Travis Perkins plc

Unaudited results for the full year ended 31st December 2016

Solid performance in mixed markets

£m	*Note*	**2016**	2015	*Change*
Revenue		**6,217**	5,942	*4.6%*
Like-for-like revenue growth		**2.7%**	3.8%	
Adjusted operating profit(1)	*6a*	**409**	413	*(1.0)%*
Adjusted operating profit excluding property profits(1)	*6a*	**392**	389	*0.8%*
Adjusted profit before taxation(1)	*6c*	**381**	382	*(0.3)%*
Adjusted profit after taxation(1)	*6c*	**301**	307	*(2.0)%*
Adjusted earnings per share(1)(2)	*11b*	**120.4p**	124.1p	*(3.0)%*
Free cash flow	*13*	**436**	317	*37.5%*
Dividend per share	*12*	**45.0p**	44.0p	*2.3%*
Lease adjusted ROCE(3)	*15*	**10.9%**	11.6%	*(0.7)ppt*
Operating profit(4)		**100**	254	*(60.6)%*
Property profits	*6a*	**17**	24	*(29.2)%*
Operating profit excluding property profits	*6a*	**83**	230	*(63.9)%*
Profit before taxation		**73**	224	*(67.4)%*
Profit after taxation		**14**	168	*(91.7)%*
Basic earnings per share(2)	*11a*	**5.1p**	67.8p	*(92.5)%*
Cash generated from operations		**503**	350	*43.7%*

(1)The term "adjusted" is used to signify that the effects of exceptional items, impairment of goodwill and other intangible and tangible assets, amortisation of intangible assets and the associated tax impacts have been excluded from the disclosure being made.

(2)Weighted average share count in 2016 was 249,073,416 (2015: 247,302,865)

(3)2015 has been restated for comparative purposes to allow for impairments in 2016 against goodwill and other intangible and tangible assets in City Plumbing, PTS, F&P, bathrooms.com, Solfex and Tile Giant

(4)Including non-cash impairment charge of £235m recognised against goodwill and other intangible and tangible assets in City Plumbing, PTS, F&P, bathrooms.com, Solfex and Tile Giant

Full year highlights

- Revenue increased by 4.6%, like-for-like revenue up 2.7% (6.6% two-year like-for-like)
- Adjusted operating profit, excluding property profits, increased by £3m to £392m (2015: £389m)
- The balance sheet was further strengthened with net debt reduced by £69m to £378m
- Strong free cash flow generation of £436m at a cash conversion rate of 107% (2015: 77%), used to fund £187m of growth capital expenditure
- Full-year dividend increased 2.3% to 45.0p per share, reflecting confidence in cash generation
- Network expansion continued, with net 25 new branches and stores opened (82 gross)
- Lease adjusted return on capital employed reduced to 10.9% reflecting continued investment in network expansion, store refits and IT which will underpin future earnings growth and cash generation
- An exceptional non-cash impairment charge of £235m has been taken against the goodwill and intangible and tangible assets, principally in the plumbing & heating and tile businesses
- An exceptional charge was taken to the income statement of £57m to cover the previously announced closure of underperforming branches, supply chain rationalisation and central restructuring.

John Carter – Chief Executive Officer said:

"2016 was another solid year for the Group, with continued strong performances from the Consumer, Contracts and General Merchanting divisions, which together contributed 90% of Group adjusted operating profit. These businesses continued to benefit from the investments made in the branch network and customer propositions over the last three years, which provides a strong base for future growth.

It was a much more difficult year for the Plumbing & Heating division driven by structural challenges for traditional merchant businesses in this segment. Whilst the network restructuring work carried out in 2014 and 2015 created a more focused branch network, further work is required and over the next six months we will be exploring all routes to enhance returns. There are improvements we can make to the ranges we offer to our customers, our availability, our online presence and our service proposition.

The macro-economic outlook of the UK is mixed. The sharp decline in the value of Sterling since June 2016 has created cost pressures on imported goods and materials, and the expectations for secondary housing market transactions and growth in the RMI market have weakened. We have a proven track record of managing our cost base and took decisive action in October 2016, announcing a restructuring programme to close underperforming branches and improve supply chain efficiency. We enter 2017 with a strong balance sheet and will continue to invest selectively in our leading businesses to further strengthen our competitive advantages which will enable us to continue to outperform and drive shareholder value over the medium term."

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Summary

The macro-economic and political environment, along with a number of fiscal changes such as the additional stamp duty charges on second homes, resulted in significant volatility in end-user demand across the Group's various markets in 2016. Trading conditions were strong in the first half of the year but were followed by a period of weaker trading in the third quarter, ahead of an improvement in the final quarter. Given these dynamics, Group revenue growth was good in 2016, increasing by £275m, or 4.6%, to £6,217m with like-for-like sales growth of 2.7%.

The combined profits of the Consumer, Contracts and General Merchanting businesses surpassed those achieved in 2015 reflecting good strategic momentum. The performance of the Plumbing & Heating division was unsatisfactory, and although significant changes have been made to the branch estate there remains considerable work to do to improve the Group's customer propositions in order to maintain a competitive position in the market and enhance returns.

The Group demonstrated strong cash flow in 2016, with free cash flow generation of £436m at a cash conversion of 107%, leading to a reduction in net debt of £69m to £378m. The balance sheet was further strengthened in 2016, with significant headroom in the Group's facilities.

Progress on strategy

The Group's strategic plan is focused on making investments in the businesses that should deliver improving returns throughout the economic cycle. Four levers of value creation have been identified: enhancing customer propositions, optimising store and branch networks, building on scale advantage and better managing the portfolio.

These four levers of value creation remain the focus. The majority of the investments made in recent years have been in businesses with headroom to grow capacity, where their propositions were already strong and could be enhanced further and with either low cost operating models or superior service propositions. The businesses earmarked for investment included Travis Perkins, CCF, Keyline, Benchmarx, Wickes and Toolstation. These investments and businesses have yielded strong improvements in returns and, despite volatility in market activity which may have an impact on the exact timing of investments, the Board considers that continuing to invest selectively will create significant shareholder value over the medium and long term.

The Group is committed to better managing its portfolio of businesses with near-term focus on the Plumbing and Heating transformation plan.

Progress against the four levers of value creation is set out below:

Innovation in customer propositions

- An additional 600 product lines have been added to the General Merchanting heavyside range centre network and are now available to customers on a next-day basis.
- Travis Perkins launched a transactional website with a two-hour click & collect service available nationwide on 19,000 locally stocked products.
- Wickes and Toolstation continued to improve value for customers through investments in price and focused promotional offers resulting in continued market share gains.
- A further 46 Wickes stores were refitted in 2016, bringing the total number of new format stores to 62. The new formats are providing different customer groups with more focused propositions: simplifying access for trade customers and inspiring DIY customers through much improved kitchen and bathroom displays and design centres.

- Wickes online proposition was further enhanced during the year, with nationwide click & collect now available within one hour, one hour time slots for home deliveries and same day delivery on up to 7,000 products.
- Toolstation developed its first online only range introducing over 1,000 products in addition to the 12,000 lines available in store with plans to further extend the online range in 2017. Toolstation enhanced its Click & Collect service; speeding up guaranteed delivery times from one hour to 20 minutes, often making product available for immediate collection.
- The significant increase in CCF capacity during late 2015 enabled the branch teams to offer broader product ranges, to more customers on faster lead times.
- Benchmarx further simplified its product ranges whilst at the same time introducing new appliance, worktop and door ranges to better meet customer demands.

Optimising the Group's network

- In line with the Group strategy, 25 net new branches, stores and implants were added to the network in 2016, with openings and acquisitions adding 1.6% to revenue growth in the year (2015: 2.8%). Network expansion was focused on businesses that have good long-term growth characteristics and provide opportunities to improve returns.
- A further 43 Toolstation stores were opened in 2016, including 36 in the UK and seven in the Netherlands. Seven new Wickes stores were opened in 2016, broadening the brand's network into new catchments and expanding the reach of the click & collect service.
- The programme to co-locate businesses continued with a new trade park opened in Bedford in 2016, taking the total across the UK to twelve.
- 18 Benchmarx branches were opened including five implants within Travis Perkins branches, increasing sales densities from additional footfall, profits and returns from these sites.
- An exceptional charge of £57m has been taken in the year of which £46m was to cover the costs of the branch and distribution centre closures across the Group in line with the announcement in October 2016.

Leveraging the Group's structural advantage

- The Group continues to develop and rationalise its distribution network to ensure it can replenish branches providing customers with better availability, offering even faster deliveries on its extended ranges, and can underpin the continuing development of transactional online channels. This work included the closure of ten smaller distribution and fabrication centres, and rationalisation of the Wickes distribution centre network, reducing from three sites to one national distribution centre.
- The heavyside range centre network supporting the Travis Perkins merchant business continues to mature, with an extended range of 3,500 heavyside products available next-day, with a further 3,000 available within 48 hours.
- The three range centres in Warrington, Cardiff and Tilbury continued to support around two thirds of Travis Perkins branches throughout 2016. Further stock and route optimisation work at these sites means that the timing of the opening of the fourth range centre will now be extended.
- The Group's direct sourcing operations have been restructured, with exclusive and own brand operations now brought under the direct control of the business units. This is already creating benefits for customers in terms of availability and value for money and

enabling the businesses to better meet customers' needs through clearer and more defined ranges.

- Investment in technology improvement programmes also continued, including better network connectivity, supply chain systems improvements and multichannel applications.
- The Group is in the final design stage of new IT systems for its merchant businesses. These systems will be piloted in early 2018 in one of the Group's smaller merchant businesses. The new systems should enable all of the merchant businesses to serve customers faster, provide real-time stock transparency, improve efficiency and digitise the ordering, invoicing, despatch and receipting of stock and payments.

Managing the portfolio

The Group continued to focus on lease adjusted return on capital as a critical measure of performance, ensuring that capital is employed across the business in the most effective and efficient manner:

- Capital investments were focused in Travis Perkins, Wickes, CCF, Toolstation and Benchmarx, and these businesses have continued to achieve significant market share gains and improved returns.
- In other areas of the business where the opportunity for significant growth is more limited, such as certain areas within Plumbing & Heating, employed capital has been reduced and reallocated. There may be further opportunities to extract capital to improve returns and investors will be updated on these plans during 2017.
- The property portfolio is managed to provide the best operating locations for each business whilst maximising the returns from each site. The Group reduced its investment in freehold property in 2016 to £68m, (2015: £104m). The pipeline of new freehold sites is strong following the investments made since 2014 and will allow the Group to benefit from flexibility of site use, ensure control of strategically important sites and add value to the acquired freehold assets through development.
- The programme of recycling 'fully developed' property assets continued, with property divestments generating cash receipts of £36m.

Plumbing & Heating transformation

The plumbing and heating market has been broadly flat over recent years with declines in the social housing sector offset by growth in private new build and more modest growth in repairs, maintenance and improvement volumes. Both the contract and local installer markets are increasingly competitive, with the traditional plumbing merchant channels under pressure from the significant expansion of online, fixed price multichannel operators and strong local and regional independents. As a result of these market changes, conditions may worsen in 2017. Improvements are required to the propositions the Group offers and therefore the Group is developing a comprehensive transformation plan that will be communicated at the 2017 interim results announcement.

Market outlook

The outlook for the Group's end markets remains mixed although the long term requirement for more homes in the UK remains unchanged as does the structural underinvestment in the repair and maintenance of existing dwellings, commercial and industrial buildings and infrastructure.

The depreciation of sterling, particularly against the US dollar and Euro, is driving cost price inflation pressures. The Group is employing numerous strategies to deal with cost price inflation, including switching to UK sourced products where possible, increasing sourcing direct from manufacturers and improving efficiency, as well as passing genuine cost inflation through to customers where it cannot be avoided. Given all UK based building material distributors are likely to be in a similar position; the Group is well placed to deal with these effects.

The Group anticipates that pressure on consumer discretionary spending from rising inflation could impact secondary housing transactions in the second half of 2017. Fewer housing transactions will have a direct impact on merchant sales volume, albeit with a lag. Any significant reduction in consumer confidence may have a more pronounced impact on big-ticket purchases such as kitchens and bathrooms which make up around 10% of the Group's sales.

The Group's Contracts businesses are more sensitive to the rate of new commercial, industrial and infrastructure construction. Uncertainty in this sector is both to the upside and downside and no clear pattern has yet emerged as to which projects might be accelerated or deferred or the extent to which the Government will support infrastructure investment.

The Group anticipates that potential volume reductions in 2017 will be broadly offset by price inflation. Given the mixed outlook for the Group's end markets, the Group has adopted a cautious stance until end market demand becomes clearer. Despite current mixed market signals, significant investment opportunities remain to achieve strong incremental returns on capital and the Group will maintain its discipline in allocating capital to those businesses where significant structural competitive advantage can be built. The Group believes that these investments will underpin continued outperformance in its end markets, increase market share and improve profitability and returns in the future.

Technical guidance

The Group is providing the following technical guidance for 2017:

- Effective tax rate of around 20%
- The Group's interest charge will be similar to 2016
- Capital expenditure of around £170m - £190m, excluding investment in freehold property
- Property profits of around £20m
- Progressive dividend policy, underpinned by strong cash generation

Divisional performance

General Merchanting

	2016	2015	*Change*
Total revenue	**£2,073m**	£1,972m	*5.1%*
Like-for-like growth			*1.7%*
Adjusted operating profit	**£207m**	£199m	*4.0%*
Property profit	**£14m**	£17m	
Adjusted operating profit excluding property	**£193m**	£182m	*6.0%*
Adjusted operating margin excluding property	**9.3%**	9.2%	*10bps*
LAROCE	**15%**	16%	*(1)ppt*
Branch network	**833**	813	*20*

General Merchanting demonstrated continued market outperformance with revenue growth of 5.1% and 1.7% on a like-for-like basis.

Operational highlights

- The programme to modernise Travis Perkins branch formats continued, with 52 branches now operating with the new shop and yard layouts. Initial returns from these investments are encouraging with strong sales growth and positive customer feedback.
- The business also trialled a new branch concept at Staples Corner in London with a new counter format, significantly extended lightside ranges, a new pricing structure, a new layout and extended seven-day opening hours.
- Utilisation of the heavyside range centre network continued to improve driving strong revenue growth as customers took advantage of faster access to a broader range of products. The heavyside product range available to customers on a next-day basis was increased by over 15% to 3,500 products, with a further 3,000 products available within 48 hours. The Benchmarx business further refined the range of kitchens leading to robust like-for-like revenue growth and market share gains in the trade kitchen market.
- Further progress was made on improving the multi-channel proposition for Travis Perkins, with a transactional website now offering a two-hour click-and-collect service launched nationwide on 19,000 locally stocked SKUs.
- An initiative to more closely align the distribution network with the businesses led to improved inventory control, allowing more efficient stock holding across the network, as demonstrated by Group inventory being held broadly flat despite the growth in sales. Further work was carried out to ensure that the right ranges are available in branch with extended ranges held upstream alongside direct to customer deliveries managed through suppliers.
- In 2016, thirteen former Keyline branches were rebranded as Travis Perkins. Travis Perkins opened six new branches, relocated seven to more suitable sites and closed 14 underperforming branches and the Group’s timber supply centre at Ferndown. 18 new Benchmarx branches were opened in 2016, including five as implants in existing Travis Perkins sites or located as part of a Travis Perkins trade park. The marginal return on investment in new Benchmarx branches continues to be very strong.

Financial Performance

- General Merchanting adjusted operating profits increased by £8m to £207m in 2016 (2015: £199m). There was a £3m reduction in property profits to £14m (2015: £17m).
- Excluding property, operating profit grew by 6% to £193m (2015: £182m), marginally ahead of revenue growth.

- The division incurred £11m of exceptional charges in the year within the £57m Group charge.
- LAROCE reduced modestly to 15% (2015: 16%), with growth in operating profits offset by the increase in capital employed following the investments made in the branch and distribution networks, store formats, and growth in trade debtors through higher credit sales. These investments are expected to drive market outperformance in 2017 and beyond.

Plumbing & Heating

	2016	2015	*Change*
Total revenue	**£1,359m**	£1,371m	*(0.9)%*
Like-for-like growth			*(1.6)%*
Adjusted operating profit	**£39m**	£46m	*(15.2)%*
Property profit	**£3m**	-	
Adjusted operating profit excluding property	**£36m**	£46m	*(21.7)%*
Adjusted operating margin excluding property	**2.6%**	3.3%	*(70)bps*
LAROCE*	**10%**	11%	*(1)ppt*
Branch network	**436**	463	*(27)*

*2015 has been restated for comparative purposes to allow for impairments in 2016 against goodwill and other intangible and tangible assets in City Plumbing, PTS, F&P and Solfex

Revenue in the Plumbing & Heating division declined by 0.9% in 2016 and by 1.6% on a like-for-like basis.

Operational highlights

- The branch conversion programme was completed at the end of 2015. This work aligned PTS to the contract installer market offering a lower cost to serve on larger volumes. The City Plumbing business was aligned to the local installer market offering expertise, local delivery, good access to extended ranges such as boiler spares and assistance to bathroom installers in designing bathrooms for their retail customers.
- Although City Plumbing grew its sales during the year, the growth in sales was below the Group's expectations. The branches converted from the PTS format in 2014 grew well, but the branches converted in 2015 delivered more modest increases in sales and profit.
- The social housing boiler and heating replacement market has remained difficult with traditional merchants competing aggressively on price for business impacting PTS. The PTS management team developed a lower cost branch operating model in the year and trialled the model in a small number of locations.

Financial performance

- Adjusted operating profits fell by £7m to £39m (2015: £46m). Property profits were £3m (2015: nil).
- Adjusted operating profit excluding property profits fell by 21.7% to £36m. Adjusted operating margin excluding property, fell by 70bps to 2.6% (2015 3.3%) driven by higher overall cost to serve in the division.
- LAROCE fell to 10% (2015: 11% restated for impairment to goodwill and intangible and tangible assets in 2016) principally driven by the reduction in operating profits.
- The division incurred £19m of exceptional charges in the year within the £57m Group charge. These costs included £6m in respect of 28 branch closures, £12m cost in

relation to the reorganisation of the F&P distribution network and £1m of other associated costs.
- Following a review of the cash flow projections of the division, and in light of the continuing difficult market conditions and growth of online and fixed price operators an impairment charge of £213m has been recognised. All of the remaining assets in PTS and F&P have been impaired, excluding those assets which are genuinely transferable, and a charge of £189m has been taken against goodwill in the City Plumbing business.

The Group is developing a comprehensive transformation plan to address the challenges in the Plumbing & Heating division and will provide regular updates as to the plan and progress against it, starting at the 2017 interim results announcement.

Contracts

	2016	2015	*Change*
Total revenue	**£1,267m**	£1,214m	*4.4%*
Like-for-like growth			*5.0%*
Adjusted operating profit	**£76m**	£83m	*(8.4)%*
Property profit	**-**	£5m	
Adjusted operating profit excluding property profits	**£76m**	£78m	*(2.6)%*
Adjusted operating margin excluding property profits	**6.0%**	6.4%	*(40)bps*
LAROCE	**12%**	14%	*(2)ppt*
Branch network	**167**	181	*(14)*

Sales growth in the Contracts division was 4.4%, and 5.0% on a like-for-like basis.

Operational highlights

- Keyline achieved strong like-for-like sales growth in 2016, with the growth rate increasing in the second half of the year demonstrating further market share gains in the heavy civils and drainage market. Overall sales were modestly reduced following 13 branches transferring to Travis Perkins, reducing the remaining branch network to 64.
- BSS sales grew modestly in 2016, a creditable performance in a difficult market with continued reduced government spending on infrastructure projects. There was significant focus on cost reduction and operating efficiency, with progress made in simplifying the interaction with customers, reducing administrative workload in the ordering, delivery and receipting processes.
- CCF delivered a strong revenue performance in the year, although like-for-like sales growth was diluted by the opening of eight new CCF branches in 2015. Customer fulfilment was transferred to the new branches to better ensure the timely and efficient delivery of customer orders, freeing up capacity in the existing network which has subsequently enabled these branches to win new business.
- The CCF team continued to focus on developing a deeper understanding of customer requirements, and in doing so forming closer customer relationships, which has enabled further significant market share gains.
- The three businesses in the Contracts division continue to work more closely together, sharing information on projects and building deeper relationships with customers throughout the project lifecycle.

Financial performance

- Adjusted operating profit reduced by £7m to £76m (2015: £83m). No property profits were recognised in 2016 (2015: £5m).
- Adjusted operating profit, excluding property profits, fell by 2.6% to £76m (2015: £78m), with the transfer of 13 Keyline branches to Travis Perkins. This was partially offset by volume growth.
- Adjusted operating margin, excluding property profits, declined by 40bps to 6.0%. This was driven by business mix as CCF and Keyline are structurally lower gross margin businesses than BSS. The mix of business however supported improved operating leverage as did excellent cost control across all businesses.
- Divisional LAROCE reduced to 12%, driven by the absence of property profits (2015: £5m) and the significant expansion of the CCF branch network at the end of 2015. These branches are expected to deliver significant marginal returns as they mature and provide capacity for further growth and market share gains in the future.
- The division incurred £10m of exceptional charges in the year within the £57m Group charge. These costs included £5m in respect of branch closures, £2m cost in relation to the reorganisation of the distribution network and £3m of other associated costs.

Consumer

	2016	2015	*Change*
Total revenue	**£1,518m**	£1,386m	*9.5%*
Like-for-like growth			*6.4%*
Adjusted operating profit	**£101m**	£95m	*6.3%*
Property profit	**-**	£2m	
Adjusted operating profit excluding property profits	**£101m**	£93m	*8.6%*
Adjusted operating margin excluding property profits	**6.7%**	6.7%	-
LAROCE*	**8%**	7%	*1ppt*
Branch network	**617**	571	*46*

*2015 has been restated for comparative purposes to allow for impairments in 2016 against goodwill and other intangible and tangible assets in Tile Giant and bathrooms.com

The Consumer division delivered strong revenue growth of 9.5%, up 6.4% on a like-for-like basis, resulting in continued strong market share gains for both Wickes and Toolstation.

Operational highlights

- The continued roll out of new Wickes store formats is offering customers a simpler shopping experience with access to improved ranges. The new format is also enabling Wickes' trade customers a faster way to buy their products and get back to work. A further 46 new Wickes store formats were opened in 2016, bringing the total number of new format stores to 62. The new formats provide more inspiration for DIY customers through much improved kitchen and bathroom displays and design centres. The programme to roll out further new formats will continue in 2017.
- The Wickes distribution centre network was rationalised, reducing to a single centre in Northampton which now serves all store and direct to customer deliveries.
- Wickes continued to invest in their value propositions in order to maintain market-leading prices and drive continued growth in market share. The business undertook further range review activity in 2016 in tandem with the further development of its new store format with particular success in bricks and blocks and garden maintenance.

- The online proposition in Wickes continues to evolve, with nationwide click & collect within 1 hour, one hour time slots for home deliveries and same day delivery on up to 7,000 products. Initial customer feedback has been very positive, and Wickes has achieved over £100m of online sales in 2016 for the first time.
- Expansion of the Toolstation network continued in 2016, with a further 36 stores opened in the UK, and seven shops opened in the Netherlands. Online only ranges were introduced for the first time with over 1,000 products available to customers along with improved marketing campaigns. Click and Collect order availability was improved to within 20 minutes with many orders available almost instantaneously. Further online range extension is planned in 2017 and the store opening programme will accelerate further in the Netherlands.

Financial performance

- Adjusted operating profits increased by £6m to £101m (2015: £95m). No property profits were recognised in 2016 (2015: £2m).
- Adjusted operating profits, excluding property profits, increased by 8.6%.
- Adjusted operating margin, excluding property profits, was unchanged with further investment in value for customers offset by operating leverage and further improvements in operating efficiency.
- Lease Adjusted Return on Capital for 2016 improved to 8% (2015 restated: 7%). The division continued to increase returns through highly accretive investments in store openings and reformats together with improvements to customer value and range.
- The division incurred £14m of exceptional charges in the year within the £57m Group charge. These costs included £9m of costs in relation to the reorganisation of the distribution business and £4m of other associated costs.
- Following a review of the cash flow projections of Tile Giant, and in light of the continuing difficult market conditions, an impairment charge of £19m has been recognised against goodwill, and a £3m impairment charge has been taken against the assets of bathrooms.com.

Financial Performance

Revenue

Group revenue growth was good in 2016, increasing by £275m, or 4.6%, to £6,217m.

Volume, price and mix analysis

Total revenue growth	General Merchanting	Plumbing & Heating	Contracts	Consumer	Group
Volume	1.4%	(0.3)%	5.2%	8.5%	**3.3%**
Price and mix	0.3%	(1.3)%	(0.2)%	(2.1)%	**(0.6)%**
Like-for-like revenue growth	1.7%	(1.6)%	5.0%	6.4%	**2.7%**
Network expansion and acquisitions	3.0%	0.3%	(1.0)%	3.1%	**1.6%**
Trading day impact	0.4%	0.4%	0.4%	-	**0.3%**
Total revenue growth	**5.1%**	**(0.9)%**	**4.4%**	**9.5%**	**4.6%**

New branch and store openings contributed 1.6ppts to revenue growth, with one extra trading day in the merchant business adding a further 0.3ppts resulting in like-for-like sales growth of 2.7%. Like-for-like volume growth of 3.3% was partially offset by a 0.6% reduction in price and mix.

Group like-for-like volume growth was primarily driven by the strong trading momentum in the Contracts and Consumer divisions. The reduction in price and mix was mainly owing to commodity deflation in plumbing related businesses including BSS, continued value investment in Wickes and Toolstation and competitive pricing pressure in Plumbing & Heating. In General Merchanting, like-for-like volumes increased through strong growth in heavyside sales, and prices increased modestly through improved pass through of inflation in the second half of the year.

Quarterly like-for-like revenue analysis

Like-for-like revenue growth	General Merchanting	Plumbing & Heating	Contracts	Consumer	**Group**
Q1 2016	4.7%	2.2%	2.1%	7.3%	**4.2%**
Q2 2016	1.1%	(1.4)%	3.1%	6.4%	**2.3%**
Q3 2016	0.6%	(4.1)%	5.7%	6.3%	**2.0%**
Q4 2016	0.3%	(2.7)%	9.2%	5.8%	**2.5%**
First half	2.9%	0.4%	2.7%	6.5%	**3.1%**
Second half	0.5%	(3.4)%	7.3%	6.2%	**2.2%**
Full year 2016	**1.7%**	**(1.6)%**	**5.0%**	**6.4%**	**2.7%**

Group like-for-like sales growth slowed through the middle of 2016 owing to the uncertainty in the lead up to and following the referendum to leave the EU. Sales growth in the fourth quarter of the year was more encouraging.

In General Merchanting, the rate of like-for-like revenue growth slowed through the year, particularly with respect to larger customers purchasing heavyside products. In a difficult market, the advantage created through the light and heavyside distribution network provided customers with access to next-day availability on an extended range of products.

The end markets of the Plumbing & Heating division remained difficult throughout the year with significant competitive pricing pressure across all businesses. Whilst the division experienced deflation in commodity-rich products, such as copper, steel and plastic tube, and boilers in the early part of the year, the depreciation of sterling led to import inflation and higher buying costs towards the end of the year.

In the Contracts division like-for-like sales momentum accelerated throughout 2016 as the businesses leveraged the formation of deeper relationships with customers and through utilisation of capacity in the existing CCF network freed up by the opening of new branches.

Strong Consumer like-for-like sales growth continued throughout the year. This was driven by investments in Wickes store refits and the maturity of new stores opened in previous years, together with improvements in range and investments in the value proposition in Wickes and Toolstation.

Operating profit and margin

Operating profit fell to £100m, a reduction of 61% (2015: £254m), due to exceptional and impairment charges increasing by £151m to £292m (2015: £141m). These charges caused profit before tax to fall to £73m in 2016, £151m lower than 2015 (2015: £224m).

Adjusted operating profit and margin

Adjusted operating profits reduced by 1.0% to £409m. Excluding property profits, adjusted operating profits increased by 0.8%. At a divisional level, adjusted operating profits grew in the General Merchanting and Consumer divisions, offset by a reduction in Contracts and Plumbing & Heating.

	General Merchanting	**Plumbing & Heating**	**Contracts**	**Consumer**	**Group**
2015 adjusted operating margin	10.1%	3.3%	6.9%	6.8%	**6.9%**
Change in gross margin	0.2%	0.0%	(0.7)%	(0.7)%	**(0.2)%**
Margin impact of change in operating costs	(0.1)%	(0.6)%	0.2%	0.7%	**0.0%**
Adjusted operating margin excluding change in property profits	10.2%	2.7%	6.4%	6.8%	**6.7%**
Margin impact of change in property profits	(0.2)%	0.2%	(0.4)%	(0.1)%	**(0.1)%**
2016 adjusted operating margin	**10.0%**	**2.9%**	**6.0%**	**6.7%**	**6.6%**

Group adjusted operating margins reduced by 30bps primarily owing to a reduction in property profits and a reduction in gross margin driven by value investment in the Consumer businesses and mix of category growth in the Contracts division. In General Merchanting, the strong gross margin performance was driven by good growth in tool hire and Benchmarx, together with higher sales price inflation on heavyside products in the second half of the year.

Group operating costs were broadly flat. The operating leverage in both the Consumer and Contracts businesses and strong cost control were offset by the conversion of Plumbing & Heating branches to the City Plumbing format which have a higher cost to serve and a service oriented operating model.

In 2016 the majority of the Group's property profits were recognised in the General Merchanting division (2016: £14m vs. 2015: £17m) as old merchant sites were divested and branches relocated to better sites as part of the on-going modernisation programme.

Exceptional items

In October 2016 the Group announced that owing to the difficulty in predicting future demand caused by the vote for the UK to leave the EU, the Group had chosen to implement a number of efficiency programmes and branch and distribution centre closures to manage costs and optimise the network. As a result the 2016 financial statements reflect an exceptional charge of £57m arising from:

- The closure of 51 branches and 10 distribution centres, £26m
- Asset write downs, £16m
- Redundancy, restructuring and other costs, £15m

The cash cost of the exceptional items recognised in 2016 was £9m. At the 31 December 2016 £33m of accruals and provisions were held in the balance sheet.

Amortisation and impairment of goodwill and other intangible assets

In 2015 the Group wrote down the value of goodwill and other intangible assets associated with its plumbing and heating businesses by £140m. In the principal risks and uncertainties section, reference was made to the continuing uncertainty in the plumbing and heating market.

The decision to leave the European Union, even greater competition in the Group's traditional markets by online and fixed price merchants, further reductions in social housing spend by local authorities and the continued disintermediation of the merchant channel by certain manufacturers, have contributed to the Group's view that the situation has become even more challenging than previously envisaged.

A new management team has been appointed to the Plumbing and Heating division, which has reassessed the prospects of each of its businesses and has determined that it is appropriate to further impair the carrying value of assets in the division. Accordingly an impairment charge of £213m has been made in the income statement. £189m relates to City Plumbing where the benefits of the 2015 restructuring have not been as significant as originally expected and in addition the remaining non-transferrable tangible and intangible assets of PTS, F&P and another small business have been fully impaired.

As part of its annual impairment review, the Group has reassessed the prospects of its tile retailing business. Whilst it expects it to remain profitable, competitive pressures and significant inflation on imported products suggest that it is appropriate to recognise a £19m impairment charge in respect of the goodwill associated with the business. A £3m impairment charge has been taken against the assets of bathrooms.com.

After consideration by the Audit Committee and the Board, the Directors concluded that the expected future cash flows of all other businesses in the Group will be sufficient to support the balance sheet carrying value of goodwill and other intangible assets.

The annual amortisation charge was £17m (2015: £18m).

Finance charge

Net finance charges, shown in note 9, were £28m (2015: £31m). Interest costs on borrowings reduced to £23.6m (2015; £24.5m), with increased bond coupon payments from the additional £300m sterling bond issued in May offset by repayment of $200m of US private placement senior notes and lower borrowings on the revolving credit facility.

The impact of marking-to-market currency forward contracts used to hedge commercial transactions, which remained outstanding at the year-end reduced finance charges by £0.3m (2015: £1.2m loss). Other financing type costs were broadly similar to last year at £4.4m (2015: £4.6m).

The average interest rate on the Group's borrowings during the year was 3.4% (2015: 3.6%).

Taxation

The underlying tax charge, excluding the benefit of the rate change and the effect of exceptional items and impairments, was £77m (2015: £72m), which represents an effective rate of 21.2% (2015: 19.7%). This is slightly above the standard rate of corporation tax of 20.0% (2015: 20.25%) applicable to profits in the United Kingdom. The difference is mainly caused by the effect on the tax rate of the reduction of a deferred tax asset held in relation to outstanding share options caused by the reduction in the Group's share price.

The Group has a number of unresolved disputes with H.M. Revenue and Customs ("HMRC") about the tax treatment of several commercial transactions undertaken in previous years. Based on legal and tax technical advice, the Group claimed tax benefits in its tax returns for several years and reduced its tax payments accordingly. HMRC have disputed the Group's interpretation of the tax legislation. The Group has provided HMRC with all information requested and discussions have continued during the year in order to reach a conclusion on the differing interpretations. Despite the discussions it appears unlikely that the Group and HMRC will reach an agreed interpretation and litigation is a likely outcome if such agreement cannot be reached.

During the year, following a change to tax legislation in 2015, the Group paid £42m to HMRC in respect of these unresolved disputes and offset an unrelated £10m payment on account against HMRC's payment demand. Furthermore, the Group has retained in its balance sheet a £19m provision for unpaid tax on an unresolved dispute, which will only become payable if the dispute is resolved in HMRC's favour.

The Group is determined to pursue the cases but given the lack of agreement with HMRC at this stage in the interpretation of key areas, coupled with the current tax litigation environment and HMRC's policy for pursuing such a route, the Group has continued to recognise a provision for the disputed amounts. The Group has not recognised any potential upside in its income statement for the amounts paid over, which it hopes will be repaid in future. This is considered appropriate given the uncertainty involved in this process and meets the requirements of IAS 12.46 for recognition of a provision.

Should the Group's filed tax positions be agreed by HMRC or the Group prevail in the litigation process then the tax charge in the group income statement in a future period will be reduced by the repayment of the £52m referred to above and the release of £19m of tax provisions for which payment cannot be demanded under current legislation unless HMRC are successful. If after concluding all possible avenues available to the Group, it becomes necessary to amend the Group's filed tax position then there should be no significant impact on the tax charge in the group income statement.

Earnings per share

Profit after taxation decreased by 91.7% to £14m (2015: £168m) resulting in basic earnings per share decreasing by 92.5% to 5.1 pence (2015: 67.8 pence) principally due to the effect of the £235m non-cash impairment charge and £57m of exceptional charges. There is no significant difference between basic and diluted basic earnings per share.

Adjusted profit after tax reduced by 2% to £301m (2015: £307m) (note 6c) resulting in adjusted earnings per share (note 11) decreasing by 3.0% to 120.4 pence (2015: 124.1 pence). There is no significant difference between adjusted basic and adjusted diluted earnings per share.

Reconciliation of reported to adjusted earnings

	2016		2015	
	Earnings	**EPS**	**Earnings**	**EPS**
Basic earnings and EPS attributable to shareholders	£13m	5.1p	£168m	67.8p
Exceptional Items				
Branch closure programme	£17m	4.3p	-	-
Supply chain restructuring	£30m	7.5p	-	-
Central restructuring costs	£4m	1.0p	-	-
Write off of current assets	£6m	1.5p		
Impairment of acquired intangibles	£235m	94.4p	£141m	57.0p
Amortisation of acquired intangible assets	£17m	6.6p	£18m	7.3p
Tax on amortisation of acquired intangible assets	£(3)m	(1.20)p	£(3)m	(1.2)p
Tax on exceptional items	£(15)m	(6.1)p	£(8)m	(3.2)p
Deferred tax rate change	£(4)m	(1.4)p	£(9)m	(3.6)p
Adjusted earnings and EPS attributable to shareholders	**£300m**	**120.4p**	**£307m**	**124.1p**

Balance sheet and cash flow

The Group continued to make solid progress towards the targeted financial metrics laid out in 2013.

	Medium Term Guidance	**2016**	2015
Net debt		**£378m**	£447m
Lease debt		**£1,506m**	£1,443m
Lease adjusted net debt		**£1,884m**	£1,890m
Lease adjusted gearing*		**45.3%**	47.2%
Fixed charge cover	3.5x	**3.3x**	3.3x
LA net debt : EBITDAR	2.5x	**2.7x**	2.8x

*2015 restated to account for impairments against goodwill and other intangible assets in City Plumbing, PTS, F&P, bathrooms.com, Solfex and Tile Giant

The Group has set out four areas for improvement with a number of clear targets:

1. To target fixed charge cover of 3.5x
2. To target LA net debt : EBITDAR of 2.5x
3. To increase the proportion of freehold to leasehold property
4. To reduce the Weighted Average Lease Expiry term of leases (from 10.5 years in 2013)

Good progress has been made towards achieving all of these targets.

Overall lease adjusted net debt decreased by £6m since 31 December 2015. There was a reduction in on-balance sheet debt of £69m, primarily driven by strong working capital management and continued recycling of capital through the active property management strategy.

Lease debt increased by £63m from the position as at 31 December 2015. The increase in lease debt was principally the result of the continued optimisation of the property portfolio to access the best operating sites for the Group's businesses whilst realising cash from non-strategic and fully developed or 'dry' properties. New leases supporting the expansion of Benchmarx, Wickes and Toolstation and the continued sale and leaseback of dry assets were the principal drivers of the increase in lease debt. The gross lease expense in the year increased to £194 m (2015, £185m). The Group's weighted average lease expiry term on all leases reduced to 9.2 years.

Lease adjusted gearing (note 14b) reduced by 1.9ppts in 2016 to 45.3%, primarily due to lease adjusted equity increasing following further investment in the business.

The lease adjusted net debt to EBITDAR ratio (note 16b) reduced to 2.7x owing to an increase in earnings before rentals and the modest reduction to lease adjusted debt. Fixed Charge Cover (note 16c), despite the increase in lease debt, was maintained at 3.3x and will benefit as the currently non-operational freehold properties are commissioned over the coming 18 months.

The Group has an ambition to strengthen its balance sheet by increasing the mix of freehold to leasehold assets, and has invested consistently in freehold assets over the last three years. Within these freehold property investments there are properties with a value of £70m which have yet to be commissioned. When these assets are brought into use they will further underpin future growth in earnings and returns.

Free cash flow

(£m)	**2016**	2015
EBITA	**409**	413
Depreciation of PPE and other non-cash movements	**124**	98
Disposal proceeds in excess of property profits	**25**	25
Change in working capital*	**13**	(96)
Maintenance capital expenditure	**(50)**	(55)
Net interest	**(22)**	(20)
Tax paid	**(63)**	(48)
Free cash flow	**436**	317
Cash conversion rate	**107%**	77%

*Excludes £8m in relation to the development of cloud-based software

The Group generated £436m of free cash flow in 2016, with a conversion rate of 107% to EBITA (2015: 77%).

Net working capital reduced by £13m. Trade receivables increased in line with expectations as more trade credit was extended to customers along with increased sales to larger contractors partially offset by improvements made in reducing overdue debts. Inventory was broadly flat despite both higher sales and an increase in the number of stores and branches, demonstrating very good stock control achieved through better management, devolved accountability and the benefits of investments made in distribution infrastructure allowing more efficient use of stock across the Group. Trade payables increased largely in-line with the volume of purchases.

Maintenance capital expenditure was broadly flat at £50m as the Group continued to maintain its branch network to a standard that is safe and secure for colleagues, suppliers and customers. Net interest payments increased by £2m.

Net debt, funding and liquidity

Net debt reduced in 2016 and finished the year at £378m (2015: £447m), a reduction of £69m (2015: £89m increase).

The Group's funding arrangements were restructured in the first half of 2016 with the repayment of its $200m US private placement in January and the issue of a £300m sterling denominated public bond in May 2016 at a fixed coupon of 4.5%. Short-term bilateral bridging loans of £221m raised in early 2016 were repaid. The length and tenor of the Group's facilities means that the Group has significant liquidity headroom until 2020.

At 31 December 2016 the Group's committed funding comprised:

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

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

At 31 December 2016, the Group had undrawn committed facilities of £550m (2015: £440m) and deposited cash of £185m. The Group's credit rating, issued by Standard and Poors, was maintained at BB+ stable during 2016. The next review is due in the spring of 2017.

In October 2016 the Group cancelled the interest rate swaps used to convert its £250m sterling bond from fixed to floating interest rates and received a cash settlement of £17m. This returned the bond to a fixed coupon of 4.375%. There was no impact on net debt as the balance sheet carrying value of the bond was fixed at £267m. This will amortise back to £250m over the remaining term of the bond to offset the increased interest payments incurred on the bond fixed coupon. This will result in an effective interest rate for the remaining term of the bond of 3.0% (fixed coupon: 4.375%).

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

Capital investments

The Group made two small acquisitions in 2016 with an aggregate value of £3.2m which are outlined in note 18.

Investments to provide best-in-class customer propositions and drive continued outperformance continued throughout 2016, with £187m invested in growth capex, including further investments in freehold properties and construction to sustain the future pipeline of network expansion.

	(£m)	**2016**	2015
Extending leadership	New TP / Wickes / Toolstation / CCF / Benchmarx branches Benchmarx implants / showrooms / tool hire implants	**41**	49
Investing to grow	New Wickes / TP formats Distribution centres Plumbing & Heating branch conversions	**30**	57
Re-engineering and infrastructure build	Multi-channel development IT infrastructure upgrades	**48**	28
Growth capital investment		**119**	134
	Freehold property	**68**	104
	Maintenance	**50**	55
Total capital investment		**237**	293

The expansion of the Group's branch network continued with new branches opened in Travis Perkins, Benchmarx, Wickes and Toolstation. Under the Group's 'Investing to grow' plans, further work was completed in opening new formats in Wickes and Travis Perkins.

Improving the IT infrastructure of the Group remained a key area of investment in 2016. Online investment in the Consumer division continued, with the development of Click & Collect services in Wickes and Toolstation now offering a one hour service and 20 minute service respectively, and same day delivery options and one-hour delivery slots from Wickes.co.uk. Travis Perkins now offers a fully transactional website, with customers able to purchase products from both the in-branch and extended heavyside ranges online as well as launching a two-hour click & collect service to customers with existing price framework agreements in October 2016.

The Group has also been working steadily to develop the blueprint for new systems which will enable branches to search, select, order and deliver products using a modern user interface more rapidly and efficiently for customers. This system will also replace the Group's core ledgers and stock management systems replacing the current systems which were implemented in 1986. The new systems will be piloted in one of the Group's smaller merchant businesses in early 2018.

Property

The Group acquired 11 (2015: 25) freehold properties for around £23m (2015: £77m) and invested a further £45m in construction work to develop new branches. The investment was financed through free cash flow and through the sale of properties that were not strategic and had no further opportunities for development.

The decision to increase the level of freehold property assets is enabling the Group to secure attractive operating sites that might otherwise not be available, providing operational flexibility and allowing the Group to benefit from capital appreciation and development upside. Many of these assets are not yet in operation, but provide the Group with the opportunity to grow earnings and improve returns as they are brought into use. In 2016 a new trade park was opened in Bedford, co-locating a number of the Group's brands in a single trade destination. The Group has acquired a significant number of properties over the last 3 years including sites for a further 7 trade parks which will be developed and delivered in 2017 and 2018, as well as sites for individual branches and stores.

The value of leasehold properties based on applying a valuation of 8 times the annual lease charge was £1,506m (2015: £1,443m), an increase resulting from the sale and leaseback of properties in the second half of 2015, a small number of site disposals in 2016, and the opening of new stores on leased sites, particularly in Toolstation and Wickes.

The Group continues to realise value from its property assets once developments have been completed, when there is limited strategic value in holding sites for alternative planning consent and where returns on capital can be improved by investing elsewhere. During the year property disposal proceeds were £36m (2015: £43m) realising gains on disposal of £17m (2015: £24m).

Dividend

Following successive significant rises in the annual dividend, in early 2016 the Group announced that future dividend increases would be more in line with underlying earnings growth. The proposed dividend for the full year 2016 of 45.0 pence (2015: 44.0 pence) results in a 2.3% increase (2015: 16% increase). An interim dividend of 15.25 pence was paid to shareholders in November 2016 at a cost of £38m. If approved, the proposed final dividend of 29.75 pence will be paid on 26 May 2017, the cash cost of which will be approximately £75m.

A 45.0 pence full year dividend reduces dividend cover to 2.7 times (2015: 2.8 times) adjusted earnings per share and towards the lower end of the Board's target cover range of between 2.5x and 3.25x.

Return on capital

Net assets at the end of 2016 were £2,656m (2015: £2,796m), which contributed to capital employed of £3,136m (2015: £3,054m).

Group capital structure at 31 December (£m)	**2016**	**2015**
Cash and cash equivalents	(251)	(84)
£250m listed sterling bond maturing 2021	266	256
£300m listed sterling bond maturing 2023	300	-
US PP	-	137
Revolving credit facility	-	110
Finance leases	34	19
Liability to pension scheme	35	35
Pension fund deficits	103	42
Mark to market adjustment to borrowings	-	(20)
Finance charges netted off debt	(7)	(6)
Goodwill and other intangibles written off in 2016*	-	(235)
Tax on impairment of goodwill and intangibles	-	4
Equity attributable to shareholders	2,656	2,796
Total balance sheet capital employed	**3,136**	**3,054**
Property operating leases (8x rentals)	1,506	1,443
Total lease adjusted capital employed	**4,642**	**4,497**

*2015 capital employed has been adjusted by the impairment of goodwill and intangible assets made in 2016 to ensure comparability between 2016 and 2015

Revised lease adjusted ROCE (note 15), restated to account for the impairment of goodwill and other intangible assets, principally in the Plumbing & Heating division, decreased to 10.9% from 11.7%. The reduction was largely driven by on-going capital investment which is expected to underpin growth in returns over the medium and longer term, in particular the investments in freehold sites. A number of these sites are not yet contributing to earnings, but they will, pending development, as they become operational over the next 12 to 18 months.

Pensions

The Group made £22m (2015: £40m) of cash contributions to its defined benefit schemes and £17m (2015: £14m) to its defined contribution pension scheme during the year. At 31 December 2016 the combined gross accounting deficit for the Group's final salary pension schemes was £127m (2015: £52m), which equated to a net deficit after tax of £103m (2015: £42m).

Whilst the returns during the year significantly increased the fair value of scheme assets, a large fall in gilt rates meant that the discount rate applied to liabilities reduced to 2.65% (2015: 3.85%) which significantly increased the value of scheme liabilities. Notwithstanding the increase in liabilities, the combined net deficit in Group schemes was only 4.8% of shareholders' funds.

Following the actuarial valuations of both schemes, as at 30 September 2014, the Group is obliged to pay recovery plan contributions of £10m p.a. until September 2021, and voluntarily agreed to pay additional contributions of approximately £4m.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Group were described in the 2015 Annual Report and Accounts. Details are provided for risks relating to market conditions, competitive pressures, information technology, colleague recruitment, retention and succession, supplier dependency and direct sourcing, defined benefit pension scheme funding, future expansion and funding liquidity, further business transformation and performance of the Plumbing & Heating division. However, since the 2015 Annual Report and Accounts was published the Group has identified three additional risks in respect of:

- The UK's decision to leave the European Union has caused considerable market uncertainty, which has resulted in a significant weakening of sterling against the US dollar and the Euro, the currencies used by the Group to purchase imported goods. The effect on the Group's operations is unlikely to become clear until full details emerge about how the UK will seek to engineer its exit from the EU and the EU responds.
- The Group is subject to broad and evolving governance, environmental, health and safety and other laws, regulations, standards and best practices which affect the way the Group operates and give rise to significant compliance costs, potential legal liability exposure and potential limitations on the development of the Group's operations.
- The Group has a number of unresolved disputes with HMRC about the tax treatment of several commercial transactions undertaken in previous years. Based on legal and tax technical advice the Group claimed £72m of tax benefits in its tax returns over several years and reduced its tax payments accordingly, although following a change in legislation in 2015, the Group subsequently paid HMRC £52m of the amount withheld. HMRC have disputed the Group's interpretation of the tax legislation. Whilst the Group believes it has acted appropriately when it submitted its tax returns, HMRC has the power to levy penalties in circumstances where it believes a tax payer has been negligent.

Consolidated income statement

For the year ended 31 December 2016

	2016			2015		
	Pre-exceptional items	Exceptional items	Total	Pre-exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Revenue	6,217.2	-	6,217.2	5,941.6	-	5,941.6
Operating profit before amortisation (note 6a)	409.0	-	409.0	412.6	-	412.6
Amortisation of intangible assets	(16.6)	-	(16.6)	(18.0)	-	(18.0)
Impairment of acquired intangible assets	-	(292.0)	(292.0)	-	(140.6)	(140.6)
Operating profit	392.4	(292.0)	100.4	394.6	(140.6)	254.0
Finance income (note 9)	0.7	-	0.7	1.2	-	1.2
Finance costs (note 9)	(28.4)	-	(28.4)	(31.7)	-	(31.7)
Profit before tax	364.7	(292.0)	72.7	364.1	(140.6)	223.5
Tax (note 10)	(77.1)	18.5	(58.6)	(71.8)	16.0	(55.8)
Profit for the year	287.6	(273.5)	14.1	292.3	(124.6)	167.7
Attributable to:						
Owners of the Company	286.2	(273.5)	12.7	292.2	(124.6)	167.6
Non-controlling interests	1.4	-	1.4	0.1	-	0.1
	287.6	(273.5)	14.1	292.3	(124.6)	167.7
Earnings per ordinary share (note 11a)						
Basic			5.1p			67.8p
Diluted			5.0p			66.2p
Total dividend declared per ordinary share (note 12)			45.0p			44.0p

All results relate to continuing operations.

Details of exceptional items are given in notes 6 and 10.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016	2015
	£m	£m
Profit for the year	14.1	167.7
Items that will not be reclassified subsequently to profit and loss:		
Actuarial (losses) / gains on defined benefit pension schemes	(86.9)	24.8
Deferred tax rate change on actuarial movement	-	(1.4)
Income tax relating to items not reclassified	16.5	(4.7)
	(70.4)	18.7
Items that may be reclassified subsequently to profit and loss:		
Cash flow hedges	0.1	(0.3)
Other comprehensive (loss) / income for the year	(70.3)	18.4
Total comprehensive (loss) / income for the year	(56.2)	186.1

Consolidated balance sheet

As at 31 December 2016

	2016	2015
	£m	£m
ASSETS		
Non-current assets		
Goodwill	1,528.3	1,740.2
Other intangible assets	360.8	371.7
Property plant and equipment	929.5	849.5
Derivative financial instruments	-	6.3
Interest in associates	11.5	7.9
Investments	9.1	7.8
Other receivables	8.3	-
Total non-current assets	2,847.5	2,983.4
Current assets		
Inventories	768.0	761.8
Trade and other receivables	1,059.3	986.9
Derivative financial instruments	1.7	16.2
Cash and cash equivalents	250.5	83.8
Total current assets	2,079.5	1,848.7
Total assets	4,927.0	4,832.1

Consolidated balance sheet (continued)

As at 31 December 2016

	2016	2015
	£m	£m
EQUITY AND LIABILITIES		
Capital and reserves		
Issued capital	25.1	25.0
Share premium account	528.5	518.9
Merger reserve	326.5	326.5
Revaluation reserve	16.8	18.4
Hedging reserve	-	(0.1)
Own shares	(8.7)	(15.5)
Other reserves	-	(1.4)
Accumulated profits	1,760.1	1,918.1
Equity attributable to owners of the Company	2.648.3	2,789.9
Non-controlling interests	7.3	5.9
Total equity	2,655.6	2,795.8
Non-current liabilities		
Interest bearing loans and borrowings	621.1	411.4
Retirement benefit obligation (note 8)	127.3	52.2
Long term provisions	21.2	7.4
Deferred tax liabilities	45.8	61.3
Total non-current liabilities	815.4	532.3
Current liabilities		
Interest bearing loans and borrowings	6.9	139.8
Trade and other payables	1,348.3	1,235.5
Tax liabilities	43.8	90.2
Short-term provisions	57.0	38.5
Total current liabilities	1,456.0	1,504.0
Total liabilities	2,271.4	2,036.3
Total equity and liabilities	4,927.0	4,832.1

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Issued share capital	Share premium account	Merger reserve	Revaluation reserve	Hedging reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2016	25.0	518.9	326.5	18.4	(0.1)	(15.5)	(1.4)	1,918.1	2,789.9	5.9	2,795.8
Profit for the year	-	-	-	-	-	-	-	12.7	12.7	1.4	14.1
Other comprehensive income for the period net of tax	-	-	-	-	0.1	-	-	(70.4)	(70.3)	-	(70.3)
Total comprehensive income for the year	-	-	-	-	0.1	-	-	(57.7)	(57.6)	1.4	(56.2)
Dividends	-	-	-	-	-	-	-	(110.5)	(110.5)	-	(110.5)
Issue of share capital	0.1	9.6	-	-	-	-	-	-	9.7	-	9.7
Realisation of revaluation reserve in respect of property disposals	-	-	-	(1.8)	-	-	-	1.8	-	-	-
Difference between depreciation of assets on a historical basis and on a revaluation basis	-	-	-	(0.2)	-	-	-	0.2	-	-	-
Deferred tax rate change	-	-	-	0.4	-	-	-	-	0.4	-	0.4
Tax on share based payments	-	-	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Reserves adjustment	-	-	-	-	-	-	1.4	(1.4)	-	-	-
Own shares movement	-	-	-	-	-	6.8	-	(6.8)	-	-	-
Credit for equity-settled share based payments	-	-	-	-	-	-	-	17.5	17.5	-	17.5
At 31 December 2016	25.1	528.5	326.5	16.8	-	(8.7)	-	1,760.1	2,648.3	7.3	2,655.6

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2016

	Issued share capital	Share premium account	Merger reserve	Revaluation reserve	Hedging reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2015	24.9	510.5	326.5	18.1	0.2	(28.5)	(1.5)	1,827.5	2,677.5	-	2,677.7
Profit for the year	-	-	-	-	-	-	0.1	167.6	167.7	-	167.7
Other comprehensive income for the period net of tax	-	-	-	-	(0.3)	-	-	18.7	18.4	-	18.4
Total comprehensive income for the year	-	-	-	-	(0.3)	-	0.1	186.3	186.1	-	186.1
Dividends	-	-	-	-	-	-	-	(100.2)	(100.2)	-	(100.2)
Issue of share capital	0.1	8.4	-	-	-	13.0	-	(11.5)	10.0	-	10.0
Realisation of revaluation reserve in respect of property disposals	-	-	-	(0.5)	-	-	-	0.5	-	-	-
Difference between depreciation of assets on a historical basis and on a revaluation basis	-	-	-	(0.1)	-	-	-	0.1	-	-	-
Deferred tax rate change	-	-	-	0.9	-	-	-	-	0.9	-	0.9
Tax on share based payments	-	-	-	-	-	-	-	1.9	1.9	-	1.9
Acquired on acquisition	-	-	-	-	-	-	-	-	-	5.9	5.9
Foreign exchange	-	-	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Credit for equity-settled share based payments	-	-	-	-	-	-	-	13.7	13.7	-	13.7
At 31 December 2015	25.0	518.9	326.5	18.4	(0.1)	(15.5)	(1.4)	1,918.1	2,789.9	5.9	2,795.8

Consolidated cash flow statement

For the year ended 31 December 2016

	2016	2015
	£m	£m
Operating profit before amortisation of acquired intangibles and exceptional items	409.0	412.6
Adjustments for:		
Depreciation of property, plant and equipment	97.6	83.0
Amortisation of internally generated intangibles	7.5	3.1
Other non-cash movements-share based payments	17.5	13.7
Other non-cash movements-other	0.2	0.7
Losses / (gains) of associate	1.1	(2.7)
Gain on disposal of property, plant and equipment	(18.0)	(26.3)
Operating cash flows before movements in working capital	514.9	484.1
Increase in inventories	(5.7)	(14.1)
Increase in receivables	(83.3)	(43.0)
Increase / (decrease) in payables	93.9	(38.8)
Payments on exceptional items	(11.6)	(14.6)
Pension payments in excess of the charge to profits	(13.5)	(23.3)
Cash generated from operations	494.7	350.3
Interest paid	(22.6)	(19.9)
Current income taxes paid	(62.2)	(47.8)
One off income tax payments	(42.5)	-
Income taxes paid	(104.7)	(47.8)
Net cash from operating activities	367.4	282.6
Cash flows from investing activities		
Interest received	0.4	0.2
Proceeds on disposal of property, plant, equipment and investments	42.9	50.8
Development of computer software	(30.8)	(23.9)
Purchases of property, plant and equipment	(197.5)	(268.7)
Interest in associate	(4.6)	(3.5)
Investments	(1.1)	(5.3)
Acquisition of businesses net of cash acquired	(3.2)	(26.0)
Net cash used in investing activities	(193.9)	(276.4)
Financing activities		
Net proceeds from the issue and sale of share capital	9.7	10.0
Net movement in finance lease liabilities	15.9	(2.7)
Debt arrangement fees	(2.4)	(3.9)
Repayment of loan notes	(123.1)	(40.8)
(Decrease) / increase in loans and liabilities to pension scheme	(113.2)	106.9
Gain on settlement of swap contracts	16.8	-
Increase in sterling bond	300.0	-
Dividends paid	(110.5)	(100.2)
Net cash from financing activities	(6.8)	(30.7)
Net decrease / (increase) in cash and cash equivalents	166.7	(24.5)
Cash and cash equivalents at beginning of year	83.8	108.3
Cash and cash equivalents at end of year	250.5	83.8

Notes

1. The Group's principal accounting policies are set out in the 2015 annual report, which is available on the Company's website www.travisperkinsplc.com. All other accounting policies have been applied consistently in 2016.

2. The proposed final dividend of 29.75 pence (2015: 29.25 pence) is payable on 26 May 2017. The record date is 18 April 2017.

3. The financial information set out in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 31 December 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered in due course. The audit of the statutory accounts for the year ended 31 December 2016 is not yet complete. The auditors have reported on the 31 December 2015 accounts; their report was unmodified, did not draw attention to any matters by way of emphasis without modifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

4. This announcement was approved by the Board of Directors on 1 March 2017.

5. It is intended to post the annual report to shareholders on Friday 7 April 2017 and to hold the Annual General Meeting on 24 May 2017. Copies of the annual report prepared in accordance with IFRS will be available from the Company Secretary, Travis Perkins plc, Lodge Way House, Harlestone Road, Northampton NN5 7UG from Friday 21 April 2017 or will be available on the Group's website at www.travisperkinsplc.com.

6. **Profit**

(a) Operating profit

	2016 £m	2015 £m
Revenue	6,217.2	5,941.6
Cost of sales	(4,365.4)	(4,172.6)
Gross profit	1,851.8	1,769.0
Selling and distribution costs	(1,403.1)	(1,066.2)
Administrative expenses	(369.9)	(480.4)
Profit on disposal of properties	17.0	23.9
Other operating income	5.7	5.0
Share of results of associate	(1.1)	2.7
Operating profit	100.4	254.0
Add back impairment and exceptional items	292.0	140.6
Add back amortisation of intangible assets	16.6	18.0
Adjusted operating profit	409.0	412.6

6. Profit (continued)

(b) Exceptional items

	2016 £m	2015 £m
Impairment of investments, goodwill, other intangible assets & tangible fixed assets	235.4	140.6
Branch closure programme	16.5	-
Supply chain restructure	29.6	-
Central restructuring costs	4.3	-
Write off of amounts previously held in current assets	6.2	-
	292.0	140.6

To enable readers of the financial statements to obtain a clear understanding of underlying trading, the Directors have shown the exceptional items separately in the group income statement.

2016

Economic uncertainty, even greater competition in the Group's traditional markets from online and fixed price merchants and the continued disintermediation of the boiler and plastics supply chains have contributed to the Group's view that the Plumbing and Heating market has become even more challenging than previously envisaged.

Against this background the prospects of each business in the Plumbing and Heating division has been reassessed and the Group has determined that it is appropriate to impair further the carrying value of assets in the division. In addition the performance of the Group's small tile business is expected to fall below previous expectations. Accordingly an impairment charge of £235.4m has been made in the income statement, an analysis of which is shown in the table below:

CGU	Goodwill	Acquired Brands	Acquired Customer Relationships	Tangible Fixed Assets	Total
	£m	£m	£m	£m	£m
F & P	-	9.9	3.5	0.1	13.5
PTS	-	2.5	-	3.9	6.4
CPS	188.9	-	-	-	188.9
Solfex	4.0	0.9	-	-	4.9
Tile Giant	18.8	-	-	-	18.8
Bathrooms.com	2.1	0.7	-	0.1	2.9
	213.8	14.0	3.5	4.1	235.4

In October 2016, as a result of the economic uncertainty, the Group announced a number of branch and distribution centre closures together with other cost reduction measures. In accordance with the Group's accounting policy the total cost of £56.6m has been treated as exceptional.

6. Profit (continued)

The exceptional items consisted of the following:

- £16.5m of property, redundancy and other costs, together with asset write downs associated with the closure of 51 branches.
- £29.6m of costs arising from the rationalisation of parts of the Group's supply chain which resulted in the closure of ten distribution centres. The costs comprised onerous lease and dilapidation provisions, other property related costs, redundancy and reorganisation costs and asset write downs
- £4.3m of reorganisation costs associated with central functions
- £6.2m of write downs in respect of amounts previously held in current assets

2015

In 2015 an impairment loss was recognised in the Plumbing and Heating segment on goodwill and other intangible assets totalling £140.6m.

(c) Adjusted profit before and after tax

	2016 £m	2015 £m
Profit before tax	72.7	223.5
Exceptional items (note 6b)	292.0	140.6
Amortisation of intangible assets	16.6	18.0
Adjusted profit before tax	381.3	382.1

	2016 £m	2015 £m
Profit after tax	14.1	167.7
Exceptional items	292.0	140.6
Amortisation of intangible assets	16.6	18.0
Tax on amortisation	(2.9)	(3.4)
Tax on exceptional items	(15.1)	(7.5)
Income effect of reduction in corporation tax rate on deferred tax	(3.4)	(8.5)
Adjusted profit after tax	301.3	306.9

6. Profit (continued)

(d) Adjusted operating margin

	General Merchanting		Contracts		Consumer		Plumbing & Heating		Unallocated		Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Revenue	2,073.4	1,971.5	1,266.7	1,213.6	1,518.2	1,385.8	1,358.9	1,370.7	-	-	6,217.2	5,941.6
Segment result	196.2	198.8	60.0	77.3	59.6	89.9	(198.3)	(102.1)	(17.1)	(9.9)	100.4	254.0
Amortisation of intangible assets	-	-	6.3	5.9	5.0	4.9	5.3	7.2	-	-	16.6	18.0
Exceptional items	11.3	-	9.7	-	36.4	-	232.3	140.6	2.3	-	292.0	140.6
Adjusted segment result	207.5	198.8	76.0	83.2	101.0	94.8	39.3	45.7	(14.8)	(9.9)	409.0	412.6
Adjusted operating margin	10.0%	10.1%	6.0%	6.9%	6.7%	6.8%	2.9%	3.3%	-	-	6.6%	6.9%

7. Business and geographical segments

	2016					
	General Merchanting £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Unallocated £m	Consolidated £m
Revenue	2,073.4	1,266.7	1,518.2	1,358.9	-	6,217.2
Segment result	196.2	60.0	59.6	(198.3)	(17.1)	100.4
Finance income	-	-	-	-	0.7	0.7
Finance costs	-	-	-	-	(28.4)	(28.4)
Profit before taxation	196.2	60.0	59.6	(198.3)	(44.8)	72.7
Taxation	-	-	-	-	(58.6)	(58.6)
Profit for the year	196.2	60.0	59.6	(198.3)	(103.4)	14.1
Segment assets	1,661.5	831.4	1,526.4	613.1	294.6	4,927.0
Segment liabilities	(388.5)	(255.9)	(409.0)	(332.5)	(885.5)	(2,271.4)
Consolidated net assets	1,273.0	575.5	1,117.4	280.6	(590.9)	2,655.6
Capital expenditure	123.9	14.6	56.2	9.1	-	203.8
Amortisation	-	6.3	5.0	5.3	-	16.6
Impairment	-	-	21.6	213.8	-	235.4
Depreciation	54.3	11.8	22.5	9.0	-	97.6

7. Business and geographical segments (continued)

	2015					
	General Merchanting £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Unallocated £m	Consolidated £m
Revenue	1,971.5	1,213.6	1,385.8	1,370.7	-	5,941.6
Segment result	198.8	77.3	89.9	(102.1)	(9.9)	254.0
Finance income	-	-	-	-	1.2	1.2
Finance costs	-	-	-	-	(31.7)	(31.7)
Profit before taxation	198.8	77.3	89.9	(102.1)	(40.4)	223.5
Taxation	-	-	-	-	(55.8)	(55.8)
Profit for the year	198.8	77.3	89.9	(102.1)	(96.2)	167.7
Segment assets	1,540.2	833.7	1,479.1	856.0	123.1	4,832.1
Segment liabilities	(437.8)	(244.8)	(283.8)	(293.4)	(776.5)	(2,036.3)
Consolidated net assets	1,102.4	588.9	1,195.3	562.6	(653.4)	2,795.8
Capital expenditure	169.8	31.6	20.1	13.6	-	265.7
Amortisation	-	5.9	4.9	7.0	-	18.0
Impairment	-	-	-	140.6	-	140.6
Depreciation	47.8	9.2	17.6	8.4	-	83.0

All four Divisions sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom and consequently no geographical information is presented. Segment result represents the profit earned by each segment without allocation of certain central costs, share of losses of associates, finance income and costs and income tax expense. Intersegment sales are eliminated. During 2016 an impairment loss was recognised in Consumer and Plumbing and Heating segments on goodwill and other assets totalling £235.4m. In 2015 an impairment loss was recognised in the Plumbing and Heating segment on goodwill and other intangible assets totalling £140.6m.

8. Pension schemes

	2016 £m	2015 £m
Gross actuarial deficit at 1 January	(52.2)	(97.5)
Service costs charged to the income statement	(8.7)	(16.6)
Net interest expense	(1.7)	(2.9)
Contributions from sponsoring companies	22.2	39.9
Foreign exchange	-	0.1
Return on plan assets (excluding amounts included in net interest)	184.3	(22.8)
Actuarial losses arising from changes in financial assumptions	(330.8)	83.0
Actuarial gains and losses arising from experience adjustments	6.4	13.2
Gross actuarial deficit at 31 December	(180.5)	(3.6)
Reversal of prior liability / (additional liability) recognised in respect of minimum funding requirements	53.2	(48.6)
Gross pension liability at 31 December	(127.3)	(52.2)
Deferred tax asset	24.1	9.8
Net pension liability at 31 December	(103.2)	(42.4)

In 2017 the total amount payable to the pension schemes in excess of the cost of on-going funding will be between £10m and £13.8m.

9. Net finance costs

	2016 £m	2015 £m
Interest on bank loans and overdrafts*	(6.1)	(14.0)
Interest on sterling bonds	(16.1)	(7.4)
Interest on obligations under finance leases	(0.6)	(0.7)
Unwinding of discounts - property provisions	(0.3)	(0.3)
Unwinding of discounts - SPV	(2.4)	(2.5)
Other interest	(1.2)	(2.7)
Other finance costs – pension scheme	(1.7)	(2.9)
Net loss on re-measurement of derivatives at fair value	-	(1.2)
Finance costs	(28.4)	(31.7)
Amortisation of cancellation receipt for swap accounted for as fair value hedge	-	0.9
Net gain on re-measurement of derivatives at fair value	0.3	-
Interest receivable	0.4	0.3
Finance income	0.7	1.2
Net finance costs	(27.7)	(30.5)

*Includes £1.4m (2015: £3.8m) of amortised finance charges. An additional £0.5m of the arrangement fees on bilateral loans were charged directly to the income statement.

	2016 £m	2015 £m
Interest on bank loans and overdrafts	(6.1)	(14.0)
Interest on sterling bonds	(16.1)	(7.4)
Amortised bank finance charges	1.9	3.8
Other interest	(0.9)	(2.7)
Interest receivable	0.4	0.3
Interest for covenant purposes	(20.8)	(20.0)
Adjusted interest cover for covenant purposes	19.7x	20.6x

Adjusted interest cover is calculated by dividing adjusted operating profit of £409.0m (2015: £412.6m) by the interest for covenant purposes.

	2016 £m	2015 £m
Interest on bank loans and overdrafts	(6.1)	(14.0)
Interest on sterling bond	(16.1)	(7.4)
Interest on obligations under finance leases	(0.6)	(0.7)
Unwinding of discounts - SPV	(2.4)	(2.5)
Loan note interest (included in other interest)	-	(0.3)
Interest for fixed charge ratio purposes	(25.2)	(24.9)

10. Tax

	2016			2015		
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Current tax						
UK corporation tax						
- current year	74.4	(11.3)	63.1	71.8	-	71.8
- prior year	(3.7)	-	(3.7)	(1.3)	-	(1.3)
Total current tax	70.7	(11.3)	59.4	70.5	-	70.5
Deferred tax						
- current year	2.6	(7.2)	(4.6)	(0.1)	(16.0)	(16.1)
- prior year	3.8	-	3.8	1.4	-	1.4
Total deferred tax	6.4	(7.2)	(0.8)	1.3	(16.0)	(14.7)
Total tax charge	77.1	(18.5)	58.6	71.8	(16.0)	55.8

11. Earnings per share

(a) Basic and diluted earnings per share

Earnings	2016 £m	2015 £m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	12.7	167.6
Number of shares	No.	No.
Weighted average number of shares for the purposes of basic earnings per share	249,073,416	247,302,865
Dilutive effect of share options on potential ordinary shares	4,029,146	5,681,972
Weighted average number of ordinary shares for the purposes of diluted earnings per share	253,102,562	252,984,837
Earnings per share	5.1p	67.8p
Diluted earnings per share	5.0p	66.2p

280,952 share options (2015: no share options) had an exercise price in excess of the average market value of the shares during the year. As a result, these share options were excluded from the calculation of diluted earnings per share.

11. Earnings per share (continued)

(b) Adjusted earnings per share

Adjusted earnings per share are calculated by excluding the effect of the exceptional items and amortisation from earnings.

	2016 £m	2015 £m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	12.7	167.6
Exceptional items	292.0	140.6
Amortisation of intangible assets	16.6	18.0
Tax on amortisation of intangible assets	(2.9)	(3.4)
Tax on exceptional items	(15.1)	(7.5)
Effect of reduction in corporation tax rate on deferred tax	(3.4)	(8.5)
Adjusted earnings	299.9	306.8
Adjusted earnings per share	120.4p	124.1p
Adjusted diluted earnings per share	118.5p	121.3p

12. Dividends

Amounts were recognised in the financial statements as distributions to equity shareholders as follows:

	2016 £m	2015 £m
Final dividend for the year ended 31 December 2015 of 29.25p (2014: 25.75p) per ordinary share	72.5	63.7
Interim dividend for the year ended 31 December 2016 of 15.25p (2015: 14.75p) per ordinary share	38.0	36.5
Total dividend recognised during the year	110.5	100.2

The dividends declared for 2016 and for 2015 were as follows:

	2016 Pence	2015 Pence
Interim paid	15.25	14.75
Final proposed	29.75	29.25
Total dividend for the year	45.0	44.0

The proposed final dividend of 29.75p per ordinary share in respect of the year ended 31 December 2016 was approved by the Board on 1 March 2017.

Dividend cover of 2.7x (2015: 2.8x) is calculated by dividing adjusted earnings per share (note 11b) of 120.4p (2015: 124.1p) by the total dividend for the year of 45.0p (2015: 44.0p).

13. Free cash flow

	2016 £m	2015 £m
Net debt before exchange and fair value adjustments at 1 January	(467.4)	(375.2)
Net debt before exchange and fair value adjustments at 31 December	(377.5)	(467.4)
Decrease / (increase) in net debt	89.9	(92.2)
Dividends paid	110.5	100.2
Net cash outflow for expansionary capital expenditure*	185.8	237.6
Net cash outflow for acquisitions	3.2	26.0
Net cash outflow for investments	1.1	5.3
Amortisation of swap cancellation receipt	(0.7)	(0.9)
Discount unwind on liability to pension scheme	2.4	2.5
Cash impact of exceptional items	11.6	14.6
One off income tax payment	42.5	-
Interest in associate	4.6	3.5
Shares issued and sale of own shares	(9.7)	(10.0)
(Decrease) / increase in fair value of debt and exchange movements	(20.0)	2.9
Movement in finance charges netted off bank debt	1.4	3.8
Special pension contributions	13.5	23.3
Free cash flow	436.1	316.6

*Expansion capital expenditure includes £8.3m in relation to the development of cloud-based software classified as a prepayment

14. Net debt and lease adjusted gearing

(a) Net debt

Balances at 31 December comprise:

	2016 £m	2015 £m
Cash and cash equivalents	250.5	83.8
Non-current interest bearing loans	(621.1)	(411.4)
Current interest bearing loans	(6.9)	(139.8)
Exchange and fair value adjustments	-	20.0
Net debt	(377.5)	(447.4)

14. Net debt and lease adjusted gearing (continued)

	The Group						
	Cash and cash equivalents	Finance leases	Term loan and revolving credit facility and loan notes	Unsecured senior US$ loan notes and Sterling Bond	Liability to pension scheme	Fair value and exchange movement on hedged net debt items	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2015	(108.3)	21.3	37.6	388.6	36.0	(17.1)	358.1
Cash flow	24.5	(2.7)	65.2	-	(3.1)	-	83.9
Exchange movement	-	-	-	3.9	-	(3.9)	-
Fair value movement	-	-	-	(1.0)	-	1.0	-
Finance charges movement	-	-	3.4	0.4	-	-	3.8
Amortisation of swap cancellation receipt	-	-	-	(0.9)	-	-	(0.9)
Discount unwind on liability to pension scheme	-	-	-	-	2.5	-	2.5
At 1 January 2016	(83.8)	18.6	106.2	391.0	35.4	(20.0)	447.4
Cash flow	(166.7)	15.9	(110.0)	191.2	(3.3)	-	(72.9)
Exchange movement	-	-	-	(3.5)	-	3.5	-
Fair value movement	-	-	-	(16.5)	-	16.5	-
Exchange gain on settlement of US $ notes	-	-	-	(0.1)	-	-	(0.1)
Finance charges movement	-	-	0.8	0.6	-	-	1.4
Amortisation of swap cancellation receipt	-	-	-	(0.7)	-	-	(0.7)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	-	2.4
31 December 2016	(250.5)	34.5	(3.0)	562.0	34.5	-	377.5

	2016 £m	2015 £m
Net debt before exchange and fair value adjustments	(377.5)	(467.4)
IAS 17 finance leases	12.8	14.3
Liability to pension scheme	34.5	35.4
Fair value adjustment to debt	-	20.0
Finance charges netted off bank debt	(7.0)	(6.0)
Net debt under covenant calculations	(337.2)	(403.7)

14. Net debt and lease adjusted gearing (continued)

(b) Lease adjusted gearing

	2016 £m	2015 Restated (note 15) £m
Net debt before exchange and fair value adjustments	377.5	467.4
Exchange and fair value adjustments	-	(20.0)
Net debt	377.5	447.4
Property operating lease rentals x8	1,506.4	1,443.2
Lease adjusted net debt	1,883.9	1,890.6
Property operating lease rentals x8	1,506.4	1,443.2
Closing net assets	2,655.6	2,795.8
Goodwill and amortisation impairment	-	(235.4)
Tax in impairment of goodwill and intangibles	-	3.8
Lease adjusted equity	4,162.0	4,007.4
Gearing	45.3%	47.2%

15. Return on capital ratios

(a) Return on capital employed is calculated as follows

	2016 £m	2015 *Restated £m
Operating profit	100.4	254.0
Amortisation of intangible assets	16.6	18.0
Exceptional items	292.0	140.6
Adjusted operating profit	409.0	412.6
Opening net assets	2,795.8	2,677.7
Net pension deficit	42.4	78.3
Net borrowings	467.4	375.2
Exchange and fair value adjustment	(20.0)	(17.1)
Opening capital employed	3,285.6	3,114.1
Closing net assets	2,655.6	2,795.8
Net pension deficit	103.2	42.4
Net borrowings	377.5	467.4
Exchange and fair value adjustment	-	(20.0)
Closing capital employed	3,136.3	3,285.6

15. Return on capital ratios (continued)

*****The average capital employed at 31 December 2015 has been restated to exclude £92.7m written off to reserves in 1998 that was previously added back to the opening and closing capital employed when calculating lease adjusted capital employed.

	2016	2015 *Restated
	£m	£m
Operating capital employed	3,285.6	3,114.1
Goodwill amortisation and impairment	(235.4)	(376.0)
Tax on impairment of goodwill and intangibles	3.8	11.3
Revised opening capital employed	3,054.0	2,749.4
Closing capital employed	3,136.3	3,285.6
Goodwill amortisation and impairment	-	(235.4)
Tax on impairment of goodwill and intangibles	-	3.8
Revised closing capital employed	3,136.3	3,054.0
Revised average capital employed	3,095.2	2,901.7

In calculating the lease adjusted return on capital employed, the opening capital employed at 1 January 2015 and the closing capital employed at 31 December 2015 have been revised to exclude £376.0m and £234.8m of impaired goodwill respectively in order to provide a comparable calculation basis.

(b) Lease adjusted return on capital employed is calculated as follows:

Adjusted operating profit	409.0	412.6
50% of property operating lease rentals	94.1	90.2
Lease adjusted operating profit	503.1	502.8
Average capital employed	3,095.2	2,901.7
Property operating lease rentals x8	1,506.4	1,443.2
Lease adjusted capital employed	4,601.6	4,344.9
Lease adjusted return on capital employed	10.9%	11.6%

In calculating the lease adjusted return on capital employed, the opening capital employed at 1 January 2015 and the closing capital employed at 31 December 2015 have been revised to exclude £376.0m and £235.4m of impaired goodwill respectively.

16. Leverage ratios

(a) Adjusted ratio of net debt to earnings before interest tax and depreciation ("EBITDA") is derived as follows:

	2016 £m	2015 £m
Profit before tax	72.7	223.5
Net finance costs	27.7	30.5
Depreciation and amortisation	121.7	104.1
EBITDA	222.1	358.1
Exceptional operating items	292.0	140.6
Adjusted EBITDA under covenant calculations	514.1	498.7
Net debt under covenant calculations	337.2	403.7
Adjusted net debt to EBITDA	0.66x	0.81x

(b) Adjusted ratio of net debt to earnings before interest, tax, depreciation, and operating lease rentals ("EBITDAR) is derived as follows:

	2016 £m	2015 £m
Adjusted EBITDA	514.1	498.7
Property operating lease rentals	188.3	180.4
Adjusted EBITDAR	702.4	679.1
Reported net debt before fair value adjustments	377.5	467.4
Exchange and fair value adjustments	-	(20.0)
Operating lease rentals (x 8)	1,506.4	1,443.2
Lease adjusted net debt	1,883.9	1,890.6
Lease adjusted net debt to EBITDAR	2.7x	2.8x

(c) Fixed charge cover is derived as follows:

	2016 £m	2015 £m
Adjusted EBITDAR	702.4	679.1
Property operating lease rentals	188.3	180.4
Interest for fixed charge calculation (note 9)	25.2	24.9
	213.5	205.3
Fixed charge cover	3.3x	3.3x

17. Like-for-like sales

Like-for-like sales are a measure of underlying sales performance for two successive periods. Branches contribute to like-for-like sales once they have been trading for more than 12 months. Revenue included in like-for-like is for the equivalent times in both years being compared. When branches close revenue is excluded from the prior year figures for the months equivalent to the post closure period in the current year.

	General Merchanting £m	Plumbing & Heating £m	Contracts £m	Consumer £m	Consolidated £m
2015 revenue	1,972	1,371	1,214	1,386	5,942
Like-for-like revenue	34	(21)	58	88	160
	2,006	1,350	1,272	1,474	6,102
Network expansion	60	4	(10)	43	97
Trading days	7	5	5	1	18
2016 revenue	2,073	1,359	1,267	1,518	6,217

18. Acquisition of businesses

During the year the Group made two acquisitions for £3.2m:

On 12 April 2016, the Group acquired 100% of the issued share capital of W Gaunt Limited, a builders' merchant, for total consideration of £0.7m.

On 1 May 2016, the Group acquired 100% of the issued share capital of T&T (Sussex) Plant Hire Limited, which trades as a builders merchant and tool hire business, for total consideration of £2.5m.

All acquisitions were accounted for using the purchase method of accounting. The net assets acquired totalled £1.3m and £1.9m of goodwill has been recognised.

In 2015 the Group acquired 100% of the issued share capital of Rudridge Limited, IJM Enterprises Limited and 55% of the issued share capital of The Underfloor Heating Store Limited for total consideration of £27.9m, all satisfied by cash. The net assets acquired totalled £11.4m. Goodwill of £22.4m and a non-controlling interest of £5.9m were recognised as a result of these transactions.