     | 268.6                 | 154.0         | 51.6          | 205.6                                    | 56.0          | 66.5         | 1,069.1              |
| <i>Unallocated assets:</i>            |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Right-of-use assets                   |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 2.9                  |
| Property, plant and equipment         |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 0.4                  |
| Derivative financial instruments      |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 2.6                  |
| Cash and cash equivalents             |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | (3.6)                |
| Deferred tax assets                   |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 4.4                  |
| Assets held for sale                  |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 258.4                |
| Other assets                          |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 13.6                 |
| <b>Consolidated total assets</b>      |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 1,347.8              |
| <b>Liabilities</b>                    |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Segment liabilities                   | 196.9                    | 83.5                  | 280.4             | 54.8                         | 97.4                      | 152.2                 | 96.4          | 16.4          | 112.8                                    | 36.1          | 35.7         | 617.2                |
| <i>Unallocated liabilities:</i>       |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                      |
| Private placement notes               |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 175.5                |
| Bank loans                            |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 99.6                 |
| Derivative financial instruments      |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 2.1                  |
| Liabilities held for sale             |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 115.7                |
| Other liabilities                     |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 43.5                 |
| <b>Consolidated total liabilities</b> |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              | 1,053.6              |

## 1. Revenue and segmental information continued

| 2020                                                                 | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total<br>UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Parent<br>company<br>£m | Total<br>Group<br>£m |
|----------------------------------------------------------------------|--------------------------|-----------------------|-------------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|-------------------------|----------------------|
| <b>Other segment information</b>                                     |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                         |                      |
| <i>Capital expenditure on:</i>                                       |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                         |                      |
| Property, plant and equipment                                        | 4.4                      | 3.9                   | 8.3               | 0.3                          | 2.4                       | 2.7                   | 0.9           | 0.7           | 1.6                                      | 0.4           | 0.2          | 0.1                     | 13.3                 |
| Computer software                                                    | 1.9                      | 1.2                   | 3.1               | -                            | -                         | -                     | 0.2           | -             | 0.2                                      | 0.3           | -            | 5.1                     | 8.7                  |
| Goodwill and intangible assets (excluding computer software)         | -                        | 1.8                   | 1.8               | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                       | 1.8                  |
| <i>Non-cash expenditure:</i>                                         |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                         |                      |
| Depreciation of fixed assets                                         | 3.3                      | 2.5                   | 5.8               | 0.6                          | 1.5                       | 2.1                   | 1.7           | 0.6           | 2.3                                      | 0.5           | 0.4          | 0.1                     | 11.2                 |
| Depreciation of right-of-use assets                                  | 15.2                     | 8.0                   | 23.2              | 5.1                          | 8.6                       | 13.7                  | 12.9          | 1.6           | 14.5                                     | 1.7           | 3.2          | 0.3                     | 56.6                 |
| Impairment of right-of-use assets                                    | 10.2                     | -                     | 10.2              | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                       | 10.2                 |
| Impairment of property, plant and equipment and computer software    | 4.9                      | -                     | 4.9               | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | 13.7                    | 18.6                 |
| Amortisation of acquired intangibles and computer software           | 4.5                      | 4.9                   | 9.4               | -                            | 0.4                       | 0.4                   | -             | -             | -                                        | 0.2           | 0.1          | 0.9                     | 11.0                 |
| Impairment of goodwill and intangibles (excluding computer software) | 35.5                     | 11.8                  | 47.3              | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                       | 47.3                 |

| 2019                                                                 | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total<br>UK<br>£m | France<br>Distribution<br>£m | France<br>Exteriors<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Parent<br>company<br>£m | Total<br>Group<br>£m |
|----------------------------------------------------------------------|--------------------------|-----------------------|-------------------|------------------------------|---------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|-------------------------|----------------------|
| <b>Other segment information</b>                                     |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                         |                      |
| <i>Capital expenditure on:</i>                                       |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                         |                      |
| Property, plant and equipment                                        | 2.4                      | 6.5                   | 8.9               | 0.8                          | 0.9                       | 1.7                   | 1.3           | 0.3           | 1.6                                      | 0.7           | 2.2          | -                       | 15.1                 |
| Computer software                                                    | 5.1                      | 1.2                   | 6.3               | -                            | -                         | -                     | 0.1           | -             | 0.1                                      | 0.4           | -            | 9.9                     | 16.7                 |
| <i>Non-cash expenditure:</i>                                         |                          |                       |                   |                              |                           |                       |               |               |                                          |               |              |                         |                      |
| Depreciation                                                         | 19.1                     | 10.6                  | 29.7              | 5.2                          | 10.0                      | 15.2                  | 13.8          | 2.4           | 16.2                                     | 2.8           | 3.5          | 0.4                     | 67.8                 |
| Impairment of right-of-use assets                                    | 0.5                      | 0.5                   | 1.0               | -                            | 0.5                       | 0.5                   | -             | -             | -                                        | -             | -            | -                       | 1.5                  |
| Impairment of property, plant and equipment and computer software    | 0.9                      | -                     | 0.9               | -                            | -                         | -                     | -             | -             | -                                        | -             | -            | -                       | 0.9                  |
| Amortisation of acquired intangibles and computer software           | 3.5                      | 4.5                   | 8.0               | -                            | 0.7                       | 0.7                   | 0.1           | 0.2           | 0.3                                      | -             | 0.1          | 0.8                     | 9.9                  |
| Impairment of goodwill and intangibles (excluding computer software) | 57.4                     | -                     | 57.4              | -                            | 33.3                      | 33.3                  | -             | -             | -                                        | -             | -            | -                       | 90.7                 |

# Notes to the Financial Statements

## 1. Revenue and segmental information continued

### b) Geographic information

The Group's non-current operating assets (including property, plant and equipment, right-of-use assets, goodwill and intangible assets but excluding lease receivables, deferred tax and derivative financial instruments) by geographical location are as follows:

| Country                                            | 2020<br>Non-current<br>assets<br>£m | 2019<br>Non-current<br>assets<br>£m |
|----------------------------------------------------|-------------------------------------|-------------------------------------|
| United Kingdom                                     | 222.0                               | 283.4                               |
| Ireland                                            | 14.6                                | 15.7                                |
| France                                             | 113.4                               | 112.0                               |
| Germany                                            | 59.5                                | 66.2                                |
| Poland                                             | 13.4                                | 14.2                                |
| Benelux                                            | 21.6                                | 23.4                                |
| <b>Total underlying</b>                            | <b>444.5</b>                        | 514.9                               |
| Attributable to businesses identified as non-core  | –                                   | 0.2                                 |
| Attributable to businesses held for sale (Note 11) | –                                   | 112.9                               |
| <b>Total</b>                                       | <b>444.5</b>                        | 628.0                               |

## 2. Other operating expenses

### a) Analysis of other operating expenses

|                                                   | 2020                        |                   |              | 2019                        |                   |              |
|---------------------------------------------------|-----------------------------|-------------------|--------------|-----------------------------|-------------------|--------------|
|                                                   | Before Other<br>items<br>£m | Other items<br>£m | Total<br>£m  | Before Other<br>items<br>£m | Other items<br>£m | Total<br>£m  |
| Other operating expenses:                         |                             |                   |              |                             |                   |              |
| – distribution costs                              | 261.4                       | 7.1               | 268.5        | 207.6                       | 27.5              | 235.1        |
| – selling and marketing costs                     | 138.8                       | 0.4               | 139.2        | 179.6                       | 3.0               | 182.6        |
| – management, administrative<br>and central costs | 123.3                       | 107.6             | 230.9        | 126.0                       | 103.6             | 229.6        |
| – property profits                                | (0.2)                       | (0.2)             | (0.4)        | (0.3)                       | –                 | (0.3)        |
| <b>Total</b>                                      | <b>523.3</b>                | <b>114.9</b>      | <b>638.2</b> | <b>512.9</b>                | <b>134.1</b>      | <b>647.0</b> |

## 2. Other operating expenses continued

### b) Other items

Profit/(loss) after tax includes the following Other items which have been disclosed in a separate column within the Consolidated Income Statement in order to provide a better indication of the underlying earnings of the Group (as explained in the Statement of Accounting Policies):

|                                                                                                         | 2020              |                  |                 | 2019              |                  |                 |
|---------------------------------------------------------------------------------------------------------|-------------------|------------------|-----------------|-------------------|------------------|-----------------|
|                                                                                                         | Other items<br>£m | Tax impact<br>£m | Tax impact<br>% | Other items<br>£m | Tax impact<br>£m | Tax impact<br>% |
| Amortisation of acquired intangibles (Note 14)                                                          | (5.6)             | 1.1              | 19.6%           | (6.2)             | 1.4              | 22.6%           |
| Impairment charges <sup>1</sup>                                                                         | (76.1)            | –                | –               | (90.9)            | 0.2              | 0.2%            |
| Profits and losses on agreed sale or closure of non-core businesses (Note 11)                           | 0.6               | –                | –               | 0.1               | (0.8)            | 800.0%          |
| Net operating profits/(losses) attributable to businesses identified as non-core <sup>2</sup> (Note 11) | (0.3)             | –                | –               | (0.9)             | 0.1              | 11.1%           |
| Net restructuring costs <sup>3</sup>                                                                    | (6.7)             | 1.0              | 14.9%           | (27.1)            | 4.4              | 16.2%           |
| Investment in omnichannel retailing                                                                     | (4.2)             | –                | –               | (5.7)             | –                | –               |
| Costs associated with refinancing <sup>4</sup>                                                          | (7.4)             | 1.4              | 18.9%           | –                 | –                | –               |
| Onerous contract costs <sup>5</sup>                                                                     | (13.2)            | 0.3              | 2.3%            | –                 | –                | –               |
| Other specific items <sup>6</sup>                                                                       | (1.5)             | 0.2              | 13.3%           | 0.3               | –                | –               |
| <b>Impact on operating profit/(loss)</b>                                                                | <b>(114.4)</b>    | <b>4.0</b>       | <b>3.5%</b>     | <b>(130.4)</b>    | <b>5.3</b>       | <b>4.1%</b>     |
| Non-underlying finance costs <sup>7</sup>                                                               | (11.6)            | 0.1              | 0.9%            | –                 | –                | –               |
| <b>Impact on profit/(loss) before tax</b>                                                               | <b>(126.0)</b>    | <b>4.1</b>       | <b>3.3%</b>     | <b>(130.4)</b>    | <b>5.3</b>       | <b>4.1%</b>     |
| Other tax adjustments in respect of previous years                                                      | –                 | –                | –               | –                 | (0.4)            | –               |
| <b>Impact on profit/(loss) after tax</b>                                                                | <b>(126.0)</b>    | <b>4.1</b>       | <b>3.3%</b>     | <b>(130.4)</b>    | <b>4.9</b>       | <b>3.8%</b>     |

<sup>1</sup> Impairment charges comprises £45.4m (2019: £89.6m) related to goodwill (Note 13), £1.9m customer relationships in intangibles (Note 14), £13.7m related to SAP 1HANA implementation costs (Note 14), £1.4m (2019: £0.3m) other software costs (Note 14), £3.5m tangible fixed assets (Note 10) and £10.2m (2019: £1.0m) right-of-use assets (Note 25).

<sup>2</sup> The comparatives for 31 December 2019 for net operating profit/(losses) attributable to businesses identified as non-core are updated to reflect non-core businesses on a consistent basis with the current year.

<sup>3</sup> Included within net restructuring costs are property closure costs of £0.8m (2019: £6.0m), redundancy and related staff costs of £2.8m (2019: £9.5m), £2.9m (2019: £9.6m) in relation to restructuring consultancy costs and £0.2m (2019: £2.0m) other costs. These costs have been incurred in connection with the prior year target operating model projects in the UK, Germany and France, the current year restructuring of the UK businesses as part of implementation of the "Return to Growth" strategy, and restructuring in Benelux.

<sup>4</sup> Costs associated with refinancing includes legal and professional fees of £8.3m offset by £0.9m gain in relation to the partial derecognition of a cash flow hedging arrangement as a result of the change in debt facility agreements.

<sup>5</sup> Onerous contract costs includes £11.4m (2019: £nil) relating to provisions recognised for licence fee commitments where no future economic benefit is expected to be obtained, principally in relation to the SAP 1HANA implementation (see Note 23) together with £1.8m licence fees recognised in the consolidated income statement during the year whilst the project was on hold.

<sup>6</sup> Other specific items comprises the following:

|                                                          | 2020<br>£m   | 2019<br>£m |
|----------------------------------------------------------|--------------|------------|
| PwC investigation costs                                  | (1.8)        | –          |
| Gain on fair value of forward currency option not hedged | 0.6          | 0.7        |
| Costs in relation to the cyber attack in France          | 0.1          | (0.6)      |
| GMP equalisation (Note 31)                               | (0.4)        | –          |
| Acquisition costs                                        | (0.2)        | –          |
| Other specific items                                     | 0.2          | 0.2        |
| <b>Total other specific items</b>                        | <b>(1.5)</b> | <b>0.3</b> |

<sup>7</sup> Non-underlying finance costs comprise £11.3m loss on modification recognised in relation to the private placement notes and £0.3m write-off of arrangement fees in relation to the previous RCF which has been extinguished.

# Notes to the Financial Statements

## 3. Finance income and finance costs

|                                                                   | 2020             |                   |             | 2019             |                   |             |
|-------------------------------------------------------------------|------------------|-------------------|-------------|------------------|-------------------|-------------|
|                                                                   | Underlying<br>£m | Other items<br>£m | Total<br>£m | Underlying<br>£m | Other items<br>£m | Total<br>£m |
| <b>Finance income</b>                                             |                  |                   |             |                  |                   |             |
| Interest on bank deposits                                         | 0.7              | –                 | 0.7         | 0.5              | –                 | 0.5         |
| Total finance income                                              | 0.7              | –                 | 0.7         | 0.5              | –                 | 0.5         |
| <b>Finance costs</b>                                              |                  |                   |             |                  |                   |             |
| On bank loans, overdrafts and other associated items <sup>1</sup> | 4.3              | –                 | 4.3         | 5.5              | –                 | 5.5         |
| On private placement notes <sup>2</sup>                           | 6.8              | –                 | 6.8         | 6.9              | –                 | 6.9         |
| On obligations under lease contracts                              | 12.3             | –                 | 12.3        | 12.4             | –                 | 12.4        |
| Total interest expense                                            | 23.4             | –                 | 23.4        | 24.8             | –                 | 24.8        |
| Write off of arrangement fees on extinguished RCF <sup>3</sup>    | –                | 0.3               | 0.3         | –                | –                 | –           |
| Loss on modification of private placement notes <sup>4</sup>      | –                | 11.3              | 11.3        | –                | –                 | –           |
| Net finance charge on defined benefit pension schemes             | 0.3              | –                 | 0.3         | 0.5              | –                 | 0.5         |
| Total finance costs                                               | 23.7             | 11.6              | 35.3        | 25.3             | –                 | 25.3        |
| <b>Net finance costs</b>                                          | <b>23.0</b>      | <b>11.6</b>       | <b>34.6</b> | <b>24.8</b>      | <b>–</b>          | <b>24.8</b> |

<sup>1</sup> Other associated items includes the amortisation of arrangement fees of £0.7m (2019: £0.7m).

<sup>2</sup> Included within finance costs on private placement notes is the amortisation of arrangement fees of £0.4m (2019: £0.1m) and the amortisation of the loss on modification of £1.2m (2019: £nil).

<sup>3</sup> As part of the changes to debt facility agreements on 18 June 2020, £70.0m drawn under the existing revolving credit facility was converted into a £70.0m term facility. This has been accounted for as an extinguishment of the previous facility and new arrangement, therefore arrangement fees which were being amortised over the term of the previous facility have been written off.

<sup>4</sup> The amendments to the private placement loan notes on 18 June 2020 met the criteria for a modification of the existing arrangements rather than an extinguishment and refinancing, resulting in the recognition of a loss on modification of £11.3m, reflecting the difference in the present value of the future cashflows discounted at the loans' original effective interest rates. The amortisation of this loss on modification is included within underlying finance costs on private placement notes over the remaining term of the notes, resulting in a reduction in finance costs compared to the amount paid.



#### 4. Profit/(loss) before tax

|                                                                                                                 | 2020<br>£m | 2019<br>£m |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|
| <b>Profit/(loss) before tax is stated after crediting:</b>                                                      |            |            |
| Net decrease in provision for inventories                                                                       | –          | 0.9        |
| Gains on disposal of property, plant and equipment                                                              | –          | 1.4        |
| Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11) | 0.6        | 0.1        |
| Other specific items (Note 2)                                                                                   | 0.9        | 0.9        |
| <b>And after charging:</b>                                                                                      |            |            |
| Cost of inventories recognised as an expense                                                                    | 1,888.2    | 2,116.8    |
| Net increase in provision for inventories                                                                       | 2.7        | –          |
| Depreciation of property, plant and equipment                                                                   | 11.2       | 13.1       |
| Depreciation of right-of-use assets                                                                             | 56.6       | 54.4       |
| Amortisation of acquired intangibles                                                                            | 5.6        | 6.2        |
| Amortisation of computer software                                                                               | 5.4        | 3.9        |
| Loss on disposal of property, plant and equipment                                                               | 0.9        | –          |
| Expense relating to short term leases (Note 25)                                                                 | 0.8        | 1.4        |
| Auditor remuneration for audit services                                                                         | 3.3        | 2.1        |
| Non-audit fees                                                                                                  | 0.2        | 0.2        |
| Net increase in provision for receivables (Note 17)                                                             | 8.2        | 2.7        |
| Foreign exchange rate losses/(gains)                                                                            | 0.2        | (1.3)      |
| Impairment charges (Note 2)                                                                                     | 76.1       | 90.9       |
| Net operating losses attributable to businesses identified as non-core (Note 11)                                | 0.3        | 0.9        |
| Net restructuring costs (Note 2)                                                                                | 6.7        | 27.1       |
| Other specific items (Note 2)                                                                                   | 2.4        | 0.6        |
| Staff costs (Note 5)                                                                                            | 267.4      | 268.2      |

A more detailed analysis of Auditor remuneration is provided below (continuing operations):

|                                                                                                                        | 2020<br>£m | 2019<br>£m |
|------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Fees payable to the Company's Auditor and their associates for the audit of the Company and Group Financial Statements | 1.3        | 0.6        |
| Fees payable to the Company's Auditor and their associates for other services to the Group:                            |            |            |
| – The audit of the Company's subsidiaries                                                                              | 2.0        | 1.5        |
| <b>Total audit fees (continuing operations)*</b>                                                                       | <b>3.3</b> | <b>2.1</b> |
| – Audit-related assurance services^                                                                                    | 0.2        | 0.2        |
| <b>Total non-audit fees</b>                                                                                            | <b>0.2</b> | <b>0.2</b> |
| <b>Total fees</b>                                                                                                      | <b>3.5</b> | <b>2.3</b> |

\* Total audit fees including discontinued operations are £3.3m (2019: £2.3m). The current year costs include £0.7m costs in relation to the 2019 audit.

^ The audit-related assurance services relate to the interim review, it is usual practice for a company's Auditor to perform this work.

The Audit Committee Report on pages 105 and 106 provides an explanation of how Auditor objectivity and independence is safeguarded when non-audit services are provided by the Auditor.

# Notes to the Financial Statements

## 5. Staff costs

Particulars of employees (including Directors) are shown below:

|                                                    | 2020<br>£m   | 2019<br>£m   |
|----------------------------------------------------|--------------|--------------|
| <b>Employee costs during the year amounted to:</b> |              |              |
| Wages and salaries                                 | 218.3        | 217.5        |
| Social security costs                              | 41.5         | 42.3         |
| IFRS 2 share option charge                         | 0.2          | 0.1          |
| Pension costs (Note 31)                            | 6.2          | 6.5          |
| Redundancy costs                                   | 1.2          | 1.8          |
| <b>Total staff costs</b>                           | <b>267.4</b> | <b>268.2</b> |

Amounts received from furlough schemes in relation to Covid-19 of £8.1m have been deducted from staff costs reported above (see Note 26). In addition to the above, redundancy and related staff costs of £2.8m (2019: £9.5m) have been included within Other items (Note 2).

Of the pension costs noted above, a charge of £nil (2019: £0.2m) relates to defined benefit schemes and a charge of £6.2m (2019: £6.3m) relates to defined contribution schemes. See Note 31 for more details.

The average monthly number of persons employed by the Group during the year was as follows:

|                | 2020<br>Number | 2019<br>Number |
|----------------|----------------|----------------|
| Production     | 242            | 170            |
| Distribution   | 2,314          | 2,555          |
| Sales          | 2,791          | 2,686          |
| Administration | 1,101          | 1,660          |
| <b>Total</b>   | <b>6,448</b>   | <b>7,071</b>   |

The average numbers above include 18 staff that were employed in businesses classified as non-core (2019: 70).

## Directors' emoluments

Details of the individual Directors' emoluments are given in the Directors' Remuneration Report on page 117.

The employee costs shown above include the following emoluments in respect of Directors of the Company:

|                                                                | 2020<br>£m | 2019<br>£m |
|----------------------------------------------------------------|------------|------------|
| Directors' remuneration (excluding IFRS 2 share option charge) | 2.2        | 1.7        |
| <b>Total</b>                                                   | <b>2.2</b> | <b>1.7</b> |

## 6. Income tax

The income tax expense comprises:

|                                                   | 2020<br>£m | 2019<br>£m  |
|---------------------------------------------------|------------|-------------|
| <b>Current tax</b>                                |            |             |
| UK & Ireland corporation tax:                     |            |             |
| – charge for the year                             | 0.5        | 0.8         |
| – adjustments in respect of previous years        | –          | (0.1)       |
|                                                   | 0.5        | 0.7         |
| Mainland Europe corporation tax:                  |            |             |
| – charge for the year                             | 5.6        | 6.8         |
| – adjustments in respect of previous years        | (0.1)      | 2.7         |
|                                                   | 5.5        | 9.5         |
| <b>Total current tax</b>                          | <b>6.0</b> | <b>10.2</b> |
| <b>Deferred tax</b>                               |            |             |
| Current year                                      | (2.2)      | 5.3         |
| Adjustments in respect of previous years          | 2.6        | 0.8         |
| Deferred tax charge in respect of pension schemes | –          | (3.9)       |
| Effect of change in rate                          | 0.2        | (1.0)       |
| <b>Total deferred tax</b>                         | <b>0.6</b> | <b>1.2</b>  |
| <b>Total income tax expense</b>                   | <b>6.6</b> | <b>11.4</b> |

## 6. Income tax *continued*

As the Group's profits and losses are earned across a number of tax jurisdictions an aggregated income tax reconciliation is disclosed, reflecting the applicable rates for the countries in which the Group operates.

The total tax charge for the year differs from the expected tax using a weighted average tax rate which reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates. The differences are explained in the following aggregated reconciliation of the income tax expense:

|                                                                                 | 2020           |               | 2019           |                |
|---------------------------------------------------------------------------------|----------------|---------------|----------------|----------------|
|                                                                                 | £m             | %             | £m             | %              |
| Loss before tax from continuing operations                                      | (202.3)        |               | (112.7)        |                |
| Profit before tax from discontinued operations (Note 12)                        | 72.0           |               | 3.8            |                |
| <b>Loss before tax</b>                                                          | <b>(130.3)</b> |               | <b>(108.9)</b> |                |
| Expected tax credit                                                             | (14.2)         | 10.9%         | (23.2)         | 21.3%          |
| Factors affecting the income tax expense for the year:                          |                |               |                |                |
| - expenses not deductible for tax purposes <sup>^</sup>                         | 19.6           | (15.0)%       | 7.5            | (6.9)%         |
| - non-taxable income <sup>*</sup>                                               | (33.2)         | 25.5%         | (4.5)          | 4.1%           |
| - impairment and disposal charges not deductible for tax purposes <sup>**</sup> | 15.9           | (12.2)%       | 22.4           | (20.6)%        |
| - deductible temporary differences not recognised for deferred tax purposes     | 18.1           | (13.9)%       | 10.5           | (9.6)%         |
| - other adjustments in respect of previous years                                | 2.5            | (1.9)%        | 3.7            | (3.4)%         |
| - tax on branch profits                                                         | -              | -             | 0.1            | (0.1)%         |
| - effect of change in rate on deferred tax                                      | 0.2            | (0.2)%        | (0.9)          | 0.8%           |
| <b>Total income tax expense</b>                                                 | <b>8.9</b>     | <b>(6.8)%</b> | <b>15.6</b>    | <b>(14.3)%</b> |
| Income tax expense reported in the consolidated income statement                | 6.6            |               | 11.4           |                |
| Income tax attributable to discontinued operations (Note 12)                    | 2.3            |               | 4.2            |                |
|                                                                                 | <b>8.9</b>     |               | <b>15.6</b>    |                |

<sup>^</sup> The majority of the Group's expenses that are not deductible for tax purposes are in relation to the divestments of businesses, internal restructuring and impairments of property.

<sup>\*</sup> The majority of the Group's non-taxable income relates to the divestments of businesses.

<sup>\*\*</sup> During the year the Group incurred impairment charges of £45.4m in relation to goodwill (as set out in Note 13) which are not deductible for tax purposes.

The effective tax rate for the Group on the total loss before tax of £130.3m (2019: £108.9m) is negative 6.8% (2019: negative 14.3%). As the Group operates in several different countries tax losses can not be surrendered or utilised cross border, and the Group therefore is subject to tax in some countries and not in others. Tax losses are not currently recognised in respect of the UK business (see Note 24) which impacts the overall effective tax rate. The combination of these factors means that the effective tax rate is less meaningful as an indicator or comparator for the Group.

Factors that will affect the Group's future total tax charge as a percentage of underlying profits are:

- the mix of profits and losses between the tax jurisdictions in which the Group operates; in particular the tax rates in France, Germany and Belgium are relatively high when compared to the UK and so a higher proportion of profits in these jurisdictions could result in a higher Group tax charge;
- the impact of non-deductible expenditure and non-taxable income;
- agreement of open tax computations with the respective tax authorities; and
- the recognition or utilisation (with corresponding reduction in cash tax payments) of unrecognised deferred tax assets (see Note 24).

On 25 April 2019, the European Commission ('EC') concluded its investigation into the UK's controlled foreign company ('CFC') tax rules. The EC concluded that the UK's CFC rules, which provide an exemption for 75% of the CFC charge where the CFC is carrying out financing activities, were in breach of EU State Aid. The UK Government disagrees with this conclusion and has applied to have this judgement annulled. In the meantime, the Group is continuing to review the specific facts and circumstances of its position in conjunction with professional advisors (having claimed the exemption in historic periods). Based on the initial assessment undertaken to date, a provision is not deemed to be required. However, should the UK Government be unsuccessful in appeal and all CFC profits deemed taxable in the UK, this would give rise to additional UK tax payable of up to a maximum of £5m (before interest and penalties).

In addition to the amounts charged to the Consolidated Income Statement, the following amounts in relation to taxes have been recognised in the Consolidated Statement of Comprehensive Income, with the exception of deferred tax on share options which has been recognised in the Consolidated Statement of Changes in Equity:

|                                                                                                          | 2020<br>£m | 2019<br>£m   |
|----------------------------------------------------------------------------------------------------------|------------|--------------|
| Deferred tax movement associated with re-measurement of defined benefit pension liabilities <sup>*</sup> | 0.3        | (6.6)        |
| Tax credit associated with re-measurement of defined benefit pension liabilities <sup>*</sup>            | 0.4        | 0.4          |
| Tax charge on fair value movements arising on borrowings and derivative financial instruments            | -          | (2.1)        |
| <b>Total</b>                                                                                             | <b>0.7</b> | <b>(8.3)</b> |

<sup>\*</sup>These items will not subsequently be reclassified to the Consolidated Income Statement.

# Notes to the Financial Statements

## 7. Dividends

No interim dividend was paid for the year ended 31 December 2020 (2019: 1.25p per share amounting to £7.4m) and no final dividend proposed. No final dividend was proposed or paid for the year ended 31 December 2019. Total dividends paid during the year were £nil (2019: £22.2m). No dividends have been paid between 31 December 2020 and the date of signing the Financial Statements.

At 31 December 2020 the Company has negative distributable reserves of £217.1m as set out in Note 14 of the Company Financial Statements. This means that the Company is currently unable to pay a dividend or make any other distribution to shareholders. A resolution will be put to shareholders at the AGM to approve the cancellation of the Company's share premium account in order to eliminate these losses and to create reserves available for distribution. Under the terms of the Group's borrowing arrangements, the payment of dividends is also subject to a number of conditions, including that at the relevant time the Group's leverage is less than 2.25x (including on a look-forward basis). Additionally, even where such conditions are satisfied, any interim dividend for 2021 is limited to £3.0m.

## 8. Earnings/(loss) per share

The calculations of earnings/(loss) per share are based on the following profits/(losses) and numbers of shares:

|                                                                                                                                | Basic and diluted |                |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------|
|                                                                                                                                | 2020              | 2019           |
|                                                                                                                                | £m                | £m             |
| Loss attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations | (208.9)           | (124.1)        |
| Profit/(loss) attributable to ordinary equity holders of the parent from discontinued operations                               | 69.7              | (0.4)          |
| <b>Loss attributable to ordinary equity holders of the parent for basic and diluted earnings per share</b>                     | <b>(139.2)</b>    | <b>(124.5)</b> |

|                                                                                                                                                                   | Basic and diluted before Other items |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------|
|                                                                                                                                                                   | 2020                                 | 2019       |
|                                                                                                                                                                   | £m                                   | £m         |
| Loss attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations                                    | (208.9)                              | (124.1)    |
| Add back:                                                                                                                                                         |                                      |            |
| Other items (Note 2)                                                                                                                                              | 121.9                                | 125.5      |
| <b>(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations before Other items</b> | <b>(87.0)</b>                        | <b>1.4</b> |

|                                                 | 2020        | 2019        |
|-------------------------------------------------|-------------|-------------|
|                                                 | Number      | Number      |
| <b>Weighted average number of shares</b>        |             |             |
| For basic and diluted earnings/(loss) per share | 871,941,603 | 591,556,982 |
| Effect of dilution from share options           | 1,405,503   | –           |
| Adjusted for the effect of dilution             | 873,347,106 | 591,556,982 |

The weighted average number of shares excludes those held by the SIG Employee Share Trust ("the EBT") which are not vested and beneficially owned by employees. The weighted average number of shares has increased due to the equity raise which completed on 10 July 2020 with 589,999,995 new ordinary shares issued for gross proceeds of £165m.

|                                                                               | 2020    | 2019    |
|-------------------------------------------------------------------------------|---------|---------|
| <b>Loss per share</b>                                                         |         |         |
| From continuing operations:                                                   |         |         |
| Basic loss per share                                                          | (24.0)p | (21.0)p |
| Diluted loss per share                                                        | (23.9)p | (21.0)p |
| Total:                                                                        |         |         |
| Basic loss per share                                                          | (16.0)p | (21.0)p |
| Diluted loss per share                                                        | (15.9)p | (21.0)p |
| <b>(Loss)/earnings per share before Other items<sup>^</sup></b>               |         |         |
| Basic (loss)/earnings per share from continuing operations before Other items | (10.0)p | 0.2p    |

<sup>^</sup> (Loss)/earnings per share before Other items (also referred to as underlying (loss)/earnings per share) has been disclosed in order to present the underlying performance of the Group.

## 9. Share-based payments

The Group had five share-based payment schemes in existence during the year ended 31 December 2020 (2019: four). The Group recognised a total charge of £0.2m (2019: £0.1m) in the year relating to share-based payment transactions with a corresponding entry to the share option reserve. The weighted average fair value of each option granted in the year was 34p (2019: 103p). Details of each of the schemes are provided below.

### a) Long Term Incentive Plan ('LTIP')

There are no remaining LTIP options outstanding at 31 December 2020. Information included in the prior year in relation to the options outstanding at 31 December 2019 is as follows:

On 8 November 2018, the 2018 Long Term Incentive Plan was approved ('2018 LTIP'). Under this plan Executive Directors can be awarded an annual grant of nil paid shares, with a maximum initial award of 200% and a potential multiplier on vesting of up to 300% of base salary.

In 2019, 1,958,676 awards were granted under the 2018 LTIP. The initial award will vest at the end of a three year performance period provided that the director remains employed at that date and the primary performance conditions are satisfied. The two primary performance conditions are median TSR performance against the FTSE 250 and average Return on Capital Employed ("ROCE") of 10.3% per annum over the three year period. Once the ROCE and relative TSR gateways have been achieved, the vesting of the initial award is determined based on the Company's absolute TSR performance as follows:

**2019 Awards**  
Absolute TSR  
growth:

|                                                    |                   |
|----------------------------------------------------|-------------------|
| Vesting level of initial award:                    |                   |
| – Does not vest                                    | Below 8% p.a.     |
| – Vests proportionately (25%)                      | 8% p.a.           |
| – Vests in full                                    | 14% p.a. or above |
| Straight line vesting between 8% p.a. and 14% p.a. |                   |
| Exercise period                                    | 3 - 10 years*     |

\* The awards vest after three years and are then subject to a further two year holding period.

### LTIP options

|                         | 2020        |                                     | 2019             |                                     |
|-------------------------|-------------|-------------------------------------|------------------|-------------------------------------|
|                         | Options     | Weighted average exercise price (p) | Options          | Weighted average exercise price (p) |
| At 1 January            | 5,827,857   | 0.0                                 | 3,869,181        | 0.0                                 |
| Granted during the year | –           | 0.0                                 | 1,958,676        | 0.0                                 |
| Lapsed during the year  | (5,827,857) | 0.0                                 | –                | 0.0                                 |
| <b>At 31 December</b>   | <b>–</b>    | <b>0.0</b>                          | <b>5,827,857</b> | <b>0.0</b>                          |

Of the above share options outstanding at 31 December 2019 nil were exercisable at 31 December 2019. The options outstanding at 31 December 2019 had a weighted average exercise price of nil p and a weighted average remaining contractual life of 1.6 years. No options were exercised during 2019 or 2020.

The assumptions used in the models used to calculate the fair value of the LTIP options are as follows:

|                                                                                     | 2019 LTIP Award |
|-------------------------------------------------------------------------------------|-----------------|
| Share price (on date of official grant 21 March 2019)                               | 145p            |
| Exercise price                                                                      | 0.0p            |
| Expected volatility                                                                 | 36.3%           |
| Actual life                                                                         | 3-5 years       |
| Risk free rate                                                                      | 0.7%            |
| Dividend yield                                                                      | 0.0%            |
| Model used                                                                          | Monte Carlo     |
| Expected percentage options exercised versus granted at date of grant               | 100%            |
| Revised expectation of percentage of options to be exercised as at 31 December 2020 | 0%              |

The weighted average fair value of LTIP options granted during 2019, on a maximum number of awards basis, was 59p. The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected percentage of total options exercised was based on the Directors' best estimate for the effects of behavioural considerations.



# Notes to the Financial Statements

## 9. Share-based payments continued

### b) Management Incentive Plan ('MIP')

On 16 May 2018 the Management Incentive Plan ('MIP') was approved. Under this Plan, senior leadership and wider leadership team members can be awarded an annual grant of restricted and deferred share options up to a certain percentage of base salary. Restricted share options have no performance conditions other than the employee remaining in employment for the three year vesting period. The deferred share options are formally granted 12 months after the granting of the restricted share options, with the number of options granted based on the achievement of certain performance criteria for the relevant financial year. The deferred share options vest after a further two years provided the employee remains in employment. The vesting period for both options is considered to be the three years from the granting of the restricted share options as this is the date on which both parties have a shared understanding of the terms and conditions of the arrangement. There were no new awards of restricted and deferred shares in 2020 (2019: 2,287,530), but there was an uplift to previously issued awards to reflect the increased number of shares following the equity raise resulting in a further 30,020 awards being issued.

The criteria and vesting conditions of the MIP deferred share options granted in 2019 are as follows:

|                                      | 2019 Awards         |                  |               |
|--------------------------------------|---------------------|------------------|---------------|
|                                      | Local EBIT and ROCE | Group PBT        | Group ROCE    |
| Weighting of criteria                | 50%                 | 25%              | 25%           |
| Vesting conditions:                  |                     |                  |               |
| - Does not vest                      | Various*            | <£90.0m          | <12.2%        |
| - Vests proportionately              | Various*            | £90.0m - £120.0m | 12.2% - 15.6% |
| - Vests in full                      | Various*            | ≥£120.0m         | ≥15.6%        |
| Proportion that vests at entry level | 25%                 | 25%              | 25%           |
| Exercise period                      | 3 - 10 years        |                  |               |

\* There are different local targets for EBIT and ROCE for different businesses within the Group based on local budgets.

### MIP options

|                         | 2020           |                                     | 2019             |                                     |
|-------------------------|----------------|-------------------------------------|------------------|-------------------------------------|
|                         | Options        | Weighted average exercise price (p) | Options          | Weighted average exercise price (p) |
| At 1 January            | 1,800,019      | –                                   | 1,529,155        | –                                   |
| Granted during the year | 30,020         | –                                   | 2,287,530        | –                                   |
| Lapsed during the year  | (905,533)      | –                                   | (2,016,666)      | –                                   |
| <b>At 31 December</b>   | <b>924,506</b> | <b>–</b>                            | <b>1,800,019</b> | <b>–</b>                            |

Of the above share options outstanding at the end of the year, nil (2019: nil) are exercisable at 31 December 2020. The options outstanding at 31 December 2020 had a weighted average exercise price of nil p (2019: nil) and a weighted average remaining contractual life of 0.8 years (2019: 1.8). In the year, no options were exercised.

The assumptions used in the Black-Scholes model in relation to the MIP options are as follows:

|                                                                                     | 2019 MIP Awards |               |
|-------------------------------------------------------------------------------------|-----------------|---------------|
|                                                                                     | 9 October 2019  | 20 March 2019 |
| Share price (on date of official grant)                                             | 101p            | 145p          |
| Exercise price                                                                      | 0.0p            | 0.0p          |
| Expected volatility                                                                 | 32.5%           | 35.5%         |
| Actual life                                                                         | 3 years         | 3 years       |
| Risk free rate                                                                      | 0.3%            | 0.7%          |
| Dividend                                                                            | 3.7%            | 3.4%          |
| Expected percentage options exercised versus granted at date of grant               | 94%             | 94%           |
| Revised expectation of percentage of options to be exercised as at 31 December 2020 | 60%             | 39%           |

The weighted average fair value of MIP options granted during 2019 was 141p. The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected percentage of total options exercised is based on the Directors' best estimate for the effects of behavioural considerations.

## 9. Share-based payments continued

### c) Restricted Share Plan ('RSP')

On 17 November 2020 the SIG plc Restricted Share Plan was approved. Under this Plan, executive directors and eligible employees can be awarded an annual grant of restricted share awards up to a certain percentage of base salary. Restricted share awards have no performance conditions other than the employee remaining in employment for the three year vesting period.

#### Restricted share awards

|                         | 2020              |                                     |
|-------------------------|-------------------|-------------------------------------|
|                         | Options           | Weighted average exercise price (p) |
| At 1 January            | –                 | –                                   |
| Granted during the year | 16,548,665        | –                                   |
| <b>At 31 December</b>   | <b>16,548,665</b> | <b>–</b>                            |

Of the above share options outstanding at the end of the year, nil are exercisable at 31 December 2020. The options outstanding at 31 December 2020 had a weighted average exercise price of nil p and a weighted average remaining contractual life of 2.9 years. In the year, no options were exercised.

The assumptions used in the Black-Scholes model in relation to the restricted share awards are as follows:

|                                                                                     | 2020 RSP Awards<br>1 December 2020 |
|-------------------------------------------------------------------------------------|------------------------------------|
| Share price (on date of official grant)                                             | 33p                                |
| Exercise price                                                                      | 0.0p                               |
| Expected volatility                                                                 | 54.1%                              |
| Actual life                                                                         | 3 years                            |
| Risk free rate                                                                      | (0.01)%                            |
| Dividend                                                                            | 3.3%                               |
| Expected percentage options exercised versus granted at date of grant               | 92%                                |
| Revised expectation of percentage of options to be exercised as at 31 December 2020 | 92%                                |

The weighted average fair value of RSP awards granted during 2020 was 34p. The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected percentage of total options exercised is based on the Directors' best estimate for the effects of behavioural considerations.

### d) Share Incentive Plan ('SIP')

The SIP is offered to UK employees. The SIP is a HM Revenue & Customs approved scheme and operates by inviting participants, including Executive Directors, to purchase shares in the Company in a tax efficient manner on a monthly basis. The Company gives one matching share for each share purchased by the employee up to a maximum of £20 each month. No performance criteria are attached to these matching shares, other than to avoid forfeiture the participants must remain within the plan for a minimum of two years. In 2020, 296,162 (2019: 46,822) matching shares were granted during the year. Given the nature of the scheme, the fair value of the matching shares equates to the cost of the Company acquiring these shares.

# Notes to the Financial Statements

## 10. Property, plant and equipment

The movements in the year and the preceding year were as follows:

|                                                | Freehold land<br>and buildings<br>£m | Leasehold<br>properties<br>£m | Plant and<br>machinery<br>£m | Total<br>£m  |
|------------------------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------|
| <b>Cost</b>                                    |                                      |                               |                              |              |
| At 1 January 2019                              | 42.9                                 | 60.6                          | 166.6                        | 270.1        |
| Exchange differences                           | (2.8)                                | (1.5)                         | (5.8)                        | (10.1)       |
| Additions                                      | 2.6                                  | 3.1                           | 11.4                         | 17.1         |
| Reclassified as held for sale                  | (11.6)                               | (3.0)                         | (42.8)                       | (57.4)       |
| Reclassifications                              | 11.1                                 | (1.5)                         | 38.3                         | 47.9         |
| Disposals                                      | (0.4)                                | (0.4)                         | (19.1)                       | (19.9)       |
| At 31 December 2019                            | 41.8                                 | 57.3                          | 148.6                        | 247.7        |
| Exchange differences                           | 1.8                                  | 1.1                           | 4.2                          | 7.1          |
| Additions                                      | 0.2                                  | 6.3                           | 6.8                          | 13.3         |
| Transferred from held for sale                 | 0.2                                  | 0.6                           | 15.1                         | 15.9         |
| Reclassifications                              | (3.3)                                | 6.1                           | (1.4)                        | 1.4          |
| Disposals                                      | (0.9)                                | (5.7)                         | (8.7)                        | (15.3)       |
| <b>At 31 December 2020</b>                     | <b>39.8</b>                          | <b>65.7</b>                   | <b>164.6</b>                 | <b>270.1</b> |
| <b>Accumulated depreciation and impairment</b> |                                      |                               |                              |              |
| At 1 January 2019                              | 17.7                                 | 39.3                          | 125.6                        | 182.6        |
| Charge for the year                            | 1.0                                  | 2.7                           | 11.5                         | 15.2         |
| Impairment charges                             | –                                    | 0.6                           | –                            | 0.6          |
| Exchange differences                           | (1.3)                                | (1.2)                         | (4.6)                        | (7.1)        |
| Reclassifications                              | 9.3                                  | 1.3                           | 37.7                         | 48.3         |
| Reclassified as held for sale                  | (4.7)                                | (2.0)                         | (29.3)                       | (36.0)       |
| Disposals                                      | (0.2)                                | (0.3)                         | (14.0)                       | (14.5)       |
| At 31 December 2019                            | 21.8                                 | 40.4                          | 126.9                        | 189.1        |
| Charge for the year                            | 0.4                                  | 2.4                           | 8.4                          | 11.2         |
| Impairment charges                             | –                                    | 2.8                           | 0.7                          | 3.5          |
| Exchange differences                           | 0.9                                  | 1.0                           | 2.8                          | 4.7          |
| Reclassifications                              | (1.1)                                | 2.1                           | (1.2)                        | (0.2)        |
| Transferred from held for sale                 | –                                    | 0.4                           | 9.2                          | 9.6          |
| Disposals                                      | (1.0)                                | (2.5)                         | (7.5)                        | (11.0)       |
| <b>At 31 December 2020</b>                     | <b>21.0</b>                          | <b>46.6</b>                   | <b>139.3</b>                 | <b>206.9</b> |
| <b>Net book value</b>                          |                                      |                               |                              |              |
| <b>At 31 December 2020</b>                     | <b>18.8</b>                          | <b>19.1</b>                   | <b>25.3</b>                  | <b>63.2</b>  |
| At 31 December 2019                            | 20.0                                 | 16.9                          | 21.7                         | 58.6         |

Leasehold properties includes leasehold improvements. Also included is a property held under a lease which is classified as an investment property as it is no longer being occupied for use by the Group. The Group has chosen to account for investment property using the cost model. £nil (2019: £nil) has been recognised in rental income and £0.6m (2019: £nil) incurred in Other items during the year due to impairment of the asset. The property is being depreciated on a straight-line basis over the term of the lease (25 years). The property had a cost of £4.2m, accumulated depreciation of £0.3m and impairment of £2.8m on transfer to investment property at the end of 2018. The fair value of the investment property at 31 December 2020 is estimated to be £0.5m (2019: £1.1m) based on future expected rental returns. No independent third party valuation has been carried out.

Included within plant and machinery additions are assets in the course of construction of £nil (2019: £nil).

£2.4m of the impairment charge in 2020 is attributable to the impairment in relation to the UK Distribution CGU (see Note 13). £1.1m is related to the impairment of the investment property referred to above and other assets.

Amounts included in software costs at 31 December 2019 with cost and net book value of £1.4m have been reclassified to tangible fixed assets during the year (see Note 14).

## 11. Divestments and exit of non-core businesses

The Group has recognised a net gain of £0.6m (2019: gain of £0.1m) in respect of profits and losses on agreed sale or closure of non-core businesses within Other items of the Consolidated Income Statement. This consists of £2.0m gain in relation to the disposal of the Middle East entity in the current year, offset by costs of £0.2m in relation to the disposal of Building Solutions which was due to complete in the first half of 2020 but was terminated in May 2020, a loss on the sale of the Maury business of £0.9m and other costs in relation to previous disposals of £0.3m. These are explained further below.

The sale of the Air Handling business also completed in the period and the gain on sale is included with the results from discontinued operations (Note 12).

### Businesses disposed during the year

As disclosed in the 2019 Annual Report and Accounts, the Middle East business, which was in the process of being closed, was sold on 22 January 2020 for AED1. A gain on sale of £2.0m has been recognised, in relation to the reclassification to the Consolidated Income Statement of the cumulative exchange differences on the retranslation of the net assets of the business previously recognised in other comprehensive income in accordance with IAS 21 "The effects of foreign exchange rates".

On 10 September 2020 the Group completed the sale of Maury NZ SAS ('Maury'), the Group's high-end fabrication business in France and part of the France Exteriors (Larivière) segment, for proceeds of €25,000. An overall loss on sale of £0.9m has been recognised within Other items, including the reclassification of the cumulative exchange differences on the retranslation of the net assets from equity to the Consolidated Income Statement, in accordance with IAS 21 "The effects of changes in foreign exchange rates". Net assets at the date of disposal were £0.9m and costs of less than £0.1m were incurred, resulting in the overall loss on sale of £0.9m.

Costs of £0.2m have also been recognised during the period in relation to the disposal of the Building Solutions business, which was classified as held for sale at 31 December 2019 as a sale had been agreed and was due to complete in the first half of 2020 subject to approval from the UK Competition and Markets Authority (CMA). As disclosed in the 2019 Annual Report and Accounts, on 21 May 2020 it was announced that the parties had agreed to terminate the sales agreement as terms could not be agreed for an extension to enable completion of the CMA investigation and the disposal is no longer proceeding. The business no longer meets the criteria to be presented as held for sale at 31 December 2020 and is now included within underlying operations. £0.3m costs have also been incurred and recognised within Other items in relation to the Commercial Drainage business which was closed in the prior year.

### Prior year divestments

#### WeGo FloorTec

On 13 August 2019 the Group completed the sale of WeGo FloorTec GmbH, the German raised access flooring division, for proceeds of €13.5m plus settlement of intercompany balances. An overall gain on sale of £6.0m has been recognised within Other items, including the reclassification of the cumulative exchange differences on the retranslation of the net assets from equity to the Consolidated Income Statement, in accordance with IAS 21 "The effects of changes in foreign exchange rates".

The net assets at the date of disposal were as follows:

|                                             | At date of disposal<br>£m |
|---------------------------------------------|---------------------------|
| Attributable goodwill and intangible assets | 0.4                       |
| Property, plant and equipment               | 0.8                       |
| Cash                                        | 0.4                       |
| Inventories                                 | 3.3                       |
| Trade and other receivables                 | 2.4                       |
| Trade and other payables                    | (2.4)                     |
| <b>Net assets</b>                           | <b>4.9</b>                |
| Other costs                                 | 0.9                       |
| Gain on disposal                            | 6.0                       |
| <b>Sale proceeds</b>                        | <b>11.8</b>               |
| Satisfied by:                               |                           |
| Cash and cash equivalents                   | 11.8                      |

#### Commercial Drainage

The Group closed its Commercial Drainage business, part of the UK Distribution segment, in 2019. Operating losses for the year were included in Other items in the Consolidated Income Statement and £0.9m of costs were also incurred in 2019 and included in Other items.

### Disposal groups held for sale at 31 December 2019

#### Building Solutions

On 7 October 2019, the Group announced the sale of Building Solutions (National) Limited ("Building Solutions"), a subsidiary of SIG Trading Limited, for proceeds of £37.5m. At 31 December 2019 the assets and liabilities were classified as held for sale on the Consolidated Balance Sheet, as shown below. Costs of £1.6m in relation to the disposal are included in Other items in the Consolidated Income Statement. The sale was subsequently terminated as disclosed in Note 34 of the 2019 Annual Report and Accounts.

# Notes to the Financial Statements

## 11. Divestments and exit of non-core businesses continued

### Air Handling

On 7 October 2019, the Group announced that it had agreed a sale of the Air Handling business and the sale completed on 31 January 2020. This business was a major line of business of the Group and is therefore classified as a discontinued operation. See Note 12 for further details.

Total assets and liabilities held for sale at 31 December 2019 comprised the following:

|                                                                  | Air Handling<br>£m | Building<br>Solutions<br>£m | Other<br>£m | Total<br>£m    |
|------------------------------------------------------------------|--------------------|-----------------------------|-------------|----------------|
| Goodwill and intangible assets                                   | 33.2               | 12.5                        | –           | 45.7           |
| Property, plant and equipment                                    | 15.1               | 6.2                         | 1.9         | 23.2           |
| Right-of-use assets                                              | 31.5               | 12.5                        | –           | 44.0           |
| Inventories                                                      | 33.9               | 3.8                         | –           | 37.7           |
| Trade and other receivables                                      | 58.9               | 8.5                         | –           | 67.4           |
| Contract assets                                                  | 1.5                | –                           | –           | 1.5            |
| Deferred tax asset                                               | 1.3                | 1.7                         | –           | 3.0            |
| Deferred consideration                                           | 0.8                | –                           | –           | 0.8            |
| Cash at bank and on hand                                         | 28.8               | 6.3                         | –           | 35.1           |
| <b>Assets held for sale</b>                                      | <b>205.0</b>       | <b>51.5</b>                 | <b>1.9</b>  | <b>258.4</b>   |
| Trade and other payables                                         | (46.0)             | (15.3)                      | –           | (61.3)         |
| Contract liabilities                                             | (1.5)              | –                           | –           | (1.5)          |
| Lease liabilities                                                | (31.9)             | (13.4)                      | –           | (45.3)         |
| Deferred tax liability                                           | (1.0)              | –                           | –           | (1.0)          |
| Corporation tax liability                                        | (1.2)              | –                           | –           | (1.2)          |
| Retirement benefit obligations                                   | (3.4)              | –                           | –           | (3.4)          |
| Provisions                                                       | (1.5)              | (0.5)                       | –           | (2.0)          |
| <b>Liabilities directly associated with assets held for sale</b> | <b>(86.5)</b>      | <b>(29.2)</b>               | <b>–</b>    | <b>(115.7)</b> |
| <b>Net assets directly associated with disposal groups</b>       | <b>118.5</b>       | <b>22.3</b>                 | <b>1.9</b>  | <b>142.7</b>   |

### Contribution to revenue and operating loss

The results of the above businesses for the current and prior periods have been disclosed within Other items in the Consolidated Income Statement in order to provide an indication of the underlying earnings of the Group. The revenue and net operating profit/(loss) of the non-core businesses for the years ended 31 December 2020 and 31 December 2019 are as follows:

|                                                          | 2020          |                                      | 2019          |                                      |
|----------------------------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|
|                                                          | Revenue<br>£m | Net operating<br>profit/(loss)<br>£m | Revenue<br>£m | Net operating<br>profit/(loss)<br>£m |
| Commercial Drainage                                      | –             | –                                    | 1.2           | (0.8)                                |
| WeGo FloorTec                                            | –             | –                                    | 14.5          | 0.8                                  |
| Building Solutions                                       | –             | –                                    | 58.3          | 2.9                                  |
| Maury                                                    | 1.8           | (0.3)                                | 1.9           | (0.9)                                |
| Businesses classified as non-core in 2019                | 1.8           | (0.3)                                | 75.9          | 2.0                                  |
| Reclassification of Building Solutions                   | –             | –                                    | (58.3)        | (2.9)                                |
| <b>Total attributable to non-core businesses in 2020</b> | <b>1.8</b>    | <b>(0.3)</b>                         | <b>17.6</b>   | <b>(0.9)</b>                         |

### Cash flows associated with divestments and exit of non-core businesses

The net cash inflow in the year ended 31 December 2020 in respect of divestments and the exit of non-core businesses is as follows:

|                                             | 2020               |                                    |              | 2019        |
|---------------------------------------------|--------------------|------------------------------------|--------------|-------------|
|                                             | Air Handling<br>£m | Other non-core<br>businesses<br>£m | Total<br>£m  | Total<br>£m |
| Cash consideration received for divestments | 189.7              | 0.7                                | 190.4        | 12.6        |
| Cash at date of disposal                    | (29.2)             | (0.2)                              | (29.4)       | (0.5)       |
| Disposal costs paid                         | (12.9)             | (0.3)                              | (13.2)       | (3.7)       |
| <b>Net cash inflow</b>                      | <b>147.6</b>       | <b>0.2</b>                         | <b>147.8</b> | <b>8.4</b>  |

Included within 'Other non-core businesses' is £0.7m received during the year in relation to contingent consideration on the sale of the Building Plastics division in 2017.

The losses arising on the agreed sale or closure of non-core businesses and associated impairment charges, along with their results for the current and prior periods have been disclosed within Other items in the Consolidated Income Statement in order to present the underlying earnings of the Group.



## 12. Discontinued operations

On 7 October 2019, the Group announced that it had agreed a sale of the Air Handling business for consideration of €222.7m on a cash free, debt free basis. The sale was approved by shareholders at a general meeting on 23 December 2019 and completed on 31 January 2020. At 31 December 2019, Air Handling was classified as a disposal group held for sale and as a discontinued operation as it represented a major line of business of the Group. With Air Handling being classified as a discontinued operation, the Air Handling segment is no longer presented in the segment note.

The results of the Air Handling business for the year are presented below:

|                                                                                | 2020<br>£m  | 2019<br>£m |
|--------------------------------------------------------------------------------|-------------|------------|
| <b>Revenue</b>                                                                 | <b>25.4</b> | 323.1      |
| Cost of sales                                                                  | (15.0)      | (202.0)    |
| <b>Gross profit</b>                                                            | <b>10.4</b> | 121.1      |
| Other operating expenses                                                       | (9.3)       | (101.3)    |
| <b>Underlying operating profit</b>                                             | <b>1.1</b>  | 19.8       |
| Other items                                                                    | –           | (0.7)      |
| <b>Operating profit</b>                                                        | <b>1.1</b>  | 19.1       |
| Finance income                                                                 | –           | 0.1        |
| Finance costs                                                                  | (0.1)       | (1.3)      |
| <b>Profit before tax from discontinued operations before group Other items</b> | <b>1.0</b>  | 17.9       |
| Costs incurred in connection with the disposal of discontinued operation       | –           | (12.2)     |
| Amortisation of acquired intangibles                                           | –           | (1.9)      |
| <b>Profit before tax from discontinued operations</b>                          | <b>1.0</b>  | 3.8        |
| Income tax expense                                                             | (0.3)       | (4.2)      |
| <b>Profit/(loss) after tax from discontinued operations</b>                    | <b>0.7</b>  | (0.4)      |
| Gain on sale of subsidiary after income tax (see below)                        | 69.0        | –          |
| <b>Profit/(loss) from discontinued operations</b>                              | <b>69.7</b> | (0.4)      |

Amounts included in accumulated OCI are as follows:

|                                                                                          | 2020<br>£m | 2019<br>£m |
|------------------------------------------------------------------------------------------|------------|------------|
| Remeasurement of defined benefit pension liability                                       | –          | (0.5)      |
| Deferred tax movement associated with remeasurement of defined benefit pension liability | –          | 0.1        |
| <b>Reserve of disposal group classified as held for sale</b>                             | <b>–</b>   | (0.4)      |

The net cash flows incurred by Air Handling are as follows:

|                        | 2020<br>£m   | 2019<br>£m |
|------------------------|--------------|------------|
| Operating              | 1.1          | 26.5       |
| Investing              | 147.6        | (5.1)      |
| Financing              | –            | (9.4)      |
| <b>Net cash inflow</b> | <b>148.7</b> | 12.0       |

Earnings per share:

|                                                                | 2020 | 2019   |
|----------------------------------------------------------------|------|--------|
| Basic earnings/(loss) per share from discontinued operations   | 8.0p | (0.0)p |
| Diluted earnings/(loss) per share from discontinued operations | 8.0p | (0.1)p |

# Notes to the Financial Statements

## 12. Discontinued operations continued

### Gain on sale

|                                                                                                    | 2020<br>£m   |
|----------------------------------------------------------------------------------------------------|--------------|
| <b>Consideration received<sup>1</sup> :</b>                                                        |              |
| Cash                                                                                               | 191.9        |
| Adjustment to consideration                                                                        | (2.2)        |
| <b>Final consideration</b>                                                                         | <b>189.7</b> |
| Carrying amount of net assets sold <sup>2</sup>                                                    | (118.1)      |
| Gain on sale before costs, income tax and reclassification of foreign currency translation reserve | 71.6         |
| Costs incurred in connection with the agreed disposal of the Air Handling business <sup>3</sup>    | (4.3)        |
| Reclassification of foreign currency translation reserve                                           | 3.7          |
| Income tax expense on gain                                                                         | (2.0)        |
| <b>Gain on sale after income tax</b>                                                               | <b>69.0</b>  |

<sup>1</sup> Consideration received was based on an enterprise value of €222.7m on a cash free, debt free basis, adjusted for actual levels of cash, debt and working capital in the Air Handling division at completion to give proceeds received of €228.6m (£191.9m). Net proceeds received exclusive of amounts repaid in relation to debt owed to the Group by the Air Handling division were €187.4m (£157.3m). As part of the completion process, further adjustments to the consideration were agreed and repaid by the Group, together with settlement of tax payments, reducing total consideration by £2.2m.

<sup>2</sup> The carrying amount of net assets sold is the net assets held for sale at 31 December 2019 shown below plus £0.4m relating to the net profit for the month of January 2020 less tax payments and working capital movements.

<sup>3</sup> £12.2m of costs were also incurred and recognised in 2019 in connection with the sale. Including these in the overall calculation of the gain on sale above would give a gain on sale after income tax of £57.0m.

The major classes of assets and liabilities of the Air Handling business classified as held for sale as at 31 December 2019 were as follows:

|                                                                  | 2019<br>£m    |
|------------------------------------------------------------------|---------------|
| Goodwill and intangible assets                                   | 33.2          |
| Property, plant and equipment                                    | 15.1          |
| Right-of-use assets                                              | 31.5          |
| Inventories                                                      | 33.9          |
| Trade and other receivables                                      | 58.9          |
| Contract assets                                                  | 1.5           |
| Deferred tax asset                                               | 1.3           |
| Deferred consideration                                           | 0.8           |
| Cash at bank and on hand                                         | 28.8          |
| <b>Assets held for sale</b>                                      | <b>205.0</b>  |
| Trade and other payables                                         | (46.0)        |
| Contract liabilities                                             | (1.5)         |
| Lease liabilities                                                | (31.9)        |
| Deferred tax liability                                           | (1.0)         |
| Corporation tax liability                                        | (1.2)         |
| Retirement benefit obligations                                   | (3.4)         |
| Provisions                                                       | (1.5)         |
| <b>Liabilities directly associated with assets held for sale</b> | <b>(86.5)</b> |
| <b>Net assets directly associated with disposal group</b>        | <b>118.5</b>  |

### 13. Goodwill

|                                      | £m           |
|--------------------------------------|--------------|
| <b>Cost</b>                          |              |
| At 1 January 2019                    | 475.6        |
| Business disposed                    | (0.3)        |
| Reclassified as held for sale        | (37.2)       |
| Exchange differences                 | (24.5)       |
| At 31 December 2019                  | 413.6        |
| Business disposed                    | (0.7)        |
| Acquisitions (Note 15)               | 1.0          |
| Reclassified from held for sale      | 11.0         |
| Exchange differences                 | 10.7         |
| <b>At 31 December 2020</b>           | <b>435.6</b> |
| <b>Accumulated impairment losses</b> |              |
| At 1 January 2019                    | 181.7        |
| Impairment charges                   | 90.3         |
| Exchange differences                 | (17.4)       |
| At 31 December 2019                  | 254.6        |
| Impairment charges                   | 45.4         |
| Business disposed                    | (0.7)        |
| Exchange differences                 | 7.5          |
| <b>At 31 December 2020</b>           | <b>306.8</b> |
| <b>Net book value</b>                |              |
| <b>At 31 December 2020</b>           | <b>128.8</b> |
| At 31 December 2019                  | 159.0        |

Goodwill acquired in a business combination is allocated at the date of acquisition to the Cash Generating Units ('CGUs') that are expected to benefit from that business combination. The Group currently has 9 CGUs (2019: 10) following the sale of the Air Handling business. The addition of goodwill in the year of £1.0m relates to the acquisition of S M Roofing Supplies Limited, allocated to the UK Exteriors CGU (see Note 15). Ireland is a CGU of the Group but does not have any associated goodwill, and UK Distribution has no remaining goodwill balance following the impairment recognised during the year.

#### Summary analysis

The carrying value of goodwill in respect of all CGUs is set below. These are fully supported by either value in use calculations in the year or the fair value less cost to sell for CGUs held for sale, as explained below.

|                              | 2020<br>£m   | 2019<br>£m   |
|------------------------------|--------------|--------------|
| UK Distribution              | –            | 33.5         |
| UK Exteriors                 | 57.4         | 68.2         |
| Building Solutions*          | 11.0         | –            |
| Ireland                      | –            | –            |
| France Exteriors (Larivière) | 37.1         | 35.1         |
| France Distribution (LiTT)   | 5.5          | 5.2          |
| Germany (WeGo/VTi)           | 2.5          | 2.4          |
| Poland                       | 1.2          | 1.2          |
| Benelux                      | 14.1         | 13.4         |
| <b>Total goodwill</b>        | <b>128.8</b> | <b>159.0</b> |

\* The Building Solutions balance in the prior year (£11.0m) was included within assets held for sale

#### Impairment review process

The Group tests goodwill and the associated intangible assets and property, plant and equipment of CGUs annually for impairment, or more frequently if there are indications that an impairment may be required. The Group undertook an additional assessment at 30 June 2020 to take into account the impact of Covid-19 on the Group's forecasts.

The recoverable amounts of all CGUs are determined from value in use calculations. The key assumptions for these calculations are those regarding discount rates, sales growth, gross margin and operating profit growth rates. These assumptions have been revised in the year in light of the current economic environment and the Covid-19 pandemic in particular. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC), including the cost of lease debt in accordance with IFRS16, with adjustments made to factor in the amount and timing of future tax flows in order to reflect a pre-tax discount rate. Discount rates also include a risk premium to factor in a certain element of risk over and above that already included in the forecast cash flows (for example the risk of historical accuracy of forecasting or the risk of delayed achievement of the "Return to Growth" strategy). In respect of the other assumptions, external data and management's best estimates are applied as described below.

# Notes to the Financial Statements

## 13. Goodwill *continued*

Value in use is determined by forecasting cash flows based upon management's three year projections, which include forecast sales growth based on management's best estimates and external data (construction PMI data and construction market growth forecasts), gross margin assumptions based on management's best estimates and previous experience, with annual growth rates based upon country specific inflation expectations (1.5%-2.3%) applied thereafter and into perpetuity.

The key assumptions used for each CGU are shown in the table below.

### 2020 impairment review results

In the prior year, a goodwill impairment charge of £57.4m was recognised in relation to the UK Distribution CGU and £32.2m in relation to France Exteriors (Larivière). This was due to a lowering of expectations for future sales and profitability of these two CGUs. An impairment charge of £0.7m was also recognised in relation to the Maury business, part of the Larivière CGU, based on fair value less cost to sell, as the business was in the process of being sold or closed (subsequently sold in 2020). The 2019 impairment review was carried out before considering the impact of Covid-19 on the forecasts for all CGUs, as the pandemic was a non-adjusting post balance sheet event.

An impairment review was carried out at 30 June 2020, taking into account the impact of Covid-19 on the Group's forecasts. As a result of this review, a further impairment charge of £31.0m was recognised in relation to the UK Distribution CGU and £11.8m in relation to the UK Exteriors CGU, as included in the Group's interim results to 30 June 2020.

The impairment review has been updated at 31 December 2020 to reflect management's latest forecasts and current economic conditions. The results of this review indicated that the carrying value of goodwill and other assets associated with the UK Distribution CGU was further impaired by £17.5m. This impairment has been allocated against goodwill (£2.6m), customer relationships intangible assets (£1.9m), taking both of these to a carrying value of £nil, right-of-use assets (£10.1m), tangible fixed assets (£2.4m) and software (£0.5m). Both the UK Distribution and UK Exteriors CGUs are reportable segments as disclosed in Note 1, and the charge has been included within Other items in the Consolidated Income Statement. The recoverable amount of the UK Distribution CGU is £98.3m and the UK Exteriors CGU is £137.0m. The existing carrying value of all other CGUs remained supportable.

### Sensitivity analysis

A number of sensitivities have been performed on the Group's CGUs to highlight the changes in market conditions that would lead to the value in use equalling the carrying value. The table below sets out the amount that each assumption would have to change by, all other assumptions remaining the same, for the carrying value of goodwill, intangible assets and property, plant and equipment to equal recoverable amount for each CGU. The UK Distribution CGU has been impaired to recoverable amount based on the assumptions applied, therefore any change in a key assumption would cause further impairment of the carrying value of non-current assets for this CGU. Separate analysis is provided below of the key assumptions applied in the calculation of recoverable amount and the additional impairment that could arise from a reasonably possible change in assumption.

| 2020                                      |           | Average revenue growth (%)                    |                                                                | Pre-tax discount rate (%)                   |                                                                | Gross margin (%)                            |                                                                | Long-term operating profit growth rate (average % per annum) |                                                                |
|-------------------------------------------|-----------|-----------------------------------------------|----------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------|
|                                           |           | Assumption used in value in use calculation** | Change required for carrying value to equal recoverable amount | Assumption used in value in use calculation | Change required for carrying value to equal recoverable amount | Assumption used in value in use calculation | Change required for carrying value to equal recoverable amount | Assumption used in value in use calculation                  | Change required for carrying value to equal recoverable amount |
|                                           | Headroom* |                                               |                                                                |                                             |                                                                |                                             |                                                                |                                                              |                                                                |
| UK Exteriors                              | £6.6m     | 4.1%                                          | (1.0)%                                                         | 12.5%                                       | 0.5%                                                           | 29.4%                                       | (0.3)%                                                         | 2.0%                                                         | (1.3)%                                                         |
| Building Solutions <sup>1</sup>           | £26.1m    | 9.0%                                          | (20.2)%                                                        | 12.5%                                       | 9.5%                                                           | 24.8%                                       | (4.1)%                                                         | 2.0%                                                         | (16.7)%                                                        |
| Ireland <sup>2</sup>                      | £49.8m    | 7.9%                                          | (21.7)%                                                        | 10.4%                                       | 17.5%                                                          | 24.5%                                       | (4.3)%                                                         | 2.0%                                                         | (70.3)%                                                        |
| France Distribution (LiTT)                | £80.2m    | 0.8%                                          | (20.0)%                                                        | 11.9%                                       | 37.8%                                                          | 28.1%                                       | (4.7)%                                                         | 1.6%                                                         | (115.1)%                                                       |
| France Exteriors (Larivière) <sup>3</sup> | £6.7m     | 1.0%                                          | (1.1)%                                                         | 11.9%                                       | 0.5%                                                           | 23.5%                                       | (0.2)%                                                         | 1.6%                                                         | (2.6)%                                                         |
| Germany (WeGo/VTi)                        | £64.4m    | 5.7%                                          | (7.3)%                                                         | 11.7%                                       | 6.0%                                                           | 28.1%                                       | (1.7)%                                                         | 1.9%                                                         | (16.0)%                                                        |
| Poland                                    | £8.2m     | 3.2%                                          | (4.0)%                                                         | 12.7%                                       | 3.1%                                                           | 19.9%                                       | (0.6)%                                                         | 2.3%                                                         | (12.4)%                                                        |
| Benelux                                   | £27.5m    | 10.7%                                         | (12.2)%                                                        | 12.3%                                       | 9.4%                                                           | 24.3%                                       | (2.4)%                                                         | 1.6%                                                         | (33.5)%                                                        |

\* compared to carrying value of goodwill, intangible assets, property, plant and equipment and right-of-use assets

\*\* average growth in years 2 and 3 of the 3 year plan. Growth from 2020 to 2021 not considered meaningful given the impact of Covid-19 on 2020

<sup>1</sup> Building Solutions was held for sale at 31 December 2019 and was therefore not included in the 2019 table below

<sup>2</sup> Ireland does not have any goodwill but is included in the current year for information

<sup>3</sup> France Exteriors (Larivière) was impaired to recoverable amount at December 2019 and therefore is not in the comparative 2019 table below.

### 13. Goodwill continued

| 2019                       |           | Average revenue growth (%)                  |                                                                |                                             | Pre tax discount rate (%)                                      |                                             | Gross margin (%)                                               |                                             | Long-term operating profit growth rate (average % per annum)   |
|----------------------------|-----------|---------------------------------------------|----------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------|
|                            |           | Assumption used in value in use calculation | Change required for carrying value to equal recoverable amount | Assumption used in value in use calculation | Change required for carrying value to equal recoverable amount | Assumption used in value in use calculation | Change required for carrying value to equal recoverable amount | Assumption used in value in use calculation | Change required for carrying value to equal recoverable amount |
|                            | Headroom* |                                             |                                                                |                                             |                                                                |                                             |                                                                |                                             |                                                                |
| UK Exteriors               | £20.4m    | (0.1)%                                      | (2.4)%                                                         | 9.9%                                        | 1.4%                                                           | 29.3%                                       | (0.6)%                                                         | 2.0%                                        | (3.4)%                                                         |
| France Distribution (LiTT) | £92.8m    | 0.1%                                        | (19.9)%                                                        | 9.9%                                        | 41.2%                                                          | 28.0%                                       | (4.7)%                                                         | 1.7%                                        | (180.3)%                                                       |
| Germany (WeGo/VTi)         | £10.5m    | 0.5%                                        | (1.2)%                                                         | 10.0%                                       | 1.3%                                                           | 27.4%                                       | (0.3)%                                                         | 2.1%                                        | (1.5)%                                                         |
| Poland                     | £22.4m    | 0.7%                                        | (8.0)%                                                         | 10.2%                                       | 10.3%                                                          | 20.3%                                       | (1.3)%                                                         | 2.7%                                        | (30.8)%                                                        |
| Benelux                    | £26.7m    | 0.6%                                        | (11.1)%                                                        | 10.5%                                       | 21.1%                                                          | 24.8%                                       | (2.2)%                                                         | 1.9%                                        | (8.5)%                                                         |

\*compared to carrying value of goodwill, intangible assets, property, plant and equipment and right-of-use assets

Of the above sensitivities for 2020, management considers the % changes in revenue growth and gross margin to be reasonably possible for the UK Exteriors and France Exteriors (Larivière) CGUs, which would lead to an impairment of goodwill of £6.6m for UK Exteriors and £6.7m for Larivière. The other % changes in assumptions shown above are not considered to be reasonably possible scenarios, but this additional voluntary information over and above that required by IAS36 has been included in order to provide a full picture of the level of headroom and sensitivity to changes in assumptions for each CGU.

In 2019 the above assumption for sales growth related to the forecasts for 2020. For UK Exteriors and Germany (WeGo/VTi) CGUs the detailed forecasts for 2021 and 2022 included further sales growth, with other assumptions remaining consistent with the above. For UK Exteriors the forecasts included further revenue growth from 2020 of 6.2% in 2021 and 6.3% in 2022. If the sales growth in 2021 is reduced to 4.4% this would cause the recoverable amount of the CGU to equal carrying value. For Germany (WeGo/VTi) revenue growth of 3.3% and 6.8% is included for 2021 and 2022. If the revenue growth in 2021 is only 2.3%, this would cause the recoverable amount of the CGU to equal carrying amount. These changes in revenue growth assumptions were considered to be reasonably possible scenarios.

#### UK Distribution

The UK Distribution CGU has been impaired to recoverable amount. The table below sets out the key assumptions used in the value in use calculation and the additional impairment that could arise from a reasonably possible change in each of the key assumptions:

| 2020                                                         | UK Distribution                                 |                                              |                                                            |
|--------------------------------------------------------------|-------------------------------------------------|----------------------------------------------|------------------------------------------------------------|
|                                                              | Assumption used in value in use calculation (%) | Reasonably possible change in assumption (%) | Additional impairment caused by reasonably possible change |
| Revenue growth (average of year 2 and 3 growth)              | 11.5%                                           | (1.0)%                                       | £15.1m                                                     |
| Pre tax discount rate                                        | 12.6%                                           | (0.5)%                                       | £4.3m                                                      |
| Gross margin                                                 | 23.3%                                           | (0.3)%                                       | £11.3m                                                     |
| Long-term operating profit growth rate (average % per annum) | 2.0%                                            | (0.2)%                                       | £1.2m                                                      |

Covid-19 has had a significant impact on the Group's results for 2020. The forecasts used in the above impairment review take into account management's best estimate of future cash flows, reflecting the assumption of more normal trading levels since the worst of the Covid-19 impact, as well as the expected positive impact of the strategic actions being undertaken to improve future performance under the "Return to Growth" strategy. A worsening of the current Covid-19 situation or further waves could adversely impact the Group's markets and trading performance which could lead to further impairment of non-current assets in future periods.

The Board has actively reviewed the forecasts associated with the CGUs noting the assumptions used, the sensitivity analysis performed and the ability of the businesses to adapt to challenging economic environments in which they operate, and is satisfied that no further impairments are necessary at 31 December 2020.



# Notes to the Financial Statements

## 13. Goodwill continued

### UK Distribution and France Exteriors (Larivière)

The table below sets out the key assumptions used in the value in use calculation in 2019 and the additional impairment that could have arisen from a reasonably possible change in each of the key assumptions:

| 2019                                                         | UK Distribution                                 |                                              |                                                                | France Exteriors (Larivière)                    |                                              |                                                                |
|--------------------------------------------------------------|-------------------------------------------------|----------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|----------------------------------------------|----------------------------------------------------------------|
|                                                              | Assumption used in value in use calculation (%) | Reasonably possible change in assumption (%) | Additional impairment caused by reasonably possible change (%) | Assumption used in value in use calculation (%) | Reasonably possible change in assumption (%) | Additional impairment caused by reasonably possible change (%) |
| Like-for-like market volume growth                           | (12.6)                                          | (2.0)                                        | 20.7                                                           | 3.3                                             | (2.0)                                        | 12.8                                                           |
| Pre tax discount rate                                        | 10.9                                            | 1.0                                          | 17.1                                                           | 11.0                                            | 1.0                                          | 12.9                                                           |
| Gross margin                                                 | 22.7                                            | (0.3)                                        | 14.3                                                           | 23.4                                            | (0.3)                                        | 8.2                                                            |
| Long-term operating profit growth rate (average % per annum) | 2.0                                             | (0.2)                                        | 2.6                                                            | 1.7                                             | (0.2)                                        | 2.0                                                            |

The above assumption for sales growth related to the forecasts for 2020. For UK Distribution the forecasts included further revenue growth of 16.8% in 2021 and 14.4% in 2022 following a year of a reduced revenue base in 2020. If sales growth of only 12.9% was achieved from budget 2020 to 2021 this would have caused the remaining value of goodwill of £33.5m to be fully impaired. For France Exteriors (Larivière), the forecast revenue growth included was 1.2% for 2021 and 1.5% for 2022. If no revenue growth was included for 2021 this would have resulted in additional impairment of £16.4m. These were considered reasonably possible scenarios.

## 14. Intangible assets

The intangible assets presented below relate to acquired intangibles that arise as a result of applying IFRS 3 "Business Combinations" (which requires the separate recognition of acquired intangibles from goodwill) and computer software which is recognised separately from associated hardware.

|                                               | Customer relationships<br>£m | Non-compete clauses<br>£m | Computer software<br>£m | Total<br>£m  |
|-----------------------------------------------|------------------------------|---------------------------|-------------------------|--------------|
| <b>Cost</b>                                   |                              |                           |                         |              |
| At 1 January 2019                             | 228.1                        | 11.7                      | 58.7                    | 298.5        |
| Additions                                     | –                            | –                         | 17.5                    | 17.5         |
| Disposals                                     | (0.1)                        | –                         | (0.2)                   | (0.3)        |
| Reclassifications                             | –                            | –                         | (3.7)                   | (3.7)        |
| Exchange differences                          | –                            | –                         | (1.1)                   | (1.1)        |
| Assets transferred to held for sale (Note 11) | (38.9)                       | –                         | (4.7)                   | (43.6)       |
| At 31 December 2019                           | 189.1                        | 11.7                      | 66.5                    | 267.3        |
| Additions                                     | 0.8                          | –                         | 8.7                     | 9.5          |
| Disposals                                     | –                            | –                         | (3.1)                   | (3.1)        |
| Reclassifications                             | –                            | –                         | (1.4)                   | (1.4)        |
| Exchange differences                          | –                            | –                         | 0.8                     | 0.8          |
| Assets transferred from held for sale         | 16.6                         | –                         | 0.6                     | 17.2         |
| <b>At 31 December 2020</b>                    | <b>206.5</b>                 | <b>11.7</b>               | <b>72.1</b>             | <b>290.3</b> |
| <b>Amortisation</b>                           |                              |                           |                         |              |
| At 1 January 2019                             | 198.3                        | 11.7                      | 42.3                    | 252.3        |
| Charge for the year                           | 8.1                          | –                         | 4.5                     | 12.6         |
| Impairment charges                            | 0.4                          | –                         | 0.3                     | 0.7          |
| Disposals                                     | –                            | –                         | (0.1)                   | (0.1)        |
| Reclassifications                             | –                            | –                         | (4.9)                   | (4.9)        |
| Exchange differences                          | 0.3                          | –                         | (0.8)                   | (0.5)        |
| Assets transferred to held for sale (Note 11) | (31.9)                       | –                         | (3.2)                   | (35.1)       |
| At 31 December 2019                           | 175.2                        | 11.7                      | 38.1                    | 225.0        |
| Charge for the year                           | 5.6                          | –                         | 5.4                     | 11.0         |
| Impairment charges                            | 1.9                          | –                         | 15.1                    | 17.0         |
| Disposals                                     | –                            | –                         | (2.0)                   | (2.0)        |
| Exchange differences                          | –                            | –                         | 0.7                     | 0.7          |
| Assets transferred from held for sale         | 15.3                         | –                         | 0.4                     | 15.7         |
| <b>At 31 December 2020</b>                    | <b>198.0</b>                 | <b>11.7</b>               | <b>57.7</b>             | <b>267.4</b> |
| <b>Net book value</b>                         |                              |                           |                         |              |
| <b>At 31 December 2020</b>                    | <b>8.5</b>                   | <b>–</b>                  | <b>14.4</b>             | <b>22.9</b>  |
| At 31 December 2019                           | 13.9                         | –                         | 28.4                    | 42.3         |

## 14. Intangible assets continued

Amortisation of acquired intangibles is included in the Consolidated Income Statement as part of operating expenses and is classified within Other items.

The weighted average amortisation period for each category of intangible asset is disclosed in the Statement of Significant Accounting Policies on page 145.

Included within computer software additions are assets in the course of construction of £1.4m (2019: £11.1m). £1.4m of the amount included at 31 December 2019 has been reclassified to tangible fixed assets during the year (see Note 10).

The impairment charge in relation to customer relationships relates to the impairment recognised in relation to the overall impairment review of non-current assets of UK Distribution CGU (see Note 13). The impairment charge in relation to software relates mainly to the impairment of SAP implementation costs following the period of pause and change in scope of the project. £0.5m of the impairment also relates to the overall impairment of UK Distribution non-current assets. These charges are included within 'Impairment charges' within Other items in the Consolidated Income Statement (see Note 2).

The impairment charge in relation to customer relationships in 2019 related to the impairment of intangible assets associated with the Maury business which was classified as non-core and was included within 'Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges' within Other items (see Note 11). The impairment of computer software related to the SK Sales business which has been sold as part of the Air Handling business and was included in 'Impairment charges' within Other items in the prior year.

## 15. Acquisitions

On 17 October 2020 the Group acquired 100% of the share capital of S M Roofing Supplies Limited, a non-listed company based in the UK, for an enterprise value of £1.9m on a debt free cash free basis. Total consideration was £4.9m, including £3.2m for cash within the business on completion. £4.0m was paid in cash on completion and two further amounts totalling £0.9m are payable in equal instalments in one and two years' time (not subject to performance criteria and not conditional upon vendors remaining within the business).

The provisional fair values of the identifiable assets and liabilities of S M Roofing Supplies Limited as at the date of acquisition were:

|                                             | 2020<br>£m   |
|---------------------------------------------|--------------|
| <b>Assets</b>                               |              |
| Intangible assets (customer relationships)  | 0.8          |
| Property, plant and equipment               | 0.1          |
| Right-of-use asset                          | 0.2          |
| Cash and cash equivalents                   | 3.2          |
| Trade and other receivables                 | 0.7          |
| Inventories                                 | 0.4          |
|                                             | <b>5.4</b>   |
| <b>Liabilities</b>                          |              |
| Trade and other payables                    | (0.8)        |
| Provisions                                  | (0.2)        |
| Current tax liability                       | (0.2)        |
| Deferred tax liability                      | (0.1)        |
| Lease liability                             | (0.2)        |
|                                             | <b>(1.5)</b> |
| Total identifiable net assets at fair value | <b>3.9</b>   |
| Goodwill arising on acquisition (Note 13)   | <b>1.0</b>   |
| <b>Purchase consideration transferred</b>   | <b>4.9</b>   |

# Notes to the Financial Statements

## 15. Acquisitions *continued*

The fair value of trade receivables amounts to £0.7m. The gross amount of trade receivables is £0.7m.

The Group measures the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use asset was measured at an amount equal to the lease liability.

The goodwill of £1.0m comprises the value of expected synergies arising from the acquisition (e.g. overhead costs in relation to finance, administration and management), strategic fit with the UK Exteriors business and geographic location, and is allocated entirely to the UK Exteriors segment.

From the date of acquisition, S M Roofing Supplies Limited contributed £1.0m of revenue and £nil to underlying profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations for the Group would have been £1,877.8m and loss before tax from continuing operations for the Group would have been £76.4m.

### Purchase consideration

|                                                     | 2020<br>£m |
|-----------------------------------------------------|------------|
| Cash paid on completion                             | 4.0        |
| Deferred consideration due within one year          | 0.5        |
| Deferred consideration due after more than one year | 0.4        |
| <b>Total consideration</b>                          | <b>4.9</b> |

### Analysis of cash flows on acquisition

|                                                                                          | 2020<br>£m   |
|------------------------------------------------------------------------------------------|--------------|
| Consideration paid (included in cash flows from investing activities)                    | (4.0)        |
| Transaction costs (included in cash flows from operating activities)                     | (0.2)        |
| Net cash acquired with the subsidiary (included in cash flows from investing activities) | 3.2          |
| <b>Net cash flow on acquisition</b>                                                      | <b>(1.0)</b> |

## 16. Inventories

|                                     | 2020<br>£m   | 2019<br>£m   |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables       | 3.1          | –            |
| Work in progress                    | 1.2          | 0.3          |
| Finished goods and goods for resale | 166.0        | 156.2        |
| <b>At 31 December</b>               | <b>170.3</b> | <b>156.5</b> |

The estimated replacement cost of inventories is not materially different from the balance sheet value stated above.

## 17. Trade and other receivables

|                                              | 2020<br>£m   | 2019<br>£m   |
|----------------------------------------------|--------------|--------------|
| Trade receivables                            | 232.7        | 226.4        |
| VAT                                          | 3.8          | 6.8          |
| Other receivables                            | 7.5          | 4.4          |
| Prepayments and accrued income               | 50.4         | 57.1         |
| <b>Trade and other receivables</b>           | <b>294.4</b> | <b>294.7</b> |
| Lease receivables (Note 25)                  | 0.7          | 0.8          |
| Current tax assets                           | –            | 0.9          |
| Assets classified as held for sale (Note 11) | –            | 258.4        |
| <b>Total receivables</b>                     | <b>295.1</b> | <b>554.8</b> |

Included within prepayments and accrued income is £36.7m (2019: £42.4m) due in relation to supplier rebates where there is no right to offset against trade payable balances. The remainder of the balance relates to prepayments.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The average credit period on sale of goods and services for underlying operations on a constant currency basis is 45 days (2019: 42 days).

Trade receivables are stated net of allowance for estimated credit losses and provisions for sales credit notes and customer rebates. An allowance has been made for estimated credit losses from trade receivables of £15.3m at 31 December 2020 (2019: £19.5m). On a like-for-like basis the allowance for expected credit losses is consistent with the prior year, with increases in certain entities offset by decreases in others.

### Movement in the allowance for expected credit losses

|                                                              | 2020<br>£m    | 2019<br>£m    |
|--------------------------------------------------------------|---------------|---------------|
| At 1 January                                                 | (19.5)        | (31.4)        |
| Utilised                                                     | 8.8           | 8.9           |
| Unused amounts released to the Consolidated Income Statement | 1.3           | 8.3           |
| Classified as held for sale (Note 11)                        | –             | 4.0           |
| Transferred from held for sale                               | (0.2)         | –             |
| Disposal of non-core businesses                              | 4.5           | –             |
| Charged to the Consolidated Income Statement                 | (9.5)         | (10.5)        |
| Exchange differences                                         | (0.7)         | 1.2           |
| <b>At 31 December</b>                                        | <b>(15.3)</b> | <b>(19.5)</b> |

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The expected loss rates have been assessed by each operating segment and are based on the payment profiles of sales over a period prior to 31 December 2020, the availability of credit insurance and the historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables and any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and makes a provision for impairment accordingly. In calculating expected credit losses, a loss is either a debt written off or overdue by more than 12 to 24 months depending on the business and/or expected likelihood of recovery. Debts are generally written off following official notice of insolvency, conclusion of legal proceedings or when there is no reasonable expectation of recovery. Expected credit loss provisions have been adjusted where relevant to take account of experience during the year and forward looking information, considering the impact of Covid-19 in particular. There has been an increase in the bad debt expense in certain entities as a result of Covid-19.

The concentration of credit risk is limited due to the customer base being large and unrelated.

### 31 December 2020

|                             | Days past due   |                  |                  |                 |             |
|-----------------------------|-----------------|------------------|------------------|-----------------|-------------|
|                             | < 30 days<br>£m | 30-60 days<br>£m | 61-90 days<br>£m | > 91 days<br>£m | Total<br>£m |
| Expected credit loss rate   | 0.8%            | 4.0%             | 17.0%            | 61.1%           |             |
| Total gross carrying amount | 219.7           | 22.7             | 4.7              | 19.3            | 266.4       |
| Expected credit loss        | 1.8             | 0.9              | 0.8              | 11.8            | 15.3        |

# Notes to the Financial Statements

## 17. Trade and other receivables *continued*

The 2019 expected credit loss was as follows:

### 31 December 2020

|                             | Days past due   |                  |                  |                 | Total<br>£m |
|-----------------------------|-----------------|------------------|------------------|-----------------|-------------|
|                             | < 30 days<br>£m | 30-60 days<br>£m | 61-90 days<br>£m | > 91 days<br>£m |             |
| Expected credit loss rate   | 0.7%            | 10.6%            | 10.0%            | 51.0%           |             |
| Total gross carrying amount | 214.6           | 16.0             | 4.0              | 31.0            | 265.6       |
| Expected credit loss        | 1.6             | 1.7              | 0.4              | 15.8            | 19.5        |

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Included within trade receivables is a managed pool of customer balances of £41.1m (2019: £34.5m) pledged as security in relation to the asset backed funding arrangement implemented in relation to the UK defined benefit pension plan. See Note 31 for further details.

### Transfer of trade receivables

The Group sold without recourse trade receivables to banks and other financial institutions for cash proceeds. These trade receivables of £25.2m (2019: £35.0m) have been derecognised from the Consolidated Balance Sheet, because the Group has transferred the risks and rewards.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade receivable credit exposure is controlled by counterparty limits that are set, reviewed and approved by operational management on a regular basis.

Trade receivables consist of a large number of typically small to medium sized customers, spread across a number of different market sectors and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and to determine whether the credit risk has increased since initial recognition. Where appropriate, credit guarantee insurance cover is purchased. There has been no significant change to credit risk management as a result of Covid-19.

The Group does not have any significant credit risk exposure to any single customer.

## 18. Current liabilities

|                                                                                   | 2020<br>£m   | 2019<br>£m   |
|-----------------------------------------------------------------------------------|--------------|--------------|
| Trade payables                                                                    | 187.1        | 239.3        |
| VAT                                                                               | 13.6         | 11.8         |
| Social security and payroll taxes                                                 | 12.2         | 18.0         |
| Accruals and other payables                                                       | 88.5         | 58.3         |
| <b>Trade and other payables</b>                                                   | <b>301.4</b> | <b>327.4</b> |
| Lease liabilities (Note 25)                                                       | 50.6         | 51.5         |
| Bank loans                                                                        | –            | 99.6         |
| Private placement notes (Note 19)                                                 | –            | 175.5        |
| Deferred consideration                                                            | 0.5          | –            |
| Other financial liabilities                                                       | 0.5          | 1.5          |
| Derivative financial instruments                                                  | 0.5          | 0.2          |
| Current tax liabilities                                                           | 4.2          | 3.7          |
| Provisions (Note 23)                                                              | 10.5         | 6.7          |
| Liabilities directly associated with assets classified as held for sale (Note 11) | –            | 115.7        |
| <b>Current liabilities</b>                                                        | <b>368.2</b> | <b>781.8</b> |

Trade payables is presented net of £29.9m (2019: £38.0m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement.

£nil (2019: £nil) of the above bank loans and overdrafts are secured on the assets of subsidiary undertakings, all of the lease liabilities (2019: all of the above finance lease contracts) are secured on the underlying assets and the remaining balances are unsecured. In 2019 all of the above private placement notes, derivative financial instruments, and bank loans were guaranteed by certain companies of the Group.

On 18 June 2020 the Group amended the terms of its financing arrangements. The bank loan balance at 31 December 2019 related to the amount drawn under the Revolving Credit Facility ('RCF'). As part of the amendments to the financing arrangements the amount drawn on the RCF on 18 June 2020 of £70.0m was converted into a term facility due for repayment on 31 May 2023 and a working capital facility of £25.0m. The £70.0m term facility is included within non-current liabilities (see Note 19). The amount drawn under the working capital facility at 31 December 2020 is £nil.

In 2019 £69.6m of the bank loans (after taking into account derivative financial instruments) were at variable rates of interest.

In 2019 £30.0m of the bank loans (after taking into account derivative financial instruments) attracted an average fixed interest rate of 1.58%.



## 18. Current liabilities continued

The private placement notes were classified as a current liability at 31 December 2019. The terms of the private placement notes were amended on 19 June 2020 and have been classified in accordance with the revised terms at 31 December 2020. See Note 19 for further details.

Trade payables, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases for underlying operations on a constant currency basis is 48 days (2019: 56 days).

The Directors consider that the carrying amount of current liabilities approximates to their fair value.

## 19. Non-current liabilities

|                                          | 2020<br>£m   | 2019<br>£m   |
|------------------------------------------|--------------|--------------|
| Lease liabilities (Note 25):             |              |              |
| –due after one and within two years      | 41.9         | 48.3         |
| –due after two and within five years     | 81.7         | 94.1         |
| –due after five years                    | 88.0         | 81.7         |
| Bank loan                                | 67.7         | –            |
| Private placement notes                  | 144.5        | –            |
| Deferred consideration                   | 0.4          | –            |
| Derivative financial instruments         | 0.4          | 1.9          |
| Other financial liabilities              | 1.2          | 1.4          |
| Other payables                           | 3.5          | 1.0          |
| Retirement benefit obligations (Note 31) | 25.1         | 24.8         |
| Provisions (Note 23)                     | 25.7         | 18.6         |
| <b>Non-current liabilities</b>           | <b>480.1</b> | <b>271.8</b> |

All of the above private placement notes, bank loan and derivative financial instruments are guaranteed by certain companies of the Group.

### Bank loan

As part of the amendments to the financing arrangements on 18 June 2020, the amount drawn on the RCF at that date of £70.0m was converted into a term facility due for repayment on 31 May 2023 and a working capital facility of £25.0m. The £70.0m term facility is included within non-current liabilities above, net of arrangement fees paid (of which £2.3m remains unamortised at 31 December 2020). This has been accounted for as an extinguishment of the previous facility and new arrangement, therefore arrangement fees which were being amortised over the term of the previous facility have been written off (see Note 3).

### Private Placement Notes

On 18 June 2020 the Group concluded changes to its agreements with existing private placement notes holders with the following key changes:

- repayment of €30m of notes previously due on 31 October 2020 and €20m of notes previously due on 31 October 2021 deferred to 31 May 2023;
- £48.9m repaid on completion of the Group's equity raise in July 2020, split across each of the individual notes on a pro-rata basis;
- holders of the existing 2023 notes (due 31 October 2023) and 2026 notes (due 12 August 2026) granted a put option for those notes to be redeemed on 31 May 2023 at a price equal to 100% of the aggregate outstanding principal together with a make-whole amount calculated as specified in the agreement;
- additional fee of 2% per annum to be paid on the outstanding principal; and
- financial covenants were reset.

The loan notes have been considered separately to determine whether the changes should be accounted for as a modification of the existing arrangement or as an extinguishment and refinancing. The Group has concluded that each loan note meets the criteria to be accounted for as a modification. Previous arrangement fees therefore continue to be amortised over the remaining term (£0.3m at the date of modification) together with arrangement fees incurred in relation to the new agreement (£1.9m). A loss on modification of £11.3m has also been recognised, reflecting the difference in the present value of the future cash flows discounted at each loan note's original EIR. This has been recognised within finance costs within Other items (see Note 3). This will unwind over the remaining term of the loan notes, resulting in the finance cost recognised in future periods being lower than the actual amounts paid.

At 31 December 2019 the private placement notes were reclassified as a current liability on the balance sheet because the covenant test of consolidated net worth at 31 December 2019 was below the threshold of £400m and therefore at the balance sheet date the Group did not have an unconditional right to defer settlement of the liability for at least 12 months.

# Notes to the Financial Statements

## 19. Non-current liabilities continued

The contractual repayment profile (before applying associated derivative financial instruments and prepaid arrangement fees) under both the current and previous arrangements are shown below:

|                    | 2020         |                       | 2019         |                       |
|--------------------|--------------|-----------------------|--------------|-----------------------|
|                    | £m           | Fixed interest rate % | £m           | Fixed interest rate % |
| Repayable in 2020  | –            | –                     | 25.4         | 3.7%                  |
| Repayable in 2021  | –            | –                     | 16.9         | 3.9%                  |
| Repayable in 2023  | 66.2         | 6.0%                  | 42.3         | 4.2%                  |
| Repayable in 2026* | 70.0         | 5.3%                  | 91.2         | 3.3%                  |
| <b>Total</b>       | <b>136.2</b> | <b>5.6%</b>           | <b>175.8</b> | <b>3.6%</b>           |

\* If the lenders exercise the put option as referred to above, this amount will become due and payable in 2023

£16.3m (2019: £22.6m) of private placement debt repayable in 2026 that was denominated in US Dollar was swapped into Sterling through the use of cross-currency swaps. The remainder of the private placement debt at 31 December 2020 is denominated in Euros. The private placement debt in the table above is valued before application of the cross-currency swaps associated with the US Dollar denominated debt.

The Directors consider that the carrying amount of non-current liabilities approximates to their fair value, with the exception of the private placements notes, the fair value of which is disclosed in Note 20.

## 20. Financial assets, liabilities, financial risk management and derivatives

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, deferred consideration and cash and cash equivalents that derive directly from its operations.

### a) Financial assets

The Group holds the following financial assets:

|                                                                        | Note | 2020<br>£m   | 2019<br>£m   |
|------------------------------------------------------------------------|------|--------------|--------------|
| Financial assets at amortised cost                                     |      |              |              |
| Trade receivables                                                      | 17   | 232.7        | 226.4        |
| Cash at bank and on hand                                               |      | 235.3        | 110.0        |
| Derivative financial instruments designated as hedging instruments     | 20d  | 0.1          | 1.9          |
| Derivative financial instruments not designated as hedging instruments |      | –            | 0.7          |
| <b>Total</b>                                                           |      | <b>468.1</b> | <b>339.0</b> |

Included within cash at bank and on hand is cash restricted for use of £nil (2019: £0.8m) relating to cash received from customers in relation to trade receivable balances derecognised under factoring arrangements and which is therefore owed to the factor. Nothing is included in the above cash balance in 2020 (2019: £8.1m) relating to cash held and restricted for use in relation to the asset backed funding arrangement in connection with the UK defined benefit pension scheme. The interest received on cash deposits is at variable rates of interest of up to 0.2% (2019: 1.5%).

The Directors consider that the fair values of cash at bank and on hand and trade receivables approximate their carrying value, largely due to the short-term maturities of these instruments. The fair value is not significantly different to the carrying amount.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Information about the Group's exposure to credit risk in relation to trade receivables is given in Note 17.

Of the above cash at bank on hand, £137.6m (2019: £14.5m) is denominated in Sterling, £83.1m (2019: £76.9m) in Euros, £12.7m (2019: £17.2m) in Polish Zloty, and £1.9m (2019: £1.4m) in other currencies.

### b) Financial liabilities

The Group holds the following financial liabilities:

|                                                                    | Note | 2020<br>£m   | 2019<br>£m   |
|--------------------------------------------------------------------|------|--------------|--------------|
| Financial liabilities at amortised cost                            |      |              |              |
| Trade and other payables*                                          | 18   | 275.6        | 297.6        |
| Borrowings                                                         |      | 145.5        | 278.0        |
| Deferred consideration                                             |      | 0.5          | –            |
| Lease liabilities                                                  |      | 262.2        | 275.6        |
| Derivative financial instruments designated as hedging instruments | 20d  | 0.9          | 2.1          |
| <b>Total</b>                                                       |      | <b>684.7</b> | <b>853.3</b> |

\* Excluding non-financial liabilities

## 20. Financial assets, liabilities, financial risk management and derivatives *continued*

The directors consider that the fair values of trade and other payables, loan notes and deferred consideration approximate their carrying value due to their short-term nature. The fair value of borrowings is considered below.

### 2020 interest rate and currency profile

The interest rate and currency profile of the Group's financial liabilities at 31 December 2020, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £0.1m as noted above) but excluding prepayment of arrangement fees of £1.8m was as follows:

|                         | Currency     | Total<br>£m  | Floating<br>rate<br>£m | Fixed rate<br>£m | Effective<br>fixed interest<br>rate<br>% | Weighted<br>average time<br>for which rate<br>is fixed<br>Years | Amount<br>secured<br>£m | Amount<br>unsecured<br>£m |
|-------------------------|--------------|--------------|------------------------|------------------|------------------------------------------|-----------------------------------------------------------------|-------------------------|---------------------------|
| Private placement notes | Sterling     | 16.6         | –                      | 16.6             | 6.2%                                     | 5.6                                                             | –                       | 16.6                      |
| Other borrowings        | Sterling     | 69.6         | 70.0                   | (0.4)            | –                                        | 0.6                                                             | –                       | 69.6                      |
| Lease contracts         | Sterling     | 131.9        | –                      | 131.9            | 0.0% – 7.7%                              | 8.7 – 22.3                                                      | 131.9                   | –                         |
| Private placement notes | Euro         | 120.0        | –                      | 120.0            | 5.5%                                     | 4.0                                                             | –                       | 120.0                     |
| Other borrowings        | Euro         | 1.5          | –                      | 1.5              | 2.8%                                     | 2.0                                                             | 1.5                     | –                         |
| Lease contracts         | Euro         | 120.5        | –                      | 120.5            | 0.1% – 5.7%                              | 1.1 – 120.1                                                     | 120.5                   | –                         |
| Other borrowings        | Polish Zloty | 0.1          | 0.1                    | –                | n/a                                      | n/a                                                             | 0.1                     | –                         |
| Lease contracts         | Polish Zloty | 9.8          | 3.0                    | 6.8              | 1.9% – 8.3%                              | 1.0 – 7.2                                                       | 9.8                     | –                         |
| Lease contracts         | Other        | –            | –                      | –                | n/a                                      | n/a                                                             | –                       | –                         |
| <b>Total</b>            |              | <b>470.0</b> | <b>73.1</b>            | <b>396.9</b>     |                                          |                                                                 | <b>263.8</b>            | <b>206.2</b>              |

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2020 which alter the currency profile of the Group's financial liabilities. These amount to an asset of £16.6m and a liability of £18.3m. These derivatives also further reduce the fixed interest payable of the Sterling private placement notes from 6.2% to 5.5 - 5.7%. The fair value of these derivatives was a net liability of £0.4m which is included in the Sterling value of other borrowings in the table above. The Group's net debt at 31 December 2020 was £238.2m and, after taking account of these cross-currency derivatives, the Group had net Euro financial liabilities of £54.6m.

All of the above lease contracts are secured on the underlying assets.

The Directors consider the fair value of the Group's floating rate financial liabilities to materially approximate to the book value shown in the table above. The fair value of the Group's private placement notes at 31 December 2020 is estimated to be £164.7m (2019: £200.2m) and is classified as a Level 2 fair value measurement for disclosure purposes. The remaining fixed rate debt amounts to £260.3m (2019: £305.7m) and relates to finance lease contracts, fixed rate loans (after applying derivative financial instruments) and deferred consideration. The Directors consider the fair value of these remaining fixed rate debts to materially approximate to the book values shown above.

### 2019 interest rate and currency profile

The interest rate and currency profile of the Group's financial liabilities at 31 December 2019, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £2.6m as noted above) but excluding prepayment of arrangement fees of £0.7m was as follows:

|                         | Currency     | Total<br>£m  | Floating<br>rate<br>£m | Fixed rate<br>£m | Effective fixed<br>interest rate<br>% | Weighted<br>average time<br>for which rate<br>is fixed<br>Years | Amount<br>secured<br>£m | Amount<br>unsecured<br>£m |
|-------------------------|--------------|--------------|------------------------|------------------|---------------------------------------|-----------------------------------------------------------------|-------------------------|---------------------------|
| Private placement notes | Sterling     | 20.9         | –                      | 20.9             | 4.2%                                  | 6.6                                                             | –                       | 20.9                      |
| Other borrowings        | Sterling     | 101.2        | 70.0                   | 31.2             | 1.6%                                  | 0.6                                                             | –                       | 101.2                     |
| Lease contracts         | Sterling     | 136.8        | –                      | 136.8            | 0.0% – 6.2%                           | 0.1 – 88.7                                                      | 136.8                   | –                         |
| Private placement notes | Euro         | 153.2        | –                      | 153.2            | 3.5%                                  | 4.4                                                             | –                       | 153.2                     |
| Other borrowings        | Euro         | 2.8          | 1.0                    | 1.8              | 2.8%                                  | 3.0                                                             | 2.8                     | –                         |
| Lease contracts         | Euro         | 128.2        | –                      | 128.2            | 1.7% – 7.3%                           | 0.1 – 9.5                                                       | 128.2                   | –                         |
| Other borrowings        | Polish Zloty | 0.1          | 0.1                    | –                | n/a                                   | n/a                                                             | 0.1                     | –                         |
| Lease contracts         | Polish Zloty | 9.0          | 2.6                    | 6.4              | 3.2% – 8.3%                           | 0.1 – 75.6                                                      | 9.0                     | –                         |
| Lease contracts         | Other        | 1.4          | –                      | 1.4              | 3.9%                                  | 6.0                                                             | 1.4                     | –                         |
| <b>Total</b>            |              | <b>553.6</b> | <b>73.7</b>            | <b>479.9</b>     |                                       |                                                                 | <b>278.3</b>            | <b>275.3</b>              |

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2019 which alter the currency profile of the Group's financial liabilities. These amount to an asset of £20.9m and a liability of £26.6m. These derivatives also further reduce the fixed interest payable of the Sterling private placement notes from 4.2% to 2.9%. The fair value of these derivatives was a net liability of £1.9m which is included in the Sterling value of other borrowings in the table above. The Group's net debt at 31 December 2019 was £455.4m (including IFRS16 adjustments) and, after taking account of these cross-currency derivatives, the Group had net Euro financial liabilities of £229.7m.

In both 2020 and 2019, the interest rate on floating rate financial liabilities is based upon appropriate local market rates.

# Notes to the Financial Statements

## 20. Financial assets, liabilities, financial risk management and derivatives *continued*

### c) Financial risk management

SIG's finance and treasury policies set out the Group's approach to managing treasury risk. The objectives of the Group's financial risk management policies are to ensure sufficient liquidity to meet the Group's operational and strategic needs and the management of financial risk at optimal cost.

The Group is exposed to credit risk, liquidity risk, interest rate risk and foreign currency risk. The Group Board oversees the management of these risks. The Board manages the risks through implementation of the Group Treasury Policy, supported by the Group Tax and Treasury Committee, which monitors and reviews the activities of the Group Treasury Function to ensure they are performed in accordance with the policy and reports to the Group Board on a regular basis. It is Group policy that no trading in financial instruments or speculative transactions be undertaken.

#### *Liquidity risk*

Liquidity risk is the risk that SIG is unable to meet its financial obligations as they fall due. In order to minimise this risk, SIG seeks to balance certainty of funding and a flexible, cost-effective borrowing structure. This is achieved by using a range of sources of funding, preventing over-reliance on any single provider. The key sources of finance are private placement note investors, being mainly US-based pension funds, and principal bank debt. The Group also maintains significant cash balances which are more than sufficient to meet the requirements of the working capital cycle taking into account the seasonality of the business.

To manage liquidity risk the Group prepares and reviews rolling weekly cash flow forecasts, actual cash and debt positions along with available facilities and headroom which are reported weekly and monitored by Group management. In addition, full annual three-year forecasts are prepared including cash flow and headroom forecasts. The Group is in a strong liquidity position and at 31 December 2020 held cash of £235.3m (2019: £145.1m), and had £25.0m (2019: £133.3m) additional headroom from the £25.0m (2019: £233.3m) revolving credit facility that matures in May 2023.

#### *Foreign currency risk*

SIG has a number of overseas businesses whose revenues and costs are denominated in the currencies of the countries in which they operate. 65% of SIG's 2020 continuing revenues (2019: 61%) were in foreign currencies, being primarily Euros and Polish Zloty. SIG faces a translation risk in respect of changes to the exchange rates between the reporting currencies of these operations and Sterling and has decided not to hedge the income statement translational risk arising from these income streams.

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

The Group uses cross-currency interest rate swaps and foreign exchange forward contracts to manage the exposures arising from cross currency transactions (Note 20d ii).

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

|              | Average rate |      |              | Closing rate |      |              |
|--------------|--------------|------|--------------|--------------|------|--------------|
|              | 2020         | 2019 | Movement (%) | 2020         | 2019 | Movement (%) |
| Euro         | 1.1          | 1.1  | –            | 1.1          | 1.2  | (0.1)%       |
| Polish Zloty | 5.0          | 4.9  | 0.1%         | 5.1          | 5.0  | 0.1%         |

#### *Commodity risk*

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

#### *Credit risk*

Credit risk is covered in Note 17.

## 20. Financial assets, liabilities, financial risk management and derivatives *continued*

### *Counterparty credit risk*

SIG holds significant investment assets, being principally cash deposits and derivative assets. Strict policies are in place in order to minimise counterparty credit risk associated with these assets. A list of approved deposit counterparties is maintained and counterparty credit limits, based on published credit ratings and CDS spreads, are in place. These limits, and the position against these limits, are reviewed and reported on a regular basis. Sovereign credit ratings are also monitored, and country limits for investment assets are in place. If necessary, funds are repatriated to the UK.

### *Interest rate risk*

The Group has exposure to movements in interest rates on its outstanding debt, financial derivatives and cash balances. To reduce this risk the Group monitors its mix of fixed and floating rate debt and, if required, transacts derivative financial instruments to manage this mix where appropriate. SIG has a policy of aiming to fix between 50% and 75% of its average net debt over the medium term. The percentage of gross debt at fixed rates of interest at 31 December 2020 is 84% (2019: 87%).

### **d) Hedging activities and derivatives**

The Group is exposed to foreign currency and interest rate risks relating to its ongoing business operations. The Group's risk management strategy and how it is applied to manage risk is explained in the 'Management of treasury risks' section of the Financial Review.

In order to manage the Group's exposure to exchange rate and interest rate changes, the Group utilises both currency and interest rate derivative financial instruments. The fair values of these derivative financial instruments are calculated by discounting the associated future cash flows to net present values using appropriate market rates prevailing at the balance sheet date.

The Group does not trade in derivative financial instruments for speculative purposes. Where derivatives meet the hedge accounting criteria under the rules of IFRS 9, movements in the fair values of these derivative financial instruments are recognised in the Consolidated Statement of Comprehensive Income. Where the criteria for hedge accounting are not met, movements are accounted for at fair value through profit or loss. Financial instruments are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The Group is required to analyse financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the financial instruments below are categorised as Level 2.

### **i) Net investment hedges**

The Group has investments in Euro denominated subsidiaries. At 31 December 2020 the Group held €134m (2019: €181m) of direct Euro-denominated debt through its private placement debt. This borrowing is being used to hedge the Group's exposure to the Euro foreign exchange risk on investments in Euro denominated subsidiaries. Gains or losses on retranslation of the borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries.

As at 31 December 2020 the Group held two (31 December 2019: two) cross-currency derivative financial instruments which receive fixed £16.6m and pay fixed €18.3m. These derivative financial instruments were designated as hedging instruments as part of the net investment hedge of the Group's Euro-denominated net assets. Fair value changes on these derivatives are recognised in other comprehensive income (in the hedging and translation reserve) to offset any gains or losses on translation of the net investments in the subsidiaries.

There is an economic relationship between the hedged item and the hedging instruments as the net investment in Euro denominated assets creates a translation risk that will match the foreign exchange risk on the Euro denominated debt. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. Hedge ineffectiveness will arise when the amount of the investment in Euro denominated subsidiaries becomes lower than the amount of the cross currency derivative.

The impact of the hedging instruments on the statement of financial position is as follows:

|                                        | Notional<br>amount<br>€m | Carrying<br>amount<br>(asset)/liability<br>£m | Line item in the statement of<br>financial position | Change in fair value used for<br>measuring ineffectiveness for the<br>period<br>£m |
|----------------------------------------|--------------------------|-----------------------------------------------|-----------------------------------------------------|------------------------------------------------------------------------------------|
| <b>At 31 December 2020</b>             |                          |                                               |                                                     |                                                                                    |
| Cross-currency swap                    | 18.3                     | (0.1)                                         | Derivative financial instruments                    | (1.4)                                                                              |
| Foreign currency denominated borrowing | 134.0                    | 120.0                                         | Private placement notes                             | (9.5)                                                                              |
| <b>At 31 December 2019</b>             |                          |                                               |                                                     |                                                                                    |
| Cross-currency swap                    | 26.6                     | 1.9                                           | Derivative financial instruments                    | 1.6                                                                                |
| Foreign currency denominated borrowing | 181.0                    | 153.2                                         | Private placement notes                             | 9.3                                                                                |



# Notes to the Financial Statements

## 20. Financial assets, liabilities, financial risk management and derivatives *continued*

The impact of the hedged item on the statement of financial position is as follows:

|                                               | 31 December 2020                                              |                                            |                               | 31 December 2019                                              |                                       |                               |
|-----------------------------------------------|---------------------------------------------------------------|--------------------------------------------|-------------------------------|---------------------------------------------------------------|---------------------------------------|-------------------------------|
|                                               | Change in fair value used for measuring ineffectiveness<br>£m | Foreign currency translation reserve<br>£m | Cost of hedging reserve<br>£m | Change in fair value used for measuring ineffectiveness<br>£m | Hedging and translation reserve<br>£m | Cost of hedging reserve<br>£m |
| <b>Net investment in foreign subsidiaries</b> | <b>(10.9)</b>                                                 | <b>(10.7)</b>                              | <b>(0.2)</b>                  | 10.9                                                          | 8.7                                   | 0.2                           |

The hedging gain recognised in Other Comprehensive Income before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

| <b>Hedge of the Group's Euro denominated assets</b> | 2020<br>£m | 2019<br>£m   |
|-----------------------------------------------------|------------|--------------|
| Liability at 1 January                              | (1.9)      | (3.5)        |
| Fair value losses recognised in equity              | (1.4)      | 1.6          |
| Cash settlement on partial derecognition            | 3.4        | –            |
| <b>Liability at 31 December</b>                     | <b>0.1</b> | <b>(1.9)</b> |

### ii) Cash flow hedges

With regard to cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity and is subsequently removed and included in the Consolidated Income Statement within Finance costs in the same period that the hedged item affects the Consolidated Income Statement. The cash flow hedges described below are expected to impact upon both profit and loss and cash flow annually over the life of the hedging instrument and the related debt as interest falls due, and upon maturity of the debt and related hedging instrument.

#### Foreign currency risk

The Group faces a translation risk from the US Dollar on its private placement borrowings in respect of payments of interest and the principal amount. As at 31 December 2020, the Group held two (31 December 2019: two) cross-currency interest rate swaps which swap fixed US Dollar-denominated debt (and the associated interest) held in the UK into fixed Sterling-denominated debt. These derivative financial instruments form a cash flow hedge as they fix the functional currency cash flows of the Group. These derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2020, the weighted average maturity date of these swaps is 5.6 years (2019: 6.6 years).

| <b>Hedge of the Group's functional currency cash flows</b>   | 2020<br>£m   | 2019<br>£m |
|--------------------------------------------------------------|--------------|------------|
| Asset at 1 January                                           | 1.7          | 1.9        |
| Fair value losses recognised in equity                       | (0.1)        | (0.2)      |
| Cash settlement on partial derecognition of cash flow hedges | (2.0)        | –          |
| <b>Liability at 31 December</b>                              | <b>(0.4)</b> | <b>1.7</b> |

The cash flows associated with the cross-currency interest rate swaps are expected to occur every six months in line with the underlying interest payments on the loans which are recorded in the Consolidated Income Statement.

The Group also uses foreign exchange forward contracts to manage the exposures arising from cross currency transactions. At 31 December 2020 the Group held a number of short term forward contracts designated as hedging instruments in cash flow hedges of forecast purchases in US Dollars. The forecast transactions are highly probable. Foreign exchange forward contract balances vary with the level of expected foreign currency transactions and changes in foreign exchange forward rates.

Included within derivative financial instruments is £0.1m (2019: £0.2m) relating to forward foreign exchange contracts.

#### Interest rate risk

The Group has floating rate debt as part of the revolving credit facility which means interest rate costs will increase in the event of rising interest rates. As at 31 December 2019, the Group held one interest rate derivative financial instrument which swapped variable rate debt into fixed rate debt thereby fixing the functional currency cash flows of the Group. This interest rate derivative financial instrument was designated and effective as a cash flow hedge and the fair value movement was therefore deferred in equity via the Consolidated Statement of Comprehensive Income. This swap expired in August 2020.

| <b>Hedge of the Group's interest cash flows</b> | 2020<br>£m | 2019<br>£m   |
|-------------------------------------------------|------------|--------------|
| Liability at 1 January                          | (0.2)      | (0.3)        |
| Fair value gains recognised in equity           | 0.2        | 0.1          |
| <b>Liability at 31 December</b>                 | <b>–</b>   | <b>(0.2)</b> |

## 20. Financial assets, liabilities, financial risk management and derivatives *continued*

For the cash flow hedges, there is an economic relationship between the hedged items and hedging instruments as the terms of the cross-currency and interest rate swaps match the terms of the debt (i.e. notional amount, maturity and payment dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the cross-currency swaps, interest rate swap and foreign exchange forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in fair value of the hedging instruments against the changes in fair value of the hedged items.

Hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments; the counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedge items; and changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The Group is holding the following cross-currency swaps, interest rate swaps and foreign exchange forward contracts:

|                                    | Notional amount<br>\$m | Notional amount<br>€m | Notional Amount<br>£m | Maturity | Average<br>hedged rate | Average<br>forward rate |
|------------------------------------|------------------------|-----------------------|-----------------------|----------|------------------------|-------------------------|
| <b>At 31 December 2020</b>         |                        |                       |                       |          |                        |                         |
| Cross-currency swaps               | 22.2                   | n/a                   | 16.5                  | 2026     | 6.25%                  | 1.34                    |
| Interest rate swaps                | n/a                    | n/a                   | n/a                   | n/a      | n/a                    | n/a                     |
| Foreign exchange forward contracts | 6.0                    | 20.0                  | 22.8                  | 2021     | n/a                    | 1.34                    |
| <b>At 31 December 2019</b>         |                        |                       |                       |          |                        |                         |
| Cross-currency swaps               | 30.0                   | n/a                   | 20.9                  | 2026     | 4.17%                  | 1.44%                   |
| Interest rate swaps                | n/a                    | n/a                   | 30.0                  | 2020     | 1.58%                  | n/a                     |
| Foreign exchange forward contracts | n/a                    | 30.5                  | 25.7                  | 2020     | n/a                    | 1.19%                   |

The impact of the hedging instruments on the statement of financial position is as follows:

|                                    | Carrying amount<br>£m | Line item in the statement of<br>financial position | Change in fair value used for<br>measuring ineffectiveness for<br>the period<br>£m |
|------------------------------------|-----------------------|-----------------------------------------------------|------------------------------------------------------------------------------------|
| <b>At 31 December 2020</b>         |                       |                                                     |                                                                                    |
| Cross-currency swaps               | (0.4)                 | Derivative financial instruments                    | (0.1)                                                                              |
| Interest rate swap                 | –                     | Derivative financial instruments                    | 0.2                                                                                |
| Foreign exchange forward contracts | (0.4)                 | Derivative financial instruments                    | (0.6)                                                                              |
| <b>At 31 December 2019</b>         |                       |                                                     |                                                                                    |
| Cross-currency swap                | 1.7                   | Derivative financial instruments                    | (0.1)                                                                              |
| Interest rate swap                 | (0.2)                 | Derivative financial instruments                    | 0.1                                                                                |
| Foreign exchange forward contracts | 0.2                   | Derivative financial instruments                    | 0.4                                                                                |

The impact of the hedged item on the statement of financial position is as follows:

|                                    | 31 December 2020                                                    |                                       |                                     | 31 December 2019                                                    |                                             |                                     |
|------------------------------------|---------------------------------------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------------------------------------|---------------------------------------------|-------------------------------------|
|                                    | Change in fair value<br>used for measuring<br>ineffectiveness<br>£m | Cash flow<br>hedging<br>reserve<br>£m | Cost of<br>hedging<br>reserve<br>£m | Change in fair value<br>used for measuring<br>ineffectiveness<br>£m | Hedging and<br>translation<br>reserve<br>£m | Cost of<br>hedging<br>reserve<br>£m |
| Cross-currency swaps               | (0.1)                                                               | (0.2)                                 | 0.1                                 | (0.1)                                                               | 0.8                                         | (0.9)                               |
| Interest rate swap                 | 0.2                                                                 | 0.2                                   | –                                   | 0.1                                                                 | 0.1                                         | –                                   |
| Foreign exchange forward contracts | (0.6)                                                               | (0.6)                                 | –                                   | 0.4                                                                 | 0.4                                         | –                                   |

# Notes to the Financial Statements

## 20. Financial assets, liabilities, financial risk management and derivatives *continued*

The effect of the cash flow hedges in the statement of profit or loss and other comprehensive income is as follows:

|                                    | Total hedging gain/(loss) recognised in OCI<br>€m | Ineffectiveness recognised in profit or loss<br>€m | Line item in the statement of profit or loss | Amount reclassified from OCI to profit or loss<br>€m | Line item in the statement of profit or loss<br>€m |
|------------------------------------|---------------------------------------------------|----------------------------------------------------|----------------------------------------------|------------------------------------------------------|----------------------------------------------------|
| <b>At 31 December 2020</b>         |                                                   |                                                    |                                              |                                                      |                                                    |
| Cross-currency swaps               | (0.1)                                             | –                                                  | Finance costs                                | –                                                    | Operating expenses                                 |
| Interest rate swap                 | 0.2                                               | –                                                  | Finance costs                                | –                                                    | Finance costs                                      |
| Foreign exchange forward contracts | (0.6)                                             | –                                                  | Finance costs                                | –                                                    | Operating expenses                                 |
| <b>At 31 December 2019</b>         |                                                   |                                                    |                                              |                                                      |                                                    |
| Cross-currency swap                | (0.1)                                             | –                                                  | Finance costs                                | –                                                    | Operating expenses                                 |
| Interest rate swap                 | 0.1                                               | –                                                  | Finance costs                                | –                                                    | Finance costs                                      |
| Foreign exchange forward contracts | 0.4                                               | –                                                  | Finance costs                                | –                                                    | Operating expenses                                 |

### Derivatives not designated as hedging instruments

The Group also uses some foreign exchange forward contracts which are not designated as cash flow hedges to manage some of its transaction exposures and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally within one month. As at the year end there were no (2019: two) such items with a total carrying amount of £nil (2019: £0.7m). This primarily related to an option to pay Euros at a fixed rate to coincide with the receipt of the proceeds from the Air Handling sale.

### iii) Impact of hedging on equity

Set below is the reconciliation of each component of equity and the analysis of other comprehensive income:

|                                                                                                                         | Retained (losses)/profits |                | Cash flow hedging reserve |            | Foreign currency translation reserve |            | Cost of hedging reserve |            |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------|----------------|---------------------------|------------|--------------------------------------|------------|-------------------------|------------|
|                                                                                                                         | 2020<br>£m                | 2019<br>£m     | 2020<br>£m                | 2019<br>£m | 2020<br>£m                           | 2019<br>£m | 2020<br>£m              | 2019<br>£m |
| At 1 January                                                                                                            | (224.9)                   | (68.9)         | 3.5                       | –          | 6.7                                  | 21.7       | 0.3                     | 1.0        |
| Transfer to cash flow hedging reserve*                                                                                  |                           | (1.3)          | –                         | 1.3        | –                                    | –          | –                       | –          |
| Effective portion of changes in fair value arising from:                                                                |                           |                |                           |            |                                      |            |                         |            |
| Net Investment Swaps                                                                                                    | –                         | –              | –                         | –          | (1.2)                                | 1.4        | (0.2)                   | 0.2        |
| Cross-currency swaps                                                                                                    | –                         | –              | (0.2)                     | 0.8        | –                                    | –          | 0.1                     | (0.9)      |
| Interest rate swaps                                                                                                     | –                         | –              | 0.2                       | 0.1        | –                                    | –          | –                       | –          |
| Foreign exchange forward contracts                                                                                      | –                         | –              | (0.6)                     | 0.4        | –                                    | –          | –                       | –          |
| Amount reclassified to profit or loss                                                                                   | –                         | –              | (0.7)                     | 0.9        | –                                    | –          | –                       | –          |
| Foreign currency revaluation of foreign currency denominated borrowing                                                  | –                         | –              | –                         | –          | (9.5)                                | 9.3        | –                       | –          |
| Foreign currency revaluation of net foreign operations                                                                  | –                         | –              | –                         | –          | 18.3                                 | (23.5)     | –                       | –          |
| Tax effect                                                                                                              | –                         | –              | –                         | –          | –                                    | (2.1)      | –                       | –          |
| Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations | –                         | –              | –                         | –          | (5.9)                                | (0.1)      | –                       | –          |
| Other movements not associated with hedging                                                                             | (140.0)                   | (154.7)        | –                         | –          | –                                    | –          | –                       | –          |
| <b>At 31 December</b>                                                                                                   | <b>(364.9)</b>            | <b>(224.9)</b> | <b>2.2</b>                | <b>3.5</b> | <b>8.4</b>                           | <b>6.7</b> | <b>0.2</b>              | <b>0.3</b> |

\* Amounts were reclassified during the prior year to clarify the effects of hedging and separately identify the cash flow hedging reserve and foreign currency retranslation reserve. The cash flow hedging reserve and foreign currency translation reserve are included together as "Hedging and translation reserves" in the Consolidated Statement of Changes in Equity.

The following table reconciles the net losses on derivative financial instruments recognised directly in the Consolidated Income Statement, to the movements in derivative financial instruments noted above.

|                                                                                                           | 2020<br>£m | 2019<br>£m |
|-----------------------------------------------------------------------------------------------------------|------------|------------|
| Gains on derivative financial instruments recognised directly in the Consolidated Income Statement        | 0.7        | 0.7        |
| Amounts reclassified from OCI to profit and loss on cash flow hedges                                      | 0.8        | –          |
| <b>Total net losses on derivative financial instruments included in the Consolidated Income Statement</b> | <b>1.5</b> | <b>0.7</b> |

## 21. Maturity of financial assets and liabilities

### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities (inclusive of derivative financial assets) at 31 December 2020 was as follows:

|                                                     | 2020<br>£m   | 2019<br>£m   |
|-----------------------------------------------------|--------------|--------------|
| In one year or less                                 | 51.3         | 327.4        |
| In more than one year but not more than two years   | 43.4         | 48.8         |
| In more than two years but not more than five years | 294.5        | 95.0         |
| In more than five years                             | 88.3         | 81.9         |
| <b>Total</b>                                        | <b>477.5</b> | <b>553.1</b> |

The table above is presented consistent with the balance sheet presentation and includes the private placement notes as a non current liability. This is contrast to 31 December 2019 where rather than being based on contractual maturity, the amounts were classified as a current liability. See note 19 for further detail. The table excludes trade payables of £175.1m (2019: £235.6m).

### Borrowing facilities

The Group had undrawn committed borrowing facilities at 31 December 2020 as follows:

|                                                              | 2020<br>£m  | 2019<br>£m   |
|--------------------------------------------------------------|-------------|--------------|
| Expiring in more than one year but not more than two years   | –           | 133.3        |
| Expiring in more than two years but not more than five years | 25.0        | –            |
| <b>Total</b>                                                 | <b>25.0</b> | <b>133.3</b> |

As part of the amendments to the financing arrangements on 18 June 2020 (see Note 18), the previous Revolving Credit Facility (RCF) of £233.0m was converted into a £70.0m term facility (included in non-current liabilities (Note 19)) and a £25.0m working capital facility. No amounts have been drawn on the working capital facility during the period to 31 December 2020, and no amounts have been drawn subsequent to 31 December 2020.

### Contractual maturity analysis of the Group's financial liabilities, derivative financial instruments, other financial assets, deferred consideration and cash and cash equivalents

IFRS 7 requires disclosure of the maturity of the Group's remaining contractual financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the Group's financial assets and liabilities including interest that will accrue to those assets and liabilities except where the Group is entitled and intends to repay the liability before its maturity. Both the inclusion of future interest and the values disclosed being undiscounted results in the total position being different to that included in the Consolidated Balance Sheet. Given this is a maturity analysis all trade payables (including amongst other items payroll and sales tax accruals which are not classified as financial instruments) have been included.

#### 2020 analysis

|                                        | Balance sheet<br>value<br>£m | Maturity analysis |                 |                 |                 | Total<br>£m    |
|----------------------------------------|------------------------------|-------------------|-----------------|-----------------|-----------------|----------------|
|                                        |                              | < 1 year<br>£m    | 1-2 years<br>£m | 2-5 years<br>£m | > 5 years<br>£m |                |
| <b>Current liabilities</b>             |                              |                   |                 |                 |                 |                |
| Trade and other payables               | 275.6                        | 275.6             | –               | –               | –               | 275.6          |
| Lease liabilities                      | 50.6                         | 61.5              | –               | –               | –               | 61.5           |
| Deferred consideration                 | 0.5                          | 0.5               | –               | –               | –               | 0.5            |
| Derivative financial instruments       | 0.5                          | 0.5               | –               | –               | –               | 0.5            |
| Other financial liabilities            | 0.5                          | 0.5               | –               | –               | –               | 0.5            |
| <b>Total</b>                           | <b>327.7</b>                 | <b>338.6</b>      | <b>–</b>        | <b>–</b>        | <b>–</b>        | <b>338.6</b>   |
| <b>Non-current liabilities</b>         |                              |                   |                 |                 |                 |                |
| Lease liabilities                      | 211.6                        | –                 | 51.8            | 101.5           | 144.0           | 297.3          |
| Bank loans                             | 67.7                         | 2.7               | 2.7             | 71.6            | –               | 77.0           |
| Private placement notes                | 144.5                        | 7.6               | 7.6             | 89.3            | 77.6            | 182.1          |
| Deferred consideration                 | 0.4                          | –                 | 0.4             | –               | –               | 0.4            |
| Derivative financial instruments       | 0.4                          | (0.1)             | (0.1)           | (0.3)           | 1.2             | 0.7            |
| Other financial liabilities            | 1.2                          | –                 | 1.2             | –               | –               | 1.2            |
| <b>Total</b>                           | <b>425.8</b>                 | <b>10.2</b>       | <b>63.6</b>     | <b>262.1</b>    | <b>222.8</b>    | <b>558.7</b>   |
| <b>Total liabilities</b>               | <b>753.5</b>                 | <b>348.8</b>      | <b>63.6</b>     | <b>262.1</b>    | <b>222.8</b>    | <b>897.3</b>   |
| <b>Other</b>                           |                              |                   |                 |                 |                 |                |
| Derivative financial instrument assets | (0.1)                        | –                 | –               | –               | (0.1)           | (0.1)          |
| Cash and cash equivalents              | (235.3)                      | (235.3)           | –               | –               | –               | (235.3)        |
| Trade and other receivables            | (294.4)                      | (294.4)           | –               | –               | –               | (294.4)        |
| <b>Total</b>                           | <b>(529.8)</b>               | <b>(529.7)</b>    | <b>–</b>        | <b>–</b>        | <b>(0.1)</b>    | <b>(529.8)</b> |
| <b>Grand total</b>                     | <b>223.7</b>                 | <b>(180.9)</b>    | <b>63.6</b>     | <b>262.1</b>    | <b>222.7</b>    | <b>367.5</b>   |

# Notes to the Financial Statements

## 21. Maturity of financial assets and liabilities *continued*

The table above includes: cross-currency interest rate swaps in relation to derivative financial assets with a fair value at 31 December 2020 of £0.1m (2019: £1.7m) and derivative financial liabilities of £0.3m (2019: £1.9m) that will be settled gross, the final exchange on these derivatives will be a payment of €18.3m and receipt of \$22.2m in August 2026; and other derivative financial assets with a fair value at 31 December 2020 of £nil (2019: £0.9m) and derivative financial liabilities of £0.5m (2019: £0.2m) that will be settled gross, the final exchange on these derivatives will be total receipts of €20m (2019: €30.5m), PLN 32m (2019: PLN 31m), \$3.0m (2019: nil) and £nil (2019: £62.3m) and corresponding payments of £29.2m (2019: £31.8m) and £nil (2019: €72.5m).

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

| As at 31 December 2020           | Gross amounts of recognised financial assets/ (liabilities)<br>£m | Amounts available to offset through netting agreements<br>£m | Net amount<br>£m |
|----------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------|------------------|
| Derivative financial assets      | 0.1                                                               | (0.1)                                                        | –                |
| Derivative financial liabilities | (0.9)                                                             | 0.1                                                          | (0.8)            |
| <b>Total</b>                     | <b>(0.8)</b>                                                      | <b>–</b>                                                     | <b>(0.8)</b>     |

### 2019 analysis

|                                        | Balance sheet value<br>£m | Maturity analysis |                 |                 |                 | Total<br>£m    |
|----------------------------------------|---------------------------|-------------------|-----------------|-----------------|-----------------|----------------|
|                                        |                           | < 1 year<br>£m    | 1-2 years<br>£m | 2-5 years<br>£m | > 5 years<br>£m |                |
| <b>Current liabilities</b>             |                           |                   |                 |                 |                 |                |
| Trade and other payables               | 297.6                     | 297.6             | –               | –               | –               | 297.6          |
| Lease liabilities                      | 51.5                      | 62.4              | –               | –               | –               | 62.4           |
| Bank loans                             | 99.6                      | 100.4             | –               | –               | –               | 100.4          |
| Private placement notes                | 175.5                     | 31.8              | 22.4            | 54.9            | 97.1            | 206.2          |
| Derivative financial instruments       | 0.2                       | 0.2               | –               | –               | –               | 0.2            |
| Other financial liabilities            | 1.5                       | 1.5               | –               | –               | –               | 1.5            |
| <b>Total</b>                           | <b>625.9</b>              | <b>493.9</b>      | <b>22.4</b>     | <b>54.9</b>     | <b>97.1</b>     | <b>668.3</b>   |
| <b>Non-current liabilities</b>         |                           |                   |                 |                 |                 |                |
| Lease liabilities                      | 224.1                     | 0.5               | 55.0            | 110.3           | 114.8           | 280.6          |
| Derivative financial instruments       | 1.9                       | (0.2)             | (0.2)           | (0.6)           | 1.2             | 0.2            |
| Other financial liabilities            | 1.4                       | –                 | 0.4             | 1.0             | –               | 1.4            |
| <b>Total</b>                           | <b>227.4</b>              | <b>0.3</b>        | <b>55.2</b>     | <b>110.7</b>    | <b>116.0</b>    | <b>282.2</b>   |
| <b>Total liabilities</b>               | <b>853.3</b>              | <b>494.2</b>      | <b>77.6</b>     | <b>165.6</b>    | <b>213.1</b>    | <b>950.5</b>   |
| <b>Other</b>                           |                           |                   |                 |                 |                 |                |
| Derivative financial instrument assets | (2.6)                     | (1.4)             | (0.2)           | (0.6)           | (2.1)           | (4.3)          |
| Cash and cash equivalents              | (110.0)                   | (110.0)           | –               | –               | –               | (110.0)        |
| Trade and other receivables            | (294.7)                   | (294.7)           | –               | –               | –               | (294.7)        |
| <b>Total</b>                           | <b>(407.3)</b>            | <b>(406.1)</b>    | <b>(0.2)</b>    | <b>(0.6)</b>    | <b>(2.1)</b>    | <b>(409.0)</b> |
| <b>Grand total</b>                     | <b>446.0</b>              | <b>88.1</b>       | <b>77.4</b>     | <b>165.0</b>    | <b>211.0</b>    | <b>541.5</b>   |

At 31 December 2019, the private placement notes have been reclassified in the balance sheet as a current liability as explained in Note 19. The contractual maturity profile is unaffected and details of the contractual repayment profile of the private placement notes are shown in Note 19. The table above reflects the contractual maturity for repayments of principal and interest.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

| As at 31 December 2019           | Gross amounts of recognised financial assets/ (liabilities)<br>£m | Amounts available to offset through netting agreements<br>£m | Net amount<br>£m |
|----------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------|------------------|
| Derivative financial assets      | 2.6                                                               | (1.7)                                                        | 0.9              |
| Derivative financial liabilities | (2.1)                                                             | 1.7                                                          | (0.4)            |
| <b>Total</b>                     | <b>0.5</b>                                                        | <b>–</b>                                                     | <b>0.5</b>       |



## 22. Sensitivity Analysis

IFRS 7 requires the disclosure of a sensitivity analysis that details the effects on the Group's profit or loss and other equity of reasonably possible fluctuations in market rates.

This sensitivity analysis has been prepared to illustrate the effect of the following hypothetical variations in market rates on the fair value of the Group's financial assets and liabilities:

- i) a 1% (100 basis points) increase or decrease in market interest rates; and
- ii) a 10% strengthening or weakening of Sterling against all other currencies to which the Group is exposed.

### a) Interest rate sensitivity

The Group is currently exposed to Sterling, Euro and US Dollar interest rates. The Group also has a minimal exposure to Polish Zloty interest rates.

In order to illustrate the Group's sensitivity to interest rate fluctuations, the following table details the Group's sensitivity to a 100 basis point change in each respective interest rate. The sensitivity analysis of the Group's exposure to interest rate risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

#### 2020 analysis

|                                   | GBP          |              | EUR          |              | USD          |              | Total        |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   | +100bp<br>£m | -100bp<br>£m | +100bp<br>£m | -100bp<br>£m | +100bp<br>£m | -100bp<br>£m | +100bp<br>£m | -100bp<br>£m |
| Profit or loss                    | 0.4          | (0.4) (i)    | –            | – (iii)      | –            | –            | 0.4          | (0.4)        |
| Other equity                      | –            | – (ii)       | 1.1          | (1.2) (iv)   | (1.1)        | 1.1 (ii)     | –            | (0.1)        |
| <b>Total Shareholders' equity</b> | <b>0.4</b>   | <b>(0.4)</b> | <b>1.1</b>   | <b>(1.2)</b> | <b>(1.1)</b> | <b>1.1</b>   | <b>0.4</b>   | <b>(0.5)</b> |

#### 2019 analysis

|                                   | GBP          |              | EUR          |              | USD          |              | Total        |              |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                   | +100bp<br>£m | -100bp<br>£m | +100bp<br>£m | -100bp<br>£m | +100bp<br>£m | -100bp<br>£m | +100bp<br>£m | -100bp<br>£m |
| Profit or loss                    | (1.1)        | 1.1 (i)      | –            | – (iii)      | –            | –            | (1.1)        | 1.1          |
| Other equity                      | 0.1          | – (ii)       | 1.7          | (1.7) (iv)   | (1.5)        | 1.6 (ii)     | 0.3          | (0.1)        |
| <b>Total Shareholders' equity</b> | <b>(1.0)</b> | <b>1.1</b>   | <b>1.7</b>   | <b>(1.7)</b> | <b>(1.5)</b> | <b>1.6</b>   | <b>(0.8)</b> | <b>1.0</b>   |

The movements noted above are mainly attributable to:

- (i) floating rate Sterling debt and cash deposits
- (ii) mark-to-market valuation changes in the fair value of effective cash flow hedges
- (iii) floating rate Euro debt and Euro cash deposits
- (iv) changes in the value of the Group's Euro-denominated assets and liabilities

### b) Foreign currency sensitivity

The Group is exposed to currency rate changes between Sterling and Euros, US Dollars and Polish Zloty.

The following table details the Group's sensitivity to a 10% change in Sterling against each respective foreign currency to which the Group is exposed, indicating the likely impact of changes in foreign exchange rates on the Group's financial position. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

#### 2020 analysis

|                                                         | EUR          |              | USD          |            | PLN          |              | Total        |              |
|---------------------------------------------------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|
|                                                         | +10%<br>£m   | -10%<br>£m   | +10%<br>£m   | -10%<br>£m | +10%<br>£m   | -10%<br>£m   | +10%<br>£m   | -10%<br>£m   |
| <b>Assets and liabilities under the scope of IFRS 7</b> |              |              |              |            |              |              |              |              |
| Profit or loss                                          | –            | – (i)        | –            | –          | (0.1)        | 0.1          | (0.1)        | 0.1          |
| Other equity                                            | 0.8          | (1.0) (ii)   | (0.4)        | 0.5 (ii)   | 0.3          | (0.4) (ii)   | 0.7          | (0.9)        |
| <b>Total Shareholders' equity</b>                       | <b>0.8</b>   | <b>(1.0)</b> | <b>(0.4)</b> | <b>0.5</b> | <b>0.2</b>   | <b>(0.3)</b> | <b>0.6</b>   | <b>(0.8)</b> |
| <b>Total assets and liabilities*</b>                    |              |              |              |            |              |              |              |              |
| Profit or loss                                          | –            | – (iii)      | –            | – (v)      | (0.1)        | 0.1 (vi)     | (0.1)        | 0.1          |
| Other equity                                            | (4.8)        | 5.8 (iv)     | (0.4)        | 0.5 (iv)   | (0.1)        | 0.1 (iv)     | (5.3)        | 6.4          |
| <b>Total Shareholders' equity</b>                       | <b>(4.8)</b> | <b>5.8</b>   | <b>(0.4)</b> | <b>0.5</b> | <b>(0.2)</b> | <b>0.2</b>   | <b>(5.4)</b> | <b>6.5</b>   |

# Notes to the Financial Statements

## 22. Sensitivity Analysis continued

### 2019 analysis

|                                                         | EUR          |              | USD          |            | PLN          |            | Total         |             |
|---------------------------------------------------------|--------------|--------------|--------------|------------|--------------|------------|---------------|-------------|
|                                                         | +10%<br>£m   | -10%<br>£m   | +10%<br>£m   | -10%<br>£m | +10%<br>£m   | -10%<br>£m | +10%<br>£m    | -10%<br>£m  |
| <b>Assets and liabilities under the scope of IFRS 7</b> |              |              |              |            |              |            |               |             |
| Profit or loss                                          | (0.7)        | 0.9 (i)      | –            | –          | –            | –          | (0.7)         | 0.9         |
| Other equity                                            | 0.1          | (1.3) (ii)   | –            | – (ii)     | (1.4)        | 1.8 (ii)   | (1.3)         | 0.5         |
| <b>Total Shareholders' equity</b>                       | <b>(0.6)</b> | <b>(0.4)</b> | <b>–</b>     | <b>–</b>   | <b>(1.4)</b> | <b>1.8</b> | <b>(2.0)</b>  | <b>1.4</b>  |
| <b>Total assets and liabilities*</b>                    |              |              |              |            |              |            |               |             |
| Profit or loss                                          | –            | – (iii)      | –            | – (v)      | –            | – (vi)     | –             | –           |
| Other equity                                            | (6.0)        | 7.3 (iv)     | (2.0)        | 2.5 (iv)   | (3.5)        | 4.4 (iv)   | (11.5)        | 14.2        |
| <b>Total Shareholders' equity</b>                       | <b>(6.0)</b> | <b>7.3</b>   | <b>(2.0)</b> | <b>2.5</b> | <b>(3.5)</b> | <b>4.4</b> | <b>(11.5)</b> | <b>14.2</b> |

\* Certain assets and liabilities such as inventories, non-current assets and provisions do not come under the scope of IFRS 7. Therefore, in order to present a complete analysis of the Group's exposure to movements in foreign currency exchange rates, the exposure on the Group's total assets and liabilities has been disclosed.

The movements noted above are mainly attributable to:

- (i) retranslation of Euro interest flows
- (ii) mark-to-market valuation changes in the fair value of effective cash flow and net investment hedges and retranslation of assets and liabilities under the scope of IFRS 7
- (iii) retranslation of Euro profit streams and transaction exposure relating to purchases in Euros
- (iv) retranslation of foreign currency denominated assets and liabilities outside the scope of IFRS 7 and mark-to-market valuation changes in the fair value of effective cash flow and net investment hedges
- (v) transaction exposure relating to purchases in US Dollars
- (vi) retranslation of Polish Zloty profit streams

## 23. Provisions

|                                       | Onerous<br>leases<br>£m | Leasehold<br>dilapidations<br>£m | Other<br>amounts<br>£m | Total<br>£m |
|---------------------------------------|-------------------------|----------------------------------|------------------------|-------------|
| At 1 January 2020                     | 2.3                     | 21.8                             | 1.2                    | 25.3        |
| Unused amounts reversed in the period | –                       | (1.6)                            | (0.1)                  | (1.7)       |
| Utilised                              | (2.1)                   | (2.1)                            | (0.5)                  | (4.7)       |
| Reclassified                          | –                       | (0.1)                            | –                      | (0.1)       |
| New provisions                        | 0.4                     | 3.5                              | 12.8                   | 16.7        |
| Exchange differences                  | –                       | 0.1                              | 0.1                    | 0.2         |
| Transferred from held for sale        | –                       | 0.5                              | –                      | 0.5         |
| <b>At 31 December 2020</b>            | <b>0.6</b>              | <b>22.1</b>                      | <b>13.5</b>            | <b>36.2</b> |

|                                     | 2020<br>£m  | 2019<br>£m  |
|-------------------------------------|-------------|-------------|
| Included in current liabilities     | 10.5        | 6.7         |
| Included in non-current liabilities | 25.7        | 18.6        |
| <b>Total</b>                        | <b>36.2</b> | <b>25.3</b> |

### Onerous leases

Since adoption of IFRS 16 on 1 January 2019, the future rental payments due over the remaining term of existing lease contracts is included in the lease liability, with the right-of-use asset impaired to reflect the future cost not covered through sublease income. The remaining onerous lease provision relates to other non-rental costs due over the remaining lease term.

### Leasehold dilapidations

This provision relates to contractual obligations to reinstate leasehold properties to their original state of repair. The provision is calculated based on both the liability to rectify or reinstate leasehold improvements and modifications carried out on the inception of the lease (recognised on inception with corresponding fixed asset) and the liability to rectify general wear and tear which is recognised as incurred over the life of the lease. The costs will be incurred both at the end of the leases as set out in Note 25 (reinstatement) and during the lease term (wear and tear).

### Other amounts

Included within other amounts is £11.4m (2019: £nil) relating to onerous contract provisions for licence fee commitments where no future economic benefit is expected to be obtained, principally in relation to the SAP 1HANA implementation following the change in scope of the project. The costs will be incurred over the next three years. Other amounts relate principally to claims and warranty provisions. The transfer of economic benefit is expected to be made between one and four years' time.

## 24. Deferred tax

The net deferred tax asset at the end of the year is analysed as follows:

|                                           | 2020<br>£m | 2019<br>£m |
|-------------------------------------------|------------|------------|
| Deferred tax assets:                      |            |            |
| – Continuing operations                   | 5.7        | 4.4        |
| – Disposal groups held for sale (Note 11) | –          | 3.0        |
| Deferred tax liabilities:                 |            |            |
| – Disposal groups held for sale (Note 11) | –          | (1.0)      |
| <b>Net deferred tax asset</b>             | <b>5.7</b> | <b>6.4</b> |

### Summary of deferred tax

The different components of deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period are analysed below:

|                                         | Goodwill and<br>intangibles<br>£m | Property,<br>plant and<br>equipment<br>£m | Short term<br>timing<br>differences<br>£m | Retirement<br>benefit<br>obligations<br>£m | Losses<br>£m | Other<br>£m  | Total<br>£m |
|-----------------------------------------|-----------------------------------|-------------------------------------------|-------------------------------------------|--------------------------------------------|--------------|--------------|-------------|
| At 1 January 2019                       | (6.1)                             | 10.2                                      | 3.5                                       | 5.4                                        | 3.3          | (3.1)        | 13.2        |
| Credit/(charge) to income               | 1.4                               | (5.3)                                     | (1.4)                                     | 3.9                                        | –            | 0.2          | (1.2)       |
| Charge to equity                        | –                                 | –                                         | –                                         | (6.6)                                      | –            | –            | (6.6)       |
| Exchange differences                    | –                                 | –                                         | (0.1)                                     | (0.1)                                      | (0.1)        | 0.2          | (0.1)       |
| Attributable to discontinued operations | 0.6                               | 0.1                                       | 0.3                                       | 0.1                                        | –            | –            | 1.1         |
| At 31 December 2019                     | (4.1)                             | 5.0                                       | 2.3                                       | 2.7                                        | 3.2          | (2.7)        | 6.4         |
| Credit/(charge) to income               | 1.1                               | (1.0)                                     | –                                         | –                                          | (2.0)        | 1.3          | (0.6)       |
| Credit to equity                        | –                                 | –                                         | –                                         | 0.3                                        | –            | –            | 0.3         |
| Added on acquisition                    | (0.1)                             | –                                         | –                                         | –                                          | –            | –            | (0.1)       |
| Exchange differences                    | –                                 | –                                         | 0.1                                       | 0.2                                        | 0.1          | (0.5)        | (0.1)       |
| Attributable to discontinued operations | 1.4                               | 0.7                                       | (1.6)                                     | –                                          | (0.7)        | –            | (0.2)       |
| <b>At 31 December 2020</b>              | <b>(1.7)</b>                      | <b>4.7</b>                                | <b>0.8</b>                                | <b>3.2</b>                                 | <b>0.6</b>   | <b>(1.9)</b> | <b>5.7</b>  |

The deferred tax charge within the Consolidated Income Statement for 2020 includes a credit of £0.2m (2019: £1.0m) arising from the change in domestic tax rates in the countries in which the Group operates.

Given current and forecast trading the Directors consider that recognition of the deferred tax assets above is appropriate.

The majority of the deferred tax asset associated with the retirement benefit obligations is in respect of the French and German defined benefit schemes. Payments against the deficit will be deductible for tax purposes on a paid basis and the Group expects to receive the tax benefit, therefore the associated deferred tax asset has been recognised.

Deferred tax has not been recognised on deductible temporary differences relating to property, plant and equipment; short term timing differences; UK retirement benefit obligations and tax losses being carried forward on the basis that the realisation of their future economic benefit is uncertain. The unrecognised potential deferred tax asset in relation to these items is £57.0m (2019: £15.2m).

At the balance sheet date, no deferred tax liability is recognised on temporary differences relating to undistributed profits of the overseas subsidiaries which aggregate to £280m (2019: £204m). The Group is in a position to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the Group's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax credit of £0.4m.

# Notes to the Financial Statements

## 25. Leases

### The Group as a lessee

The Group has lease contracts for various properties, vehicles and other equipment used in its operations. Information on the nature and accounting for lease contracts is provided in the Statement of Accounting Policies.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

|                                | Buildings<br>£m | Plant and<br>equipment<br>£m | Total<br>£m  |
|--------------------------------|-----------------|------------------------------|--------------|
| At 1 January 2020              | 221.2           | 34.0                         | 255.2        |
| Transferred from held for sale | 12.0            | 0.5                          | 12.5         |
| Foreign currency movement      | 3.6             | 0.7                          | 4.3          |
| Additions                      | 12.6            | 6.2                          | 18.8         |
| Disposals                      | (0.1)           | (0.4)                        | (0.5)        |
| Modifications                  | 8.1             | (2.0)                        | 6.1          |
| Impairments                    | (10.2)          | –                            | (10.2)       |
| Depreciation expense           | (45.0)          | (11.6)                       | (56.6)       |
| <b>At 31 December 2020</b>     | <b>202.2</b>    | <b>27.4</b>                  | <b>229.6</b> |

Set out below are the carrying amounts of lease liabilities and the movements during the year:

|                                      | 2020<br>£m   |
|--------------------------------------|--------------|
| At 1 January 2020                    | 275.6        |
| Transferred from held for sale       | 13.3         |
| Foreign currency movement            | 6.4          |
| Additions                            | 18.7         |
| Disposals                            | (3.8)        |
| Modifications                        | 6.0          |
| Accretion of interest                | 12.5         |
| Payments                             | (66.5)       |
| <b>At 31 December 2020 (Note 21)</b> | <b>262.2</b> |
| Current                              | 50.6         |
| Non-current                          | 211.6        |
|                                      | <b>262.2</b> |

The following are the amounts recognised in profit or loss (from continuing operations):

|                                                                        | 2020<br>£m  | 2019<br>£m  |
|------------------------------------------------------------------------|-------------|-------------|
| Depreciation expense of right-of-use assets                            | 56.6        | 54.4        |
| Interest expense on lease liabilities                                  | 12.5        | 12.0        |
| Expense relating to short-term leases (included in operating expenses) | 0.8         | 1.4         |
| Impairment of right-of-use assets (included in Other items)*           | 10.2        | 1.5         |
| <b>Total amount recognised in profit or loss</b>                       | <b>80.1</b> | <b>69.3</b> |

\* £10.1m is included within 'Impairment charges' within Other items relating to the impairment of the right-of-use assets within SIG Distribution and £0.1m is included within net restructuring costs within Other items. In the prior year, £1.0m was included within 'Impairment charges' and £0.5m relating to the Maury business was included within 'Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges' within Other items.

The Group had total cash outflows for leases of £66.5m in 2020 (2019: £67.8m). The Group also had non-cash additions to right-of-use assets and lease liabilities of £38.5m in 2020 (2019: £3.5m). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 32(b).

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the lease-asset portfolio and align with the Group's business needs.

Set out below are the undiscounted potential future rental payments relating to periods following the expiry date of extension and termination options that are not included in the lease term.

|                                                | Within five years<br>£m | More than<br>five years<br>£m | Total<br>£m  |
|------------------------------------------------|-------------------------|-------------------------------|--------------|
| Extension options expected not to be exercised | 86.5                    | –                             | 86.5         |
| Termination options expected to be exercised   | 23.8                    | 2.1                           | 25.9         |
|                                                | <b>110.3</b>            | <b>2.1</b>                    | <b>112.4</b> |

## 25. Leases continued

The Group has considered the impact of any rent concessions as a result of Covid-19. The only changes as a result of Covid-19 have been changes in the timing of payments (for example from quarterly to monthly) and there are therefore no significant amounts recognised in the Income Statement from Covid-19 related rent concessions during the year.

### The Group as a lessor

The Group is an intermediate lessor of a number of property leases which are subleased to a third party. In accordance with IFRS 16 these subleases have been reassessed and a number that were previously classified as operating leases are now classified as finance leases. This resulted in recognition of lease assets receivable of £4.3m at 31 December 2020 (2019: £5.2m). These leases have terms of between 1 and 11 years. Rental income recognised by the Group during the year is £1.0m (2019: £1.0m).

Future lease payments receivable from sub-leases classified as finance leases at 31 December 2020 are as follows:

|                                             | 2020<br>£m | 2019<br>£m |
|---------------------------------------------|------------|------------|
| Within one year                             | 0.9        | 1.0        |
| After one year but not more than five years | 3.0        | 3.7        |
| More than five years                        | 1.2        | 1.5        |
|                                             | 5.1        | 6.2        |
| Less: future finance charges                | (0.8)      | (1.0)      |
| <b>Lease assets receivable</b>              | <b>4.3</b> | <b>5.2</b> |

Of the total lease assets receivable, £0.7m (2019: £0.8m) is due within one year and £3.6m (2019: £4.4m) is due after more than one year. Future minimum rentals receivable under non-cancellable operating leases at 31 December 2020 are as follows:

|                                             | 2020<br>£m | 2019<br>£m |
|---------------------------------------------|------------|------------|
| Within one year                             | 0.3        | 0.2        |
| After one year but not more than five years | 1.0        | 0.8        |
| More than five years                        | –          | 0.2        |
|                                             | 1.3        | 1.2        |

## 26. Government grants

The Group has benefited from a number of government support packages during 2020 in relation to the Covid-19 pandemic. Income received under furlough support schemes (Coronavirus Job Retention Scheme in the UK and similar in Ireland, France and Benelux), amounting to £8.1m, meets the definition of government grants and has been netted off the related staff costs, and other business grants of £0.7m have also been received and deducted from related costs. Amounts received in the year are shown below:

|                                         | 2020<br>£m | 2019<br>£m |
|-----------------------------------------|------------|------------|
| At 1 January                            | –          | –          |
| Received during the year                | 8.8        | –          |
| Released to the profit and loss account | (8.8)      | –          |
| <b>At 31 December</b>                   | <b>–</b>   | <b>–</b>   |

The Group also benefited from business rate savings in the UK and social tax savings in France, amounting to £2.1m, which represents a form of government assistance, but not a grant as there was no transfer of resources. Payment deferrals in relation to VAT, employment taxes and corporate tax did not have an impact on the profit and loss account. The majority of these have been repaid by 31 December 2020, with any outstanding amounts included in the relevant liability on the consolidated balance sheet.

## 27. Called up share capital

|                                                               | 2020<br>£m | 2019<br>£m |
|---------------------------------------------------------------|------------|------------|
| Authorised:                                                   |            |            |
| 1,390,000,000 ordinary shares of 10p each (2019: 800,000,000) | 139.0      | 80.0       |
| Allotted, called up and fully paid:                           |            |            |
| 1,181,556,977 ordinary shares of 10p each (2019: 591,556,982) | 118.2      | 59.2       |

On 10 July 2020 the Group completed an equity raise, with 589,999,995 new ordinary shares issued for gross proceeds of £165m. 587,901,900 of the shares were issued using a cash box structure, such that merger relief was available under the Companies Act 2006, section 612. In this circumstance, no share premium is recorded and the £105.6m excess of the net proceeds over the nominal value of the share capital issue has been recorded as a merger reserve. The proceeds of this issue were used to partially prepay private placement notes (see Note 19), to pay professional and lender fees relating to the equity raise and debt restructuring and to provide working capital flexibility. Consequently, the merger reserve will qualify as distributable.



# Notes to the Financial Statements

## 27. Called up share capital *continued*

The other 2,098,095 of shares were issued directly to senior management, not within the cash box structure, and the excess of the proceeds over the nominal value of the share capital of £0.4m has been credited to the share premium account.

Professional fees of £13.1m incurred and directly related to the equity raise have been deducted from the merger reserve (as no share premium recorded due to the use of the cash box structure as noted above), resulting in a net increase to the merger reserve of £92.5m.

The Company has one class of ordinary share which carries no right to fixed income.

## 28. Reconciliation of loss before tax to cash generated from operating activities

|                                                                   | 2020<br>£m     | 2019<br>£m     |
|-------------------------------------------------------------------|----------------|----------------|
| <b>Loss before tax from continuing operations</b>                 | <b>(202.3)</b> | <b>(112.7)</b> |
| <b>Profit before tax from discontinued operations</b>             | <b>72.0</b>    | <b>3.8</b>     |
| <b>Loss before tax</b>                                            | <b>(130.3)</b> | <b>(108.9)</b> |
| Depreciation of property, plant and equipment (Note 10)           | 11.2           | 15.2           |
| Depreciation of right-of-use assets (Note 25)                     | 57.2           | 61.0           |
| Net finance costs (Note 3)                                        | 34.6           | 26.3           |
| Amortisation of computer software (Note 14)                       | 5.4            | 4.5            |
| Amortisation of acquired intangibles (Note 14)                    | 5.6            | 8.1            |
| Impairment of computer software (Note 14)                         | 15.1           | 0.3            |
| Impairment of property, plant and equipment (Note 10)             | 3.5            | 0.6            |
| Impairment of goodwill (Note 13)                                  | 45.4           | 89.6           |
| Impairment of acquired intangibles (Note 14)                      | 1.9            | –              |
| Impairment of right-of-use asset (Note 25)                        | 10.2           | 1.0            |
| Profit on agreed sale or closure of non-core businesses (Note 11) | (71.6)         | (0.1)          |
| Loss/(profit) on sale of property, plant and equipment            | 0.7            | (1.4)          |
| Share-based payments                                              | 0.2            | 0.1            |
| Gains on derivative financial instruments                         | (1.5)          | –              |
| Net foreign exchange differences                                  | 0.2            | (1.3)          |
| Increase/(decrease) in provisions                                 | 11.3           | (2.9)          |
| Working capital movements:                                        |                |                |
| - (Increase)/decrease in inventories                              | (5.4)          | 1.7            |
| - Decrease in receivables                                         | 19.7           | 95.6           |
| - Decrease in payables                                            | (56.4)         | (23.4)         |
| <b>Cash (used in)/generated from operating activities</b>         | <b>(43.0)</b>  | <b>166.0</b>   |

Included within the cash (used in)/generated from operating activities is a defined benefit pension scheme employer's contribution of £2.5m (2019: £2.5m).

Of the total loss on sale of property, plant and equipment, £0.2m profit (2019: £nil) has been included within Other items in the Consolidated Income Statement (see Note 2).

## 29. Reconciliation of net cash flow to movements in net debt

|                                                       | 2020<br>£m     | 2019<br>£m     |
|-------------------------------------------------------|----------------|----------------|
| Increase in cash and cash equivalents in the year     | 68.4           | 71.6           |
| Cash flow from decrease in debt                       | 183.0          | (37.6)         |
| <b>Decrease in net debt resulting from cash flows</b> | <b>251.4</b>   | <b>34.0</b>    |
| Recognition of deferred consideration                 | (0.9)          | –              |
| Non-cash items <sup>^</sup>                           | (39.3)         | (6.4)          |
| Exchange differences                                  | 6.0            | 6.8            |
| <b>Decrease in net debt in the year</b>               | <b>217.2</b>   | <b>34.4</b>    |
| Net debt at 1 January                                 | (455.4)        | (189.4)        |
| Impact of adoption of IFRS 16 at 1 January 2019       | –              | (300.4)        |
| <b>Net debt at 31 December</b>                        | <b>(238.2)</b> | <b>(455.4)</b> |

<sup>^</sup> Non-cash items include the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow, the movement in cash restricted for use in relation to the asset backed funding arrangement implemented in relation to the UK defined benefit pension plan and non-cash movements in relation to lease liabilities. In 2019 the £8.1m restricted cash was included within cash and cash equivalents on the consolidated balance sheet but deducted in arriving at net debt above as shown below. The balance at 31 December 2020 is £nil. See Note 31 for further details.

## 29. Reconciliation of net cash flow to movements in net debt continued

Net debt is defined as follows:

|                                                                                    | 2020<br>£m     | 2019<br>£m     |
|------------------------------------------------------------------------------------|----------------|----------------|
| <b>Non-current assets</b>                                                          |                |                |
| Derivative financial instruments                                                   | 0.1            | 1.7            |
| Lease receivables                                                                  | 3.6            | 4.4            |
| <b>Current assets</b>                                                              |                |                |
| Derivative financial instruments                                                   | -              | 0.9            |
| Lease receivables                                                                  | 0.7            | 0.8            |
| Cash at bank and on hand                                                           | 235.3          | 110.0          |
| Less restricted cash in relation to asset backed funding arrangement               | -              | (8.1)          |
| Financial assets held for sale                                                     | -              | 35.9           |
| <b>Current liabilities</b>                                                         |                |                |
| Lease liabilities                                                                  | (50.6)         | (51.5)         |
| Bank loans                                                                         | -              | (99.6)         |
| Private placement notes                                                            | -              | (175.5)        |
| Deferred consideration                                                             | (0.5)          | -              |
| Other financial liabilities                                                        | (0.5)          | (1.5)          |
| Derivative financial instruments                                                   | (0.5)          | (0.2)          |
| Lease liabilities directly associated with liabilities classified as held for sale | -              | (45.3)         |
| <b>Non-current liabilities</b>                                                     |                |                |
| Lease liabilities                                                                  | (211.6)        | (224.1)        |
| Bank loans                                                                         | (67.7)         | -              |
| Private placement notes                                                            | (144.5)        | -              |
| Deferred consideration                                                             | (0.4)          | -              |
| Derivative financial instruments                                                   | (0.4)          | (1.9)          |
| Other financial liabilities                                                        | (1.2)          | (1.4)          |
| <b>Net debt</b>                                                                    | <b>(238.2)</b> | <b>(455.4)</b> |

## 30. Analysis of net debt

|                                                      | At<br>31 December<br>2019<br>£m | Cash<br>flows<br>£m | Divestments<br>£m | Acquisitions<br>£m | Non-cash<br>items*<br>£m | Exchange<br>differences<br>£m | At<br>31 December<br>2020<br>£m |
|------------------------------------------------------|---------------------------------|---------------------|-------------------|--------------------|--------------------------|-------------------------------|---------------------------------|
| Cash at bank and on hand                             | 137.0                           | (78.6)              | 147.8             | (0.8)              | 8.1                      | 21.8                          | 235.3                           |
|                                                      | 137.0                           | (78.6)              | 147.8             | (0.8)              | 8.1                      | 21.8                          | 235.3                           |
| Other financial assets and deferred consideration    | 6.0                             | -                   | (0.8)             | -                  | (0.9)                    | -                             | 4.3                             |
|                                                      | 6.0                             | -                   | (0.8)             | -                  | (0.9)                    | -                             | 4.3                             |
| <b>Liabilities arising from financing activities</b> |                                 |                     |                   |                    |                          |                               |                                 |
| Financial assets – derivative financial instruments  | 2.6                             | (3.3)               | -                 | -                  | 0.8                      | -                             | 0.1                             |
| Debts due within one year                            | (277.0)                         | 80.3                | -                 | (0.5)              | 195.7                    | -                             | (1.5)                           |
| Debts due after one year                             | (3.2)                           | 8.2                 | -                 | (0.4)              | (209.4)                  | (9.4)                         | (214.2)                         |
| Lease liabilities                                    | (320.8)                         | 67.2                | 31.6              | (0.2)              | (33.6)                   | (6.4)                         | (262.2)                         |
|                                                      | (598.4)                         | 152.4               | 31.6              | (1.1)              | (46.5)                   | (15.8)                        | (477.8)                         |
| <b>Net debt</b>                                      | <b>(455.4)</b>                  | <b>73.8</b>         | <b>178.6</b>      | <b>(1.9)</b>       | <b>(39.3)</b>            | <b>6.0</b>                    | <b>(238.2)</b>                  |

\* Non-cash items includes to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow, the movement in cash restricted for use in relation to the asset backed funding arrangement implemented in relation to the UK defined benefit pension plan, movements between debts due within one year and after one year, and non-cash movements in lease liabilities.

# Notes to the Financial Statements

## 31. Retirement benefit obligations

The Group operates a number of pension schemes, four (2019: six) of which provide defined benefits based on final pensionable salary. Of these schemes, one (2019: one) has assets held in a separate trustee administered fund and three (2019: five) are overseas book reserve schemes. Two of the overseas schemes in the prior year were within the Air Handling business and were therefore classified within assets and liabilities held for sale at 31 December 2019 and not included below. The Group also operates a number of defined contribution schemes, all of which are independently managed.

The Trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The Trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

In The Netherlands, the Company participates in the industry-wide pension plan for the construction materials industry ('BPF HiBiN'). The pension plan is classified as a multi-employer defined benefit scheme under IAS 19, but is recognised in the Financial Statements as a defined contribution scheme since the pension fund is not able to provide sufficient information to allow SIG's share of the assets and liabilities to be separately identified. Therefore, the Group's annual pension expense for this scheme is equal to the required contribution each year. The coverage ratio of the multi-employer union plan decreased to 94.8% as at 31 December 2020 (2019: 97.7%). No change was made to the pension premium percentage of 22.2% (2019: 22.2%). The coverage ratio is calculated by dividing the fund's assets by the total sum of pension liabilities and is based upon market interest rates. The Company's participation in this scheme represents c.0.1% of the total members. The Company is not liable for other participants' obligations, and there is no agreed allocation of surplus or deficit on withdrawal from the scheme or on winding up of the scheme. The Company is not aware of any planned changes to contributions or benefits at the current time.

The Group's total pension charge for the year (from continuing operations), including amounts charged to interest and Other items, was £6.9m (2019: £7.0m), of which a charge of £0.7m (2019: £0.7m) related to defined benefit pension schemes and £6.2m (2019: £6.3m) related to defined contribution schemes.

### Defined benefit pension scheme valuations

In accordance with IAS 19 the Group recognises all actuarial gains and losses in full in the period in which they arise in the Consolidated Statement of Comprehensive Income.

The actuarial valuations of the defined benefit pension schemes are assessed by an independent actuary every three years who recommends the rate of contribution payable each year. The last formal actuarial valuation of the SIG plc Retirement Benefits Plan, the UK scheme, was conducted at 31 December 2016 and showed that the market value of the scheme's assets was £164.1m and their actuarial value covered 97% of the benefits accrued to members after allowing for expected future increases in pensionable salaries. On 30 June 2016 the UK defined benefit pension scheme was closed to future benefit accrual. The next triennial valuation as at 31 December 2019 is in the process of being finalised and is expected to be concluded by the end of March 2021.

Following the last triennial valuation of the UK scheme ("the Plan"), the Company and the Trustees agreed to fund the triennial pension deficit and increase security of the Plan using an asset backed funding arrangement under a partnership arrangement, which was implemented in March 2018. The asset backed funding arrangement transfers certain rights over a managed pool of certain customer receivables of one of the Group's subsidiary companies to the partnership and provides a mechanism to settle future funding commitments from receipts from higher quality trade receivables to ensure contributions to the Plan of £2.5m per annum for up to 20 years (as may be required and subject to certain discretions). The partnership is controlled by the Group and is therefore included within the consolidated financial statements. The receivables continue to be recognised on the consolidated balance sheet, and the Plan's interest in the partnership is a non-transferable financial asset issued by the Group, and therefore does not constitute a plan asset for the Group. Distribution of income to the partners of the partnership, which forms the contribution to the Plan, is at the discretion of the General Partner, a subsidiary of the Group. There is however a guarantee in place which ensures that the Group's subsidiary, SIG Trading Limited, will make an equivalent contribution to the Plan if the partnership does not effect the discretionary distribution. The Group is therefore committed to making a contribution of £2.5m per annum until the structure terminates at the end of 20 years or earlier if the funding level of the Plan increases to greater than 115% of Technical Provisions before the end of the term.

The other three schemes are book reserve schemes whereby the sponsoring company does not hold any separate assets to fund the pension scheme but makes a reserve in its accounts. Therefore, these schemes do not hold separate scheme assets. The liabilities of the schemes are met by the sponsoring companies.

The schemes typically expose the Group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk. The risk relating to benefits to be paid to the dependants of scheme members on death in service is reinsured by an external insurance company.

### 31. Retirement benefit obligations *continued*

|                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Investment risk</b>    | The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets falls below this rate, it will create a plan deficit. Currently the plan has relatively balanced investments in line with the Trustees' Statement of Investment Principles between equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the Trustees of the pension fund consider it appropriate that a reasonable portion of the plan assets should be invested in growth assets to leverage the return generated by the fund. |
| <b>Interest rate risk</b> | A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's bond holdings.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Longevity risk</b>     | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Salary risk</b>        | The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. However, a pensionable salary cap was introduced from 1 July 2012 of 2.5% per annum.                                                                                                                                                                                                                                                                                                                                            |

#### Consolidated Income Statement charges

The pension charge for the year, including amounts charged to interest of £0.3m (2019: £0.5m) relating to the defined benefit pension schemes, was £0.7m (2019: £0.7m). The charge for the current year includes £0.4m (2019: £nil) in relation to the estimated liability impact of equalising Guaranteed Minimum Pensions (GMP) in relation to past transfer values, following the High Court ruling in November 2020. This estimated increase in the liability has been charged to Other items within the Consolidated Income Statement, consistent with the original GMP liability estimate of £1.0m in 2018.

In accordance with IAS 19, the charge for the defined benefit schemes has been calculated as the sum of the cost of benefits accruing in the year, the increase in the value of benefits already accrued and the expected return on assets. The actuarial valuations described previously have been updated at 31 December 2020 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value.

The UK defined benefit scheme is closed to new members and has an age profile that is rising. The three overseas book reserve schemes remain open to new members.

#### Consolidated Balance Sheet liability

The balance sheet position in respect of the four defined benefit schemes can be summarised as follows:

|                                         | 2020<br>£m    | 2019<br>£m    |
|-----------------------------------------|---------------|---------------|
| Pension liability before taxation       | (25.1)        | (24.8)        |
| Related deferred tax asset              | 3.2           | 2.7           |
| <b>Pension liability after taxation</b> | <b>(21.9)</b> | <b>(22.1)</b> |

The actuarial loss of £1.7m (2019: £1.8m loss) for the year, together with the associated deferred tax credit of £0.4m (2019: £6.6m charge) has been recognised in the Consolidated Statement of Comprehensive Income. In addition a deferred tax credit of £nil (2019: £3.9m credit) has been recognised in the Consolidated Income Statement.

Of the above pension liability before taxation, £15.6m (2019: £15.9m) relates to wholly or partly funded schemes and £9.5m (2019: £8.9m) relates to the overseas unfunded schemes.

# Notes to the Financial Statements

## 31. Retirement benefit obligations *continued*

The movement in the pension liability before taxation in the year can be summarised as follows:

|                                                              | 2020<br>£m    | 2019<br>£m    |
|--------------------------------------------------------------|---------------|---------------|
| Pension liability at 1 January                               | (24.8)        | (28.7)        |
| Current service cost                                         | –             | (0.5)         |
| Contributions                                                | 2.5           | 2.6           |
| Net finance cost                                             | (0.3)         | (0.5)         |
| GMP equalisation ruling                                      | (0.4)         | –             |
| Actuarial loss                                               | (1.7)         | (1.8)         |
| Transfer to liabilities associated with assets held for sale | –             | 3.4           |
| Business disposals                                           | 0.1           | –             |
| Effect of changes in exchange rates                          | (0.5)         | 0.7           |
| <b>Pension liability at 31 December</b>                      | <b>(25.1)</b> | <b>(24.8)</b> |

The principal assumptions used for the IAS 19 actuarial valuation of the UK scheme were:

|                                               | 2020<br>% | 2019<br>% |
|-----------------------------------------------|-----------|-----------|
| Rate of increase in salaries*                 | n/a       | n/a       |
| Rate of fixed increase of pensions in payment | 1.8%      | 1.6%      |
| Rate of increase of LPI pensions in payment   | 2.8%      | 2.9%      |
| Discount rate                                 | 1.4%      | 2.1%      |
| Inflation assumption                          | 2.9%      | 3.0%      |

\* Upon closure of the UK defined benefit scheme to future benefit accrual the accrued benefits of active members ceased to be linked to their final salary and will instead revalue in deferment broadly in line with movements in the Consumer Price Index.

Deferred pensions are revalued to retirement in line with the schemes' rules and statutory requirements, with the inflation assumption used for LPI revaluation in deferment.

Within the principal plan the life expectancy for a male employee beyond the normal retirement age of 65 is 22.6 years (2019: 21.8 years). The life expectancy on retirement at age 65 of a male employee currently aged 45 years is 23.1 years (2019: 23.1 years). The life expectancy for a female employee beyond the normal retirement age of 65 is 24.0 years (2019: 23.6 years). The life expectancy on retirement at age 65 of a female employee currently aged 45 years is 25.6 years (2019: 25.2 years).

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. If the discount rate were to be increased/decreased by 0.1%, this would decrease/increase the Group's gross pension scheme deficit by c£3.0m. If the rate of inflation increased/decreased by 0.1% this would increase/decrease the Group's gross pension scheme deficit by c£1.0m. If the life expectancy for employees increased by one year the Group's gross pension scheme deficit would increase by c£8.9m. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The average duration of the defined benefit scheme obligation at 31 December 2020 is 18 years (2019: 19 years).

The fair value of assets held at the balance sheet date were:

|                                   | 2020<br>£m   | 2019<br>£m   |
|-----------------------------------|--------------|--------------|
| Equities                          | 40.9         | 59.6         |
| Corporate and government bonds    | 93.2         | 80.1         |
| Investment funds                  | 14.8         | 15.3         |
| Property                          | 7.4          | 7.6          |
| Cash and net current assets       | 17.2         | 0.9          |
| <b>Total fair value of assets</b> | <b>173.5</b> | <b>163.5</b> |

All equity and debt instruments have quoted prices in active markets and can be classified as Level 2 instruments, other than property which is Level 3.

The amount included in the Consolidated Balance Sheet arising from the Group's obligation in respect of its defined benefit schemes is as follows:

|                                                                   | 2020<br>£m    | 2019<br>£m    |
|-------------------------------------------------------------------|---------------|---------------|
| Fair value of assets                                              | 173.5         | 163.5         |
| Present value of scheme liabilities                               | (198.6)       | (188.3)       |
| <b>Net liability recognised in the Consolidated Balance Sheet</b> | <b>(25.1)</b> | <b>(24.8)</b> |



### 31. Retirement benefit obligations *continued*

The overall expected rate of return is based upon market conditions at the balance sheet date.

Amounts recognised in the Consolidated Income Statement (from continuing operations) in respect of these defined benefit schemes are as follows:

|                                                                | 2020<br>£m | 2019<br>£m |
|----------------------------------------------------------------|------------|------------|
| Current service cost                                           | –          | 0.2        |
| GMP equalisation ruling                                        | 0.4        | –          |
| Net finance cost                                               | 0.3        | 0.5        |
| <b>Amounts recognised in the Consolidated Income Statement</b> | <b>0.7</b> | <b>0.7</b> |

Analysis of the actuarial loss recognised in the Consolidated Statement of Comprehensive Income in respect of the schemes:

|                                                       | 2020<br>£m   | 2019<br>£m   |
|-------------------------------------------------------|--------------|--------------|
| Actual return less expected return on assets          | 12.9         | 18.9         |
| Effect of changes in demographic assumptions          | 4.0          | 1.8          |
| Effect of changes in financial assumptions            | (24.2)       | (22.5)       |
| Impact of liability experience                        | 5.6          | –            |
| <b>Remeasurement of the defined benefit liability</b> | <b>(1.7)</b> | <b>(1.8)</b> |

The remeasurement of the net defined benefit liability is included within the Consolidated Statement of Comprehensive Income. Movements in the present value of the schemes' liabilities were as follows:

|                                                                | 2020<br>£m     | 2019<br>£m     |
|----------------------------------------------------------------|----------------|----------------|
| Present value of schemes' liabilities at 1 January             | (188.3)        | (174.8)        |
| Current service cost                                           | –              | (0.5)          |
| Interest on pension schemes' liabilities                       | (3.7)          | (4.7)          |
| Benefits paid                                                  | 8.8            | 7.3            |
| Payment of unfunded benefits                                   | –              | –              |
| Effect of changes in exchange rates                            | (0.5)          | 0.7            |
| GMP equalisation ruling                                        | (0.4)          | –              |
| Remeasurement gains/(losses):                                  |                |                |
| Actuarial gain arising from changes in demographic assumptions | 4.0            | 1.8            |
| Actuarial loss arising from changes in financial assumptions   | (24.2)         | (22.5)         |
| Actuarial loss due to liability experience                     | 5.6            | –              |
| Business disposals                                             | 0.1            | –              |
| Transfer of liabilities associated with assets held for sale   | –              | 4.4            |
| <b>Present value of schemes' liabilities at 31 December</b>    | <b>(198.6)</b> | <b>(188.3)</b> |

Movements in the fair value of the schemes' assets were as follows:

|                                                     | 2020<br>£m   | 2019<br>£m   |
|-----------------------------------------------------|--------------|--------------|
| Fair value of schemes' assets at 1 January          | 163.5        | 146.1        |
| Finance income                                      | 3.4          | 4.2          |
| Actual return less expected return on assets        | 12.9         | 18.9         |
| Contributions from sponsoring companies             | 2.5          | 2.6          |
| Benefits paid                                       | (8.8)        | (7.3)        |
| Transfer of assets held for sale                    | –            | (1.0)        |
| <b>Fair value of schemes' assets at 31 December</b> | <b>173.5</b> | <b>163.5</b> |

# Notes to the Financial Statements

## 32. Commitments and contingencies

### a) Capital commitments

|                                                                                      | 2020<br>£m | 2019<br>£m |
|--------------------------------------------------------------------------------------|------------|------------|
| <b>The purchase of property, plant and equipment contracted but not provided for</b> | <b>0.3</b> | 6.3        |

At 31 December 2020 the Group is also committed to further licence costs of £14.8m (2019: £12.3m) in relation to the SAP implementation project and other licence fees. £11.4m of this commitment has been already recognised as an onerous contract provision at 31 December, with £3.4m remaining to be recognised in the income statement over the period 2021 to 2023.

### b) Lease commitments

The Group has various lease contracts that have not yet commenced as at 31 December 2020. The future lease payments for these non-cancellable lease contracts are £1.0m within one year (2019: £0.9m), £3.8m within five years (2019: £1.0m) and £4.7m thereafter (2019: £0.7m).

Information on the Group's leasing arrangements is included in Note 25.

### c) Contingent liabilities

As at the balance sheet date, the Group had outstanding obligations under customer guarantees, claims, standby letters of credit and discounted bills of up to £14.1m (2019: £13.4m). Of this amount, £5.0m (2019: £8.0m) relates to a standby letter of credit issued by HSBC Bank plc in respect of the Group's insurance arrangements.

As part of the disposal of Building Plastics a guarantee was provided to the landlord of the leasehold properties transferred with the business covering rentals over the remaining term of the leases in the event that the acquiring company enters into administration before the end of the lease term. The maximum liability that could arise from this would be approximately £1.5m (2019: £2.1m). No provision has been made in these financial statements as it is not considered likely that any loss will be incurred in connection with this.

## 33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

In 2020, SIG incurred expenses of £0.5m (2019: £0.4m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

### Remuneration of key management personnel

The total remuneration of key management personnel of the Group, being the Executive Leadership Team members and the Non-Executive Directors (see page 74), is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

|                                          | 2020<br>£m | 2019<br>£m |
|------------------------------------------|------------|------------|
| Short term employee benefits             | <b>5.8</b> | 4.3        |
| Termination and post-employment benefits | <b>0.1</b> | 0.4        |
| IFRS 2 share option charge               | <b>–</b>   | 0.1        |
|                                          | <b>5.9</b> | 4.8        |

## 34. Subsidiaries

Details of the Group's subsidiaries, all of which have been included in the Financial Statements, are shown on pages 232 to 233.

### 35. Non-statutory information

The Group uses a number of alternative performance measures, which are non-IFRS, to describe the Group's performance. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as shown below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for Other items (as explained in further detail within the Statement of Significant Accounting Policies) or to adjust for businesses identified as non-core to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis. Non-core businesses are those businesses that have been closed or disposed of or where the Board has resolved to close or dispose of the businesses by 31 December 2020.

#### a) Net debt

Net debt is a key metric for the Group, and monitoring it is an important element of treasury risk management for the Group. In addition, maximum net debt is one of the primary covenants applicable to the Group's debt facilities. For the purpose of covenant calculations, net debt is stated before the impact of IFRS 16. The different net debt definitions used are as follows:

|                                                                   | Note | 2020<br>£m   | 2019<br>£m   |
|-------------------------------------------------------------------|------|--------------|--------------|
| Reported net debt                                                 | 29   | 238.2        | 455.4        |
| Lease liabilities recognised in accordance with IFRS 16           |      | (237.0)      | (296.0)      |
| Lease receivables recognised in accordance with IFRS 16           |      | 4.3          | 5.2          |
| Other financial liabilities recognised in accordance with IFRS 16 |      | (1.4)        | (1.8)        |
| <b>Net debt excluding the impact of IFRS 16</b>                   |      | <b>4.1</b>   | <b>162.8</b> |
| Loss on debt modification recognised in accordance with IFRS 9    |      | (10.1)       | –            |
| <b>Net debt on frozen GAAP basis</b>                              |      | <b>(6.0)</b> | <b>162.8</b> |
| Other covenant financial indebtedness                             |      | 5.1          | 5.4          |
| Foreign exchange adjustment*                                      |      | (0.5)        | 0.3          |
| <b>Covenant net debt</b>                                          |      | <b>(1.4)</b> | <b>168.5</b> |

\* For the purpose of covenant calculations, net debt is calculated using net debt translated at average rather than period end rates.

#### b) Like-for-like sales

Like-for-like sales is calculated on a constant currency basis, and represents the growth in the Group's sales per day excluding any acquisitions or disposals completed or agreed in the current and prior year. Revenue is not adjusted for branch openings and closures. This measure shows how the Group has developed its revenue for comparable business relative to the prior period. As such it is a key measure of the growth of the Group during the year.

|                                | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total UK<br>£m | France<br>Distribution<br>(LITT)<br>£m | France<br>Exteriors<br>(Larivière)<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m  | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m  | Poland<br>£m  | Total<br>Group<br>£m |
|--------------------------------|--------------------------|-----------------------|----------------|----------------------------------------|------------------------------------------|-----------------------|---------------|----------------|------------------------------------------|----------------|---------------|----------------------|
| Statutory revenue 2020         | 357.4                    | 310.1                 | 667.5          | 168.1                                  | 346.6                                    | 514.7                 | 370.7         | 91.6           | 462.3                                    | 80.5           | 149.5         | 1,874.5              |
| Non-core businesses            | –                        | –                     | –              | –                                      | (1.8)                                    | (1.8)                 | –             | –              | –                                        | –              | –             | (1.8)                |
| <b>Underlying revenue 2020</b> | <b>357.4</b>             | <b>310.1</b>          | <b>667.5</b>   | <b>168.1</b>                           | <b>344.8</b>                             | <b>512.9</b>          | <b>370.7</b>  | <b>91.6</b>    | <b>462.3</b>                             | <b>80.5</b>    | <b>149.5</b>  | <b>1,872.7</b>       |
| Statutory revenue 2019         | 535.5                    | 346.5                 | 882.0          | 184.5                                  | 344.1                                    | 528.6                 | 396.0         | 103.0          | 499.0                                    | 94.9           | 156.1         | 2,160.6              |
| Non-core businesses            | (1.2)                    | –                     | (1.2)          | –                                      | (1.9)                                    | (1.9)                 | (14.5)        | –              | (14.5)                                   | –              | –             | (17.6)               |
| <b>Underlying revenue 2019</b> | <b>534.3</b>             | <b>346.5</b>          | <b>880.8</b>   | <b>184.5</b>                           | <b>342.2</b>                             | <b>526.7</b>          | <b>381.5</b>  | <b>103.0</b>   | <b>484.5</b>                             | <b>94.9</b>    | <b>156.1</b>  | <b>2,143.0</b>       |
| <i>% change year on year:</i>  |                          |                       |                |                                        |                                          |                       |               |                |                                          |                |               |                      |
| Underlying revenue             | (33.1)%                  | (10.5)%               | (24.2)%        | (8.9)%                                 | 0.8%                                     | (2.6)%                | (2.8)%        | (11.1)%        | (4.6)%                                   | (15.2)%        | (4.2)%        | (12.6)%              |
| Impact of currency             | –                        | –                     | –              | (1.4)%                                 | (1.6)%                                   | (1.6)%                | (1.6)%        | (1.4)%         | (1.5)%                                   | (1.3)%         | 2.3%          | (0.6)%               |
| Impact of acquisitions         | –                        | (0.3)%                | (0.1)%         | –                                      | –                                        | –                     | –             | –              | –                                        | –              | –             | –                    |
| Impact of working days         | (0.3)%                   | (0.4)%                | (0.3)%         | –                                      | 1.2%                                     | 0.7%                  | (0.8)%        | (0.4)%         | (0.7)%                                   | (0.3)%         | (0.8)%        | (0.1)%               |
| <b>Like-for-like sales</b>     | <b>(33.4)%</b>           | <b>(11.1)%</b>        | <b>(24.6)%</b> | <b>(10.3)%</b>                         | <b>0.4%</b>                              | <b>(3.4)%</b>         | <b>(5.1)%</b> | <b>(12.8)%</b> | <b>(6.8)%</b>                            | <b>(16.8)%</b> | <b>(2.7)%</b> | <b>(13.3)%</b>       |

# Notes to the Financial Statements

## 35. Non-statutory information *continued*

### c) Gross margin

Gross margin is the ratio of gross profit to revenue and is used to understand the value the Group creates from its trading activities.

|                                     | UK<br>Distribution<br>% | UK<br>Exteriors<br>% | Total UK<br>% | France<br>Distribution<br>(LITT)<br>% | France<br>Exteriors<br>(Larivière)<br>% | Total<br>France<br>% | Germany<br>(WeGo/<br>VTI)<br>% | Benelux<br>% | Total<br>Germany<br>and<br>Benelux<br>% | Ireland<br>% | Poland<br>% | Total<br>Group<br>% |
|-------------------------------------|-------------------------|----------------------|---------------|---------------------------------------|-----------------------------------------|----------------------|--------------------------------|--------------|-----------------------------------------|--------------|-------------|---------------------|
| Statutory gross margin 2020         | 22.5%                   | 27.3%                | 24.7%         | 27.4%                                 | 24.3%                                   | 25.3%                | 28.0%                          | 24.6%        | 27.3%                                   | 23.4%        | 20.0%       | 25.1%               |
| Impact of non-core businesses       | –                       | –                    | –             | –                                     | –                                       | –                    | –                              | –            | –                                       | –            | –           | –                   |
| <b>Underlying gross margin 2020</b> | 22.5%                   | 27.3%                | 24.7%         | 27.4%                                 | 24.3%                                   | 25.3%                | 28.0%                          | 24.6%        | 27.3%                                   | 23.4%        | 20.0%       | 25.1%               |
| Statutory gross margin 2019         | 26.1%                   | 28.3%                | 27.0%         | 27.4%                                 | 23.3%                                   | 24.8%                | 27.6%                          | 24.7%        | 27.0%                                   | 25.0%        | 20.3%       | 25.9%               |
| Impact of non-core businesses       | 0.1%                    | –                    | 0.1%          | –                                     | 0.1%                                    | –                    | 0.1%                           | –            | –                                       | –            | –           | –                   |
| <b>Underlying gross margin 2019</b> | 26.2%                   | 28.3%                | 27.1%         | 27.4%                                 | 23.4%                                   | 24.8%                | 27.7%                          | 24.7%        | 27.0%                                   | 25.0%        | 20.3%       | 25.9%               |

### d) Operating cost as a percentage of sales

This is a measure of how effectively the Group's operating cost base is being used to generate revenue.

|                                                                  | Six months<br>ended 30 June<br>2020<br>£m | Six months<br>ended 31<br>December 2020<br>£m | Year ended<br>31 December<br>2020<br>£m | Six months ended<br>30 June<br>2019<br>£m | Six months ended<br>31 December<br>2019<br>£m | Year ended<br>31 December<br>2019<br>£m |
|------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------|-----------------------------------------|-------------------------------------------|-----------------------------------------------|-----------------------------------------|
| Statutory revenue                                                | 840.1                                     | 1,034.4                                       | 1,874.5                                 | 1,113.3                                   | 1,047.3                                       | 2,160.6                                 |
| Non-core businesses                                              | (1.2)                                     | (0.6)                                         | (1.8)                                   | (13.4)                                    | (4.2)                                         | (17.6)                                  |
| <b>Underlying revenue</b>                                        | <b>838.9</b>                              | <b>1,033.8</b>                                | <b>1,872.7</b>                          | <b>1,099.9</b>                            | <b>1,043.1</b>                                | <b>2,143.0</b>                          |
| Operating costs (statutory)                                      | 312.4                                     | 325.8                                         | 638.2                                   | 267.9                                     | 379.1                                         | 647.0                                   |
| Other items                                                      | (60.4)                                    | (54.5)                                        | (114.9)                                 | (19.5)                                    | (114.6)                                       | (134.1)                                 |
| <b>Underlying operating costs</b>                                | <b>252.0</b>                              | <b>271.3</b>                                  | <b>523.3</b>                            | <b>248.4</b>                              | <b>264.5</b>                                  | <b>512.9</b>                            |
| Operating costs as a percentage of statutory revenue             | 37.2%                                     | 31.5%                                         | 34.0%                                   | 24.1%                                     | 36.2%                                         | 29.9%                                   |
| Underlying operating costs as a percentage of underlying revenue | 30.0%                                     | 26.2%                                         | 27.9%                                   | 22.6%                                     | 25.4%                                         | 23.9%                                   |

### 35. Non-statutory information continued

#### e) Operating margin

This is used to enhance understanding and comparability of the underlying financial performance of the Group by period and segment, excluding the benefit of property profits which can have a significant effect on results in a particular period.

|                                      | UK<br>Distribution<br>£m | UK<br>Exteriors<br>£m | Total UK<br>£m | France<br>Distribution<br>(LiTT)<br>£m | France<br>Exteriors<br>(Larivière)<br>£m | Total<br>France<br>£m | Germany<br>£m | Benelux<br>£m | Total<br>Germany<br>and<br>Benelux<br>£m | Ireland<br>£m | Poland<br>£m | Parent<br>company<br>costs<br>£m | Total<br>Group<br>£m |
|--------------------------------------|--------------------------|-----------------------|----------------|----------------------------------------|------------------------------------------|-----------------------|---------------|---------------|------------------------------------------|---------------|--------------|----------------------------------|----------------------|
| <b>2020</b>                          |                          |                       |                |                                        |                                          |                       |               |               |                                          |               |              |                                  |                      |
| Underlying revenue (Note 1)          | 357.4                    | 310.1                 | 667.5          | 168.1                                  | 344.8                                    | 512.9                 | 370.7         | 91.6          | 462.3                                    | 80.5          | 149.5        | -                                | 1,872.7              |
| Underlying operating profit (Note 1) | (45.4)                   | (7.4)                 | (52.8)         | 7.1                                    | 8.3                                      | 15.4                  | 0.4           | 2.5           | 2.9                                      | 0.8           | 2.0          | (21.6)                           | (53.3)               |
| <b>Operating margin</b>              | <b>(12.7)%</b>           | <b>(2.4)%</b>         | <b>(7.9)%</b>  | <b>4.2%</b>                            | <b>2.4%</b>                              | <b>3.0%</b>           | <b>0.1%</b>   | <b>2.7%</b>   | <b>0.6%</b>                              | <b>1.0%</b>   | <b>1.3%</b>  | <b>n/a</b>                       | <b>(2.8)%</b>        |
| <b>2019</b>                          |                          |                       |                |                                        |                                          |                       |               |               |                                          |               |              |                                  |                      |
| Underlying revenue (Note 1)          | 534.3                    | 346.5                 | 880.8          | 184.5                                  | 342.2                                    | 526.7                 | 381.5         | 103.0         | 484.5                                    | 94.9          | 156.1        | -                                | 2,143.0              |
| Underlying operating profit (Note 1) | 7.9                      | 11.8                  | 19.7           | 11.2                                   | 8.6                                      | 19.8                  | 4.4           | 5.2           | 9.6                                      | 6.8           | 4.3          | (17.7)                           | 42.5                 |
| <b>Operating margin</b>              | <b>1.5%</b>              | <b>3.4%</b>           | <b>2.2%</b>    | <b>6.1%</b>                            | <b>2.5%</b>                              | <b>3.8%</b>           | <b>1.2%</b>   | <b>5.0%</b>   | <b>2.0%</b>                              | <b>7.2%</b>   | <b>2.8%</b>  | <b>n/a</b>                       | <b>2.0%</b>          |

#### f) Other non-statutory measures

In addition to the alternative performance measures noted above, the Group also uses underlying EPS (as set out in Note 8) and underlying net finance costs (as set out in Note 3).

### 36. Post balance sheet events

On 1 March 2021 the Group agreed with its lending banks and private placement noteholders to amend certain financial covenants, as described in the Going concern section of the Statement of Significant Accounting Policies.

On 10 March 2021 the Group completed the acquisition of 100% of the equity share capital of F30 Building Products Limited, a non-listed UK business, for total estimated consideration of £4.4m. £2.5m of the consideration was payable in cash on completion with the remaining £1.9m split between deferred and contingent consideration based upon the future performance of the business. The initial accounting for the acquisition, including the calculation of the fair value of assets and liabilities acquired, is in progress and all numbers remain provisional. The acquisition is expected to contribute c£6m revenue and £0.9m underlying profit before tax to the Group on an annualised basis.



# Independent Auditor's Report

## TO THE MEMBERS OF SIG PLC

### Opinion

In our opinion:

- SIG plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of SIG plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise:

| Group                                                                                                     | Parent company                                                                                           |
|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Consolidated income statement for the year ended 31 December 2020                                         | Company statement of comprehensive income for the year ended 31 December 2020                            |
| Consolidated statement of comprehensive income for the year ended 31 December 2020                        | Company balance sheet as at 31 December 2020                                                             |
| Consolidated balance sheet as at 31 December 2020                                                         | Company statement of changes in equity for the year ended 31 December 2020                               |
| Consolidated statement of changes in equity for the year ended 31 December 2020                           | Related notes 1 to 16 to the financial statements including a summary of significant accounting policies |
| Consolidated cash flow statement for the year ended 31 December 2020                                      |                                                                                                          |
| Related notes 1 to 36 to the financial statements, including a summary of significant accounting policies |                                                                                                          |

The financial reporting framework that has been applied in the preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, of the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) and in accordance with the provisions of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

## How we evaluated management's assessment

- In conjunction with our walkthrough of the group's financial statement close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key risk factors were considered in their assessment;
- We obtained management's going concern assessment, including the cash forecast and covenant calculation for the going concern period through to 31 March 2022 and tested this for arithmetical accuracy. Management has modelled a downside scenario in its cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the group,
- We obtained agreements for the Revolving Credit Facility, Term Loan and the Private Placement Notes and reviewed the nature of facilities, repayment terms, covenants and attached conditions. We assessed their continued availability to the group through the going concern period and ensured completeness of covenants identified by management,
- For covenant amendments agreed subsequent to the refinancing with lenders for 2022 we inspected the agreements to understand the revised covenant levels,
- We challenged the appropriateness of the key assumptions in management's forecasts including revenue growth and gross margin percentage, by comparing these to year to date performance, industry benchmarks and through consideration of historical forecasting accuracy,
- We challenged management's consideration of a reasonable worst-case scenario, including comparing this to the actual impact to date of Covid-19,
- We performed reverse stress testing in order to identify and understand what factors and how severe the downside scenarios would have to be to result in the group utilising all liquidity or breaching a financial covenant during the going concern period,
- We considered the quantum and timing of mitigating factors included in the cash forecasts and covenant calculations and whether these are within the control of the group. We reviewed the group's capital expenditure and business acquisition plans,
- We assessed the plausibility of management's downside scenarios by corroborating to third party data including industry and broker reports for indicators of contradictory evidence, including evidence of market instability and broker consensus on expected outturn of the group and the industry,
- We reviewed the group's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

## Our key observations

Following the successful completion of the debt refinancing in June 2020 and the £165m equity raise in July 2020 the group has £235m of cash at the Balance Sheet date and access to committed facilities until at least May 2023.

The group initially experienced high levels of disruption in Q2 2020 as a result of Covid-19. However, these short-term impacts reduced through the second half of 2020 and the group is now returning towards pre-Covid trading levels. Management does not expect the forecasts supporting the going concern assessment to be significantly impacted by Covid-19 given the essential nature of services and that they are now able to trade through lockdowns. However, achieving the forecasts remains dependent on the group's turnaround plans. This is particularly sensitive in the UK Distribution business.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern over the forecast period to 31 March 2022. Going concern has also been determined to be a key audit matter.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

# Independent Auditor's Report

## TO THE MEMBERS OF SIG PLC

### Overview of our audit approach

|                          |                                                                                                                                                                                                                                                                                                            |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Audit scope</b>       | We performed an audit of the complete financial information of seven components and audit procedures on specific balances for one further component.<br><br>The components where we performed full or specific audit procedures accounted for 89% of Gross Margin, 89% of Revenue and 80% of Total assets. |
| <b>Key audit matters</b> | Going Concern<br><br>Impairment of Goodwill, Intangible assets, Property, Plant and Equipment (PPE), and Right-of-use assets (ROUA)<br><br>Supplier rebates<br><br>Classification of Other items in the income statement                                                                                   |
| <b>Materiality</b>       | Overall group materiality of £1.8m which is based on 0.5% of Gross Margin                                                                                                                                                                                                                                  |

### An overview of the scope of the parent company and group audits

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We consider size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 8 components covering entities within the United Kingdom (including the parent company), France, Germany, Poland and Ireland which represent the principal countries within which the group operates.

Of the 8 components selected, we performed an audit of the complete financial information of 7 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining component ("specific scope component"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 89% (2019: 94%) of the group's Gross Margin, being the basis for our materiality, 89% (2019: 94%) of the group's Revenue, 97% of the group's Underlying Loss Before Tax (2019: 90% of the group's Underlying Profit Before Tax), and 80% (2019: 89%) of the group's Total Assets. For the current year, the full scope components contributed 85% (2019: 82%) of the group's Gross Margin, 85% (2019: 82%) of the group's Revenue, 96% of the group's Underlying Loss Before Tax (2019: 75% of the group's Underlying Profit Before Tax), and 79% (2019: 77%) of the group's Total Assets. The specific scope component (2019: 3 components) contributed 4% (2019: 12%) of the group's Gross Margin, 4% (2019: 12%) of the group's Revenue, 1% of the group's Underlying Loss Before Tax (2019: 15% of the group's Underlying Profit Before Tax), and 1% (2019: 12%) of the group's Total Assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

With respect to the remaining 39 components that together represent 11% of the group's Gross Margin, none are individually greater than 3% of the group's Gross Margin. For these other procedure components, we performed other procedures, including analytical review, review of internal audit reports, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations at the group level to respond to any potential risks of material misstatement to the group financial statements.

#### Changes from the prior year

Following the disposal of the Air Handling division in January 2020, 3 components are no longer part of the group (1 full scope and 2 specific scope components). Additionally, 2 other components that were specific scope in 2019 have been reduced to other procedures scope in the current year and 1 full scope component has reduced to specific scope, due to reductions in their size relative to the group.

As a result of the Covid-19 outbreak and resulting lockdown restrictions in all of the countries where full or specific scope audit procedures have been performed, we have modified our audit strategy to allow for the audit to be performed remotely at group level and also across certain component locations. This approach was supported by the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence. Inventory counts were performed in person across all component locations.

#### Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 7 full scope components, audit procedures were performed on 6 of these directly by the component audit teams with oversight from the primary team. Testing on the 7th full scope component, the parent company, was completed directly by the primary team. For the 1 specific scope component, the accounts in scope were determined by the primary team and performed by a component team.

At the start of the audit, a group wide team briefing call was held, with representatives from all full and specific scope component teams in attendance through video conferencing. Detailed instructions were issued to each team. Planned visits to full scope components were cancelled due to travel restrictions as a result of the COVID-19 pandemic. In response, we increased the frequency of calls with each team to discuss the audit approach and any issues arising from their work. We attended all component team closing meetings via video-call and reviewed key audit papers on risk areas through a combination of direct access to audit files, and through electronic and video reviews. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial

statements.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on; the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Our response to the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Key observations communicated to the Audit Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               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| <p><b>Impairment of Goodwill, Intangible assets, Property, Plant and Equipment (PPE), and right-of-use assets (ROUA)</b></p> <p>Refer to Accounting policies (page 142 and 150); and Notes 13 and 14 of the Consolidated Financial Statements (pages 173 to 177)</p> <p>The group's balance sheet includes goodwill, intangible assets, PPE and ROUA totalling £444.5m at 31 December 2020 (2019: £515.1m).</p> <p>In line with the requirements of IAS 36: "Impairment of Assets", management test goodwill balances annually for impairment. This assessment includes intangible assets, PPE and ROUA.</p> <p>Impairment tests are performed where indicators of impairment exist. They can include areas of estimation uncertainty and judgement over the future performance of the business for example forecast future trading results and cashflows and specific assumptions such as discount rates and long-term growth rates.</p> <p>Changes to these assumptions or adverse performance could have a significant impact on the available headroom and any impairment that may be required. Particularly sensitive are the CGUs; UK Distribution, UK Exteriors, and Lariviere.</p> <p>There is also an associated risk in the company only balance sheet over the potential impairment of investments in subsidiary undertakings and the recoverability of receivables due from subsidiary undertakings.</p> | <p><b>Indicators of impairment</b></p> <p>We assessed management's impairment assessment including their consideration of indicators for impairment. We considered whether other indicators existed which were not identified by management.</p> <p><b>Valuation model</b></p> <p>We evaluated the identification of CGUs against the requirements of IAS 36.</p> <p>We understood the methodology behind, and tested, the model used by management to perform the impairment test for each of the relevant Cash Generating Units ("CGUs") per the requirements of IAS 36, Impairment of Assets. We tested the clerical accuracy of the model and challenged the allocation of central overheads and forecasting risk adjustments through understanding the rationale for their inclusion and reviewing management's calculations. We identified and walked through key controls in the impairment process identified by management.</p> <p>We analysed the budget and medium-term plan, considering historical accuracy of forecasting and the impact of Covid-19, and compared to actual results and other forecast risk factors to determine whether forecast cash flows are reliable.</p> <p><b>Key assumptions in the valuation</b></p> <p>We evaluated the key underlying assumptions within the value in use calculation including the discount rates and long-term growth rates.</p> <p>We inspected CGU business plans, focusing on the recovery from Covid-19, and the impact on the turnaround of the UK Distribution business. We challenged key features such as recovering market share losses, maintaining margin, and corroborated the plans to previous performance, underlying data and progress reporting of initiatives.</p> <p>We benchmarked the discount rate calculation and long-term growth rates applied, using our internal valuation experts. We considered if management's assumptions are within an acceptable range based on comparative market data and with reference to independently calculated forecast risk premiums.</p> <p>For CGUs with the lowest headroom levels we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the forecasts for each CGU and determined whether adequate headroom remained, with a focus on the assumptions regarding the capability of the CGU to return to pre-COVID revenue and margin levels.</p> <p><b>Impairment of SAP</b></p> <p>We reviewed Management's paper in relation to the impairment of the £13.7m IT module asset. We challenged the initial assessment that a residual asset value of £3.7m should remain and reviewed management's revised position.</p> <p>We understood the change in management's plan for the project as discussed in board meetings, and reviewed the latest deployment plans for France and Germany to identify the trigger event for the impairment.</p> <p>Continued overleaf</p> | <p>Management performed an impairment assessment at 30 June 2020 to take into account the impact of Covid-19 on the forecasts. As a result, impairment charges on goodwill and intangible assets were recognised in relation to the UK Distribution (£31.0m) and UK Exteriors (£11.8m) CGUs.</p> <p>At 31 December 2020, a further impairment charge of £17.5m has been recognised against the UK Distribution CGU, due to further reductions in the forecast cash flows due to slower recovery following the Covid-19 pandemic. This brings the total impairment charge to CGUs of £60.3m</p> <p>We have challenged the input assumptions in the forecasts, including revenue and margin growth and concluded these are appropriate. Group costs have been allocated to CGUs on a reasonable basis. The discount rates applied in the final model are within an acceptable range determined by our internal valuation experts.</p> <p>Goodwill relating to the UK Exteriors, and Lariviere CGUs is sensitive to reasonably possible changes in key assumptions. These sensitivities have been appropriately disclosed in Note 13.</p> <p><b>Impairment of SAP</b></p> <p>Management's decision to change the scope of the IT module rollout, and timeline for it, results in an impairment of the previously capitalised assets. Following our challenge an additional impairment of £3.7m was recognised.</p> <p><b>Impairment of investments and recoverability of intercompany in the parent company accounts</b></p> <p>The investment carrying value for the main UK trading company could not be supported given the impact of Covid-19, giving rise to a £106.3m impairment identified by management.</p> <p>Management's assessment of the recoverability of intercompany receivables from European Investments Limited (£363.4m) and European Holdings Limited (£137.7m) indicates that the balances cannot be settled in full on demand. Management continue to recognise an appropriate level of expected credit loss provision totalling £193.9m (2019: £190.6m).</p> |

# Independent Auditor's Report

## TO THE MEMBERS OF SIG PLC

| Risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Our response to the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Key observations communicated to the Audit Committee                                                                                                                                              |
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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <p><b>Disclosures</b></p> <p>We assessed the disclosures in the intangible assets note against the requirements of IAS 36 Impairment of Assets, in particular the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment.</p> <p>We also assessed the disclosure within the key judgements and estimation uncertainty section of the financial statements.</p> <p><b>Impairment of investments and recoverability of intercompany in the parent company accounts</b></p> <p>We compared the forecasts and discount rates to our Goodwill testing to confirm these had been consistently applied.</p> <p>We compared the investment carrying value to the net assets of the subsidiary and the discounted future cashflow forecasts. Where a shortfall was noted we confirmed that an impairment was posted through the parent company accounts.</p> <p>We compared the intercompany receivables to the ability of the counterparty to settle on demand. Where a shortfall in liquid assets was identified we assessed the future cashflows and the discounting of these to account for the timing of settlement</p> <p>We completed these procedures at group level addressing 100% of the risk through our testing.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                   |
| <p><b>Supplier Rebates</b></p> <p>Refer to Accounting policies (page 144); and Note 17 &amp; 18 of the Consolidated Financial Statements (pages 179 to 181)</p> <p>The group recognised supplier rebate income from continuing operations in the year of £198.5m (2019: £245.2m) with a receivable balance as at 31 December 2020 of £66.6m (2019: £80.4m).</p> <p>The terms of rebate agreements with suppliers can be complex and varied. Judgement and Estimation uncertainty is present in relation to supplier rebates, in particular where the amounts receivable are tiered based on purchase volumes or where volumes are estimated, for example where arrangements span the year end. There is opportunity through management override of controls or error to overstate the balance of supplier rebates recognised.</p> | <p>We focused our audit procedures on the areas where management apply judgement and estimation, where the processing is either manual or more complex and on suppliers where the year-end rebate value is high due to non-coterminous year ends.</p> <p>We performed walkthroughs to understand the key processes used to record supplier rebate transactions and identified key controls.</p> <p>We performed analytical reviews to understand unusual movements in income statement and balance sheet accounts period on period, including ageing analysis.</p> <p>We selected a sample of suppliers in order to obtain independent confirmations to confirm key terms, income and year end receivable.</p> <p>We reconciled income recognised in the period, for the sample of suppliers, based on agreed arrangement terms, income and receivable as confirmed by the supplier. Using confirmed amounts, we ensured the appropriate rebate tier was applied.</p> <p>Where third party vendor confirmations could not be obtained for the sample, we:</p> <ul style="list-style-type: none"> <li>■ Obtained and reviewed the agreement signed by both parties.</li> <li>■ Validated the purchase volumes used in the calculation of income through sample testing to supporting documentation.</li> <li>■ Recalculated the year-end rebate receivable and income recognised in the year based on the validated volumes and the terms of the signed agreement.</li> </ul> <p>For new agreements, or amendments to existing agreements, signed in the year, we obtained copies of the agreements and reviewed management's delegation of authority to confirm that these were approved in line with group's policy.</p> <p>Using data extracted from the accounting system, we tested the appropriateness of a sample of journal entries and other adjustments to supplier rebate accounts in the balance sheet and income statement.</p> <p>We reviewed the appropriateness of the critical accounting judgements and key sources of estimation uncertainty disclosure in respect of supplier rebate amounts recorded in the income statement and balance sheet.</p> <p>We performed the above audit procedures over this risk area at 7 full and specific scope locations, which covered 96% of the risk amount associated to supplier rebate income and 95% of the risk amount associated to supplier rebates receivable.</p> | <p>The income recognised in the year and the balance sheet position at year end are appropriately recorded.</p> <p>We consider the disclosures in the financial statements to be appropriate.</p> |



| Risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Our response to the risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Key observations communicated to the Audit Committee                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Classification of Other items in the income statement</b></p> <p>Refer to Accounting policies (page 143); and Note 2b of the Consolidated Financial Statements (page 159)</p> <p>Other items in 2020 totals £126.0m (2019: £130.4m). Key components include; impairment charges £76.1m, onerous contract provisions £13.2m, finance costs £11.6m, refinancing costs £7.4m and restructuring costs £6.7m.</p> <p>Other items are not defined by IFRS and therefore judgement is required in determining the appropriateness of such classification guided by IAS 1. Consistency in items treated as separately disclosed is important to maintain comparability of reporting year-on-year.</p> <p>Underlying profitability is a key performance measure of the group. There exists a risk of incorrect classification of Other items through management override of controls and bias in judgement.</p> | <p>We performed walkthroughs to understand the key processes used to record Other items and identify key controls.</p> <p>We reviewed management's accounting policy disclosure in respect of Other items classification in the income statement and challenged the appropriateness of separately presenting these items within Other items.</p> <p>We obtained evidence for a sample of the Other items to understand the nature of these items and whether these are presented in line with the group's accounting policy.</p> <p>We have considered the consistency of SIG plc's approach with reference to Other items in the prior year.</p> <p>Where an item related to impairment charges testing was performed in line with our response to the risk set out in the Key Audit Matter relating to the impairment of goodwill, intangible assets, PPE and ROUA on page 209.</p> <p>Where an item related to onerous contract provisions, we agreed future committed costs to signed agreements. We reviewed management's paper in relation to the IAS 37 onerous contract costs and performed a sample test on the underlying costs, including agreement to latest deployment plans for operating companies.</p> <p>For finance costs included within Other items, we confirmed the accounting treatment of the amendments to the RCF and PPN (term length, interest rates, value) and considered whether they met the definition of modifications to, or extinguishments of, the old agreements, paying particular attention to the treatment of historic debt issue costs and the calculation of any modification gain or loss. We assessed the impact of the partial derecognition of the cash flow hedge on the related \$30m Private Placement Note.</p> <p>Where refinancing costs were classified within Other items, we obtained a listing of transaction costs associated with the debt refinancing, challenged management's cost allocation and performed a sample test to confirm the appropriate classification of the costs.</p> <p>Where an item related to a restructuring project, we inspected the build-up to ensure that the costs were:</p> <ul style="list-style-type: none"> <li>■ Attributable to the restructuring project;</li> <li>■ Incremental in nature, either directly or indirectly;</li> <li>■ Qualify for recognition in the financial statements for the period;</li> <li>■ Have been correctly categorised as a cost or as Other items in line with the accounting policy.</li> </ul> <p>We performed the above audit procedures over this risk area at all full and specific scope locations and additional testing by the primary team to cover 100% of the balance.</p> | <p>Other items are recorded in line with the group's policy and the guidance in IAS 1.</p> <p>We agree with management's conclusion that the refinancing of the Private Placement Notes results in a modification and a loss of £11.6m has been appropriately recorded due to changes in the net present value of cashflows.</p> <p>Following our challenge, management corrected audit adjustments to Other items, including additional impairment to IT assets (£3.7m) and additional onerous contract provisions (£1.2m).</p> |

In the prior year, our auditor's report included key audit matters in relation to the Independent review by PwC and cash cut-off. In the current year, these were no longer identified as key audit matters as they are no longer deemed to have the greatest effect on overall audit strategy, the allocation of resources or directing the efforts of the engagement team. This was due to the experience gained from prior audits and the resolution, and conclusion, of the independent review by PwC.

# Independent Auditor's Report

## TO THE MEMBERS OF SIG PLC

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £1.8m (2019: £2.0m). This is based on 0.5% of Gross Margin (2019: 5% of adjusted underlying Profit before tax), which provides a materiality value comparable to both those used in the previous year and forecast to be used in future years when the group's turnaround is expected to complete. We believe that this basis provides one of the most relevant performance measures to the stakeholders of the group and is therefore an appropriate basis for materiality. The reduction in materiality from the prior year is primarily due to the negative impact of Covid-19 on the profitability of the business in 2020 and the sale of the Air Handling component in the year.

We determined materiality for the parent company to be £1.8m (2019: £2.0m), which is 1% of Equity, capped at the materiality of the group.

During the course of our audit, we reassessed initial materiality based on the final Gross Margin outturn. This indicated a materiality higher than the prior year, which does not appropriately reflect the increased volatility in the financial performance arising due to the Covid-19 pandemic. As a result, we have maintained our materiality at the planned, and lower, amount above.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £0.9m (2019: £1.0m). We have set performance materiality at this percentage due our assessment of the control environment, the level of misstatements in the prior year and the outcome of our risk assessment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.2m to £0.4m (2019: £0.2m to £0.4m).

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2019: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report, set out on pages 1 to 133, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 28;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 27;
- Directors' statement on fair, balanced and understandable set out on page 106;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 81;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 81; and;
- The section describing the work of the audit committee set out on pages 96 to 106.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 132 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

# Independent Auditor's Report

## TO THE MEMBERS OF SIG PLC

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks, which are directly relevant to specific assertions in the financial statements, are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates.
- We understood how SIG plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee as well as observation in Audit Committee meetings, as well as consideration of the results of our audit procedures across the group.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, subsidiary management at all full and specific scope components; and focused testing, including the procedures referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.
- Specific enquiries were made with the component teams to confirm any non-compliance with laws and regulations and this was reported through their audit deliverables based on the procedures detailed in the previous paragraph. Further, the group team communicated any instances of non-compliance with laws and regulations to component teams through regular interactions with local EY teams. There were no significant instances of non-compliance with laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on 4 July 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 31 December 2018 to 31 December 2020.
- Non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the report to the audit committee

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Colin Brown

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

25 March 2021

#### Notes:

1. The maintenance and integrity of the SIG plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Five-Year Summary

| Statutory basis           | Total<br>2016<br>£m | Total<br>2017<br>£m | Total<br>2018 <sup>^</sup><br>£m | Total<br>2019 <sup>^</sup><br>£m | Total<br>2020 <sup>^</sup><br>£m |
|---------------------------|---------------------|---------------------|----------------------------------|----------------------------------|----------------------------------|
| Revenue                   | 2,845.2             | 2,878.4             | 2,431.8                          | 2,160.6                          | <b>1,874.5</b>                   |
| Operating (loss)/profit   | (96.0)              | (36.3)              | 26.2                             | (87.9)                           | <b>(167.7)</b>                   |
| Finance income            | 1.7                 | 0.6                 | 0.5                              | 0.5                              | <b>0.7</b>                       |
| Finance costs             | (17.0)              | (19.0)              | (16.4)                           | (25.3)                           | <b>(35.3)</b>                    |
| (Loss)/profit before tax  | (111.3)             | (54.7)              | 10.3                             | (112.7)                          | <b>(202.3)</b>                   |
| (Loss)/profit after tax   | (122.9)             | (59.2)              | 4.1                              | (124.1)                          | <b>(208.9)</b>                   |
| (Loss)/earnings per share | (20.9)              | (10.2)              | 3.0                              | (21.0)                           | <b>(23.9)</b>                    |
| Total dividend per share  | 3.66                | 3.75                | 3.75                             | 1.25                             | <b>0.0</b>                       |

|                           | Underlying<br>2016<br>£m | Underlying<br>2017<br>£m | Underlying<br>2018 <sup>^</sup><br>£m | Underlying<br>2019 <sup>^</sup><br>£m | Underlying<br>2020 <sup>^</sup><br>£m |
|---------------------------|--------------------------|--------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Underlying basis*         |                          |                          |                                       |                                       |                                       |
| Revenue                   | 2,532.0                  | 2,714.3                  | 2,347.2                               | 2,143.0                               | <b>1,872.7</b>                        |
| Operating profit/(loss)   | 81.1                     | 85.3                     | 70.4                                  | 42.5                                  | <b>(53.3)</b>                         |
| Finance income            | 1.2                      | 0.5                      | 0.5                                   | 0.5                                   | <b>0.7</b>                            |
| Finance costs             | (14.8)                   | (16.6)                   | (15.9)                                | (25.3)                                | <b>(23.7)</b>                         |
| Profit/(loss) before tax  | 67.4                     | 69.2                     | 55.0                                  | 17.7                                  | <b>(76.3)</b>                         |
| Profit/(loss) after tax   | 49.3                     | 51.5                     | 40.1                                  | 1.4                                   | <b>(87.0)</b>                         |
| (Loss)/earnings per share | 8.3                      | 8.7                      | 6.8                                   | 0.2                                   | <b>(10.0)</b>                         |

<sup>^</sup> Results for 2020, 2019 and 2018 reflect continuing operations only with the Air Handling business classified as a discontinued operation in these periods. See Note 12 for further information.

\* Underlying figures are stated before the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of Other items and the effect of changes in taxation rates.

All underlying numbers are stated excluding the trading results attributable to businesses identified as non-core.





# Company Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

|                                                                                    | 2020<br>£m     | 2019<br>£m |
|------------------------------------------------------------------------------------|----------------|------------|
| <b>Loss after tax</b>                                                              | <b>(164.6)</b> | (259.8)    |
| <b>Items that may subsequently be reclassified to the Company Income Statement</b> |                |            |
| Gains and losses on cash flow hedges                                               | (0.5)          | 0.4        |
| Transfer to profit and loss on cash flow hedges                                    | (0.7)          | 0.9        |
| <b>Other comprehensive (expense)/income</b>                                        | <b>(1.2)</b>   | 1.3        |
| <b>Total comprehensive expense</b>                                                 | <b>(165.8)</b> | (258.5)    |
| <b>Attributable to:</b>                                                            |                |            |
| Equity holders of the Company                                                      | <b>(165.8)</b> | (258.5)    |

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Statement of Comprehensive Income.

# Company Balance Sheet

AS AT 31 DECEMBER 2020

|                                                 | Note | 2020<br>£m   | 2019<br>£m |
|-------------------------------------------------|------|--------------|------------|
| <b>Fixed assets</b>                             |      |              |            |
| Investments                                     | 5    | 267.6        | 376.8      |
| Tangible fixed assets                           | 6    | 0.3          | 0.4        |
| Right-of-use assets                             | 11   | 1.4          | 1.6        |
| Intangible assets                               | 7    | 1.0          | 11.6       |
|                                                 |      | <b>270.3</b> | 390.4      |
| <b>Current assets</b>                           |      |              |            |
| Debtors - due within one year                   | 8    | 405.7        | 539.3      |
| Debtors - due after more than one year          | 8    | –            | 1.7        |
| Cash at bank and in hand                        |      | 174.0        | 9.1        |
|                                                 |      | <b>579.7</b> | 550.1      |
| <b>Current liabilities</b>                      |      |              |            |
| Creditors: amounts falling due within one year  | 9    | 235.6        | 533.1      |
| Provisions: amounts falling due within one year | 12   | 4.3          | –          |
|                                                 |      | <b>239.9</b> | 533.1      |
| <b>Net current assets</b>                       |      | <b>339.8</b> | 17.0       |
| <b>Total assets less current liabilities</b>    |      | <b>610.1</b> | 407.4      |
| Creditors: amounts falling due after one year   | 10   | 213.9        | 3.5        |
| Provisions: amounts falling due after one year  | 12   | 6.2          | 0.2        |
| <b>Net assets</b>                               |      | <b>390.0</b> | 403.7      |
| <b>Capital and reserves</b>                     |      |              |            |
| Called up share capital                         | 14   | 118.2        | 59.2       |
| Share premium account                           | 14   | 447.7        | 447.3      |
| Treasury shares reserve                         | 14   | (0.2)        | –          |
| Merger reserve                                  | 14   | 104.0        | 11.5       |
| Capital redemption reserve                      | 14   | 0.3          | 0.3        |
| Share option reserve                            | 14   | 2.0          | 1.8        |
| Exchange reserve                                | 14   | (0.2)        | (0.2)      |
| Cash flow hedging reserve                       | 14   | 2.1          | 3.5        |
| Cost of hedging reserve                         | 14   | 0.1          | (0.1)      |
| Retained profits                                | 14   | (284.0)      | (119.6)    |
| <b>Shareholders' funds</b>                      |      | <b>390.0</b> | 403.7      |

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Balance Sheet.

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own Company Income Statement for the year. SIG plc reported a loss after tax for the financial year ended 31 December 2020 of £164.6m (2019: £259.8m loss).

The Financial Statements were approved by the Board of Directors on 25 March 2021 and signed on its behalf by:

**Steve Francis**  
Director

**Ian Ashton**  
Director

Registered in England: 00998314

# Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

|                                                    | Called<br>up share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Treasury<br>shares<br>reserve<br>£m | Merger<br>reserve<br>£m | Capital<br>redemption<br>reserve<br>£m | Share<br>option<br>reserve<br>£m | Exchange<br>reserve<br>£m | Cash<br>flow<br>hedging<br>reserve<br>£m | Cost of<br>hedging<br>reserve<br>£m | Retained<br>profits/<br>(losses)<br>£m | Total<br>Equity<br>£m |
|----------------------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-------------------------|----------------------------------------|----------------------------------|---------------------------|------------------------------------------|-------------------------------------|----------------------------------------|-----------------------|
| At 1 January 2019                                  | 59.2                                | 447.3                             | –                                   | 21.7                    | 0.3                                    | 1.7                              | (0.2)                     | –                                        | –                                   | 154.3                                  | 684.3                 |
| Loss after tax                                     | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | –                                        | –                                   | (259.8)                                | (259.8)               |
| Total comprehensive<br>income/(expense)            | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | 2.2                                      | (0.9)                               | –                                      | 1.3                   |
| Total comprehensive<br>income                      | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | 2.2                                      | (0.9)                               | (259.8)                                | (258.5)               |
| Transfer of merger<br>reserve                      | –                                   | –                                 | –                                   | (10.2)                  | –                                      | –                                | –                         | –                                        | –                                   | 10.2                                   | –                     |
| Transfer of hedging<br>reserves                    | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | 1.3                                      | 0.8                                 | (2.1)                                  | –                     |
| Credit to share option<br>reserve                  | –                                   | –                                 | –                                   | –                       | –                                      | 0.1                              | –                         | –                                        | –                                   | –                                      | 0.1                   |
| Dividends paid to equity<br>holders of the Company | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | –                                        | –                                   | (22.2)                                 | (22.2)                |
| At 31 December 2019                                | 59.2                                | 447.3                             | –                                   | 11.5                    | 0.3                                    | 1.8                              | (0.2)                     | 3.5                                      | (0.1)                               | (119.6)                                | 403.7                 |
| Loss after tax                                     | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | –                                        | –                                   | (164.6)                                | (164.6)               |
| Total comprehensive<br>income/(expense)            | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | (1.4)                                    | 0.2                                 | –                                      | (1.2)                 |
| Total comprehensive<br>income/(expense)            | –                                   | –                                 | –                                   | –                       | –                                      | –                                | –                         | (1.4)                                    | 0.2                                 | (164.6)                                | (165.8)               |
| Transfer of unallocated<br>treasury shares         | –                                   | –                                 | (0.2)                               | –                       | –                                      | –                                | –                         | –                                        | –                                   | 0.2                                    | –                     |
| Credit to share option<br>reserve                  | –                                   | –                                 | –                                   | –                       | –                                      | 0.2                              | –                         | –                                        | –                                   | –                                      | 0.2                   |
| Share capital issued in<br>the year                | 59.0                                | 0.4                               | –                                   | 92.5                    | –                                      | –                                | –                         | –                                        | –                                   | –                                      | 151.9                 |
| <b>At 31 December 2020</b>                         | <b>118.2</b>                        | <b>447.7</b>                      | <b>(0.2)</b>                        | <b>104.0</b>            | <b>0.3</b>                             | <b>2.0</b>                       | <b>(0.2)</b>              | <b>2.1</b>                               | <b>0.1</b>                          | <b>(284.0)</b>                         | <b>390.0</b>          |

There was no movement in the capital redemption reserve and exchange reserve in the current or prior year. During 2020 the Company allotted no shares (2019: no shares) from the exercise of share options.

Amounts were reclassified during the prior year to clarify the effects of hedging between retained (losses)/profits, the cash flow hedging reserve and the cost of hedging reserve.

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Statement of Changes in Equity.

# Company Statement of Significant Accounting Policies

## Basis of accounting

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention (except for the revaluation of financial instruments which are held at fair value as disclosed on page 147). Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. Categorisation of fair value is set out in the Consolidated Financial Statements on page 147.

The separate Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a qualifying entity that would otherwise apply the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006. The Company is a qualifying entity for the purposes of FRS 101.

## Going concern

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

On 18 June 2020, the Group agreed amended debt facility agreements in respect of its Revolving Credit Facility (RCF) and private placement notes, with key changes as set out in Note 19 of the Consolidated Financial Statements. On 10 July 2020 the Group also completed the successful raising of £165m of equity through a firm placing and placing and open offer, in order to reduce net debt and strengthen the Group's balance sheet.

Under the June 2020 revised debt facility agreements the Group was subject to covenant testing as follows:

- Leverage (net debt/EBITDA) and interest cover (EBITA/interest) not tested until March 2022, after which tested every quarter, the tests being applied to the prior 12 months;
- Until 28 February 2022 the Group to ensure that Consolidated Net Debt (CND) does not exceed £225m for each quarterly test date in 2021 (2020: £125m);
- Minimum Liquidity (available cash and undrawn revolving credit facility commitments) of £40m at all times; and
- Consolidated Net Worth (CNW) must at all times not be less than £250m.

The Group was in compliance with these covenants at 31 December 2020.

Whilst the Group has significant available liquidity, and on the basis of current forecasts is expected to remain in compliance with all banking covenants throughout the forecast period to 31 March 2022, on 1 March 2021 the Group agreed with its lending banks and private placement noteholders to amend certain financial covenants to better align the tests and to provide additional headroom on the interest cover covenant under stress test scenarios from March 2022. The amended covenants under the revised agreements are as follows:

- The interest cover testing does not start until June 2022 and is at lower levels than previously until December 2022;
- The leverage covenant threshold is now slightly lower than previously at March 2022 and June 2022;
- The Consolidated Net Debt threshold is lowered to £200m and extended to December 2022; and
- No change to the CNW or Minimum Liquidity covenants.

In arriving at their opinion on going concern, the Directors have considered the Group's forecasts for the period to 31 March 2022, and specifically the ability to meet the covenant tests above. These forecasts reflect the assumption of more normal trading levels since the worst of the Covid-19 impact, as well as the expected positive impact of the strategic actions being undertaken to improve future performance under the "Return to Growth" strategy.

Management have continued to manage liquidity very closely, such that cashflow performance was better than initial expectations throughout 2020. The base forecasts indicate that the Group will be able to operate within the covenants for the forecast period to 31 March 2022.

The Directors have considered the following principal risks and uncertainties that could potentially impact the Group's ability to fund its future activities and adhere to its future banking covenants, including:

- A decline in market conditions resulting in lower than forecast sales;
- Implementation of the new strategy taking longer than anticipated to deliver forecast increases in revenue and profit;
- A further wave of the Covid-19 pandemic; and
- The terms of the Group's revised lending arrangements and whether these could limit investment in growth opportunities.

The forecasts on which the going concern assessment is based have been subject to sensitivity analysis and stress testing to assess the impact of the above risks. The Group has considered a plausible downside scenario, factoring in a reduction in sales volumes and a reduction in gross margin, offset by reductions in direct expenditure and discretionary operating costs. The results showed that under this scenario the Group will still be able to operate within the covenants with adequate headroom for the forecast period to 31 March 2022.



In considering the impact of these stress test scenarios the Directors have also reviewed realistic additional mitigating actions over and above those included in the downside scenario forecast that could be taken to avoid or reduce the impact or occurrence of the underlying risks. These include further reductions to operating costs, cutting discretionary capital expenditure and disposing of non-core assets.

On consideration of the above, the Directors believe that the Company has adequate resources to continue in operational existence for the forecast period to 31 March 2022 and the Directors therefore consider it is appropriate to adopt the going concern basis in preparing the 2020 financial statements.

### **New standards, interpretations and amendments adopted**

A number of amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

### **Exemptions applied in accordance with FRS 101**

The following exemptions from the requirements of IFRS have been applied in the preparation of these Financial Statements, in accordance with FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 "Share-based Payment"
- the requirements of IFRS 7 "Financial Instruments: Disclosures"
- the requirements of paragraphs 91 to 99 of IFRS 13 "Fair Value Measurement"
- the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1 and
  - paragraph 73(e) of IAS 16 "Property, Plant and Equipment"
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40B, 111, and 134 to 136 of IAS 1 "Presentation of Financial Statements"
- the requirements of IAS 7 "Statement of Cash Flows"
- the requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- the requirements of paragraph 17 of IAS 24 "Related Party Disclosures"
- the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 "Impairment of Assets".

### **Share-based payments**

The accounting policy for share-based payments (IFRS 2) is consistent with that of the Group as detailed on page 145.

### **Derivative financial instruments**

The accounting policy for derivative financial instruments is consistent with that of the Group as detailed on page 148.

### **Financial assets and liabilities**

The accounting policy for financial assets and liabilities is consistent with that of the Group as detailed on pages 147. The Company has assessed on a forward looking basis the expected credit losses associated with amounts owed by subsidiary undertakings. The impairment methodology applied depends on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk.

### **Investments**

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

### **Tangible fixed assets**

The accounting policy for tangible fixed assets is consistent with that of the Group as detailed on page 145.

### **Intangible assets**

The accounting policy for intangible fixed assets is consistent with that of the Group as detailed on page 145.

### **Leases**

The accounting policy for leases is consistent with that of the Group as detailed on page 146.

### **Foreign currency**

The accounting policy for foreign currency is consistent with that of the Group as detailed on page 142.

### **Taxation**

The accounting policy for taxation is consistent with that of the Group as detailed on page 144.

### **Dividends**

Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Accounts until they have been approved by the Shareholders at the Annual General Meeting.

# Company Statement of Significant Accounting Policies

## CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described above, the Directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have had a significant effect on the amounts recognised in the Financial Statements. The judgements involving estimations are dealt with separately below.

### Amendments to financing arrangements

On 18 June 2020 the Company amended the terms of its financing arrangements, involving both the Revolving Credit Facility (RCF) and private placement notes (PPNs). The Company has assessed whether the amendments to the facilities represents either a modification of the existing arrangement or an extinguishment of the previous arrangement and refinancing in accordance with IFRS 9.

The Company has determined the amendments to the RCF to be an extinguishment and new facility, as the present value of the estimated future cash flows discounted at the loan's original effective interest rate (EIR) differed by more than 10% compared to the previous cash flows. The balance of unamortised arrangement fees as at 18 June 2020 of £0.3m has therefore been written off in full through finance costs, and the fees payable in relation to the new agreement are being amortised over the new term of the facility.

The Company has determined that amendments to the terms of the PPNs (see Note 19 of the Consolidated Financial Statements for further details) meet the criteria to be accounted for as a modification of the existing arrangements, with the present value of future cash flows considered separately for each PPN, discounted at the original effective interest rate for the relevant PPN. A loss on modification of £11.3m has been recognised, reflecting the difference in the present value of future cash flows discounted at each loan note's original EIR, which has been recognised within finance costs within Other items. This will unwind over the remaining term of the PPNs, resulting in the finance cost recognised in future periods being lower than the actual amounts paid. The existing prepaid arrangement fees of £0.3m at the date of the new agreement will continue to be amortised over the original term.

### Impairment of intangible assets in relation to SAP 1HANA implementation

As disclosed in the 2019 Annual Report and Accounts, the project to implement SAP 1HANA in France and Germany was paused in April 2020 in light of the Covid-19 situation and the change in senior management. A decision has been taken to recommence the project in 2021, but with a change in scope and direction and a locally managed implementation. Costs incurred to date had been recognised in the Company financial statements (to be allocated appropriately once the project went live), and costs recognised on the balance sheet as at the date of pause have been reviewed to assess whether they continue to have any future economic benefit in relation to the implementation going forward. Following this review, an impairment of £13.7m has been recognised with no remaining asset value carried forward. An onerous contract provision of £9.6m has also been recognised in relation to future contracted licence fees which the Company believes have no future economic benefit. Both these items involved significant management judgement in terms of the level of future economic benefit to be derived in relation to the future project.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities recognised by the Company within the next financial year are detailed below.

## Impairment of fixed asset investments

Determining whether the Company's investments are impaired requires an estimation of the investments' value in use. The key estimates made in the value in use calculation in relation to trading subsidiaries are those regarding discount rates, sales growth rates, gross margin and long term operating profit growth. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group.

The Company performs investment impairment reviews by forecasting cash flows based upon the following year's budget as a base, taking into account current economic conditions. The carrying amount of investments in subsidiaries at the balance sheet date was £267.6m (2019: £376.8m) after an impairment loss recognised in 2020 of £109.3m (2019: £66.8m). Of the £267.6m net book value at 31 December 2020, £263.7m relates to the Company's investment in SIG Trading Limited, the largest UK trading subsidiary, and therefore assumptions regarding sales, gross margin and operating profit growth of this subsidiary are considered to be the key areas of estimation in the impairment review process. At 31 December 2020, a review of the future operating cashflows of SIG Trading Limited using the following year's budget as a base indicated that the carrying value of the investment was not recoverable, resulting in the impairment charge recognised.

Whilst the Directors consider the assumptions used in the impairment review to be realistic, if actual results are different from expectations then it is possible that the value of the investment included in the Balance Sheet could become impaired further. Further details on the assumptions and sensitivities in relation to the forecast future cash flows of this subsidiary are provided in Note 13 of the Consolidated Financial Statements.

## Impairment of amounts owed by subsidiary undertakings

At 31 December 2020 the Company has recognised amounts owed by subsidiary undertakings of £402.5m (2019: £537.0m). The Company recognises an allowance for expected credit losses (ECLs) in relation to amounts owed by subsidiary undertakings based on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk. An ECL provision of £193.9m has been recognised at 31 December 2020 (2019: £190.6m) based on estimates regarding the future cash flows from subsidiaries and taking account of the time value of money. Changes in the economic environment or circumstances specific to individual subsidiaries could have an impact on recoverability of amounts included on the Company Balance Sheet at 31 December 2020 and level of ECL provision required in the future.

## Deferred tax assets

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Therefore, estimates are made to establish whether deferred tax balances should be recognised, in particular in respect of non-trading losses. Deferred tax assets have not been recognised at 31 December 2020 on the basis that the realisation of their future economic benefit is uncertain.

# Notes to the Company Financial Statements

## 1. Loss for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own Company Income Statement for the year. SIG plc reported a loss after tax for the financial year ended 31 December 2020 of £164.6m (2019: £259.8m loss).

The Auditor's remuneration for audit services to the Company was £0.6m (2019: £0.6m).

## 2. Share-based payments

The Company had four share-based payment schemes in existence during the year ended 31 December 2020. The Company recognised a total credit to equity of £0.2m (2019: credit of £0.2m) in the year relating to share-based payment transactions. Details of each of the share-based payment schemes can be found in Note 9 to the Consolidated Financial Statements on pages 165 to 167.

## 3. Dividends

No interim dividend was paid during 2020 (2019: 1.25p per ordinary share). The Directors are not proposing a final dividend for the year ended 31 December 2020 (2019: no dividend). Total dividends paid during the year was £nil (2019: £22.2m). No dividends have been paid between 31 December 2020 and the date of signing the Financial Statements.

See Note 14 for further details on distributable reserves.

## 4. Staff costs

Particulars of employees (including Directors) are shown below:

|                                                    | 2020<br>£m  | 2019<br>£m |
|----------------------------------------------------|-------------|------------|
| <b>Employee costs during the year amounted to:</b> |             |            |
| Wages and salaries                                 | 11.2        | 5.3        |
| Social security costs                              | 1.1         | 1.0        |
| IFRS 2 share option charge                         | –           | (0.2)      |
| Pension costs                                      | 0.3         | 0.3        |
| <b>Total</b>                                       | <b>12.6</b> | <b>6.4</b> |

The average monthly number of persons employed by the Company during the year was as follows:

|                | 2020<br>Number | 2019<br>Number |
|----------------|----------------|----------------|
| Administration | 69             | 56             |

## 5. Fixed asset investments

Fixed asset investments comprise investments in subsidiary undertakings, as follows:

|                                       | 2020<br>£m   | 2019<br>£m   |
|---------------------------------------|--------------|--------------|
| <b>Cost</b>                           |              |              |
| At 1 January                          | 650.8        | 650.4        |
| Additions                             | 0.1          | 0.4          |
| At 31 December                        | 650.9        | 650.8        |
| <b>Accumulated impairment charges</b> |              |              |
| At 1 January                          | 274.0        | 207.2        |
| Impairment charge                     | 109.3        | 66.8         |
| At 31 December                        | 383.3        | 274.0        |
| <b>Net book value</b>                 |              |              |
| <b>At 31 December</b>                 | <b>267.6</b> | <b>376.8</b> |
| At 1 January                          | 376.8        | 443.2        |

Details of the Company's subsidiaries are shown on pages 232 and 233.

The £0.1m (2019: £0.4m) addition of investments in the year relates to the share based payment charge settled by SIG plc but relating to other subsidiary companies.

Of the £267.6m (2019: £376.8m) investment net book value, £263.7m (2019: £370.0m) relates to SIG Trading Limited, the largest UK trading subsidiary. At 31 December 2020, a review of the future operating cashflows of SIG Trading Limited using the following year's budget as a base, taking into account current economic conditions, indicated that the carrying value of the investment was not recoverable and an impairment charge of £106.3m has been recognised. £3.0m impairment has also been recognised in relation to the Company's investment in Freeman Group Limited following the settlement of intercompany balances and distribution of remaining reserves during the year.

A more detailed sensitivity analysis of the Group's significant CGUs is given in Note 13 of the Consolidated Financial Statements.

## 6. Tangible fixed assets

The movement in the year was as follows:

|                                     | Freehold<br>land and<br>buildings<br>£m | Leasehold<br>improvements<br>£m | Plant and<br>machinery<br>£m | Total<br>£m |
|-------------------------------------|-----------------------------------------|---------------------------------|------------------------------|-------------|
| <b>Cost</b>                         |                                         |                                 |                              |             |
| At 1 January 2019                   | 0.1                                     | 0.5                             | 3.1                          | 3.7         |
| Reclassifications                   | –                                       | –                               | (2.5)                        | (2.5)       |
| <b>At 31 December 2019 and 2020</b> | <b>0.1</b>                              | <b>0.5</b>                      | <b>0.6</b>                   | <b>1.2</b>  |
| <b>Depreciation</b>                 |                                         |                                 |                              |             |
| At 1 January 2019                   | 0.1                                     | –                               | 0.7                          | 0.8         |
| Reclassifications                   | –                                       | –                               | (0.1)                        | (0.1)       |
| Charge for the year                 | –                                       | 0.1                             | –                            | 0.1         |
| At 31 December 2019                 | 0.1                                     | 0.1                             | 0.6                          | 0.8         |
| Charge for the year                 | –                                       | 0.1                             | –                            | 0.1         |
| <b>At 31 December 2020</b>          | <b>0.1</b>                              | <b>0.2</b>                      | <b>0.6</b>                   | <b>0.9</b>  |
| <b>Net book value</b>               |                                         |                                 |                              |             |
| <b>At 31 December 2020</b>          | <b>–</b>                                | <b>0.3</b>                      | <b>–</b>                     | <b>0.3</b>  |
| At 31 December 2019                 | –                                       | 0.4                             | –                            | 0.4         |

In 2019 software costs previously included within plant and machinery with cost of £2.5m and accumulated depreciation of £0.1m at 31 December 2018 were reclassified as intangible assets during the year (see Note 7).

## 7. Intangible fixed assets

The movement in the year was as follows:

|                            | Computer<br>software<br>£m | Total<br>£m |
|----------------------------|----------------------------|-------------|
| <b>Cost</b>                |                            |             |
| At 1 January 2019          | –                          | –           |
| Reclassifications (Note 6) | 2.5                        | 2.5         |
| Additions                  | 10.0                       | 10.0        |
| At 31 December 2019        | 12.5                       | 12.5        |
| Additions                  | 5.1                        | 5.1         |
| Disposals                  | (2.3)                      | (2.3)       |
| <b>At 31 December 2020</b> | <b>15.3</b>                | <b>15.3</b> |
| <b>Depreciation</b>        |                            |             |
| At 1 January 2019          | –                          | –           |
| Reclassifications (Note 6) | 0.1                        | 0.1         |
| Charge for the year        | 0.8                        | 0.8         |
| At 31 December 2019        | 0.9                        | 0.9         |
| Charge for the year        | 0.9                        | 0.9         |
| Disposals                  | (1.3)                      | (1.3)       |
| Impairment                 | 13.8                       | 13.8        |
| <b>At 31 December 2020</b> | <b>14.3</b>                | <b>14.3</b> |
| <b>Net book value</b>      |                            |             |
| <b>At 31 December 2020</b> | <b>1.0</b>                 | <b>1.0</b>  |
| At 31 December 2019        | 11.6                       | 11.6        |

Included within computer software additions are assets in the course of construction of £nil (2019: £9.4m).

The impairment charge in relation to software relates mainly to the impairment of SAP implementation costs following the period of pause and change in scope of the project.



# Notes to the Company Financial Statements

## 8. Debtors

|                                         | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|-----------------------------------------|---------------------------|---------------------------|
| Amounts owed by subsidiary undertakings | 402.5                     | 537.0                     |
| Derivative financial instruments        | -                         | 0.9                       |
| Current tax asset                       | -                         | 0.4                       |
| Prepayments                             | 3.2                       | 1.0                       |
| Debtors - due within one year           | 405.7                     | 539.3                     |
| Derivative financial instruments        | -                         | 1.7                       |
| Debtors - due after more than one year  | -                         | 1.7                       |
| <b>Total</b>                            | <b>405.7</b>              | <b>541.0</b>              |

The Group recognises an allowance for expected credit losses (ECLs) in relation to amounts owed by subsidiary undertakings based on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk. An ECL provision of £193.9m (2019: £190.6m) has been recognised at 31 December 2020 based on estimates regarding the future cash flows from subsidiaries and taking account of the time value of money.

Amounts owed by subsidiary undertakings are measured at amortised cost and bear interest at rates between 0.0% and 8.0%.

## 9. Creditors: amounts falling due within one year

|                                         | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|-----------------------------------------|---------------------------|---------------------------|
| Lease liabilities                       | 0.2                       | 0.2                       |
| Private placement notes (Note 10)       | -                         | 175.5                     |
| Bank loans                              | -                         | 99.5                      |
| Bank overdrafts                         | -                         | 12.7                      |
| Amounts owed to subsidiary undertakings | 219.3                     | 218.4                     |
| Derivative financial instruments        | 0.5                       | 0.2                       |
| Accruals and deferred income            | 15.6                      | 26.6                      |
| <b>Total</b>                            | <b>235.6</b>              | <b>533.1</b>              |

All of the Company's bank loans and overdrafts are unsecured. The bank loans are guaranteed by certain companies of the Group.

The private placement notes were classified as a current liability at 31 December 2019. The terms of the private placement notes were amended on 19 June 2020 and have been classified in accordance with the revised terms at 31 December 2020. See Note 10 for further details.

On 18 June 2020 the Group amended the terms of its financing arrangements. The bank loan balance at 31 December 2019 related to the amount drawn under the Revolving Credit Facility ('RCF'). As part of the amendments to the financing arrangements the amount drawn on the RCF on 18 June 2020 of £70.0m was converted into a term facility due for repayment on 31 May 2023 and a working capital facility of £25.0m. The £70.0m term facility is included within non-current liabilities (see Note 10). The amount drawn under the working capital facility at 31 December 2020 is £nil.

Amounts owed to subsidiary undertakings are measured at amortised cost, are unsecured and bear interest at rates between 0.0% and 4.0%.

## 10. Creditors: amounts falling due after one year

|                                  | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|----------------------------------|---------------------------|---------------------------|
| Lease liabilities                | 1.4                       | 1.6                       |
| Private placement notes          | 144.5                     | –                         |
| Bank loans                       | 67.7                      | –                         |
| Derivative financial instruments | 0.3                       | 1.9                       |
| <b>Total</b>                     | <b>213.9</b>              | <b>3.5</b>                |

Amounts owed to subsidiary undertakings are measured at amortised cost, are unsecured and bear interest at rates between 0.0% and 4.0%.

### Bank loan

As part of the amendments to the financing arrangements on 18 June 2020, the amount drawn on the RCF at that date of £70.0m was converted into a term facility due for repayment on 31 May 2023 and a working capital facility of £25.0m. The £70.0m term facility is included within non-current liabilities above, net of arrangement fees paid (of which £2.3m remains unamortised at 31 December 2020). This has been accounted for as an extinguishment of the previous facility and new arrangement, therefore arrangement fees which were being amortised over the term of the previous facility have been written off.

### Private Placement Notes

On 18 June 2020 the Group concluded changes to its agreements with existing private placement notes holders with the following key changes:

- Repayment of €30m of notes previously due on 31 October 2020 and €20m of notes previously due on 31 October 2021 deferred to 31 May 2023;
- £48.9m repaid on completion of the Group's equity raise in July 2020, split across each of the individual notes on a pro-rata basis;
- holders of the existing 2023 notes (due 31 October 2023) and 2026 notes (due 12 August 2026) granted a put option for those notes to be redeemed on 31 May 2023 at a price equal to 100% of the aggregate outstanding principal together with a make-whole amount calculated as specified in the agreement;
- additional fee of 2% per annum to be paid on the outstanding principal; and
- financial covenants were reset.

The loan notes have been considered separately to determine whether the changes should be accounted for as a modification of the existing arrangement or as an extinguishment and refinancing. The Group has concluded that each loan note meets the criteria to be accounted for as a modification. Previous arrangement fees therefore continue to be amortised over the remaining term (£0.3m at the date of modification) together with arrangement fees incurred in relation to the new agreement (£1.9m). A loss on modification of £11.3m has also been recognised, reflecting the difference in the present value of the future cash flows discounted at each loan note's original EIR. This has been recognised within finance costs. This will unwind over the remaining term of the loan notes, resulting in the finance cost recognised in future periods being lower than the actual amounts paid.

At 31 December 2019 the private placement notes were reclassified as a current liability on the balance sheet because the covenant test of consolidated net worth at 31 December 2019 was below the threshold of £400m (see Note 35 of the Consolidated Financial Statements) and therefore at the balance sheet date the Group did not have an unconditional right to defer settlement of the liability for at least 12 months.

The contractual repayment profile (before applying associated derivative financial instruments and prepaid arrangement fees) under both the current and previous arrangements are shown below:

|                    | 31 December 2020 |                       | 31 December 2019 |                       |
|--------------------|------------------|-----------------------|------------------|-----------------------|
|                    | £m               | Fixed interest rate % | £m               | Fixed interest rate % |
| Repayable in 2020  | –                | –                     | 25.4             | 3.7                   |
| Repayable in 2021  | –                | –                     | 16.9             | 3.9                   |
| Repayable in 2023  | 66.2             | 6.2                   | 42.3             | 4.2                   |
| Repayable in 2026* | 70.0             | 5.3                   | 91.2             | 3.3                   |
| <b>Total</b>       | <b>136.2</b>     | <b>5.6</b>            | <b>175.8</b>     | <b>3.6</b>            |

\* If the lenders exercise the put option as referred to above, this amount will become due and payable in 2023

# Notes to the Company Financial Statements

## 11. Leases

### The Company as a lessee

The Company has a lease contract for a property. Information on the nature and accounting for lease contracts is provided in the Statement of Significant Accounting Policies.

Set out below is the carrying amount of the right-of-use asset recognised and the movement during the period:

|                               | Buildings<br>£m | Total<br>£m |
|-------------------------------|-----------------|-------------|
| On adoption at 1 January 2019 | 1.8             | 1.8         |
| Depreciation expense          | (0.2)           | (0.2)       |
| At 31 December 2019           | 1.6             | 1.6         |
| Depreciation expense          | (0.2)           | (0.2)       |
| <b>At 31 December 2020</b>    | <b>1.4</b>      | <b>1.4</b>  |

Set out below is the carrying amount of the lease liability and the movement during the year:

|                               | Total<br>£m |
|-------------------------------|-------------|
| On adoption at 1 January 2019 | 2.0         |
| Accretion of interest         | 0.1         |
| Payments                      | (0.3)       |
| At 31 December 2019           | 1.8         |
| Accretion of interest         | 0.1         |
| Payments                      | (0.3)       |
| <b>At 31 December 2020</b>    | <b>1.6</b>  |

|             | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|-------------|---------------------------|---------------------------|
| Current     | 0.2                       | 0.2                       |
| Non-current | 1.4                       | 1.6                       |
|             | <b>1.6</b>                | <b>1.8</b>                |

The following are the amounts recognised in profit or loss:

|                                                  | 2020<br>£m | 2019<br>£m |
|--------------------------------------------------|------------|------------|
| Depreciation expense of right-of-use asset       | 0.2        | 0.2        |
| Interest expense on lease liability              | 0.1        | 0.1        |
| <b>Total amount recognised in profit or loss</b> | <b>0.3</b> | <b>0.3</b> |

The Company had total cash outflows for leases of £0.3m in 2020 (2019: £0.3m). The Company had no non-cash additions to right-of-use assets and lease liabilities in 2020 (2019: none). There are no future cash outflows relating to leases that have not yet commenced in 2020 (2019: none).

## 12. Provisions

|                            | Warranty<br>claims<br>£m | Dilapidations<br>£m | Onerous<br>contracts<br>£m | Total<br>£m |
|----------------------------|--------------------------|---------------------|----------------------------|-------------|
| At 1 January 2019          | 0.2                      | 0.4                 | –                          | 0.6         |
| Released                   | (0.2)                    | –                   | –                          | (0.2)       |
| Utilised                   | –                        | (0.2)               | –                          | (0.2)       |
| At 31 December 2019        | –                        | 0.2                 | –                          | 0.2         |
| New provisions             | –                        | –                   | 10.3                       | 10.3        |
| <b>At 31 December 2020</b> | <b>–</b>                 | <b>0.2</b>          | <b>10.3</b>                | <b>10.5</b> |

|                                     | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|-------------------------------------|---------------------------|---------------------------|
| Amounts falling due within one year | 4.3                       | –                         |
| Amounts falling due after one year  | 6.2                       | 0.2                       |
| <b>Total</b>                        | <b>10.5</b>               | <b>0.2</b>                |

The transfer of economic benefit in respect of the dilapidations provision is expected to be made on expiry of the lease in seven years time.

The onerous contract provisions relate to licence fee commitments where no future economic benefit is expected to be obtained, principally in relation to the SAP 1HANA implementation following the change in scope of the project. The costs will be incurred over the next three years.

## 13. Deferred tax

|                     | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|---------------------|---------------------------|---------------------------|
| Deferred tax assets | –                         | –                         |

The different components of deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period are analysed below:

|                            | Losses<br>£m | Other<br>£m | Total<br>£m |
|----------------------------|--------------|-------------|-------------|
| At 1 January 2019          | 0.1          | 0.3         | 0.4         |
| Credit to income           | (0.1)        | (0.3)       | (0.4)       |
| At 31 December 2019        | –            | –           | –           |
| Charge to income           | –            | –           | –           |
| <b>At 31 December 2020</b> | <b>–</b>     | <b>–</b>    | <b>–</b>    |

Deferred tax has not been recognised on £2.7m of trading losses and deductible temporary differences relating to property, plant and equipment. This is on the basis that the realisation of their future economic benefit is uncertain. At the balance sheet date, no deferred tax liability is recognised on temporary differences relating to undistributed profits of the overseas subsidiaries. The Group is in a position to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

# Notes to the Company Financial Statements

## 14. Capital and Reserves

|                            | 31 December<br>2020<br>£m | 31 December<br>2019<br>£m |
|----------------------------|---------------------------|---------------------------|
| Called up share capital    | 118.2                     | 59.2                      |
| Share premium account      | 447.7                     | 447.3                     |
| Treasury shares reserve    | (0.2)                     | –                         |
| Merger reserve             | 104.0                     | 11.5                      |
| Capital redemption reserve | 0.3                       | 0.3                       |
| Share option reserve       | 2.0                       | 1.8                       |
| Exchange reserve           | (0.2)                     | (0.2)                     |
| Cash flow hedging reserve  | 2.1                       | 3.5                       |
| Cost of hedging reserve    | 0.1                       | (0.1)                     |
| Retained profits           | (284.0)                   | (119.6)                   |
| <b>Total reserves</b>      | <b>390.0</b>              | <b>403.7</b>              |

The movements in reserves during the year were as follows:

|                                                 | Called<br>up share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Treasury<br>shares<br>reserve<br>£m | Merger<br>reserve<br>£m | Share<br>option<br>reserve<br>£m | Cash flow<br>hedging<br>reserve<br>£m | Cost of<br>hedging<br>reserve<br>£m | Retained<br>profits<br>£m |
|-------------------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-------------------------|----------------------------------|---------------------------------------|-------------------------------------|---------------------------|
| At 1 January 2019                               | 59.2                                | 447.3                             | –                                   | 21.7                    | 1.7                              | –                                     | –                                   | 154.3                     |
| Credit to share option reserve                  | –                                   | –                                 | –                                   | –                       | 0.1                              | –                                     | –                                   | –                         |
| Exercise of share options                       | –                                   | –                                 | –                                   | –                       | –                                | –                                     | –                                   | –                         |
| Transfer of hedging reserves                    | –                                   | –                                 | –                                   | –                       | –                                | 1.3                                   | 0.8                                 | (2.1)                     |
| Transfer from Merger reserve                    | –                                   | –                                 | –                                   | (10.2)                  | –                                | –                                     | –                                   | 10.2                      |
| Fair value movement on cash flow hedges         | –                                   | –                                 | –                                   | –                       | –                                | 1.3                                   | (0.9)                               | –                         |
| Transfer to profit and loss on cash flow hedges | –                                   | –                                 | –                                   | –                       | –                                | 0.9                                   | –                                   | –                         |
| Loss for the year                               | –                                   | –                                 | –                                   | –                       | –                                | –                                     | –                                   | (259.8)                   |
| Dividends                                       | –                                   | –                                 | –                                   | –                       | –                                | –                                     | –                                   | (22.2)                    |
| At 31 December 2019                             | 59.2                                | 447.3                             | –                                   | 11.5                    | 1.8                              | 3.5                                   | (0.1)                               | (119.6)                   |
| Issue of share capital                          | 59.0                                | 0.4                               | –                                   | 92.5                    | –                                | –                                     | –                                   | –                         |
| Credit to share option reserve                  | –                                   | –                                 | –                                   | –                       | 0.2                              | –                                     | –                                   | –                         |
| Transfer of unallocated treasury shares         | –                                   | –                                 | (0.2)                               | –                       | –                                | –                                     | –                                   | 0.2                       |
| Fair value movement on cash flow hedges         | –                                   | –                                 | –                                   | –                       | –                                | (0.7)                                 | 0.2                                 | –                         |
| Transfer to profit and loss on cash flow hedges | –                                   | –                                 | –                                   | –                       | –                                | (0.7)                                 | –                                   | –                         |
| Loss for the year                               | –                                   | –                                 | –                                   | –                       | –                                | –                                     | –                                   | (164.6)                   |
| <b>At 31 December 2020</b>                      | <b>118.2</b>                        | <b>447.7</b>                      | <b>(0.2)</b>                        | <b>104.0</b>            | <b>2.0</b>                       | <b>2.1</b>                            | <b>0.1</b>                          | <b>(284.0)</b>            |

## 14. Capital and Reserves continued

There was no movement in the capital redemption reserve and exchange reserve in the year. During 2020 the Company allotted no shares (2019: no shares) from the exercise of share options.

Amounts were reclassified during the prior year to clarify the effects of hedging between retained (losses)/profits, the cash flow hedging reserve and cost of hedging reserve.

The treasury shares reserve relate to shares purchased by the SIG Employee Share Trust to satisfy awards made under the Group's share plans which are not vested and beneficially owned by employees. Shares have become unallocated during the year and have therefore been transferred to the treasury share reserve.

At 31 December 2020 the Company has negative distributable reserves of £217.1m. This means that the Company is currently unable to pay a dividend or make any other distribution to shareholders. A resolution will be put to shareholders at the AGM to approve the cancellation of the Company's share premium account in order to eliminate these losses and to create reserves available for distribution. Under the terms of the Group's borrowing arrangements, the payment of dividends is also subject to a number of conditions, including that at the relevant time the Group's leverage is less than 2.25x (including on a look-forward basis). Additionally, even where such conditions are satisfied, any interim dividend for 2021 is limited to £3.0m.

Details of the Company's share capital and the equity raise during the year can be found in Note 26 of the Consolidated Financial Statements. Movements in the share premium account and merger reserve are related to the equity raise as also explained in Note 26.

## 15. Guarantees and other financial commitments

### a) Guarantees

At 31 December 2020 the Company had provided guarantees of £nil (2019: £nil) on behalf of its subsidiary undertakings.

### b) Contingent liabilities

As at the balance sheet date, the Company had outstanding obligations under a standby letter of credit of up to £5.0m (2019: £8.0m). This standby letter of credit, issued by HSBC Bank plc, is in respect of the Group's insurance arrangements.

## 16. Related party transactions

### Remuneration of key management personnel

The total remuneration of the Directors of the Group Board, who the Group considered to be its key management personnel, is provided in the audited part of the Directors' Remuneration Report on pages 107 to 133. In addition, the Company recognised a share-based payment charge under IFRS 2 of £nil (2019: £0.1m) with a credit to the share option reserve of £nil (2019: £0.2m).



# Group Companies 2020

This note provides a full list of the related undertakings of SIG plc in line with Companies Act requirements. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 31 December 2020 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of SIG plc.

## Fully owned subsidiaries (United Kingdom)

|                                                                |                                                                                |                                                                 |
|----------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------|
| A. M. Proos & Sons Limited (England) (ii)                      | Jordan Wedge Limited (England) (ii)                                            | SIG European Investments Limited (England)                      |
| A. Steadman & Son (Holdings) Limited (England) (ii)            | K.D. Insulation Supplies Limited (England) (ii)                                | SIG Green Deal Provider Company Limited (England) (i) (ii)      |
| A. Steadman & Son Limited (England) (ii)                       | Kem Edwards Limited (England) (ii)                                             | SIG Group Life Assurance Scheme Trustees Limited (England) (ii) |
| Aaron Roofing Supplies Limited (England) (ii)                  | Kent Flooring Supplies Limited (England) (ii)                                  | SIG Hillsborough Limited (England)                              |
| Acoustic and Insulation Manufacturing Limited (England) (ii)   | Kesteven Roofing Centre Limited (England) (ii)                                 | SIG (IFC) Limited (England)                                     |
| Acoustic and Insulation Materials Limited (England) (ii)       | Kitson's Thermal Supplies Limited (England) (ii) (v)                           | SIG Insulations Limited (England) (ii)                          |
| Advanced Cladding & Insulation Group Limited (England) (ii)    | Landsdon Holdings Limited (England) (ii) (xv)                                  | SIG International Trading Limited (England) (i)                 |
| Ainsworth Insulation Limited (England) (ii) (xi)               | Landsdon Limited (England) (ii) (x)                                            | SIG Logistics Limited (England) (ii)                            |
| Ainsworth Insulation Supplies Limited (England) (ii) (xiii)    | Leaderflush + Shapland Holdings Limited (England)                              | SIG Manufacturing Limited (England)                             |
| Air Trade Centre UK Limited (England) (ii)                     | Lee and Son Limited (England) (ii)                                             | SIG Offsite Limited (England) (ii)                              |
| ALS Insulation Supplies Limited (England) (ii)                 | Lifestyle Partitions and Furniture Limited (England) (ii) (vi)                 | SIG Retirement Benefits Plan Trustee Limited (England) (i) (ii) |
| Alltrim Plastics Limited (England) (ii)                        | London Insulation Supplies Limited (England) (ii)                              | SIG Roofing Supplies Limited (England) (i) (ii)                 |
| Asphaltic Properties Limited (England) (ii)                    | >Long Construction Services (Northern Ireland) Limited (Northern Ireland) (ii) | SIG Scots Co Limited (Scotland) (i)                             |
| Asphaltic Roofing Supplies Limited (England) (ii)              | +MacGregor & Moir Limited (Scotland) (ii)                                      | SIG Specialist Construction Products Limited (England) (ii)     |
| Auron Limited (England) (ii) (xix)                             | Marvellous Fixings Limited (England) (ii)                                      | SIG Trading Limited (England) (i)                               |
| BBM (Materials) Limited (England) (ii)                         | Mayplas Limited (England) (ii) (ix)                                            | Solent Insulation Supplies Limited (England) (ii)               |
| Blueprint Construction Supplies Limited (England) (ii)         | M.C. Insulation Supplies Limited (England) (ii)                                | South Coast Roofing Supplies Limited (England) (ii)             |
| Bonded Boards Limited (England) (ii)                           | Metechno Limited (England)                                                     | Southwest Roofing Supplies Limited (England) (ii) (viii)        |
| Bowler Group Limited (England) (ii)                            | Ockwells Limited (England) (ii) (vii)                                          | Specialised Fixings Limited (England) (ii)                      |
| Building Solutions (National) Limited (England)                | Omnicco (Developments) Limited (England) (ii)                                  | Specialist Fixings and Construction Products Limited (ii)       |
| Buildspan Holdings Limited (England) (ii) (vii)                | Omnicco Plastics Limited (England) (ii)                                        | Summers PVC (Essex) Limited (England) (ii)                      |
| C. P. Supplies Limited (England) (ii)                          | One Stop Roofing Centre Limited (England) (ii)                                 | Summers PVC Limited (England) (ii)                              |
| Cairns Roofing and Building Merchants Limited (England) (ii)   | Orion Trent Holdings Limited (England) (ii) (xvii)                             | Support Site Limited (England) (i) (ii)                         |
| >Capco (Northern Ireland) Limited (Northern Ireland) (ii) (vi) | Orion Trent Limited (England) (ii) (xvii)                                      | T A Stephens (Roofing) Limited (England) (ii)                   |
| Capco Interior Supplies Limited (England) (ii) (xv)            | Penkridge Holdings Limited (England) (ii)                                      | TD Insulation Supplies Limited (England) (ii)                   |
| Capco Slate & Tile Limited (England) (ii)                      | Plastic Pipe Supplies Limited (England) (ii)                                   | Tenon Partition Systems Limited (England) (ii)                  |
| Ceilings Distribution Limited (England) (i) (ii)               | Polytech Systems Limited (England) (ii) (xvii)                                 | The Coleman Group Limited (England) (ii) (xviii)                |
| Cheshire Roofing Supplies Limited (England) (ii)               | Pre-Pour Services Limited (England) (ii) (xv)                                  | The Greenjackets Roofing Services Limited (England) (ii) (xv)   |
| +Clyde Insulation Supplies Limited (Scotland) (ii)             | Rinus International Limited (England) (ii)                                     | Thomas Smith (Roofing Centres) Limited (England) (ii)           |
| Clydesdale Roofing Supplies (Leyland) Limited (England) (ii)   | Roberts & Burling Roofing Supplies Limited (England) (ii)                      | Tolway East Limited (England) (ii)                              |
| C.M.S. Acoustic Solutions Limited (England) (ii) (x)           | Roof Care (Northern) Limited (England) (ii)                                    | Tolway Fixings Limited (England) (ii)                           |
| C.M.S. Danskin Acoustics Limited (England) (ii)                | Roof Fitters Mate Limited (England) (ii)                                       | Tolway Holdings Limited (England) (ii)                          |
| C.M.S. Vibration Solutions Limited (England) (ii) (xv)         | Roof Shop Limited (England) (ii)                                               | Trent Insulations Limited (England) (ii)                        |
| Coleman Roofing Supplies Limited (England) (ii)                | Roofers Mate Limited (England) (ii)                                            | Trimform Products Limited (England) (ii)                        |
| Construction Material Specialists Limited (England) (ii) (xvi) | Roofing Centre Group Limited (England) (ii)                                    | TSS Plastics Centre Limited (England) (ii)                      |
| Coxbench IP Limited (England) (ii)                             | Roofing Material Supplies Limited (England) (ii)                               | Undercover Holdings Limited (England) (ii)                      |
| CPD Distribution Plc (England) (ii)                            | Roplas (Humberside) Limited (England) (ii)                                     | Undercover Roofing Supplies Limited (England) (ii)              |
| Dane Weller Holdings Limited (England) (ii)                    | Roplas (Lincs) Limited (England) (ii)                                          | United Roofing Products Limited (England) (ii)                  |
| +Danskin Flooring Systems Limited (Scotland) (ii)              | Ryan Roofing Supplies Limited (England) (ii) (viii)                            | United Trading Company (UK) Limited (England) (ii) (vii)        |
| Davies & Tate plc (England) (ii)                               | Safety Direct Limited (England) (ii)                                           | W.W. Fixings Limited (England) (ii) (xvi)                       |
| Drainex Limited (England) (ii) (viii)                          | SAS Direct and Partitioning Limited (England) (ii)                             | Warm A Home Limited (England) (ii) (xx)                         |
| Eurisol Limited (England) (ii)                                 | Scotplas Limited (England) (ii)                                                | Warren Insulation plc (England) (ii)                            |
| Euroform Products Limited (England) (ii)                       | Scotwarm Insulations Limited (England) (i)                                     | Weymead Holdings Limited (England) (ii) (xv)                    |
| +Fastplas Limited (Scotland) (ii)                              | S.G. Insulation Supplies Limited (England) (ii)                                | Wedge Roofing Centres Holdings Limited (England) (ii)           |
| Fibreglass Insulations Limited (England) (ii)                  | Sheffield Insulations Limited (England) (i) (ii) (iii)                         | Wedge Roofing Centres Limited (England) (ii)                    |
| Fireseal (North West) Limited (England) (ii)                   | Shropshire Roofing Supplies Limited (England) (ii)                             | Westway Insulation Supplies Limited (England) (ii)              |
| Firth Powerfix Limited (England) (ii) (vii)                    | SIG Building Solutions Limited (England) (ii)                                  | William Smith & Son (Roofing) Limited (England) (ii)            |
| Flex-R Limited (England) (xv)                                  | SIG Building Systems Limited (England)                                         | Window Fitters Mate Limited (England) (ii)                      |
| Formerton Limited (England) (ii)                               | SIG Digital Limited (England)                                                  | Wood Floor Sales Limited (England) (ii)                         |
| Formerton Sheet Sales Limited (England) (ii)                   | SIG Dormant Company Number Eight Limited (England) (ii) (iv)                   | Woods Insulation Limited (England) (ii)                         |
| Franklin (Sussex) Limited (England) (ii)                       | SIG Dormant Company Number Eleven Limited (England) (ii)                       | Workspace London Limited (England) (ii)                         |
| Freeman Group Limited (England) (i) (ii)                       | SIG Dormant Company Number Fourteen Limited (ii)                               | Zip Screens Limited (England) (i) (ii)                          |
| Freeman Holdings Limited (England) (ii)                        | SIG Dormant Company Number Nine Limited (England) (i) (ii)                     |                                                                 |
| General Fixings Limited (England) (ii)                         | SIG Dormant Company Number Seven Limited (England) (i) (ii)                    |                                                                 |
| G.S. Insulation Supplies Limited (England) (ii)                | SIG Dormant Company Number Six Limited (England) (ii)                          |                                                                 |
| Gutters & Ladders (1968) Limited (England) (ii)                | SIG Dormant Company Number Sixteen Limited (England) (ii)                      |                                                                 |
| >HHI Building Products Limited (Northern Ireland) (ii)         | SIG Dormant Company Number Ten Limited (England) (i) (ii) (xvii)               |                                                                 |
| Hillsborough Investments Limited (England) (i) (ii) (iii)      | SIG Dormant Company Number Three Limited (England) (i) (ii)                    |                                                                 |
| Impex Avon Limited (England) (ii) (xv)                         | SIG Dormant Company Number Two Limited (England) (i) (ii) (iv)                 |                                                                 |
| Insulation and Machining Services Limited (England) (ii)       | SIG Energy Management Limited (England) (i) (ii)                               |                                                                 |
| Insulslab Limited (England) (ii)                               | SIG EST Trustees Limited (England) (i) (ii)                                    |                                                                 |
| +J. Danskin & Company Limited (Scotland) (ii)                  | SIG European Holdings Limited (England) (i)                                    |                                                                 |
| John Hughes (Roofing Merchant) Limited (England) (ii)          |                                                                                |                                                                 |
| John Hughes (Wigan) Limited (England) (ii)                     |                                                                                |                                                                 |

## Fully owned limited partnership

+ The 2018 SIG Scottish Limited Partnership (Scotland) (xxi)

## Controlling interests (United Kingdom)

Passive Fire Protection (PFP) UK Limited (England)  
(51%) (ii)

+ Registered Office Address: Coddington Crescent,  
Holytown, Motherwell, ML1 4YF, United Kingdom  
> Registered Office Address: 6-8 Balmoral Road,  
Balmoral Industrial Estate, Belfast, Northern Ireland,  
BT12 6QA, United Kingdom

## Fully owned subsidiaries (overseas) (including registered office addresses)

Asimex Klimaattechniek B.V. (The Netherlands) -  
Leeghwaterstraat 12, 3316 EC Dordrecht, The  
Netherlands - merged with Interland Teknik  
Gate Pizaras SL (Spain) - Ponferrada, Villamartin  
Leon, Spain  
Hillsborough (Guernsey) Limited (Guernsey) -  
Martello Court, PO Box 119, Admiral Park, St Peter  
Port, HY1 3HB, Guernsey  
Hillsborough Investments (Guernsey) Limited  
(Guernsey) - Martello Court, PO Box 119, Admiral  
Park, St Peter Port, HY1 3HB, Guernsey  
Isolatec b.v.b.a. (Belgium) - Scheepvaartkaai 5,  
Hasselt 3500, Belgium  
J S McCarthy Limited (Ireland) - Ballymount Retail  
Centre, Ballymount Road Lower, Dublin 24, Ireland  
Larivière S.A.S. (France) - 36 bis rue delaage, 49100  
Angers, France  
LITT Diffusion S.A.S. (France) - 8-16 rue Paul Vaillant  
Couturier, 92240 Malakoff, France  
Meldertse Plafonneerartikelen N.V. (Belgium) -  
Bosstraat 60, 3560 Lummen, Belgium  
MIT International Trade S.L (Spain) - Carretera Sarria  
a Vallvidrera 259, Local 08017, Barcelona, Spain  
MPA BXL N.V. (Belgium) - Bosstraat 60, 3560  
Lummen, Belgium  
Project Galilee (Jersey) Limited (Jersey) = 47  
Esplanade, St Helier, Jersey JE1 0BD  
SIG Aftbouwspecialist B.V. (The Netherlands) Het  
Sterrenbeeld 52, 5215 ML's-Hertogenbosch, The  
Netherlands  
SIG Belgium Holdings N.V. (Belgium) - Bosstraat 60,  
3560 Lummen, Belgium  
SIG Building Products Limited (Ireland) (ii) -  
Ballymount Retail Centre, Ballymount Road Lower,  
Dublin 24, Ireland  
SIG Central Services B.V. (The Netherlands) -  
Bedrijfweg 15, 5061 JX Oisterwijk, The Netherlands  
SIG Construction GmbH (Germany) - Maybachstrasse  
14, 63456 Hanau-Steinheim, Germany  
SIG Financing (Jersey) Limited (Jersey) - 44 Esplanade,  
St Helier, JE4 9WG, Jersey  
SIG France S.A.S. (France) - 8-16 rue Paul Vaillant  
Couturier, 92240 Malakoff, France  
SIG Germany GmbH (Germany) - Maybachstrasse 14,  
63456 Hanau-Steinheim, Germany  
SIG Holdings B.V. (The Netherlands) - Bedrijfweg 15,  
5061 JX Oisterwijk, The Netherlands  
SIG International Trading FZE (Dubai) - Jabel Ali, Dubai  
SIG Nederland B.V. (The Netherlands) - Bedrijfweg 15,  
5061 JX Oisterwijk, The Netherlands  
SIG Property GmbH (Germany) - Maybachstrasse 14,  
63456 Hanau-Steinheim, Germany  
SIG Technische Isolatiespecialist B.V. (The  
Netherlands) - Touwbaan 24-26, 2352 TZ Leiderdorp,  
The Netherlands  
SIG Services Limited (Jersey) - 44 Esplanade, St Helier,  
JE4 9WG, Jersey  
SIG Stukadoorsspecialist B.V. (The Netherlands) -  
Hoogeveeneweg 160, Nieuwerkerk a.d. Ussel, 2913  
LV, The Netherlands  
SIG Trading (Ireland) Limited (Ireland) (viii) -  
Ballymount Retail Centre, Ballymount Road Lower,  
Dublin 24, Ireland  
SIG Sp. z.o.o. (Poland) - ul. Kamienskigo 51, 30-644

Krakow, Poland  
Sitaco Sp. z.o.o. (Poland) - ul. Kamienskigo 51, 30-  
644 Krakow, Poland  
Sitaco Sp. z.o.o. Spolka Komandytowa (Poland) - ul.  
Kamienskigo 51, 30-644 Krakow, Poland  
WeGo Systembaustoffe GmbH (Germany) -  
Maybachstrasse 14,  
63456 Hanau-Steinheim, Germany  
Notes

- (i) Directly owned by SIG plc
- (ii) Dormant company
- (iii) Ownership held in cumulative preference shares
- (iv) Ownership held in ordinary shares and 12% cumulative redeemable preference shares
- (v) Ownership held in ordinary shares and preference shares
- (vi) Ownership held in ordinary shares and deferred ordinary shares
- (vii) Ownership held in ordinary shares and class A ordinary shares
- (viii) Ownership held in ordinary shares and class B ordinary shares
- (ix) Ownership held in ordinary shares, class A ordinary shares and class B ordinary shares
- (x) Ownership held in ordinary shares, class B ordinary shares and class C ordinary shares
- (xi) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares and class C ordinary shares
- (xii) Ownership held in ordinary shares and class E ordinary shares
- (xiii) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares, class C ordinary shares, class E ordinary shares, class F ordinary shares and class G ordinary shares
- (xiv) Ownership held in class A ordinary shares
- (xv) Ownership held in class A ordinary shares and class B ordinary shares
- (xvi) Ownership held in class A ordinary shares, class B ordinary shares and class C ordinary shares
- (xvii) Ownership held in class A ordinary shares, class B ordinary shares and preference shares
- (xviii) Ownership held in class A ordinary shares, class B ordinary shares and cumulative redeemable preference shares
- (xix) Ownership held in class B ordinary shares and preference shares
- (xx) Ownership held in class AA ordinary shares, class AB ordinary shares, class AC ordinary shares, class AD ordinary shares, class AE ordinary shares, class AF ordinary shares, class AG ordinary shares, class B ordinary shares and class C ordinary shares
- (xxi) Limited partner SIG Retirement Benefit Plan Trustee Limited

# Company information

## Life President

Sir Norman Adsetts OBE, MA

## Secretary

Kulbinder Dosanjh

## Registered number

Registered in England  
0099814

## Registered office

10 Eastbourne Terrace  
London W2 6LG  
United Kingdom  
Tel: 0114 285 6300  
Fax: 0114 285 6349  
Email: info@sigplc.com

## Corporate office

Adsetts House  
16 Europa View  
Sheffield Business Park  
Sheffield S9 1XH  
United Kingdom  
Tel: 0114 285 6300  
Fax: 0114 285 6349

## Company website

www.sigplc.com

## Listing details

### Market Reference Sector

UK Listed  
SHI.L Support Services

## Registrars and transfer office

### Computershare Investor Services PLC

The Pavilions  
Bridgwater Road  
Bristol BS13 8AE

## Auditor

### Ernst & Young LLP

1 More London Place  
London SE1 2AF

## Solicitors

### Allen & Overy LLP

1 Bishops Square  
London  
E1 6AD

## Principal bankers

### The Royal Bank of Scotland plc

Corporate Banking  
3rd Floor  
2 Whitehall Quay  
Leeds LS1 4HR

### Barclays Bank plc

PO Box 190  
1 Park Row  
Leeds LS1 5WU

### Commerzbank Aktiengesellschaft AG

London Branch  
PO Box 52715  
London EC2P 2XY

### Lloyds Bank plc

2nd Floor, Lisbon House  
116 Wellington Street  
Leeds LS1 4LT

### HSBC Bank plc

4th Floor  
City Point  
Leeds LS1 2HL

## Joint stockbrokers

### Jefferies Hoare Govett

Vintners Place  
68 Upper Thames Street  
London EC4V 3BJ

### Peel Hunt LLP

Moor House  
120 London Wall  
London EC2Y 5ET

## Financial public relations

### FTI Consulting Limited

200 Aldersgate  
Aldersgate Street  
London EC1A 4HD

## Financial advisers

### Lazard & Co Limited

50 Stratton Street  
London W1 J8LL

## Shareholder enquiries

Our share register is managed by Computershare, who can be contacted by telephone on:

24 hour helpline\* 0370 707 1293  
Overseas callers\* +44 370 707 1293  
Text phone 0370 702 0005

\* Operator assistance available between 08:30 and 17:30 GMT each business day.

Email: Access the Computershare website  
**[www-uk.computershare.com/investor](http://www-uk.computershare.com/investor)** and click on  
"Contact Us", from where you can email Computershare.

Post: Computershare, The Pavilions, Bridgwater Road,  
Bristol BS99 6ZZ, United Kingdom.

## Dividend tax allowance

In respect of UK shareholders, from April 2020 the annual tax-free allowance on dividend income across an individual's entire share portfolio has remained at £2,000. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. Shareholders should seek independent financial advice as to how this change will impact their personal tax obligations. The Company will continue to provide registered shareholders with a confirmation of the dividends paid by SIG plc and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

If you have any tax queries, please contact a financial advisor.

## Website and electronic communications

Shareholders receive notification of the availability of the results to view or download on the Group's website [www.sigplc.com](http://www.sigplc.com), unless they have elected to receive a printed version of the results.

We encourage our shareholders to accept all shareholder communications and documents electronically instead of receiving paper copies by post as this helps to reduce the environmental impact by saving on paper and also reduces distribution costs.

If you sign up to electronic communications, instead of receiving paper copies of the annual and half-yearly financial results, notices of shareholder meetings and other shareholder documents through the post, you will receive an email to let you know this information is on our website.

If you would like to sign up to receive all future shareholder communications electronically, please register through our registrars Computershare at [www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms).

## Financial calendar

|                                                                          |                  |
|--------------------------------------------------------------------------|------------------|
| Annual General Meeting                                                   | 13 May 2021      |
| Interim Results 2021                                                     | September 2021   |
| Full Year Results 2021                                                   | March 2022       |
| Annual Report and<br>Financial Statements 2021<br>posted to shareholders | March/April 2022 |
| Final Dividend payment for 2020                                          | n/a              |

## Shareholder analysis at 31 December 2020

| Size of Shareholding | Number of<br>Shareholders | %             | Number of<br>Ordinary<br>Shares | %             |
|----------------------|---------------------------|---------------|---------------------------------|---------------|
| 0 – 999              | 603                       | 32.58         | 243,452                         | 0.02          |
| 1,000 – 4,999        | 649                       | 35.06         | 1,484,962                       | 0.12          |
| 5,000 – 9,999        | 174                       | 9.40          | 1,173,368                       | 0.10          |
| 10,000 – 99,999      | 223                       | 12.05         | 7,181,823                       | 0.61          |
| 100,000 – 249,999    | 54                        | 2.92          | 8,466,292                       | 0.72          |
| 250,000 – 499,999    | 34                        | 1.84          | 11,573,426                      | 0.98          |
| 500,000 – 999,999    | 33                        | 1.78          | 23,086,136                      | 1.95          |
| 1,000,000+           | 81                        | 4.37          | 1,128,347,518                   | 95.50         |
| <b>Total</b>         | <b>1,851</b>              | <b>100.00</b> | <b>1,181,556,977</b>            | <b>100.00</b> |

## Shareholder notes

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**CORPORATE OFFICE**

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