

Travis Perkins ^{pic}

Annual Report
& Accounts 2016

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HIGHLIGHTS

Solid performance in mixed markets

£m	Note	2016	2015	Change
Revenue	4	6,217	5,942	4.6%
Like-for-like revenue	37	2.7%	3.8%	
Adjusted operating profit ⁽¹⁾	5a	409	413	(1.0)%
Adjusted operating profit excluding property profits ⁽¹⁾	5a	392	389	0.8%
Adjusted profit before taxation ⁽¹⁾	5c	381	382	(0.3)%
Adjusted profit after taxation ⁽¹⁾	5d	301	307	(2.0)%
Adjusted earnings per share ⁽¹⁾⁽²⁾	11	120.4p	124.1p	(3.0)%
Dividend per share	12	45.0p	44.0p	2.3%
Lease adjusted ROCE ⁽³⁾	36	10.9%	11.6%	(0.7)ppt
Free cash flow	34	436	317	37.5%
Operating profit ⁽⁴⁾		100	254	(60.6)%
Property profits		17	24	(29.2)%
Operating profit excluding property profits		83	230	(63.9)%
Profit before taxation		73	224	(67.4)%
Profit after taxation		14	168	(91.7)%
Basic earnings per share ⁽²⁾		5.1p	67.8p	(92.5)%
Cash generated from operations		495	350	41.4%

(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 restated for comparative purposes to allow for impairments in 2016 against goodwill and other intangible and tangible assets in City Plumbing Supplies, PTS, F & P, Solflex, Tile Giant and Bathrooms.com made in 2016.

(4) Including non-cash impairment charge of £235m recognised against goodwill and other intangible and tangible assets in City Plumbing Supplies, PTS, F & P, Solflex, bathrooms.com 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 and the issue of a £300m sterling bond giving significant liquidity headroom
- 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

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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GROUP AT A GLANCE

Travis Perkins plc (the Group) is the UK's largest product supplier to the building, construction and home improvement markets. Having grown primarily through acquisition in the last decade, the Group is now focussed on extracting value from those acquisitions by growing organically through investing in more compelling customer propositions, optimising its network and using its scale advantage to improve returns for shareholders. These investments should enable the Group to outperform the market on a sustainable basis, increasing market share and increasing returns. This will ensure the Group continues with its mission to become the first choice distributor of building materials in the UK.

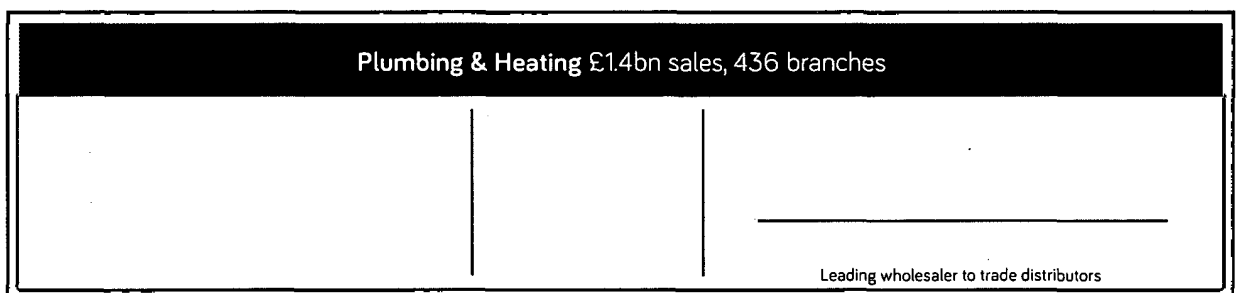
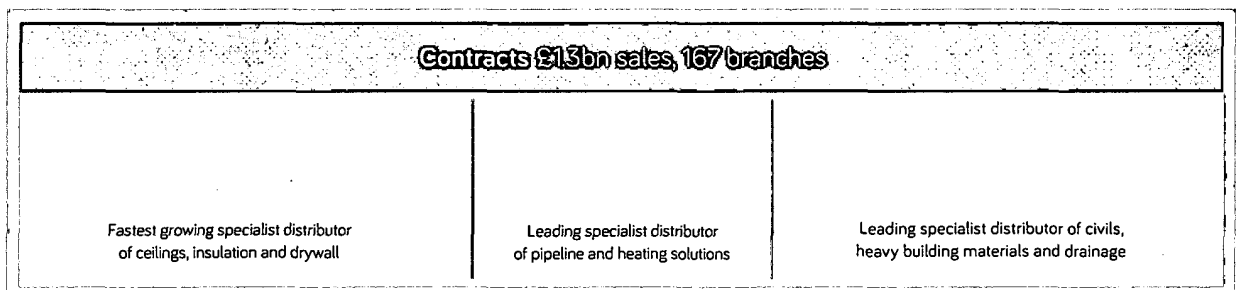
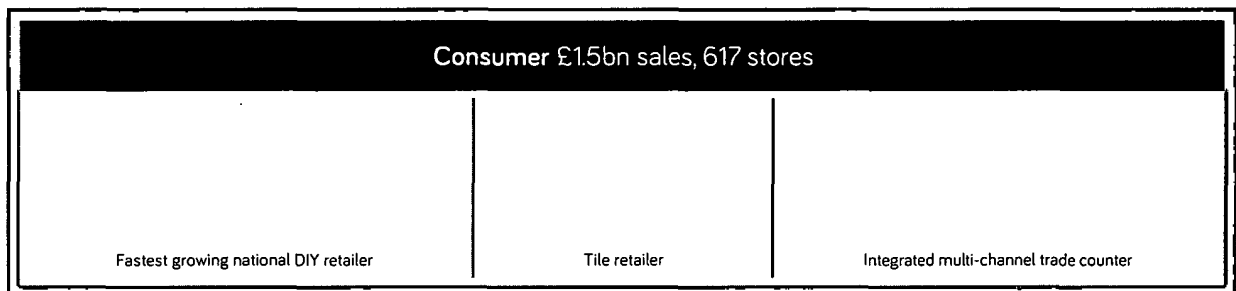
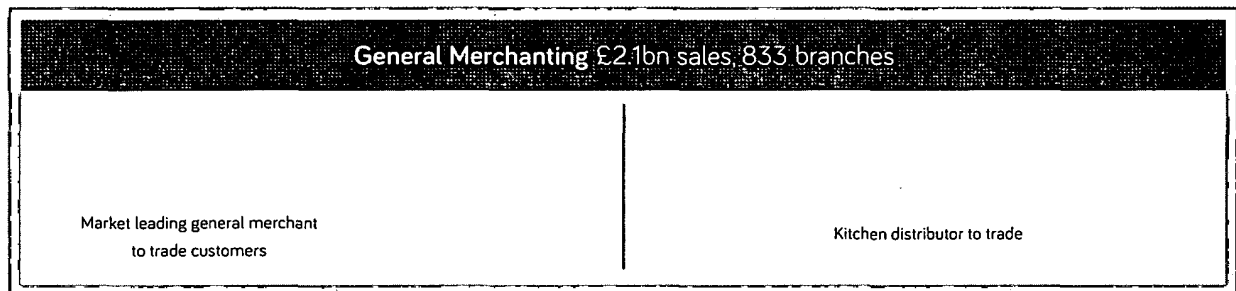
The cornerstones of how the Group does business

The Group has built an inclusive working environment where everyone can contribute because everyone is listened to, valued and respected. It is founded on five Cornerstones:

Keeping people safe	Safety will always be at the top of the agenda
Upholding family values	A way of working and treating people
Making decent returns	Creating value for shareholders, employees, customers and suppliers
Working for our customers	The Group's business is based on strong relationships
Being the best	Setting the bar high and making employees and customers feel special

Divisional structure

The Group's businesses, across over 2,000 sites, are organised and managed through four divisions.



More than 28,000 colleagues serving trade customers and retail customers from over 2,000 trading outlets throughout the UK.

Performance target setting is managed at a Group level with each business responsible for developing strategic plans to meet those ambitions. As the Group grows, operational decision making is increasingly being devolved to strengthened management teams in each business, allowing every business to better respond to its customers' needs, manage its costs and capital and meet the challenges of each market. The business management teams draw on a number of centrally based support teams including property, supply chain, IT, HR, legal and finance.

The Group's businesses

General Merchandising

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

Market leading merchant for trade customers – supplying more than 100,000 product lines to trade professionals and self-builders through 661 branches around the UK

A distributor of kitchens to specialist joiners, kitchen installers, local authorities and national house builders from 172 branches around the UK

Contracts

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

Market leading suppliers of civils, heavy building materials and drainage solutions in the UK for trade professionals and specialist contractors which together with Rudridge operates out of 65 branches around the UK

Market leader in the distribution of pipeline, heating and mechanical services equipment in the UK. The business has a nationwide network of 61 branches

A fast growing distributor of drywall solutions, insulation, interior partitions and external rendering and cladding products to the drylining, insulation installer and internal fit out contractors in the UK from its 41 branches

Consumer

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

Fastest growing national DIY retailer, with 241 stores throughout the UK and the market's leading online DIY channel

A rapidly growing retailer of lightside building materials with a current network of 267 stores. Its fully integrated multichannel operating model is class leading and enables the business to offer the lowest prices and best availability. Operates 12 stores in the Netherlands and online businesses in France and Germany

One of the UK's fastest growing suppliers of ceramic and natural stone tiles available to both retail and trade customers through 109 stores around the UK with a rapidly expanding online presence

Plumbing & Heating

Plumbing Trade Supplies and City Plumbing Supplies are the main brands in the Division. They supply a wide range of customers including domestic plumbers, independent plumbing merchants, large plumbing contractors and local authorities.

As well as selling branded products, the Division has developed successful own brand products including a comprehensive range of plumbing and bathroom products under the iflo brand.

The Plumbing & Heating Division has four principal business streams.

1. Domestic Installer business

A nationwide merchant serving the locally based domestic plumbing and heating trades, heating engineers and bathroom installers through 336 branches

A leading distributor of domestic heating spares in the UK from its national distribution centre

A leading 'pure-play' online supplier of plumbing and heating products from its national distribution centre

2. Contract Installer business

Supplies a wide range of heating, plumbing and bathroom products from 88 branches around the UK and Ireland serving private sector plumbing installation contractors who in turn supply national house builders, residential developers and the public sector

3. Renewable heating businesses

A distributor of renewable technology

An online 'pure-play' distributor of under-floor heating systems

Providers of integrated solutions for low carbon construction, energy efficient building and renewable energy projects

4. Independent wholesalers

A leading wholesaler of hand tools, clothing and site equipment. BPT develops products and brands which are sold both exclusively within the Group and through independent merchants and national DIY chains

The leading distributor of heating, plumbing and bathroom products to the independent merchant sector and retailers of fires and bathrooms which operates out of 7 distribution locations nationally

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

I am pleased to introduce the Company's Annual Report for the year ended 31 December 2016, a year that was characterised by political upheaval leading to uncertainties in the UK economy and the markets in which our businesses compete. Against these once-in-a-generation changes, our businesses have performed well, with most continuing to outperform their major competitors, yet again.

Group sales grew by 4.6% to £6.2 billion. On a like-for-like basis, Group sales grew by 2.7%. Challenging conditions led to adjusted operating profit of £409 million, broadly in line with the previous year, and adjusted earnings per share of 120.4p, compared to 124.1p a year ago. Among the Group's various businesses, there were particularly strong performances in Wickes, Toolstation, Keyline, CCF and Benchmarx. Our core Travis Perkins business also traded well throughout the year.

2016 saw the Group half way through the five year strategic plan that was outlined in December 2013. Much has been accomplished. Our supply chains have been reorganised and revitalised, with *procurement across the Group* benefitting from scale and strong supplier relationships; our branch networks, particularly at Wickes, Toolstation and Travis Perkins, continued to expand their footprint, and trading formats were modernised, leading to improved customer scores. We continued to take advantage of freehold site availability to increase the Group's freehold percentage (19% by year end) and recycle our less attractive freehold locations and leasehold sites. Importantly, we also committed to a four year IT investment programme in the Group's core systems to ensure they are fully fit for the future.

We continued to maintain strong capital discipline throughout the year; Group capital investment for 2016 was £237 million, £169 million net of investment in freehold sites.

As I mentioned in last year's statement, plumbing and heating markets *remained challenging throughout the year*. Lower levels of customer demand, new trading formats and over capacity in the sector have led to disappointing trading despite the Group's leading position and the on schedule and on budget completion of the re-segmentation of the branch networks of our City Plumbing Supplies and PTS businesses. As a result, we announced a number of branch closures in October 2016, and plan to complete a more radical review of these businesses by mid-year 2017.

No strategy is set in stone and we will take the opportunity to review and recalibrate the Group's future direction during the course of 2017. Significant progress has been made over the past three years and we need to ensure this is properly reflected in shareholder value.

Dividend

The Board is taking a prudent view of the range of outcomes for the UK economy in 2017 and 2018 and, coupled with the Group's performance in 2016, we are proposing a 2.3% increase in the full year dividend.

A final dividend of 29.75p, payable on 26 May 2017 to shareholders on the register on 18 April 2017, will give a full year dividend of 45p (2015: 44p). This dividend is covered 2.7 times by adjusted earnings per share, with dividend cover comfortably inside the Board's target range of 2.5x to 3.25x.

Corporate Governance

There is now a growing trend to rate and score larger companies in the UK across a wide range of corporate responsibility factors. We very much welcome this development. During the year the Investment Association ranked Travis Perkins in the top quartile of FTSE 100 companies in more than three quarters of the areas assessed. Unfortunately, a similar process conducted by the Institute of Directors ranked Travis Perkins 94th out of the FTSE 100, accompanied by disappointing publicity. A follow up meeting with the IoD discovered that the IoD's assessment was based on inaccurate and out of date information. Had the correct data been used, we believe Travis Perkins would have been comfortably ranked in the top quartile of the FTSE100 companies.

Employees

We employ almost 30,000 people across the UK and take our responsibility to our colleagues very seriously. We have now been recognised for eight years in a row by the Great Place to Work Institute, a significant acknowledgement of the hard work and commitment of all our colleagues, particularly our branch managers and supporting HR teams. In addition, we have continued to improve the Group's programmes focused on colleague health and safety, career development, diversity and flexible benefits.

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

Board of Directors

The Group continues to have a settled Board of executive and non-executive directors following the appointments made in 2013 and 2014.

During 2016, we started the process to plan for longer term executive succession. As part of this longer term process, Tony Buffin has been promoted to Chief Operating Officer to run our Toolstation and Plumbing and Heating businesses. Over the past three years, Tony has contributed significantly to the strategic development of our businesses, the quality of our finance teams and the strength of the Group's balance sheet. Following an extensive search process, Tony's position as CFO has been assumed by Alan Williams, who joined the Group from Greencore Group plc where he was CFO for six years.

During the year, we also welcomed Cheryl Millington to the Executive Committee as Chief Digital Officer. Further changes were made in the senior executive team to plan for long term succession.

Outlook

The political developments in 2016 have undoubtedly created significant uncertainty for the UK economy as a whole and the individual markets in which our businesses compete. Our management teams are highly experienced in operating in a variety of market conditions and have taken appropriate steps for their businesses to react to and take advantage of changes in market conditions.

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

With this backdrop, I am confident that the investments we have made and will continue to make to improve our customer propositions, optimise our property network and leverage our scale advantage will enable the Group to further outperform the markets in which we compete.

Robert Walker

Chairman

14 March 2017

HOW WE CREATE VALUE

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

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

Be the first choice distributor of building materials in the UK

Business model

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

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

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

The Group's ambition

Whilst demand in markets the Group's businesses operate within remains a key driver of the volume of building materials sold and in the Group's continued success, the Group's growth is not constrained by market growth. The Group has relatively low market shares in many sectors, which presents an excellent opportunity for the majority of the Group's businesses to gain market share. These businesses are well positioned to take advantage of this opportunity to gain share because of the

significant structural advantages the Group enjoys, which include the scale of its buying, its distribution infrastructure and the breadth of its property portfolio, enabling operating businesses to access good quality sites which other competitors may not be able to access, quickly and cost effectively. In addition, each operating business is guided to develop superior customer propositions through better ranging, value for money, convenience and advantaged delivery and service expertise.

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

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

Based on the Group's experience in recent years and evolving market dynamics the Group remains committed to delivering the following in its Consumer, Contracts and General Merchandising divisions:

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

Owing to the underperformance of the Plumbing & Heating division in recent years the Group is reviewing its operations in order to better address customer demand and optimise the value to be created for shareholders in this market. The Group will be giving a fuller update on its plans at the 2017 interim results announcement.

Levers of value creation

In order to deliver its ambitions, the Group developed a strategy in 2013 which remains in place today with components of the strategy being accelerated or moderated depending on market conditions and performance in each of its businesses. The chart below sets out the levers the Group is using to create value for its shareholders.

Comparing performance with strategy

The Group's ambition is to deliver long term, sustainable value to shareholders. There is a comprehensive series of financial and non-financial measures which the Group tracks to monitor operational performance. All of these indicators are aligned to achieving the Group's strategic ambition. The Group's actual performance for 2016 is shown in the performance review sections on pages 18 to 35. Executive Director remuneration is linked to strategy and performance, which is explained further in the Director's Remuneration Report on page 74.

Risks

The Statement of Principal Risks and Uncertainties on pages 37 to 43 sets out the key risk factors that are considered by the Directors to be material to the business and may impact upon the successful delivery of this strategy.

CHIEF EXECUTIVE'S STATEMENT

We are now just past the mid-way point of the five-year investment and growth programme we set out in December 2013. This investment programme focused on four key strands that would strengthen our competitive position and underpin our ability to outperform the markets in which we compete and grow returns to shareholders on a sustainable basis over the medium term.

In order to achieve this we had to increase the pace of investing your capital in your businesses. In the last three years we have invested nearly £700 million. The majority of this investment has been to expand and modernise the branch and store network, which is a central enabler to sustainable revenue growth over the medium to long term. Having the best located and most efficient sites for our distribution and retail businesses is of paramount importance in providing our customers with convenience and our businesses with a mechanism to deliver products effectively.

We have also created the only nationwide distribution centre network for building materials. We believe this provides us with a significant long term structural advantage to ensure our customers are able to get the right materials, in the right place, at the right time at a competitive price. Our customers' demands for access to broader ranges, shorter lead times and more convenience is accelerating all of the time as they respond to the demands placed on them. Our distribution infrastructure provides us with the capability to service these requirements both now and as we increasingly provide customers with multichannel ordering capabilities in the future.

The four strands of our strategy remain unchanged and we are committed to making further improvements in our customer propositions, optimising our branch and store networks, further leveraging our position as the largest distributor of building materials in the UK and further refining our Group operating model.

We have made good progress on all of these tenets of our strategy over the last three years in our Consumer, Contracts and General Merchandising divisions. We have however experienced a changing competitor and customer landscape in our Plumbing & Heating division and we are not satisfied with our performance. We are reviewing all of our plans in this area of the business and will update the market and our shareholders on our plans at the 2017 interim results announcement.

Our markets

The outcome of the EU Referendum in June has undoubtedly caused significant economic uncertainty, for the country as a whole and for the markets in which our businesses compete. It has proven difficult in recent months to accurately predict the demand for building materials, something which we have proven to be relatively adept at doing. Given this lack of clarity of demand we have to ensure that our businesses remain agile in order react to and take advantage of whatever conditions prevail.

Whilst the year ahead may prove challenging to predict with certainty, I remain confident in the long term growth opportunity within UK building materials distribution markets for a few key reasons:

- We compete in fragmented market structures
- We have and are extending significant structural advantages through our supply chain, branch network and system capability
- We are developing superior customer propositions through the right product range, innovative formats in both physical and virtual stores and better value

Our performance

Whilst the first five months of 2016 were strong for all of our businesses, the second half of the year has been more mixed.

General Merchandising

Travis Perkins has performed well throughout the year and in line with my expectations. During 2014 and 2015 we created unique supply chain infrastructure with the ability to deliver an extended range of over 30,000 products the next day, which is still unmatched in the UK. These investments are now only in their second year and are performing well. In 2016 we also began making some improvement to our pricing structures to provide customers with greater clarity and certainty. Our kitchen distribution business, Benchmarx, continued its strong growth with a further 18 branches opened in the year.

Plumbing & Heating

In January 2016 we completed what has been the biggest transformation programme I have seen in our sector. This involved the conversion of more than 160 branches in 18 months and training of over 1,000 colleagues in a different operating model. Whilst this programme was delivered successfully, the plumbing and heating markets have deteriorated further and faster than I expected, leading to performance in 2016 significantly below my expectations. Tony Buffin has recently become Group COO with operational responsibility for the Plumbing & Heating division and we will update you in due course on our plans to improve performance.

Contracts

Keyline, BSS and CFF within our Contracts division delivered another strong year and remain the relatively unsung heroes of our Group. Whilst BSS has faced tougher market conditions, Keyline and CCF have continued to gain market share. *Although it is difficult to predict demand for infrastructure, commercial and industrial project spend in 2017, I have complete faith that our Contracts businesses will continue to significantly outperform the market.*

Consumer

Wickes continued the transformation it began in 2014 with another very strong year of growth. The team led by Simon King has made wide reaching improvements in the product range, the store formats and both absolute prices and the perception of our prices. Wickes also launched deliveries with guaranteed 1-hour delivery slots, which can be available same-day. The Wickes online store is now amongst the best performing amongst its global peers. Toolstation also had another strong year of growth with a further 36 new UK stores added, bringing the total to 267.

The years ahead

I am truly privileged to say that this is now my 39th year with this amazing company. During this time I have seen many different market conditions, from the low growth but chronically high inflation of 1980 to the unprecedented deflationary environment of the last few years. During these changing market conditions, our businesses have consistently performed better than their peers and I have no doubt this will continue. Unfortunately we cannot control the markets, but through selective investments to improve each of our businesses we will always aim to perform better than our competitors.

John Carter

Chief Executive
14 March 2017

PERFORMANCE REVIEW

Key Performance Indicators (KPIs)

The Group tracks its performance using two operating KPIs, three financial KPIs and four funding targets that the Board believes are key indicators of its progress against its strategic and financial targets. In addition the Group has a number of guidance measures at a Group, divisional and business level, details of which are set out in this section and in the financial performance section on pages 27 to 35. These are non-GAAP measures, the derivation of which is shown in the notes referenced in the heading to each measure.

Operating Key Performance Indicators

Like-for-like sales growth 2.7% (Note 37)

Performance Trend

Financial Key Performance Indicators

Lease adjusted return on capital employed* 10.9%¹ (Note 36)

Performance Trend

Definition

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

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

Reason

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

Definition

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

Reason

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

Adjusted operating profit £409m (Note 5a)

Performance Trend

Adjusted earnings per share* 120.4p (Note 11b)

Performance Trend

Definition

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

Reason

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

Definition

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

Reason

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

¹ The figures for 2012 to 2015 have been restated to reflect the changes to capital employed as explained in note 36.

KPIs marked * are measurements used in determining elements of directors' remuneration, details of which are set out on pages 74 to 98.

Financial Key Performance Indicators continued

Free cash flow £436m (Note 34)

Performance Trend

Definition

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

Reason

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

FUNDING TARGETS

Dividend cover 2.7 times (Note 12)

Performance Trend

Definition

The ratio of adjusted earnings per share to dividends per share.

Reason

Dividends are the primary method for returning capital to shareholders. The Board aims to balance retaining profits in the business for future investment with giving shareholders an acceptable return on their investment. The Group's target range for its dividend cover ratio is 2.5x to 3.25x.

Fixed charge cover 3.3 times (Note 35)

Performance Trend

Definition

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

Reason

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

Leverage ratio 2.7 times (Note 35)

Performance Trend

Definition

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

Reason

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

Net debt £378m (Note 32)

Performance Trend

Definition

The amounts owed to lenders of finance less cash held by the Group.

Reason

The value of debt in the balance sheet is an indication of financial efficiency. In general, the return paid to lenders is below the return demanded by equity investors. The Group has not set a debt target.

Business Performance

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 Merchandising 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 its 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 in this way 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 & 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 Merchandising 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 online transactional 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 time until 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 businesses 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, 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.

Strategic Report

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 and it is generally accepted that this impacts merchant volumes with a 6-9 month lag. Any significant reduction in consumer confidence is likely to 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 anticipates that potential volume reductions in 2017 will be broadly offset by price inflation.

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.

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 uncertainty, 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 for 2017

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 Merchandising

	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 profit	9.3%	9.2%	10bps
LAROCE	15%	16%	(1)ppt
Branch network	833	813	20

General Merchandising 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 Benchmark 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 & Collect service being launched nationwide for 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 broadly held 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 fourteen underperforming branches and the Group's timber supply

centre at Ferndown. Eighteen new Benchmark 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 Benchmark branches continues to be very strong.

Financial performance

- General Merchandising adjusted operating profits increased by £8m to £207m in 2016 (2015: £199m). There was a £3m reduction in property profit to £14m (2015: £17m).
- Excluding property, operating profit grew by 6% to £193m (2015: £182m), marginally ahead of revenue growth. A modest improvement in gross margin driven by mix was partially offset by higher operating costs.
- 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 the growth in trade debtors in line with 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 profit	£36m	£46m	(21.7)%
Adjusted operating margin excluding property profit	2.6%	3.3%	(70)bps
LAROCE*	10%	11%	(1)ppt
Branch network	436	463	(27)

* 2015 restated for comparative purposes to allow for 2016 impairment against goodwill and other intangible and tangible assets in City Plumbing Supplies, 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 CPS 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 CPS 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 profit was £3m (2015: nil).
- Adjusted operating profit excluding property profit, 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 business 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 CPS 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 profit	£76m	£78m	(2.6)%
Adjusted operating margin excluding property profit	6.0%	6.4%	(40)bps
LAROCE	12%	14%	(2)ppts
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 profit was recognised in 2016 (2015: £5m).
- Adjusted operating profit, excluding property profit, 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 profit, 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.
- 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 profit	£101m	£93m	8.6%
Adjusted operating margin excluding property profit	6.7%	6.7%	-
LAROC*	8%	7%	1ppt
Branch network	617	571	46

* 2015 restated for comparative purposes to allow for 2016 impairment 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 rollout of new Wickes store formats is offering customers with a simpler shopping experience with access to improved ranges. The new format is also providing Wickes' trade customers with 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 over 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 its 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 & 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 profit was recognised in 2016 (2015: £2m).
- Adjusted operating profits, excluding property profit, increased by 8.6%
- Adjusted operating margin, excluding property profit, 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 reformat 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 £10m of costs in relation to the reorganisation of the distribution business and £4m of other associated costs.
- Following its 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

	General Merchandising (%)	Plumbing & Heating (%)	Contracts (%)	Consumer (%)	Group (%)
Total revenue growth					
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 Merchandising, 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

	General Merchandising (%)	Plumbing & Heating (%)	Contracts (%)	Consumer (%)	Group (%)
Like-for-like revenue growth					
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 Merchancing, 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 and profit before tax

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

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 Merchancing, the strong gross margin performance was driven by good growth in tool hire and Benchmark, 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 Supplies 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 Merchancing division (2016: £14m; 2015: £17m) as old merchant sites were divested and branches were 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.

	General Merchancing (%)	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	-
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

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 & 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 Supplies 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.

As set out in note 13, and noted in the Audit Committee report on page 71, 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. A full reconciliation of the actual to standard tax rates is included in note 10 to the financial statements.

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

Strategic Report

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 with £13m (2015: £168m) attributable to shareholders, 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 5c) with £300m attributable to shareholders (2015: £307m) 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 from reported to adjusted earnings	2016		2015	
	Earnings (£m)	EPS (pence)	Earnings (£m)	EPS (pence)
Basic earnings and EPS	13	5.1	168	67.8
Exceptional items:				
Branch closure programme	17	6.8	-	-
Supply chain restructuring	30	12.0	-	-
Central restructuring costs	4	1.7	-	-
Write off of amounts held in current assets	6	2.5	-	-
Impairment of acquired intangible assets	235	94.4	141	57.0
Amortisation of acquired intangible assets	17	6.6	18	7.3
Tax on amortisation of acquired intangible assets	(3)	(1.2)	(3)	(1.2)
Tax on exceptional items	(15)	(6.1)	(8)	(3.2)
Deferred tax rate change	(4)	(1.4)	(9)	(3.6)
Adjusted earnings and EPS attributable to shareholders	300	120.4	307	124.1

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

The Group has set out four areas for improvement in 2013 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 £194m (2015: £185m). The Group's weighted average lease expiry term on all leases reduced to 9 years.

Lease adjusted gearing (note 33) reduced by 1.9ppts in 2016 to 45.3%, due to lease adjusted equity increasing as a result of further investment in the business.

The lease adjusted net debt to EBITDAR ratio (note 35) reduced to 2.7x owing to an increase in earnings before rentals and the modest reduction to lease adjusted debt.

Fixed Charge Cover (note 35), 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)
Current income 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 Pools, 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.

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Capital investments

The Group made two small acquisitions in 2016 with an aggregate value of £3.2m which are outlined in note 28.

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		41	49
	Benchmarx implants / showrooms / Tool Hire implants			
	New Wickes / TP formats			
Investing to grow	Distribution centres		30	57
	Plumbing & Heating branch conversions			
Re-engineering and infrastructure build	Multi-channel development		48	28
	IT infrastructure upgrades			
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 £54m (2015: £43m) realising gains on disposal of £18m (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	2016 (£m)	2015* (£m)
Cash and cash equivalents	(251)	(84)
£250m listed sterling bond maturing 2021	266	256
£300m listed sterling bond maturing 2023	300	-
US private placement notes	-	137
Revolving credit facility	-	110
Finance leases	34	19
Liability to pension scheme	35	35
Pension fund deficits	103	42
Mark-to-market adjustments on 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 36), 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 this, the combined net deficit of Group schemes was only 4.8% of shareholders' funds.

Following the actuarial valuations of both schemes, finalised 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 £4m p.a.

Supplier income

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

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

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

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

Strategic Report

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

Supplier income	2016 (£m)	2015 (£m)
Other receivables	272	244
Inventory	(209)	(179)
Trade payables	52	51
Net balance sheet position	115	116

Effective financial risk management

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

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

Following the UK vote to leave the European Union, the Group reassessed its interest hedging policy in the light of possible trends for inflation and interest rates. It decided that the potential downside of a significant interest rate increase is now far more likely than any limited upside arising from rate reductions in the medium term. Accordingly the Group changed its strategy from having primarily floating rate borrowings to having fixed rate borrowings and as a result it cancelled interest rate swaps on its £250m bond and left its new £300m bond at a fixed coupon.

At the year-end, the Group had £nil (2015: £302m) notional value of interest rate derivatives resulting in interest rates being fixed on 100% (2015: 23%) of the Group's cleared gross debt (before cash and cash equivalents).

The Group settles its currency denominated purchases using a combination of currency purchased at spot rates and currency bought in advance on forward contracts. It purchases forward contracts for approximately 90% of its committed requirements six months forward based on the firm placement of forward stock purchases. At 31 December 2016 the nominal value of currency forward contracts, all of which were \$US denominated, was \$60m (2015: \$72m).

The Group is a substantial provider of credit to a large portfolio of small and medium size businesses throughout the UK together with some of the country's largest construction companies. It manages its exposure to credit risk through a strong credit control function that works closely with the business and its customers to ensure the Group offers credit sufficient for the needs of those customers without exposing the Group to excessive risk. The bad debt charge in 2016 was approximately

0.3% (2015: 0.4%) of credit sales, which is at the lower end of results previously achieved by the Group.

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

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

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

- The ratio of net debt to adjusted EBITDA (earnings before interest, tax depreciation and amortisation) has to be lower than 3.0x; it was 0.7x (2015: 0.8x) at the year-end (note 35)
- The number of times operating profit covers interest charges has to be a least 3.5x and it was approximately 20x at 31 December 2016 (31 December 2015: 21x)
- Have a conservative hedging policy that reduces the Group's exposure to currency fluctuations, whilst allowing it to benefit from low interest rates

Tax strategy and tax risk management

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

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

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

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

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

Following recent legislation the Group will publish its tax strategy on its website during 2017.

Viability assessment

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

As part of its deliberations the Board undertook a robust review of the Principal Risks and Uncertainties facing the Group, how they are managed and the actions that could be taken to mitigate their effect or avoid them altogether. The resulting disclosures, which include those risks that could threaten the Group's business model, performance, solvency and liquidity are shown on pages 37 to 43 of the Annual Report. The Board believes the Group is well placed to manage those risks successfully.

The Board has decided that it is appropriate to assess the performance of the Group over a three year period from 28 February 2017, the month end date closest to the approval of the 2016 annual results. Three years has been chosen because the Board believes that is the period of the Group's approved Corporate Plan that it is reasonably possible to forecast forward with a degree of accuracy and because the Group is subject to the vagaries of the economic cycle and property market which cannot reasonably be forecast with certainty further than three years forward. Whilst the Board has no reason to believe the Group not will remain viable over a longer period, the inherent uncertainty involved, particularly in the light of the UK referendum vote, means three years is the most appropriate period over which to give users of the Annual Report a reasonable degree of confidence.

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

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

Based upon the assessment undertaken, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Details of the Group's risk management processes are given in the Corporate Governance report on page 65.

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

The risk environment in which the Group operates does not remain static. The nature of risk is that its scope and potential impact will change over time. As such the list on pages 38 to 43 should not be regarded as a comprehensive statement of all potential risks and uncertainties that may manifest themselves in the future. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, could also have an adverse effect on the Group's future operating results, financial condition or prospects.

The table on pages 38 to 43 sets out, in no particular order, the current principal risks that are considered by the Board to be material, their potential impacts and the factors that mitigate them. The inherent risk (before the operation of control) is stated for each risk area together with an indication of the current trend for that risk.

Inherent Risk, Level and Trend	Risk Description
<p>Market Conditions</p> <p>Inherent Risk: ● ● ●</p> <p>Trend: ▲</p>	<p>The Group's products are sold to businesses, tradesmen and retail customers for a broad range of end uses in the built environment. The Group's markets are cyclical in nature and the performance of those markets is affected by general economic conditions and a number of specific drivers of construction, RMI and DIY activity, including mortgage availability and affordability, housing transactions and the timing and nature of government activity to stimulate activity, net disposable income, house price inflation, consumer confidence, interest rates and unemployment.</p> <p>A significant downturn in economic conditions or alternatively major uncertainty about the future outlook could affect the Group's markets levels of construction activity and the confidence levels of the Group's customers, which could reduce their propensity to purchase products and services from the Group's businesses.</p>
<p>Competitive pressures place pressure on prices, margins and profitability</p> <p>Inherent Risk: ● ● ●</p> <p>Trend: ◀▶</p>	<p>Market trends, particularly in respect of customers' preferences for purchasing materials through a range of supply channels and not just through the Group's traditional competitors may affect the Group's performance so making traditional branch based operations less relevant or profitable.</p> <p>Increased price transparency could cause customers to perceive that the Group is less competitive than some other competitors.</p> <p>Public sector buying groups could reduce sales if public bodies choose to buy direct from manufacturers. Disintermediation may become more of a threat if manufacturers decide to deal directly with end users.</p> <p>The Group faces the risk of new entrants to any of its markets, including from businesses currently operating outside its industry or only in overseas markets.</p>
<p>Information technology capabilities impact the Group's ability to trade profitably</p> <p>Inherent Risk: ○ ●</p> <p>Trend: ▲</p>	<p>The Group depends on a wide range of complex IT systems, both in terms of the availability of hardware and the efficient and effective operation of software.</p> <p>The rapid expansion of the Group together with an increasing demand for IT services, particularly as the Group embraces modern platforms such as multi-channel, updates its point of sale systems and develops its supply chain capabilities, could result in development programmes being delayed or new IT systems and change management systems not being successfully implemented.</p> <p>Should a system become unavailable for an extended period either through deliberate act or through accidental failure it could impact the business' ability to trade.</p> <p>Incidents of sophisticated cyber-crime represent a significant and increasing threat to all businesses including the Group. A major breach of system security could result in system disruption to systems and / or the theft and misuse of confidential data with consequential impacts on the Group's reputation or ability to trade.</p>

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

Impact	Risk Mitigation
<p>Adverse effect on financial results.</p>	<p>The Board conducts an annual review of strategy, which includes an assessment of likely competitor activity, market forecasts and possible future trends in products, channels of distribution and customer behaviour.</p> <p>The Group maintains a comprehensive tracking system for lead indicators that influence the market for the consumption of building materials in the UK.</p> <p>Significant events including those in the supply chain that may affect the Group are monitored by the Executive Committee and reported to the Board monthly by the Group CEO.</p> <p>Should market conditions deteriorate then the Board has a range of options dependent upon the severity of the change. Historically these have included amending the Group's trading stance, cost reduction, lowering capital investment and cutting the dividend.</p>
<p>Adverse effect on financial results.</p>	<p>Changes to market practice are tracked on an on-going basis and reported to the Board each month.</p> <p>The Group is building multi-channel capabilities that complement its existing operations and provide its customers with the opportunity to transact with the Group through channels that best suit their needs.</p> <p>Pricing strategies across the Group are regularly reviewed and where necessary refined to ensure they remain competitive.</p> <p>The development of new, innovative and competitive supply solutions is a key strength of the Group. It works closely with customers and suppliers on a programme of continuous improvement designed to improve its customer proposition.</p> <p>The Group's strategy allows it to use sites flexibly. Alternative space utilisation models are possible, including maintaining smaller stores and implanting additional services into existing branches.</p>
<p>Adverse effect on financial results. Adverse effect on the Company's reputation.</p>	<p>The strategic demands of the business, the resources available to IT, the performance levels of key systems and IT security are kept under review by the Executive Committee.</p> <p>Plans that require continual investment in the IT infrastructure have been approved and are being implemented. Maintenance is undertaken on an on-going basis to ensure the resilience of Group systems, with escalation procedures operating to ensure any performance issues are resolved at an early stage.</p> <p>The Group's two data centres mirror each other with data processing capable of being switched from one site to the other. An IT disaster recovery plan exists together with a business continuity plan. Arrangements are in place for alternative data sites for both trade and consumer businesses. Off-site back-up routines are in place.</p> <p>The Group has a data security committee responsible for monitoring and maintaining cyber security. In addition a programme of risk oriented reviews is undertaken to ensure the level of control around IT systems remains robust.</p> <p>The Group has a team in place to deliver a comprehensive security architecture to protect it from cyber crime. Investments in best of breed solutions have been made that continually adapt to mitigate the risk associated with the most advanced threats. Furthermore, the Information Security team has the full support of senior management acting as an important gateway to ensure the development of new systems is performed according to industry standard security practices.</p>

Inherent Risk, Level and Trend	Risk Description
<p>Colleague recruitment, retention and succession plans do not deliver the required skills and experience</p> <p>Inherent Risk: ●</p> <p>Trend: ◀▶</p>	<p>The ability to recruit, retain and motivate suitably qualified staff is an important driver of the Group's overall performance.</p> <p>The strength of the Group's customer proposition is underpinned by the quality of people working throughout the Group. Many of them have worked for Travis Perkins for some considerable time, during which they have gained valuable knowledge and expertise.</p> <p>The Group faces competition for the best people from other organisations. Ensuring the retention and proper development of employees and succession for key positions is important if the Group is not to suffer an adverse effect on future prospects.</p>
<p>Supplier dependency could result in shortages of product</p> <p>Inherent Risk: ●●</p> <p>Trend: ◀▶</p>	<p>The Group is the largest customer to many of its suppliers. In some cases, those suppliers are large enough to cause significant supply difficulties to the Group if they are unable to meet their supply obligations due to either economic or operational factors.</p> <p>Alternative sourcing may be available, but the volumes required and the time it may take those suppliers to increase production could result in significant stock-outs for some considerable time.</p> <p>The Group has become more reliant on overseas factories producing products as the Group has rapidly expanded its direct sourcing capabilities. This has increased the Group's exposure to sourcing, quality, trading, warranty and currency issues.</p> <p>There is a potential for European anti-dumping legislation to be extended to encompass further Asian countries which could increase the cost of some imported products.</p>
<p>Defined benefit pension scheme funding could increase significantly</p> <p>Inherent Risk: ●●●</p> <p>Trend: ◀▶</p>	<p>The Group is required by law to maintain a minimum funding level in relation to its on-going obligations to provide current and future pensions for members of its defined benefit pension schemes.</p> <p>The level of contributions required from the Group to meet the benefits promised in the final salary schemes will vary depending upon the funding position of those schemes.</p> <p>The funding of pension obligations could increase significantly due to a number of factors including poor performance of the pension fund investments, falling corporate bond and gilt yields and increasing longevity of pension scheme members.</p>
<p>Future expansion plans are not implemented due to the unavailability of funding or do not achieve the desired sales and profit improvements</p> <p>Inherent Risk: ●</p> <p>Trend: ◀▶</p>	<p>The Group's strategic plans are predicated on the continued expansion of its UK branch network and the development of its supply chain capabilities.</p> <p>Large scale acquisitions in existing UK markets are unlikely due to the Group's size and the potential concerns of the competition authorities to ensure competitive markets. Therefore the Group will rely on developing smaller scale opportunities, in new catchment areas or in new formats within existing sites or on expanding into adjacent markets in which it does not have a presence.</p> <p>The Group also needs to ensure that funding is available to support its plans. The Group has been reliant on the banking market for funding, a market that has contracted in recent years and which may continue to contract in the future. It has an established bond issuance capability, but the availability of funds from that market at a sensible cost may depend upon the Group's rating which can be affected by its trading performance.</p>

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

Impact	Risk Mitigation
<p>Inability to develop and execute development and succession plans.</p> <p>Competitive disadvantage.</p>	<p>The Group's employment policies and practices are kept under regular review.</p> <p>Staff engagement and turnover by job type is reported to the Executive Committee regularly and to the Board regularly. Succession plans are established for the most senior positions within the Group and these are reviewed annually.</p> <p>The Group's reward and recognition systems are actively managed to ensure high levels of employee engagement.</p> <p>A wide range of training programmes are in place to encourage staff development, whilst management development programmes are available to those identified for more senior positions.</p> <p>Salaries and other benefits are benchmarked regularly to ensure that the Group remains competitive and the Group operates incentive structures to ensure that high performing colleagues are adequately rewarded and retained.</p>
<p>Adverse effect on financial results.</p> <p>Adverse effect on reputation.</p>	<p>The commercial and financial teams have established strong relationships with the Group's key suppliers and work closely with them to ensure the continuity of quality materials.</p> <p>To spread the risk where possible contracts exist with more than one supplier for key products.</p> <p>The Group has made a significant investment in its Far East infrastructure to support its direct sourcing operation which allows the development of own brand products, thereby reducing the reliance on branded suppliers.</p> <p>Comprehensive checks are undertaken on the factories producing products and the quality and the suitability of that product before it is shipped to the UK.</p>
<p>Adverse effect on financial condition.</p>	<p>All of the Group's final salary pension schemes are closed to new members.</p> <p>For the Travis Perkins scheme, pensionable salary inflation has been capped at 3% per annum.</p> <p>The schemes' investment policies are kept under regular review by the trustees in conjunction with the Group to ensure asset portfolios produce the desired level of return within an acceptable risk profile.</p> <p>The Group has agreed deficit reduction payment plans for each of its defined benefit pension schemes with the Trustees of the schemes. The repayment plans will remain in place until the next actuarial valuation, when in conjunction with the Scheme Trustees they will be reassessed to take into account the circumstances at the time.</p> <p>In 2015 the Group agreed with the Trustees to align future member contributions more closely to the cost of the accrual and in so doing capping the current service contribution of the Group. Notwithstanding this, the Group remains exposed to movements in member longevity, the value of pension scheme investments and falling corporate bond and gilt rates.</p>
<p>Adverse effect on financial results.</p>	<p>Responsibility for identifying and implementing opportunities to expand the Group's operations rests with each of the divisional boards, with capital being deployed to those projects giving the best return on capital.</p> <p>The Group has identified a significant number of opportunities for expansion throughout the United Kingdom and continues to develop alternative trading formats that will open up additional opportunities in future.</p> <p>The Group continues to invest in its leading supply chain infrastructure. Its capabilities in this area allow it to source directly from manufacturers, offer superior availability to customers and operate cost efficient mechanisms to deliver products to customers when they most need them.</p> <p>It is the responsibility of the treasury function to manage the Group's liquidity, funding availability and treasury risk by reference to the policies and plans set out in the board approved funding strategy.</p> <p>Regular reporting of a series of key metrics is designed to monitor treasury activities and maintain opportunities to diversify sources and access suitable funding.</p>

Inherent Risk, Level and Trend	Risk Description
<p>Business transformation projects fail to deliver the expected benefits, cost more or take longer to implement than expected</p> <p>Inherent Risk: ●●●</p> <p>Trend: ◀▶</p>	<p>The Group is undertaking a large number of strategic projects throughout its business. These projects are intended to transform the Group's infrastructure and its information technology systems and to develop its supply chain operations and its branch and store networks.</p> <p>By their nature, strategic projects are often complicated, interlinked and require considerable resource to deliver them. As a result the expected benefits and the costs of implementation of each project may deviate from those anticipated at their outset.</p>
<p>Plumbing & Heating business performance adversely affects Group returns</p> <p>Inherent Risk: ●●●●</p> <p>Trend: ▲</p>	<p>The market supplying boilers to large contract customers, served by the PTS business, is highly competitive, offers low margins and certain manufacturers exercise a degree of control through disintermediation.</p> <p>Competition in the plumbing and heating ("P&H") markets remains intense, with margins being adversely affected and is likely to continue to be so for the foreseeable future.</p> <p>The provision of plumbing and heating product to the secondary P&H market, which is undertaken by F & P, is becoming increasingly competitive.</p> <p>Low margins, pressure on sales and a high fixed cost base mean the Plumbing and Heating business' profit could be more muted than some of the Group's other businesses.</p>
<p>UKs decision to leave the European Union</p> <p>Inherent Risk: ●●●●</p> <p>Trend: ▲</p>	<p>The result of the UK vote 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 main currencies used by the Group for imported goods.</p> <p>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.</p>
<p>Legislation</p> <p>Inherent Risk: ●●</p> <p>Trend: ◀▶</p>	<p>The Group is subject to a broad range of existing and evolving governance, environmental, health and safety and other laws, regulations, standards and best practices which affect the way the Group operates and give rise to significant compliance costs, potential legal liability exposure and potential limitations on the development of the Group's operations.</p>
<p>Corporation tax</p> <p>Inherent Risk: ●</p> <p>Trend: ◀▶</p>	<p>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.</p> <p>Whilst the Group believes it has acted appropriately when submitting its tax returns, HMRC has the power to levy penalties in circumstances where it believes a taxpayer has been negligent.</p>

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

Impact	Risk Mitigation
Adverse effect on financial results.	<p>All potentially significant projects are subject to detailed investigation, assessment and approval prior to commencement.</p> <p>Dedicated teams are allocated to each project, with additional expertise being brought into the Group to supplement existing resource when necessary.</p> <p>All strategic projects are closely monitored by the Executive Committee with regular reporting to the Board.</p>
Adverse effect on financial results.	<p>A new management team has been appointed to the Plumbing & Heating division, which is conducting a fundamental review of all P&H businesses and activities. It is due to report its findings in August 2017, but in the meantime greater focus is being placed on developing the customer proposition ensuring there is a renewed focus on serving existing customers well, tight management of operating costs and capital expenditure and ensuring the basics of ranging and pricing are carefully managed.</p> <p>Projects are underway to tailor branch processes in the PTS business to better meet the needs of contracting customers and improve the customer offer which should drive an increase in sales.</p> <p>The branch network of the F & P / Primaflow business is going through a major rationalisation programme to better meet the needs of customers, whilst reducing costs.</p>
Adverse effect on financial results.	<p>It is too early to determine the effect of the decision to leave, but the Board is closely monitoring market conditions and will react accordingly.</p> <p>The Board has already taken steps to reduce some costs, but is carefully balancing the current needs of the business against what may or may not occur in the future.</p> <p>The Group continues to invest in the business where those investments are expected to realise acceptable returns, but it is prepared to reduce activity levels should market conditions so dictate.</p> <p>Where the cost of goods increases due to the exchange rate deteriorating, the Group will seek to pass those price increases through to its customers, but its ability to do so will depend upon market conditions at the time.</p>
<p>Adverse effect on the Company's reputation.</p> <p>Adverse effect on branch operations.</p> <p>Adverse effect on financial performance.</p>	<p>The Group's legal team is responsible for monitoring changes to laws and regulations that affect the business.</p> <p>The Group has policies in place that set out the ways employees and suppliers are expected to conduct themselves. Those expectations are widely disseminated using a range of methodologies to ensure colleagues and suppliers understand their responsibilities to comply with the law and other regulations affecting the Company at all times.</p> <p>The Board and the Executive Committee regularly monitor compliance with laws and regulations.</p> <p>The Group operates a whistleblowing process that allows the anonymous reporting of noncompliance with health and safety, environmental, bribery and other laws and regulations.</p>
<p>Adverse effect on the Company's reputation.</p> <p>Adverse effect on financial performance.</p>	<p>Given the lack of agreement with HMRC about the interpretation of key areas of the disputed transactions, coupled with the current tax litigation environment and HMRC's policy for pursuing such a route the Group has recognised a £20m provision for the disputed amounts claimed by HMRC and has not recognised any benefit in its income statement for the £52m tax legislation required it to pay to HMRC in respect of the disputed amounts, which it hopes will be repaid in future.</p> <p>The Group has a governance structure that requires specialist third party technical advice to be obtained on significant tax treatments before the Board of Directors agrees to the tax position to be adopted by the Group. Accordingly, it does not believe that its actions can be considered negligent and therefore should the Group's views ultimately not prevail it does not believe HMRC will have any basis for levying penalties or additional assessments.</p> <p>In the event that the Group's view does not prevail, interest will be payable on previously unpaid amounts. Given the current uncertainty interest has been fully accrued in the financial statements.</p>



CAPTURING THE WAY THINGS ARE DONE AROUND HERE

The success of the Group is built upon the hard work and dedication of thousands of people that work in its branches, stores, warehouses and offices. Therefore, it is critically important that the Group is able to attract, develop and retain the best people to work in its different businesses.

Attracting the right people

The Group takes great strides to ensure it attracts the right people to work for it. Its efforts have been recognised by a number of external parties. In particular the Group was recognised:

- As a Top Employer for the 6th year running and this year was noted as one of the top 50 of all entrants
- In the top 25 UK companies in LinkedIn's first ever 'Top Attractors' list

During 2016 innovation, technology advances and new people initiatives commenced that will enable the Group to remain agile, increase productivity and enable colleagues to keep providing excellent customer service.

The Group continued the programme to modernise its core business systems. This project will deliver digital transformation programme aimed at helping colleagues serve customers better.

It will also make it easier for the Group to attract and retain people because of leading edge systems and processes.

The Group has launched a programme to support the future growth of the business and its people through implementing next generation Payroll and HR services and software. The programme is focusing on doing things more simply, quickly and effectively whilst ensuring the Group is meeting the aspirations of its Generations by providing an efficient 'one stop shop' for HR related tasks, colleagues and managers will have more time to focus on the Group's customers and core business activities.

Being at the forefront of finding innovative solutions to the problems its customers face gives the Group a competitive advantage and helps drive growth. Therefore the Group's passionate about promoting innovation from colleagues, suppliers, customers and others, including students, university research groups and entrepreneur/inventors. By this means it can partner with innovators, manufacturers and customers to bring new products to market.

Retaining and developing talent

In 2016 the Group created over 1,000 new roles across all businesses and central functions. In addition more than 2,300 colleagues were promoted to a new role and over 460 were successful in taking up roles in another brand.

Investing in early career and talent pipelines and ensuring the highest quality of experience for those going through these is extremely important to the Group.

All 12 programme participants in the Group's Fast Track Programme 'graduated' successfully during the year. The programme provided a personalised and flexible management and development programme designed to nurture the individual talents of the participants.

In addition 585 new management apprentices joined the Group during the year and a further 101 existing apprentices graduated from the programme.

Travis Perkins Group were Highly Commended for the Midlands Region - Macro Apprentice Employer of the year for 2016, and were also accredited as a Top 100 Apprenticeship Employer 2016, both for the second year running.

The Group also actively built its relationship with the Career Transition Partnership, the official providers of resettlement for all Armed Forces personnel.

In partnership with Barclays Bank the Group undertook research to understand the financial health and awareness of its colleagues. As a consequence a new Financial Wellbeing programme for colleagues was launched.

The programme will engage with colleagues to provide assistance, support and guidance through some of the financial challenges that life and individual circumstances can sometime create:

The Group continued to build upon its commitment to provide even more benefit options and choices for colleagues through its online benefits hub My Perks Plus.

March 2016 saw the introduction of a green car salary sacrifice scheme, provided by Car Salary Exchange. The scheme allows colleagues to lease a brand new environmentally friendly ('green') car through a salary exchange scheme.

The Group seeks to ensure its benefits programmes are advantageous to as many employees as possible. The introduction of the national living wage impacted the number of colleagues who were previously eligible to take up salary sacrifice arrangements. To counter this the Group sought to provide them with alternative arrangements where possible

through discounts arranged via affinity schemes and corporate partnerships or via its suite of voluntary benefits.

During the autumn the Group announced a small number of branch closures in the trade businesses and the closure of 10 smaller distribution and fabrication centres. Around 600 colleagues were impacted by this change, but all those who wished to remain in the Group have been redeployed.

Workforce with a Difference

The Group is committed to ensuring diversity amongst its workforce and believes diversity is a strategic enabler that will advance its competitive position and support its identity as an employer of choice.

The Group's on line learning and development platform iLearn has many modules to support our building of a workforce with a difference.

During the year Wickes demonstrated particular leadership in this area by launching the 'Making Wickes Inclusive' programme. The aim is to make people feel that working at Wickes supports their lifestyle and respects their home life. To achieve this a range of initiatives have been introduced including:

- Supporting women before, during and after their maternity leave, and ensuring that guidance is given for working more flexibly at Wickes
- Recognising everyone's culture and celebrating with them on the days that really matter
- Delivering a programme of unconscious bias training to the business
- Teaming up with Europe's largest LGBT+ rights charity to become champions of all forms of diversity across our business

Strategic Report

Statutory reporting of gender diversity

Whilst there remains much to do, the Group is proud of the progress it has made with almost one-third of the Board and

senior managers being women. In 2016 55% of the intake to the Group's graduate schemes were women.

Statutory reporting requirement for gender diversity 2016

	F		M		Total	
	Number	%	Number	%	Number	%
Director	2	25.0%	6	75.0%	8	100.0%
Manager	238	26.8%	650	73.2%	888	100.0%
Colleague	7,091	24.9%	21,433	75.1%	28,524	100.0%
Grand Total	7,331	24.9%	22,089	75.1%	29,420	100.0%

	F		M		Total	
	Number	%	Number	%	Number	%
Central Services	747	45.7%	886	54.3%	1,633	100.0%
Consumer Division	3,923	35.8%	7,038	64.2%	10,961	100.0%
Contracts Division	642	19.3%	2,681	80.7%	3,323	100.0%
General Merchandising Division	1,238	13.7%	7,799	86.3%	9,037	100.0%
Plumbing & Heating Division	696	18.6%	3,057	81.4%	3,753	100.0%
Group Supply Chain	85	11.9%	628	88.1%	713	100.0%
Grand Total	7,331	24.9%	22,089	75.1%	29,420	100.0%

Charities and communities

The Group raised nearly £1.2 million in 2016 for its charity partners. Although the Group is incredibly proud to be the UK's largest supplier of building materials it is also proud of how it

does business, how it treats its people and how it supports the charities and communities around it.

Our Shared Successes – Charity Partnerships



Why this matters

Giving something back and making decent returns

The Group continues to empower each of its businesses to support different charities which mean something special to them and enter into a partnership, usually for 3 years or more. The selection criteria are those charities that support children and/or adults, affected by poverty, disability or disease in the UK.

Group colleagues also support additional charitable activity through Payroll giving and via a Colleague Lottery. The popularity of these schemes remains undiminished.

KEEPING PEOPLE SAFE

Our approach

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

Travis Perkins recognises that good safety and good business leadership behaviours are indistinguishable from each other and through its now well established 'Stay Safe' brand the Group continues to challenge its thinking and approach to continually improve its safety performance.

Stay Safe governance

Throughout 2016 Stay Safe performance was reviewed at board meetings, by the Executive Committee and also as part of the Group's regular divisional leadership meetings.

The Board Stay Safe Committee continued to monitor performance, through review of the risk profile of the business, monitoring progress against 2016 objectives and establishing a number of leading Stay Safe objectives for 2017 relating to:

- Continued implementation of divisional Stay Safe strategies, aligned to the Group Stay Safe Vision
- Further de-risking of the Group's operations
- Workplace transport and driver behaviour
- Safety training delivery and effectiveness measures for:
 - All colleagues
 - Occupational drivers
 - Front line management
 - Senior leaders

Progress against these objectives will form part of the Remuneration Committee's overall assessment of executive performance in 2017.

In addition to the Group's internal governance process an independent external audit of safety strategy, planning and internal assurance processes was commissioned towards the end of 2016. In addition, a review of the effectiveness of the Stay Safe Committee was undertaken as part of the wider review of the Board's effectiveness.

Fatal accident of Mark Pointer

Following the tragic death of a customer at the Group's Travis Perkins, Milton Keynes North branch in November 2012, the Company pleaded guilty to breaches of health and safety legislation and therefore causing the death of Mr Mark Pointer, being sentenced by Aylesbury Crown Court (sitting at Amersham Law Courts) in April 2016. In judgement, the court recognised that appropriate training systems and procedures were in place and that the failure was implementation at a local level. Similarly it was accepted that 'substantial change' had been made at the branch since the incident. In sentencing the Company was fined £2 million and ordered to pay costs of £115,000.

The sentencing provided a poignant opportunity for the Group's Executive Committee and senior leaders to reflect on the consequences when safety processes are not effective, the progress made over the 4 years since the accident and where the organisation is today on its safety journey.

Whilst the Group cannot change the tragic events of November 2012 it can commit to learn from them and in addition to its own activities the Group has undertaken to openly share its experience within its own and other industries facing similar risks.

With the permission of Mrs Pointer the Group shared her Court impact statement with the Group's business leaders to create a deeper emotional connection to the importance of its Stay Safe programme and their role as leaders in influencing safe working practices for colleagues and customers in all of the Group's branches and stores.

Stay Safe performance

2016 saw an increase in reported lost time incidents to 469 compared to 457 in 2015, which is an overall increase in the Group long term injury frequency rate (LTIFR) from 8.53 in 2015 to 9.42 in the last 12 months. The Group's Severity Rate also increased from 0.11 in 2015 to 0.13 in 2016. The Group's near misses reporting continues to go from strength to strength, increasing by 60% on 2015.

The increase in injury numbers and associated frequency rates is disappointing, but not completely unexpected. The Group has continued to test and challenge throughout the year as to whether there is an underlying reason for this small increase. However the Group believes that its culture, processes and consistency have continued to improve, and that it must maintain its focus on these same areas. The Group's headline figures mask the different performance of its operational Divisions and businesses, all of which are at different points in their improvement journey. General Merchants, Plumbing & Heating and Tile Giant all saw significant reductions in lost time injuries, with associated frequency rates lower by 14%, 34% and 24% respectively. In contrast Contracts, Wickes and Supply Chain have all seen an increase in lost time frequency rates of 27%, 35% and 92% respectively.

For those businesses in the earlier stages of improvement a focus on the development of a Just Culture continues to drive improved reporting. This results in an initial increase and characteristic spike in incidents before then seeing a genuine and sustainable reduction.

The most significant challenge across the Group remains its ability to engage colleagues. Consensus from Divisions, Executive and Board is that the Stay Safe strategy and plan remains sound, it targets the principal causes of accidents, a revised Risk Assessment process, learning from accidents through application of the Just Culture model as well as continuing to tackle the low frequency, high impact events related to traffic management. Culture change takes time and expectations have always been it would take a minimum of two years to make a material difference to performance. The challenge is to stay on course and not be tempted to 'try a new approach' as the Stay Safe teams are starting to be effective and leading indicators are turning positive.

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

Innovation & collaboration

The Group's businesses continue to take the Stay Safe philosophy and translate this into specific actions that are tailored to their operations and the safety issues that they face. Some of the activity completed in 2016 and planned for 2017 includes:

Case studies from 2016

- In August the Group signed a Primary Authority Partnership for Health & Safety with Northampton Borough Council and in September a Primary Authority Partnership for Fire Safety with London Fire Brigade. Both of these partnerships will allow for closer working with enforcement authorities, the provision of assured advice concerning the Groups approach and to agree national standards for implementation.

Transport safety

- In 2015 Travis Perkins joined forces with 3D Driving Awareness to support safety in the local community through the 'Wheels & Skills' programme, including the sponsorship of a safety truck. Over the past 12 months Group colleagues have attended 53 schools / colleges engaging with 15,000 students, educating them on the safety issues and giving them first hand experience sitting in the cab of an HGV to understand the challenges to drivers of blind spots and associated risks to cyclists and pedestrians. For 2017, the Safety Truck will be based at the British Motor Museum allowing even greater engagement with visiting schools and the general public.

Health & wellbeing

- In March Travis Perkins signed up as a partner for NHS England's 'One You' programme, promoting their on-line 'How Are You?' health assessment and supporting resources for use by all colleagues.
- Pilot activity with Northamptonshire County Council saw the Group providing free medical checks for colleagues over 40 at its Head Office and Northamptonshire distribution centres.

Operational divisions

- This year all divisions have focused on further de-risking the business with a focus on workplace transport, manual handling and more broadly on revitalising its Risk Assessment process to encourage colleague engagement and generation of improvement actions. In addition the following local successes were recognised:
 - Contracts saw all three businesses recognised through Royal Society for the Prevention of Accidents (RoSPA), Keyline and CCF both receiving gold awards and BSS Industrial a silver award.
 - BSS Industrial also won Safety Initiative of the Year in the H&V News Awards for their LIFT (manual handling training) programme.

Health & wellbeing

- The Group will continue to develop its broader health and wellbeing programme further enhancing colleague benefits available via My Perks including a financial wellbeing offering and online GP service.
 - Supply Chain have agreed to work with 'Let's Get Healthy' in 2017 to provide a comprehensive wellbeing programme for 5,000 colleague across Supply Chain.
- De-risking the Groups operations**
- Work will continue to embed the Groups new risk assessment process, encouraging greater colleague engagement in local improvement activity. During 2017 risk assessment data will be analysed to better risk profile the Groups operations and better target intervention activity focusing on high and medium risk locations.
 - Continuing the focus on workplace transport, drivers and driving behaviour, an improved transport key performance indicators dashboard will be implemented, delivering internal JAUPF accredited Driver CPC training targeting safe loading and delivery as well as dynamic risk assessment. A comprehensive driver profiling and risk management tool will also be implemented.
 - Work will also continue to review the Groups wider safety training programme and how the effectiveness of training for all colleagues, occupational drivers, front line management and senior leaders will be measured.
- Planned activity for 2017**
- Travis Perkins Fimlico was the first of the Groups London branches to receive the London Healthy Workplace Charter award at commitment level. The award recognises the involvement of colleagues in developing the health and wellbeing programme, senior management support, wellbeing champions, a focus on a fun approach to activities and providing an exercise area.

ENVIRONMENTAL SUSTAINABILITY

The Group's cornerstones continue to shape its decisions to help the businesses grow. The cornerstones ensure responsible decisions are taken and the Group's management systems aim to ensure all aspects of the Group's activities across the product lifecycle are considered¹.

Cornerstones

Making decent returns

In 2016 the Group published a revised set of Supplier Commitments increasing the expectation on supplier partners to manage responsible real estate and resource efficient sourcing. As a result of the better understanding of product lifecycle impacts, the Group is now asking for Environmental Product Declarations (EPD) from its resource intense supply chains. The Group believes EPDs will stimulate better conversations on making meaningful resource reductions.

Keeping people safe

All lifecycle approach means that in 2016 the Group was involved in safety disposing of its customer's waste from spent batteries to plasterboard off cuts and for a small number of customers, returned packaging.

Upholding family values

In 2016 the Group developed a new awareness raising and skills programme to help colleagues get more out of helping the environment as well as introducing a set of divisional targets to make sure improvement is owned at the right place.

Working for our customers

The Group continued to engage with stakeholders in 2016 attending various workshops with organisations such as the Building Research Establishment (BRE) and Construction Products Association (CPA). It was also involved in a collaborative problem solving session to help customers and to better understand how they measure and value environmental sustainability success. As part of the ARIIP Greater building session the Group contributed some timber products and examined them on site after the building was deconstructed to understand reuse potential and the reality of the circular economy in construction product distribution.

Being the best

Following the Group's 3 years award from the WWF in 2015 in recognition of acting responsibly in timber trading, the WWF also described the Wiggins business as an industry leader in 2016. The Group also scored well above the sector average on its Supply Chain Sustainability School self assessment and was recognised as a sustainability leader for its behaviour change activities and its innovative approach to power purchase agreements.

¹ This approach includes the identification of cornerstones where Texas Partners plc has a significant environmental control, in order to determine the scope of the strategic change to The Wiggins Timber Company (Wiggins Timber) and its associated entities, Wiggins Ltd (Wiggins) and Sintered (Wiggins).

Materiality and context

The Group's approach is driven by:

- Being part of someone else's supply chain
- Making its colleagues proud
- Finding efficiencies
- Being responsible

The Group recognises that for sustainable growth, a reducing cost base and a resilient supply chain are important and that a product lifecycle focus on resource efficiency is a key aspect of delivering this.

Key performance indicators

Carbon

The Group re-ran its modelling of the supply chain's embodied carbon with product lifecycle analysis over 2016. The Group's revised estimate for its product for resale supply chain CO_{2e} emissions is 4.8 million tonnes, 15.5% less than the previous estimate as a result of substantial efficiency improvements across many product supply categories. The Group estimates that 12% of the 15.5% reduction is attributable to suppliers and supplier country carbon actions and 3.5% is more likely to be due to variation in purchases between categories. The Group is championing Environmental Product Declarations as the way to improve supply chain communication in this area. In the direct operations, the Group's focus was on distribution efficiency where 129,611 litres of road fuel were removed through better route planning and driver behaviour challenges. In the Group's property estate, the effort continued with refitting LED lighting.

The Group's scope 1 and 2 emissions have increased slightly in absolute terms, but reduced by 6% in intensity (tonnes of CO_{2e} per million pounds of inflation adjusted sales). The Group remains confident of achieving its 2020 ambition of reducing its scope 1 and 2 intensity to 28% of 2013 levels and continues to explore the best way of setting a meaningful reduction target for scope 3.

The Group has reported on all of the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Scope 1 and 2 emissions are calculated using the UK Government Conversion Factors for Company Reporting 2016³ on an operational control basis. 95% of Scope 1 and 2 data is from measured sources⁴ with the remainder extrapolated from expenditure on fuel.

Timber

Over 2016 the Group maintained the rate at which it purchased well managed timber at 97%. In 2017 the Group has started with a revised management structure within the General Merchandising Division in this area which consolidates responsible buying behaviours and ensures improvement continues. Group ambition remains that all timber and timber products are sourced responsibly and legally, and without causing deforestation or degradation.

2 Scope 3 not verified by LRQA.
 3 Fugitive emissions from domestic refrigeration, vehicles and building air conditioning have been excluded as they were not material to the Group's overall emissions.
 4 10% of the energy data is estimated due to supplier data provision issues.
 5 Scope 1 CO_{2e} emissions include 25,066 tonnes from buildings and 114,366 tonnes from transport.
 6 Carbon intensity is referenced to turnover, which is adjusted to allow for inflation, relative to the baseline year. It uses best available financial data at the time the report was produced.

Waste

In 2016 landfill diversion rates increased to 91% (from 88% in 2015), but absolute tonnage disposed of also rose to 53,207 tonnes. However, this represents an improved waste intensity (tonnes of waste disposed of per million pound of inflation adjusted yard and core sales) of 10.2 tonnes (10.4 tonnes in 2015) partly attributed to the multi award nominated Golden Envelope behaviour campaign run at the half year. The Group's view now is that a lifecycle approach to the products is likely to yield solutions to reduce intensity further and that exiting the year in a waste management partnership that is sending zero waste to landfill remains achievable.

In early 2016 the Group set out to benchmark how much construction waste would be created by its growth plans. The Group found that industry standards matched its own experience of waste created by store and branch developments and that, it is therefore reasonable to estimate waste arising from project values. In 2016 the Group estimates that 3,800 tonnes of construction waste⁷ was generated as a result of its development activities. This waste is not included in the overall waste figures.

2016 data is Office of National Statistics deflated figures. It uses best available financial data at the time the report was produced. A proportion of the Group's waste data is estimated.

Incidents

The Group operates over 2,000 sites, of which in 2016 two were timber treatment and two were timber machining operations which require permitting by environmental regulators. The majority of sites operate under waste exemptions in order to responsibly handle and process Group and customer waste.

Despite the diversity and complexity in the Group's operations, including operating one of the largest vehicle fleets in the UK, the Group's ISO 14001 certified environmental management system has ensured compliance and also an encouraging reduction in the number of incidents (31 in 2016 from 39 in 2015). Of the 11 incidents which were reported to environmental regulators, 5 involved spillages of hydraulic or fuel oil, each less than 100 litres, and where small amounts may have entered controlled waters. The rest involved paint spillages on public highways. There are no current or ongoing investigations by regulators and no part of the Group was prosecuted or received civil sanction in 2016.

Assurance

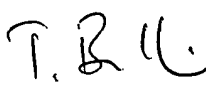
The content of this report (with the exception of scope 3 GHG emissions and construction waste estimates) has been assured against LRQA verification procedure which is based on AA1000AS (2008) and ISAE3000. A copy of their verification statement is available at:

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

Strategic Report Approval

The Strategic Report on pages 5 to 55 was approved by the Board of Directors and signed on its behalf by:

John Carter	Tony Buffin
Chief Executive	Chief Operating Officer
14 March 2017	14 March 2017

⁷ Figure not verified by LRQA.

GOVERNANCE & REMUNERATION

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THE BOARD, COMMITTEES AND ADVISORS

The Board

Robert Walker

Non-executive Chairman

Nationality

British

Appointment date

30 September 2009, Chairman from 17 May 2010

Committee membership

Nominations Committee Chairman, Stay Safe Committee and Remuneration Committee

Skills and experience

Robert was appointed as a non-executive director in 2009 and became Chairman in 2010. He is also chairman of Enterprise Inns plc and Eagle TopCo Limited. He was previously chairman of W H Smith PLC, Williams Lea Group Ltd, Americana International Holdings Ltd and BCA Marketplace, senior independent director of Tate & Lyle PLC and Group Chief Executive of Severn Trent Plc. Previously, he spent over 30 years with Procter & Gamble, McKinsey and PepsiCo and has also served as a non-executive director on a number of other FTSE 100 and 250 boards.

John Carter

Chief Executive

Nationality

British

Appointment date

1 July 2001, Chief Executive from 1 January 2014

Committee membership

Executive Committee Chairman and Stay Safe Committee

Skills and experience

John joined Travis Perkins plc in 1978 as a Management Trainee and was appointed Chief Executive Officer in January 2014. With over 38 years experience in the business, John has held various senior strategic roles in Sales, Marketing and Operations and has managed sector-leading functions such as Procurement, Supply Chain, International Sourcing and Category Management. During his career John has also been responsible for a number of key strategic acquisitions for the Group, including Keyline in 1999, Wickes in 2005 and BSS Group in 2010.

Tony Buffin

Chief Operating Officer

Nationality

British

Appointment date

8 April 2013, Chief Operating Officer from 1 March 2017

Committee membership

Executive Committee

Skills and experience

Tony joined Travis Perkins plc in April 2013 as Chief Financial Officer. He was appointed Chief Operating Officer effective from 1 March 2017 following a three month transition of the CFO role to Alan Williams. Prior to joining the Group, Tony was CFO of the Coles Group, the leading Australian grocery retailer, where he was accountable for finance, property, IT and strategy. Tony is a qualified accountant and a non-executive director of the Dyson family businesses. Tony was previously CEO of the Loyalty Management Group and prior to that held senior finance positions at Alliance Boots.

Non-executive Directors

Alan Williams
Chief Financial Officer

Nationality
British

Appointment date
3 January 2017, Chief Financial Officer
from 3 January 2017

Committee membership
Executive Committee

Skills and experience
Alan joined Travis Perkins plc as Chief Financial Officer in January 2017 and is a member of the Executive Committee. Prior to joining the business Alan served as CFO at Greencore Group plc for 6 years. Alan also previously worked at Cadbury plc in a variety of financial roles in the UK, France and the USA. Alan is a qualified accountant and treasurer and has a strong background in leading strategic initiatives, mergers and acquisitions, integration and business transformation.

Ruth Anderson
Non-executive Director

Nationality
British

Appointment date
24 October 2011

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

Skills and experience
Ruth was appointed as a non-executive director in 2011. She is a non-executive director of Ocado Group plc and Coats Group plc. She is also a trustee of The Royal Parks and of the charity, The Duke of Edinburgh's Award. Ruth is a chartered accountant, and held a number of positions in KPMG (UK) from 1976 to 2009, being a member of its board from 1998 to 2004 and Vice Chairman from 2005 to 2009.

Coline McConville
Non-executive Director

Nationality
Australian

Appointment date
1 February 2015

Committee membership
Remuneration Committee Chairman, Audit
Committee and Nominations Committee

Skills and experience
Coline was appointed as a non-executive director in February 2015. Coline is currently a non-executive director of TUI AG, Inchcape PLC and Fevertree Drinks PLC and was formerly a non-executive director of UTV Media plc, Wembley National Stadium Limited, TUI Travel Limited, Shed Media PLC and HBOS PLC, and a global advisor and director of Grant Thornton International Limited. Previous to that Coline was Chief Operating Officer and Chief Executive Officer Europe of Clear Channel International Limited. She holds an MBA from Harvard Business School, where she was a Baker Scholar.

Non-Executive Directors continued

Pete Redfern
Non-executive Director

Nationality
British

Appointment date
1 November 2014

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

Skills and experience
Pete was appointed as a non-executive director in November 2014. He is currently Chief Executive of Taylor Wimpey plc and is also a Chartered Accountant. Pete was previously Chief Executive of George Wimpey Plc and prior to that, he held the roles of Chief Executive and Finance Director of its UK Housing division. He is also a Trustee of the homelessness charity Crisis and a member of the Home Builders Federation.

Christopher Rogers
Senior Independent Non-executive Director

Nationality
British

Appointment date
1 September 2013

Committee membership
Audit Committee and
Nominations Committee

Skills and experience
Christopher was appointed as a non-executive director in September 2013. Christopher was Managing Director of Costa Coffee from 2012 to 2016 and a director of Whitbread PLC from 2005 to 2016 where he also served as Group Finance Director. He was Group Finance Director of Woolworth Group PLC from 2001 to 2005 and previously held senior roles in both finance and commercial functions in Comet Group PLC and Kingfisher PLC. He was also a non-executive director of HMV Group PLC from 2006 to 2012.

John Rogers
Non-executive Director

Nationality
British

Appointment date
1 November 2014

Committee membership
Audit Committee, Nominations Committee
and Remuneration Committee

Skills and experience
John was appointed as a non-executive director in November 2014 and is currently Chief Executive Officer of Sainsbury's Argos and a member of the J Sainsbury's plc Board and Sainsbury's Bank plc Board. Prior to his appointment as CEO of Sainsbury's Argos, John was Chief Financial Officer of J Sainsbury plc for six years and during his career at Sainsbury's he also held the posts of Property Director, Director of Group Finance and Director of Corporate Finance. Before joining Sainsbury's, John held a variety of financial, operational and strategy roles.

Executive Committee

John Carter Chief Executive
Tony Buffin Chief Operating Officer
Alan Williams Chief Financial Officer
Norman Bell Strategy Director Future Merchant
& Core Systems
Frank Elkins CEO, Contracts Division
Deborah Grimason Company Secretary & General Counsel
Andrew Harrison Group Commercial & Business
Development Director
Carol Kavanagh Group HR Director
Simon King MD, Wickes
Martin Meech Group Property Director
Cheryl Millington Chief Digital Officer
Neil Pearce Chief Information Officer
Paul Tallentire CEO, General Merchandising Division

Advisors

Investment Bankers / Advisors HSBC Bank plc; Morgan Stanley
Corporate Brokers Citibank; JP Morgan Cazenove
Solicitors Linklaters LLP, London; Herbert Smith LLP, London
Auditor KPMG LLP, Birmingham
Registrar Capita Registrars, Beckenham

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

As Chairman of the Board, I am pleased once again to have the opportunity to report on our approach to corporate governance, and our key activities in this area during 2016.

UK Corporate Governance Code

In the year ended 31 December 2016 the Board was in full compliance with the UK Corporate Governance Code (Code), with the exception of the part of Code provision 5.11 which requires that the senior independent director (SID) attends sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. Our SID, Christopher Rogers, has not attended any meetings with major shareholders during the year due to a lack of opportunity to join me at a selection of shareholder meetings in 2017. A copy of the Code is available on the FRG's website, www.frc.org.uk

Governance highlights

The following pages detail how the Company has applied the principles and provisions of the Code over the past twelve months.

By way of introduction, I would make the following points:

- We now have a settled Board at Trans Partners following a number of new appointments in 2016 and 2017. I am pleased to report that the Board is working well and providing both robust challenge and support to our executive leadership team. The skills around the Board of the present are a powerful combination of current and past but relevant experience and we are fortunate in having such a strong team.

- An internal evaluation of the Board's performance was conducted again this year in a fully open and transparent process. The conclusions and recommended actions from the review are summarised on page 65. The Board was judged to be performing well and the key priority for 2017 is to recalibrate and reset the Group's strategy in anticipation of continued market uncertainty.

- I am pleased to report that Board attendance has improved, as expected during 2016 and we anticipate this will continue.
- Following on from last year's report, our initiative in having individual non-executive directors (including myself) mentoring and advising businesses within the Group on an ad hoc basis has now been incorporated and each Non-executive Director has been allocated responsibility for key parts of the business. This initiative continues to work well.

- As a Board, we encourage regular and frequent contact with as wide a range of shareholders as possible from a business viewpoint, we plan to hold capital markets days in 2017 in order to present the outcome of our strategic planning exercise. From a governance viewpoint, the usual and regular meetings with investors will be held during the first quarter of 2017.

The following pages summarise the Company's governance practices by reference to the five main sections of the Code.

1. Leadership

Role of the Board

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

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

Our governance framework establishes a clear division of responsibilities on the Board. The Board has approved a written statement of the division of key responsibilities between the Chairman, and the Chief Executive and a statement of the role of the Senior Independent Director. These are reviewed annually and were last updated in December 2016.

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

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

Board meetings

The Board held ten scheduled meetings in 2016. Regular items at Board meetings included detailed updates on health and safety, reports on progress towards strategic objectives, reviews of the Company's financial position and performance against KPIs. Other topics considered included strategic reviews of business divisions, funding, capital expenditure, investor feedback, risk and governance. During the year, the Board visited a number of operational sites and held a two-day strategy meeting.

I agree the agenda for meetings in conjunction with the Chief Executive and the Company Secretary & General Counsel. Agendas are based on an annual plan, but also include topical items and matters of particular interest or concern to the Board.

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

Between Board meetings I maintain frequent direct contact with the Executive Directors and keep the Non-executive Directors informed of material developments. During the year I held a number of meetings with the Non-executive Directors without the Executive Directors being present.

I generally contact all the Non-executive Directors in advance of Board meetings, to discuss the key issues under consideration. In particular, I discuss the meeting papers with any Director who is unable to attend a meeting to obtain that Director's views which I share with the rest of the Board at the meeting. At the meetings, as Chairman, I ensure that each Director is able to make an effective contribution within an atmosphere of transparency and constructive debate.

The Company typically sets its meeting dates 18 months prior to the start of the year and liaises closely with the Non-executive Directors to ensure as far as possible that clashes with external appointments are avoided. Directors are able to attend meetings by video or telephone conference if there is an issue with location or travel.

Four out of eight Directors had full attendance and average attendance for the Board and Committees combined was 96%. Ruth Anderson missed the September Stay Safe Committee as this had to be rescheduled at short notice. Pete Redfern missed the January Board meeting due to a prior arrangement and the June Nominations Committee due to the proximity of this meeting to the Taylor Wimpey results. John Rogers missed the March plc Board and Nominations Committee due to Sainsbury's bid for Home Retail Group plc and the November Audit Committee due to 'Black Friday'.

	plc Board	Audit Committee	Nominations Committee	Remuneration Committee	Stay Safe Committee	Overall attendance (%)
Number of meetings	10	5	4	7	3	
Attendance:						
R. Anderson	10	5	4	-	2	95%
A. Buffin	10	-	-	-	-	100%
J. Carter	10	-	-	-	3	100%
C. McConville	10	5	4	7	-	100%
P. Redfern	9	-	3	7	3	92%
C. Rogers	10	5	3	-	-	95%
J. Rogers	9	4	3*	7	-	88%
R. Walker	10	-	4	7	3	100%

* Chairman did not attend meeting discussing the Chairman's succession.

Robert Walker did not attend the December Nominations Committee meeting as this meeting was to consider the Chairman's succession. Christopher Rogers did not attend the December Nominations Committee meeting as this was scheduled at short notice.

The number of Board and Committee meetings attended by each Director during the year is detailed in the table on page 63.

Board committees

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

The Board has delegated responsibility for the execution of the Group's strategy and the day-to-day management and operation of the Group's business to the Chief Executive and Executive Committee. The Executive Committee is chaired by the Chief Executive and its members are listed on page 61. Other executives are invited to attend Executive Committee meetings from time to time in relation to specific matters. The main purpose of the Executive Committee is to assist the Executive Directors in the performance of their duties in relation in particular to:

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

2. Effectiveness

In the year ended 31 December 2016 the Board was made up of six Non-executive Directors (including myself as Chairman) and two executive Directors. Alan Williams joined as CFO on 3 January 2017 bringing the Executive Directors on the Board to three. Christopher Rogers is the Senior Independent Director. The biographies of the Board are listed on pages 58 to 60. The composition of the Board is kept under regular review by the Nominations Committee and the Committee considers that the Board has the appropriate balance of skills, experience, independence and knowledge to meet the needs of the business.

Appointment of directors

Appointments of new directors are made by the Board on the recommendation of the Nominations Committee. I chair the Nominations Committee and all other members are independent non-executive Directors. The Committee's report can be found on page 100.

The Company's policy is to recruit people of the highest calibre, with a breadth of skills and experience appropriate for the business. The Group supports the principles of the Davies Review and the need for a diverse board, although it does not intend to commit to specific quotas. The Group uses search firms who abide by the voluntary code of conduct which followed the Davies Review. The Board diversity policy is summarised in the Nominations Committee Report on pages 100 to 101 and further

details on our policy can be found in the section of the annual report entitled "Capturing the way things are done around here" on pages 45 to 49.

Non-executive Directors are appointed for a period until the third Annual General Meeting (AGM) following their appointment, at the end of which the appointment may be renewed by mutual agreement. It is the Board's policy that non-executive directors should generally serve for six years (two three-year terms) and that any term beyond this should be subject to a rigorous review. This review takes into account the need for progressive refreshing of the Board, maintenance of a balance of skills and experience and the particular requirements of the Company at the time of the possible extension.

Non-executive directors do not have a service contract, but each has received a letter of appointment. These appointments expire on the following dates, and the length of service at that date is also shown.

	Expiry Date	Length of service at expiry date
Ruth Anderson	May 2018	6 years 7 months
Coline McConville	May 2018	3 years 4 months
Peter Redfern	May 2018	3 years 7 months
Christopher Rogers	May 2020	6 years 9 months
John Rogers	May 2018	3 years 7 months
Robert Walker	May 2018	8 years 8 months

All Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. The time commitment expected of each Director is set out in their letter of appointment. The letters of appointment will be available for inspection at the AGM.

Induction and development

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

The Board as a whole is also regularly provided with information on forthcoming legal and regulatory changes, corporate governance developments and briefings on the key risks facing the Company, including those identified in the Statement of Principal Risks and Uncertainties on pages 37 to 43. The Directors may take independent professional advice at the Company's expense at any time.

Evaluation of Board performance

Each year, the Board undertakes an evaluation of its performance and the performance of its committees and individual directors. The Board's policy is to engage an external facilitator to assist this process every three years. In 2007, 2011 and in 2014, the Board's performance was reviewed externally by Egon Zehnder.

In 2016 the Board carried out an internal review of its performance. This entailed each Director and the Company Secretary & General Counsel completing a questionnaire about the performance of the Board and its Committees, followed by individual conversations with me. I produced a report, summarising the outcome and recommendations which the Board discussed and agreed an action plan for 2017.

The Non-executive Directors led by the Senior Independent Director conducted a review of my own performance which followed a similar process of questionnaires, individual meetings with directors and a meeting of the Non-executives without my presence to discuss the findings. The Non-executive Directors and I conducted the review of the performance of the Executive Directors.

There was a generally high level of satisfaction and positive feedback on relationships, freedom to contribute, transparency and business and strategic priorities. Members welcomed an increased focus on strategic issues in 2016 and determined that it had effectively managed the priorities from the last review. A number of key themes came through in the evaluation and these will be our focus in the coming year:

- Articulation of the Group's future strategic direction
- A greater focus on customer and digital issues and risk
- Further consideration of how to develop greater diversity of thinking on the Board
- More succinct board papers

In 2017 there will be an external evaluation of the Board.

Re-election of directors

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

As a result of the Board evaluation exercise, as Chairman I am satisfied that there is presently a blend of skills and experience which is appropriate for the Group and that each Director continues to show the necessary level of performance and commitment to the Group to justify their election or re-election. The other Directors, in the process led by the Senior Independent Director, reached the same view with regard to my own re-election.

Therefore, all Directors will submit themselves for re-election at the 2017 AGM.

3. Accountability

A review of the performance of the Group's businesses and the financial position of the Group is included in the Strategic Report on pages 6 to 55. The Board uses it to present a full assessment of the Group's position and prospects, its business model, and its strategy for delivering that model. The Directors' responsibilities for the financial statements are described on page 106.

Going concern

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

In arriving at their opinion the Directors considered:

- The Group's cash flow forecasts and revenue projections
- Reasonably possible changes in trading performance
- The committed facilities available to the Group and the covenants thereon
- The Group's robust policy towards liquidity and cash flow management
- The Group management's ability to successfully manage the principal risks and uncertainties outlined on pages 38 to 43 during periods of uncertain economic outlook and challenging macro-economic conditions

Risk management and internal control

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

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

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

As part of its viability review, the outcome of which is set out on page 35, the Board considered the principal risks and uncertainties and mitigating factors set out on pages 38 to 43.

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

Audit Committee and Auditors

The Board has established an Audit Committee consisting of four independent Non-executive Directors. Its key responsibilities and a description of its work in 2016 are contained in its report, which is set out on pages 67 to 73.

The Board's fair, balanced and understandable declaration

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

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

The Board concluded that the annual report and accounts are fair, balanced and understandable and accordingly the Directors' declaration to that effect can be found in the Statement of Directors Responsibilities on page 106.

4. Remuneration

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

The Committee's key responsibilities and a description of its work in 2016 are contained in its report, which is set out on pages 74 to 98.

5. Relations with shareholders

The Company encourages two-way communication with both its institutional and private investors and responds promptly to all enquiries received. The Board receives regular updates on the shareholder register and the views of shareholders, and each year the Company reviews its strategy for engaging with shareholders to ensure that we are meeting their needs. The Board also reviews reports discussing governance matters such as the Good Governance Report published by the Institute of Directors and engages with these bodies to contribute to the debate and development of good governance practices.

In 2016, the Executive Directors and I, either separately or together, attended a large number of meetings with shareholders and analysts. The Group held two briefings on results which were attended by shareholders, equity analysts and debt holders. Copies of these presentations are available from the investor relations section of the Group's website at www.travisperkinsplc.co.uk

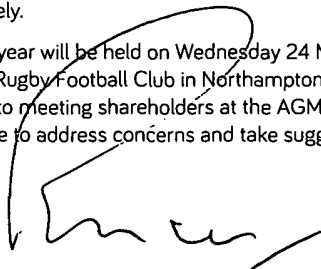
The Group makes the Senior Independent Director available as a direct contact for investors and shareholders, if they wish. However, no meetings have taken place between the Company's investors and the Senior Independent Director due to lack of appetite for such meetings among the investors, and accordingly the Company has not complied with provision E.1.1 of the Code in this respect.

As Chairman, I aim to meet with major shareholders every year and I am always available to our shareholders if they have any issues they wish to discuss. In 2016, few shareholders chose to engage on governance matters on the basis that they had no concerns.

As well as sending the annual report & accounts to shareholders, during the year the Group published its interim results on its website and issued two trading updates. Shareholders receive more than twenty working days' notice of the Annual General Meeting at which all Directors are available for questions and a short business presentation takes place. Each substantive issue considered at the AGM is the subject of a separate resolution. I announce the numbers of proxy votes for and against each resolution at the meeting, after the voting has taken place, and these numbers are subsequently published on the Company's website. Last year the majority of resolutions were passed with over 90% in favour with only short notice general meetings and disapplication of pre-emption rights below this level at 89% and 87% respectively.

The AGM this year will be held on Wednesday 24 May at the Northampton Rugby Football Club in Northampton. As always, I look forward to meeting shareholders at the AGM, where I will be available to address concerns and take suggestions you may have.

Robert Walker
Chairman
14 March 2017



Role of the Audit Committee

The key responsibilities of the Committee are to:

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

The Committee's terms of reference are reviewed annually and were updated in February 2016.

Committee membership and meeting attendance

Ruth Anderson chaired the Committee and Coline McConville, Christopher Rogers and John Rogers were members of the Committee throughout 2016.

All members are independent Non-executive Directors and, in the Board's view, all members have recent and relevant financial experience and expertise relevant to the Company's sector, gained through a variety of corporate and professional appointments as required by the UK Corporate Governance Code (see biographies on pages 59 and 60).

The Deputy Company Secretary was Secretary to the Committee throughout 2016.

The Committee held five formal meetings during 2016. The Group Chairman, Chief Executive and Chief Financial Officer, Company Secretary & General Counsel, Group Financial Controller, Head of Internal Audit and external auditors also attended the Committee's meetings at the invitation of the Committee. Separate meetings with the Head of Internal Audit and with the external auditors without the presence of management were also held with the Committee Chairman and with the Committee, providing the opportunity for open dialogue.

Work of the Committee

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

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

During the year, the Committee reviewed the:

- Group's systems of internal control, the effectiveness of controls and management's continuing controls improvement programme
- Group's key risks and the effectiveness of the risk management framework
- Internal audit plan
- Group's tax strategy and compliance
- Effectiveness of Internal Audit, the external auditors and of the Committee itself

In addition, there are a number of standing agenda items which the Committee considered at each of its meetings:

- Internal Audit and risk reports
- Whistleblowing, fraud and bribery
- Progress on implementing recommendations arising from internal and external audit work
- Non-audit fees

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

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

The Committee Chairman updates the Board on key matters and recommendations following each Audit Committee meeting.

Significant issues related to the financial statements

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

The table on pages 70 to 71 sets out the key judgement areas associated with the Group's financial statements for the year-ended 31 December 2016 that were considered by the Audit Committee. The list is not a complete list of all accounting issues, estimates and policies, just those the Audit Committee believes are the most significant ones.

In reaching its conclusions, set out in more detail below, the Committee considered papers and explanations given by management, discussed each matter in detail, challenged assumptions and judgements made and sought clarification where necessary. It reviewed and discussed any internal audit reports in respect of the matters under consideration and the Committee also received a report from the external auditors on the work undertaken to arrive at the conclusions set out in their audit report on page 110 and had the opportunity to discuss it with them in depth.

Matter	Issue and Nature of Judgement	Factors Considered and Conclusion Reached
<p>Inventory valuation</p>	<p>To meet customer expectations the Group carries a wide range of stock in over 2,000 locations. Stock should be included in the balance sheet at the lower of cost or net realisable value. The determination of cost is complicated when rebate and fixed priced discount agreements are in place (see below). Furthermore, determining the net realisable value of the wide range of products held in many locations requires judgement to be applied.</p>	<p>In 2015 management presented a detailed paper to the Committee that enabled it to review, question and understand how stock is controlled and accounted for throughout the Group. It incorporated both qualitative and quantitative information such that the Committee could understand how management determined that stock was in existence, owned by the Group, valued appropriately and recorded in completeness. The paper included how provisions were determined to ensure that stock was held at the lower of cost and net realisable value.</p> <p>Management continued to regularly report on stock valuation and provisioning to the Committee and did so again at its meeting to discuss the year-end annual report and accounts.</p> <p>The Committee concluded from the information it had received and its discussions with management and the Auditors that stock was fairly stated in the balance sheet.</p>
<p>Accounting for rebate income and fixed price discounts ("Supplier Income")</p>	<p>The terms of supplier agreements result in a significant value of Supplier Income being received by the Group. The calculation of the value receivable and the value deferred into stock is complicated due to the number, nature and structure of the agreements in place. However, only two agreements are not co-terminous with the Group's accounting year end. Furthermore, approximately 80% of amounts due to the Group are received during the course of the year. Therefore the key judgements relate to the calculation of the total value of rebates and fixed price discounts still to be received at the year-end and the value of fixed price discounts and rebates to be set against the gross value of inventory in the balance sheet.</p>	<p>During the year the Committee discussed reports presented by management about the progress of improvements to systems, controls and processes and in particular the implementation of a new rebate management system. It also received reports that enabled it to monitor Supplier Income collection rates and compare them with the prior year and it discussed the Group's adherence to its accounting policies and procedures.</p> <p>A summary update of the year-end position was given to the Committee at the meeting held to consider the year-end results.</p> <p>The Committee concluded that the controls over recognising and recovering Supplier Income were appropriate and that the values included in the financial statements were appropriate.</p>
<p>Exceptional items</p>	<p>To maintain the integrity and comparability of the income statement, items of income and expenditure should be classed as exceptional and excluded from underlying profits only in the specific circumstances set out in the Group's accounting policy on page 122.</p> <p>As set out in note 5 to the financial statements, the Group charged £56.6m of exceptional reorganisation costs to the income statement in 2016, which were excluded when calculating adjusted profits and earnings per share.</p> <p>Judgement is required to ensure the correct classification of income and expenditure between underlying profits and exceptional items. Furthermore, where provisions are established for future settlement the Directors need to be certain that the Group has a present obligation as a result of a past event, that it can estimate it accurately and that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.</p>	<p>Management presented the Committee with a report that outlined the basis for establishing the exceptional charge and explained the judgements made in determining which items to classify as exceptional. The report included an analysis of cash and non-cash costs and between costs incurred in 2016 and provisions required at the balance sheet date.</p> <p>The Committee questioned management on each category of exceptional item and, after taking into account management's explanations, concluded that the classification of exceptional items was appropriate and where necessary provisions had been properly established.</p> <p>The Committee reviewed the disclosure of the exceptional items in the financial statements and concluded that it was appropriate.</p>

Matter	Issue and Nature of Judgement	Factors Considered and Conclusions Reached
<p>The carrying value of goodwill and other intangibles</p>	<p>The Group balance sheet contains a significant value of goodwill and other intangible assets associated with historical acquisitions.</p> <p>The Directors are required to determine annually whether those assets have suffered any impairment. They do so by comparing the present value of future cash flows for each cash generating unit with the carrying value of its goodwill and other intangible assets.</p> <p>The calculations undertaken to help arrive at a conclusion incorporate a consideration of the risks associated with each cash generating unit and are based upon forecasts of their long term future cash flows, which by their nature require judgement to be exercised and are subject to considerable uncertainty. As a result of the annual review, at 31 December 2016, the Group recognised an impairment to goodwill and other intangible assets of £235.4m.</p>	<p>The cash flow forecasts used for impairment considerations are prepared from the strategic business plans presented to, and approved by, the Board of Directors annually.</p> <p>Management presented the Committee with papers setting out the results of the work done, the assumptions made and the conclusions reached. They explained to the Committee how the cash flow and discount rate calculations were prepared, the key assumptions and judgements that were made, how sensitive those cash flows were to changes in the key assumptions and how a deterioration in the performance of the Plumbing & Heating division and the Group's tile business and a weak outlook for the individual business's respective markets had resulted in an impairment of £235.4m being made against the carrying value of goodwill and other intangible and tangible assets.</p> <p>After reviewing management's papers, and obtaining further explanation where necessary the Committee concluded that management had taken a consistent, balanced and reasoned approach to preparing its calculations and that the judgements made were acceptable. Furthermore, the Committee concluded that it was appropriate to impair the goodwill and other intangible assets associated with Plumbing & Heating division and the Group's tile business. The Committee considered there was no indication of impairment in any other business.</p>

Internal audit

During 2016, Internal Audit continued to focus on reviewing financial controls in areas which the Audit Committee considered higher risk as well as other areas of high risk included in the Group risk register or highlighted by Internal Audit evaluation or from consultation with the Executive Committee. All core key financial control areas are audited every year including balance sheet control accounts, key internal financial control statements, rebates and fixed price discounts.

Internal Audit's review of the design and implementation of a new supplier rebate and fixed price discount management system, that commenced in 2015, continued in 2016. The use of computer assisted audit techniques also increased in 2016, focussing on major spend areas such as IT and fleet costs.

Audits were undertaken by both the in-house Internal Audit team with operational audit support and the Group's co-source partners. The allocation of work was dependent on the specialist skills required, particularly in areas such as IT, data protection, tax and treasury and the available resource. The new head of Internal Audit and Risk, who joined the Group in January 2017, will review how best to ensure that the appropriate resources are available for Internal Audit's programme of work.

The Committee reviewed the proposed audit approach, coverage and allocation of resources and at each Committee meeting Internal Audit reports were considered.

The Committee also continued to review the effective implementation of recommendations agreed by management, through an Internal Audit system which tracks activity on all active recommendations. This system provides a single point of reference for tracking recommendations resulting from internal audit reviews, and other control reviews performed by certain third parties and so enables recommendations to be monitored in respect to both their age and implementation activity.

The trial to evaluate the effectiveness of moving branch and store compliance teams from central control to divisional management control was completed successfully for the Contracts division in the year. Accordingly the Committee approved the rollout of the approach to the other divisions in the Group.

The Committee was satisfied with the overall effectiveness of the Internal Audit function.

Risk management and internal controls

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

Risks are managed at a Group level or within the business units on an ongoing basis. The principal risks and uncertainties are set out on pages 37 to 43, together with information on how those risks are mitigated.

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

The Group's control framework has developed over many years and there are a significant number of systems replacements underway. The changes will improve control processes and ensure greater consistency across the control environment.

Management has also continued its programme of work to improve the control environment and this will continue in 2017. The Audit Committee will monitor progress through the year.

Given the level of change the Audit Committee has tasked Internal Audit to take a more active role in reviewing these programmes.

External auditor

KPMG LLP was appointed at the 2015 AGM following a competitive tender exercise conducted during late 2014 and early 2015. There are no contractual restrictions on the Group with regard to this appointment. In accordance with current professional standards, the partner responsible for the audit will change every 5 years. The Company intends to put the external audit out to tender every 10 years in the future.

Audit scope and effectiveness

The scope of the external audit was presented by the external auditor to the Committee in advance of the year-end so the Committee had the opportunity to discuss the planned approach with them and management to ensure it was robust and complete.

The Committee considers the effectiveness of the external auditor on an ongoing basis during the year. As part of the process the Committee received input from management who gave positive views of the effectiveness of the audit process and generally on the work of the external auditors.

Independence and objectivity

One of the Committee's responsibilities is to ensure compliance with the Board's policy in respect of services provided by, and fees paid to, the external auditor. There has been no material change to this policy, save to update it in November 2016 to comply with new EU regulation introducing a cap on non-audit fees paid to the external auditor of 70% of the average of the current and prior two years audit fee. The policy is summarised below.

General principle

The process for approving all non-audit work provided by the Group's auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from KPMG rather than another supplier. Where KPMG has been chosen, this is as a result of their detailed knowledge of the Group's business and understanding of its industry as well as demonstrating that they have the necessary expertise and capability to undertake the work cost effectively.

Areas of work

Permitted work		Prohibited work
Audit related	Non-audit related	
<p>Activities required by law or legislation to be undertaken by the Auditors</p> <p>Reviews of interim financial information</p> <p>Managed service reports to housing associations and local authorities</p> <p>Reviews of internal controls and corporate governance</p>	<p>Public reporting on circulars, prospectuses and listing particulars and similar documents</p> <p>Private reporting to sponsors and similar parties in connection with investment circulars, prospectuses and similar documents</p>	<p>Book-keeping and work related to the preparation of accounting records</p> <p>Financial system or system of internal control design or implementation</p> <p>Tax compliance and advisory services</p> <p>Appraisal and valuation services</p> <p>Internal audit and legal services</p> <p>Financing, capital structure and investment strategy services</p> <p>Actuarial services</p> <p>Forensic work</p> <p>Recruitment services</p> <p>Secondment of staff to a supervisory or management position</p> <p>Provision of investment advice or broking services</p>

Value of work

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

- <£5,000 may be incurred without further approval
- £5,001 to £25,000 – Chief Financial Officer
- >£25,000 – Audit Committee

Fees above £50,001 for new work must be subject to a competitive tender.

Formal approval by the Committee is also required for any piece of non-audit work performed by the external auditor, regardless of value, if the aggregate level of fees for non-audit services exceeds or would exceed £100,000 in any financial year.

Reporting

The Chief Financial Officer reports to the Committee on fees for non-audit services payable to the external auditor at every meeting.

As shown in note 5 to the accounts, during the year the Auditors were paid £900,000 (2015: £520,000) for audit-related work, and £242,000 (2015: £139,000) for non-audit work.

The principal items of non-audit fees paid to the external auditors relate to the interim review and the provision and maintenance of the Group's employee benefits system, MyPerks. In addition, £3.0m (2015: £0.8m) of fees were paid to other accounting firms for non-audit work. The total fees paid by the Group to KPMG LLP in 2016 amount to less than 0.07% of KPMG's UK fee income.

Assessment of the external auditor

Having considered the external auditor's performance, the level of non-audit fees paid to them and representations from the auditors about their internal independence processes the Committee concluded that it was satisfied with the independence, objectivity and effectiveness of the external auditor and recommended to the Board that KPMG be re-appointed by shareholders at the AGM on 24 May 2017.

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Dear Shareholders,

As Chairman of the Remuneration Committee I am very pleased to introduce the 2016 Directors Remuneration Report.

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

The Committee believes that incentive pay-outs are strongly aligned with the Group's performance and the value created for shareholders. The Committee is also pleased that recent feedback from analysts and shareholders, during the review of the current policy, has been supportive of the strong alignment between executive incentive outcomes and group performance. This alignment is illustrated in the following charts:

(TSR re-based to 100 at January 2010)

Review of remuneration arrangements

The Committee undertook a review of the Group's executive remuneration framework during the year to ensure that it continues to be aligned with its strategy and represents pay for performance. The Committee very carefully considered a range of approaches, overall however, it concluded that Group's current remuneration framework, which has been consistently supported by its shareholders over the last three years, remains the right one for Travis Perkins.

The Group is therefore resubmitting its Remuneration Policy largely unchanged to shareholders at the 2017 AGM and it plans to continue to incentivise long-term performance through the Performance Share Plan (PSP) and the Co-Investment Plan (CIP). No changes are proposed to the overall incentive opportunities.

The Committee understands that some shareholders prefer that companies simplify their remuneration structures and only operate one long-term incentive plan. However, the Co-Investment Plan is considered to be a very effective reward tool within the organisation. Under the plan senior managers and executives voluntarily invest their own cash into company shares thereby ensuring that management has real 'skin in the game' and is more closely aligned to the investment choices and risks shareholders take. In 2016 investment was taken up by 80% of the eligible senior managers and executives.

In light of shareholders preference for simplification of remuneration arrangements for Executive Directors, the Committee has made the following changes to the Group's incentive plans in order to simplify the more complex areas of the Policy and to bring the structure more in line with investor expectations:

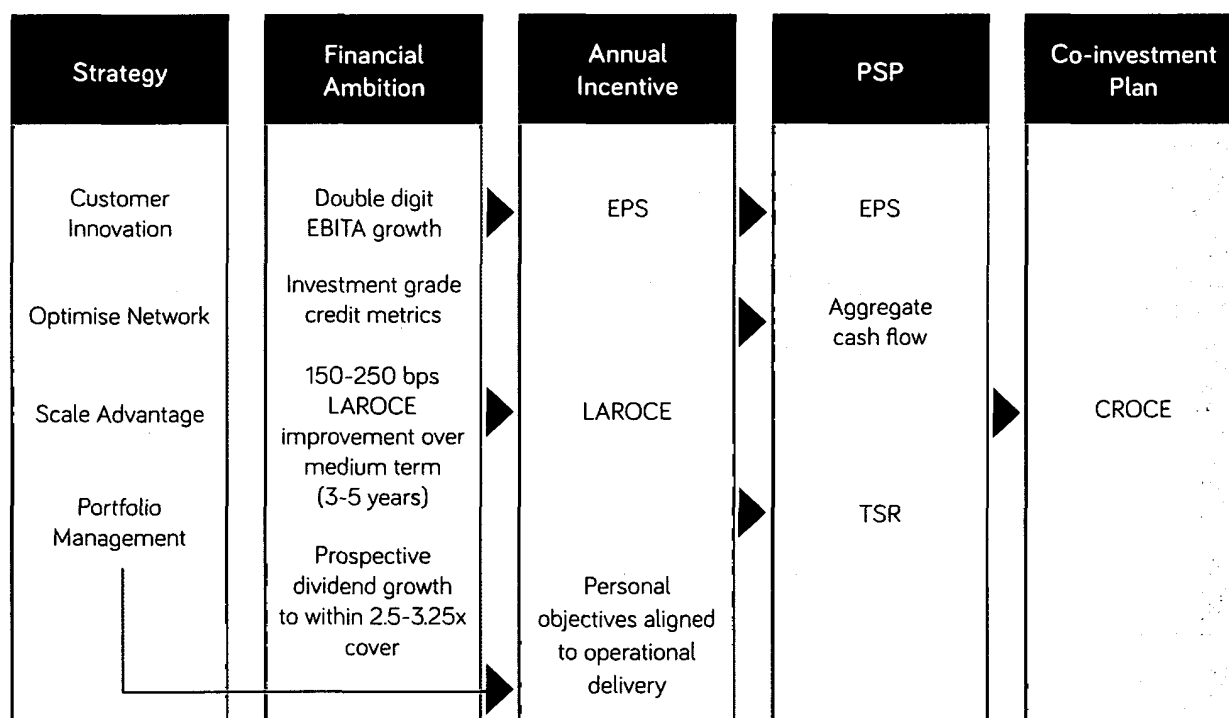
- Remove the secondary performance test that applies to deferred shares under the deferred annual bonus plan and amend the vesting period so that all deferred shares vest over the longer three year vesting period subject to continued employment. The double performance test structure was considered overly complicated, is not well understood by participants and therefore does not serve as an effective incentive.
- Reduce the level of vesting for Threshold performance under the long-term incentives from 30% of maximum to 25% of maximum to better reflect prevailing market practice.
- Delink the EPS annual growth targets from RPI for the PSP in order to simplify the approach and provide greater transparency in relation to targets set for participants and shareholders. Given that RPI is no longer the main measure of inflation in the UK the Committee did not consider it appropriate to continue to link targets to this measure.

In order to strengthen the alignment of executives with shareholders over the long-term the Committee has decided to introduce a post vesting holding period for PSP awards granted from 2017 onwards. For 2017 awards, executives will be required to hold any shares that vest for a further one year period following vesting. This period will be extended to two years for 2018 awards onwards.

The targets that apply to the 2017 PSP and CIP awards are disclosed in this report on page 86.

The Committee believes that the current framework with the minor modifications outlined above optimises the link between strategy and remuneration. Ensuring this link continues to be a key focus during my tenure. This link is shown below.

The Committee consulted extensively with the Group's largest shareholders and proxy advisory bodies regarding the proposed remuneration framework and was pleased with the level of support received. The modifications made to the framework this year reflect that consultation.



Salary review

John Carter's and Tony Buffin's salaries were increased by 1% with effect from 1 January 2017. This increase reflects salary increases received throughout the Group. The CEO's current salary is therefore £690,131 and the COO's salary is £533,283.

Non-executive Directors' base fees were also increased by 1% from 1 January 2017.

2016 Remuneration outcomes

In 2016 the political landscape was dominated by the result of the EU referendum. The resultant economic uncertainty acutely impacted the construction and housing markets, and has been particularly difficult for domestic UK businesses. Against these substantial challenges the Group's performance has stood up well and it delivered the following against key financial objectives:

- Adjusted EPS of 120.4p (2015: 124.1p)
- LAROCCE of 10.7% (2015: 10.5%)
- EBITA of £409m (2015: £413m)

2016 Bonus Payout

Bonuses for Executive Directors are based on EPS (60%), LAROCCE (20%) and performance against our strategic tracker (20%). Adjusted EPS fell by 3% which was just below the threshold target resulting in no bonus being earned for this element of bonus. LAROCCE was 10.7% and resulted in 27.5% of maximum bonus potential for this element being earned.

Performance against the strategic tracker was particularly strong during this period with targets relating to online sales growth, sales from new space, customer satisfaction and commercial programmes all met or exceeded. The strategic tracker is an important part of the short term incentive. It focuses short-term management effort towards delivering on strategic goals which are considered critical for delivering long term returns and sustainability of performance. It is closely aligned to the corporate plan and the levers of value creation and so provides an important bridge from annual bonus to long term incentive plans. Payout against the strategic tracker was assessed at 90% for the CEO and 87.1% for the CFO.

Overall bonus for 2016 was therefore 22.4% of maximum for the CEO (42.3% of salary) and 22.9% of maximum for the CFO (34.4% of salary). Half of this bonus will be paid as cash following the year end. The remaining half will be deferred as shares which will vest after three years.

The Committee considered that this level of bonus was appropriate reflecting strong progress against strategic objectives and resilient financial performance in a challenging economic environment.

Deferred Share Bonus Plan Awards Vesting

The share price growth targets attached to the deferred share award relating to bonus earned in 2014 were achieved and accordingly these awards will vest in full in March 2017.

2014 PSP Vesting

PSP awards granted in 2014 were subject to adjusted EPS (40%), TSR (20%) and cash flow (40%) performance. Adjusted EPS grew by 16.7% over the three year period resulting in 14% of the adjusted EPS element vesting. The Company's TSR performance was ranked below the median of the comparator group

(FTSE 50-150 companies) so none of the TSR element vested. The Group achieved excellent aggregate cash flow over the three year period of £907m resulting in the full 40% of the cash flow element vesting.

Overall 54% of PSP awards granted in 2014 vested.

2014 Co-Investment Awards

The CEO and CFO invested the maximum amount possible under the Co-Investment Plan in 2014 and awards were made under the plan of twice the gross value of the investments made. Co-Investment awards granted in 2014 were subject to CROCE performance. CROCE performance over the three year period was 9.3% reflecting strong cash performance and capital discipline. This resulted in 97% of awards vesting.

Appointment of CFO and COO

Alan Williams joined the Board in the role of CFO on 3 January 2017. Alan's salary has been set at £500,000 per annum, his pension contribution will be 25% of base salary and his benefits are in-line with those set out in the Group's remuneration policy. The Committee considers that this salary is a fully effective salary for the role reflecting Alan's experience and calibre. As such it is intended that any future salary increases would be in-line with those received throughout the wider organisation.

His maximum annual bonus will be 150% of base salary and he will receive a maximum award of 150% of base salary under the Performance Share Plan. Alan will also be eligible to invest up to 50% of his net salary under the Co-Investment Plan and receive a maximum matching award of up to 100% of salary. This is the same incentive arrangements that operate for the COO.

On leaving his former employer Alan forfeited outstanding incentives under his deferred bonus and performance share plans. The Committee determined that it was appropriate to 'buy-out' these incentives. The buy-out awards have been structured as far as possible to be on a 'like-for-like' basis with awards he has forfeited being compensated in accordance with the Group's remuneration policy. In addition Alan agreed to make a significant personal investment in Travis Perkins shares prior to the awards being granted.

Further details in relation to Alan's package are provided on page 93.

Following Alan's appointment Tony Buffin transitioned to the role of COO. His remuneration arrangements remain unchanged.

The Committee will be submitting its remuneration report and policy to the 2017 AGM where the report will be subject to advisory shareholder vote and the revised policy subject to a binding vote. I look forward to receiving your support. The Committee is seeking approval for new share plans following the expiry of the current plans. These plans include a revised Deferred Share Bonus Plan, which reflects the changes outlined above as well as approval to renew the Group's current long-term incentive plans: the Co-Investment Plan and Performance Share Plan (PSP).

I look forward to receiving your support.

Coline McConville
Remuneration Committee Chairman
14 March 2017



Policy report

The following sets out the Group's Directors' Remuneration Policy (the 'Policy'). The Policy is subject to a binding shareholder vote on 24 May 2017 and, if approved by shareholders, will apply to payments made on and from this date. This Policy will replace in full the directors' remuneration policy set out in the 2013 Annual Report, which was approved by shareholders at the 2014 AGM with 93.3% shareholder support. If approved, the Committee would then put a policy to shareholders again no later than the 2020 AGM.

Remuneration Philosophy

The principles of the Group's remuneration policy remain unchanged:

- Remuneration should be competitive and contribute to the delivery of short and long term superior financial returns for shareholders
- Remuneration should contain significant performance related incentive elements

- Reward mechanisms should ensure that a significant proportion of variable pay is delivered in deferred shares with malus and clawback provisions ensuring that executives retain a meaningful personal stake in the Group's success
- All colleagues should be able to share in the success of the Group through participation in both annual bonus schemes and longer term share plans
- The approach to basic salary increases should be consistent across all colleagues

These principles apply across the Group. In addition to competitive base salary and bonus programmes, colleagues also have access to an extensive range of benefits under the Group's MyPerks colleague benefit programme. This includes a wide range of flexible and voluntary benefits, retirement benefits, the ever popular all-colleague Sharesave Scheme and a range of recognition programmes.

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Base Salary	Core element of total package, essential to support recruitment and retention of high calibre executives.	Normally reviewed annually as at 1 January. Factors influencing the decision include: <ul style="list-style-type: none"> • Role, experience and individual performance • Pay awards elsewhere in the Group • Salary levels at other companies of a similar size • General economic environment and performance of the business 	In the normal course of events the maximum salary increase for Executive Directors will be in line with the general employee increase.	None.	The Committee retains discretion to award salary increases in excess of the general population where necessary to reflect performance or significant changes in market practice, to recognise changes in roles and responsibilities or where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role.
Benefits	Maintain a competitive package with a range of benefits for the director and their family.	Directors are currently entitled to benefits including: <ul style="list-style-type: none"> • Private medical insurance • Income protection • Annual leave – up to 30 days • Fully expensed company car (or cash alternative) • Life insurance of up to 5 times salary • All employee share plans such as SAYE and BAYE Executive Directors shall be reimbursed for all reasonable expenses and the Company may settle any tax incurred in relation to these where appropriate.	Benefit levels reflect those typically available to senior managers within the Group and may be subject to change. The maximum potential value being the cost to the Company to provide those benefits.	None.	The Committee may remove benefits that Executive Directors receive or introduce other benefits if it is considered appropriate to do so taking into account the circumstances.

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Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Pension	Helps executives provide for retirement and aids retention.	No director actively participates in a defined benefit pension scheme. Up to 25% of salary is provided either as a cash allowance in lieu of pension or as part cash allowance in lieu of pension and part contribution to a personal pension plan. Pension allowances will not be included in the salary figure to be used to calculate bonus or the level of award under long term incentive plans.	25% of salary.	None.	None.
Annual Bonus and Deferred Share Bonus Plan	Rewards achievement of annual financial and key business strategy objectives. Rewards personal performance measured against key objectives. Deferred element encourages longer term shareholding and aligns reward to shareholder interests. Malus and clawback and performance based forfeiture provisions discourage excessive risk taking and short term outlook ensuring that executive and shareholder interests are aligned.	Total bonus level is determined after the year end, based on achievement of targets. Normally up to 50% of the total bonus is paid in cash. The remainder of the bonus is deferred as shares for 3 years. The deferred element may be granted in the form of nil cost options or conditional share awards. Targets are set annually in line with the performance metrics. Dividend equivalents on vesting shares may be paid. Malus and clawback provisions apply as explained further on page 81.	Maximum bonus opportunity under the plan is 180% of annual salary for the CEO and 150% for the COO and CFO.	Bonus measures typically include: <ul style="list-style-type: none"> Financial targets Individual or Group targets pertaining to delivery of the business strategy Financial targets will account for at least 50% of the bonus. Performance below threshold results in zero bonus. Bonus earned rises from 0% to 100% of maximum bonus opportunity for levels of performance between threshold and maximum targets. Performance measures and weightings are set out in the Statement of Implementation of the Remuneration Policy.	The Committee retains the discretion to review the measures, the weighting of measures and to set the performance targets and ranges for each measure. The Committee will determine financial targets and the amount of bonus which can be earned for achievement of the Group's annual operating plan. This determination will be based upon an assessment of the degree of difficulty in achieving the plan taking into account market conditions, improvement on prior year performance required, and other relevant factors.

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Performance Share Plan	<p>Incentivises participants to deliver key financial targets over a longer term, with particular focus on shareholder return and the generation of cash to fund investment in growth and long term sustainability.</p> <p>Helps retain high performing executives.</p>	<p>Awards are normally granted in the form of nil cost options, annually to participants.</p> <p>Awards will normally vest after 3 years subject to the satisfaction of performance conditions.</p> <p>For Executive Directors a post-vesting holding period will apply to awards granted under the PSP. For 2017 awards, shares that vest will not be released to executives for a further one year period from the date of vesting. This period will be extended to two years for 2018 awards onwards.</p> <p>Awards may also be granted in conjunction with a tax-advantaged "CSOP" option up to the HMRC limits (currently £30,000) as a "Qualifying PSP Award". The vesting of a Qualifying PSP Award will be scaled back to take account of any gain made on exercise of the associated CSOP option. A Qualifying PSP Award will enable the executive and the Company to benefit from tax advantaged treatment on part of their PSP award without increasing the pre-tax value delivered to the executive or cost to the Company.</p> <p>The tax advantaged options are subject to the same performance measures as the non-tax advantaged element.</p> <p>The Committee may decide to scale back participation where the shareholding requirement set by the Committee is not met.</p> <p>Dividend equivalents on vesting shares may be paid.</p> <p>Malus and clawback provisions apply as explained further on page 81.</p>	<p>The maximum annual award for all executive directors is 150% of salary.</p>	<p>Performance measures are typically based around key financial and/or share price metrics which reflect the Group strategy.</p> <p>Vesting criteria are set against a target range based on performance levels determined by the Group's projections for the next 3 years for the relevant measure.</p> <p>Where relative performance measures are used (for example TSR) threshold target levels will be set at the median performance level.</p> <p>Performance below the threshold target results in zero vesting. From the threshold target level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between lower and maximum targets.</p> <p>Performance conditions and weightings are set out in the Statement of Implementation of the Remuneration Policy.</p>	<p>The Committee retains discretion to review the performance measures, the weighting applied to measures, and to set the target ranges for each measure.</p> <p>In addition the Committee will review and select the appropriate comparator group for relative performance measures.</p>

Governance & Remuneration

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Co-Investment Plan	<p>Encourages a mutual commitment whereby participants build up a shareholding in the Company and are incentivised to deliver key financial targets over a longer term.</p> <p>Helps retain high calibre executives.</p>	<p>Executives may be invited to participate in the Co-Investment Plan annually. Each participant buys shares from their own resources. These shares are designated as "Investment Shares" for the purposes of the Co-Investment Plan.</p> <p>A matching share award (normally in the form of a nil cost option) is made to each participant, which vests after 3 years subject to achievement of performance measures. The number of matching shares will lapse pro rata to the disposal of any associated Investment Shares by the participant prior to the vesting of the associated matching share award.</p> <p>Dividend equivalents on vesting shares may be paid.</p> <p>Malus and clawback provisions apply as explained further on page 81.</p>	<p>Participants may invest up to 50% of their net salary.</p> <p>Maximum matching awards of twice the gross salary equivalent of the amount invested (i.e. 100% of gross salary).</p>	<p>Performance measures are typically based around key financial and/or share price metrics which reflect the Group strategy.</p> <p>Vesting criteria are set against a target range based on performance levels determined by the Group's projections for the next 3 years for the relevant measure.</p> <p>Where relative performance measures are used (for example TSR) threshold target levels will be set at the median performance level.</p> <p>Performance below the threshold target results in zero vesting. From the threshold target level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between lower and maximum targets.</p> <p>Performance conditions and weightings are set out in the Statement of Implementation of the Remuneration Policy.</p>	<p>The Committee retains discretion to review the performance measures, the weighting applied to measures, and to set the target ranges for each measure.</p> <p>In addition the Committee will review and select the appropriate comparator group for relative performance measures.</p>
Shareholding Requirements	Aligns the interests of executives and shareholders.	<p>Formal requirements (not voluntary guidelines) apply to directors and senior executives. Participation in long-term incentives may be scaled back or withheld if the requirements are not met or maintained.</p> <p>For the purposes of assessing compliance with the shareholding requirement vested, but unexercised awards will be considered.</p>	N/A	Executive directors are expected to hold shares valued at two times salary within 5 years of appointment to the Board.	The Committee retains discretion to increase shareholding requirements.

Changes to policy

The key changes to this Policy compared to the 2014 Policy are as follows:

- The secondary share price performance test that applies to deferred shares under the deferred annual bonus plan has been removed. The vesting period has also been increased so that all deferred shares vest over the longer three year vesting period subject to continued employment. This change will apply to bonuses paid and deferred shares awarded in respect of 2016 performance.
- The level of vesting for threshold performance under the long-term incentives has been reduced from 30% of maximum to 25% of maximum to better reflect prevailing market practice
- For Executive Directors a post vesting holding period has been introduced for PSP awards. For 2017 awards, executives will be required to hold any shares that vest for a further one year period from vesting. This period will be extended to two years for 2018 awards onwards.
- Other minor changes have been made to the wording of the policy to aid operation and to increase clarity

Performance metrics

In considering appropriate performance metrics for the short and long term incentives the Committee seeks to incentivise and reinforce delivery of the Company's strategic objectives achieving a balance between delivering annual return to shareholders and ensuring sustainable long term profitability and growth. Measures will therefore reflect a balance of direct shareholder value, such as TSR and those which reflect appropriate investment strategies, for example, CROCE as well as measures focused on meeting specific strategic objectives aligned to long term growth.

The Committee calibrates these targets by due reference to market practice, the Group's strategic plan, general and bespoke market intelligence, lead indicators and other indicators of the economic environment such that targets may represent relative, as well as absolute, achievement.

Malus and clawback

Malus and clawback provisions are included in the Annual Bonus, Deferred Share Bonus Plan, the Co-Investment Plan and the Performance Share Plan. The circumstances in which malus and clawback could apply include:

- A material misstatement resulting in an adjustment to the Company's audited consolidated accounts
- The determination of the number of shares subject to an award or the assessment of any performance condition was in error or based on inaccurate or misleading information
- The Board determining in its reasonable opinion that any action or conduct of the Participant amounts to serious misconduct, fraud or gross misconduct, or
- Any other circumstances which the Board in its discretion considers to be similar in their nature or effect

Malus and clawback provisions can be applied to an award if one or more of the relevant circumstances occurs between the start of the performance / bonus period and until the third anniversary of payment of any cash bonus or the date of award under the Deferred Share Bonus Plan and the sixth anniversary of award under the Performance Share Plan and the Co-Investment Plan.

Discretion

Areas where the Committee has discretion have been outlined in the Policy. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. A number of Committee discretions apply to awards granted under each of the Company's share plans, including:

- That awards may be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect
- That awards may be settled in cash at the Committee's discretion
- That awards may be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price

In addition, the Committee has the discretion to amend the Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, inappropriate to seek or await shareholder approval.

The Committee retains discretion to amend or substitute performance measures and targets and the weightings attached to performance measures part-way through a performance year if one or more events occurs (for example an acquisition) which causes the Committee to believe an amended or substituted performance measures, weightings or targets would be more appropriate and not materially less difficult to satisfy. Discretion may also be exercised in cases where the Committee believes that the outcome is not a fair and accurate reflection of business performance. Any exercise of this discretion will be explained in full to shareholders.

The Committee reserves the right to make any remuneration payments and / or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before 28 May 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Illustration of the Application of the Remuneration Policy

- Fixed remuneration includes basic salary, pension provision and other benefits
- Annual variable remuneration includes annual bonus potential under the Deferred Share Bonus Plan, and includes that part of the bonus which is deferred as shares and may be subject to malus
- Long term variable remuneration includes potential awards under the Performance Share Plan and Co-Investment Plan
- Performance 'in line with expectations' assumes, for annual variable remuneration, performance in line with annual operating plan. For long term variable remuneration it assumes mid-range performance relative to the targets set for each plan. Maximum performance means performance at or in excess of maximum performance targets

Non-executive Directors' fees

Fees for the Non-executive Chairman and Non-executive Directors are set at an appropriate level to recruit and retain directors of a sufficient calibre to guide and influence board level decision making without paying more than is necessary to do so. Fees are set taking into account the following factors:

- The time commitment required to fulfil the role
- Typical practice at other companies of a similar size to Travis Perkins

Non-executive fees will normally be reviewed on an annual basis in line with general movement of pay within the Company. Non-executive Director fees policy is to pay:

- A basic fee for membership of the Board
- An additional fee for the Chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role

Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate. The Non-executive Chairman receives an all-inclusive fee for the role.

Current fees are detailed within the Statement of Implementation of the Remuneration Policy.

A minimum of 25% of Non-executive Director fees is paid in shares. Non-executive Directors do not receive any other benefits (other than a staff discount card for purchasing products) and are not eligible to join a company pension scheme. No compensation is payable on termination of office, which may be without notice from the Company. They cannot participate in any of the Company's share plans. The Company will pay reasonable expenses incurred by the Chairman and Non-executive Directors (including any tax incurred in relation to these where appropriate).

Recruitment remuneration

It is the Group's policy to recruit the best candidate possible for any executive board position. It seeks to avoid paying more than is considered necessary to secure the candidate and will have regard to guidelines and shareholder sentiment when formulating the remuneration package.

Generally the Group structures salary, incentives and benefits for candidates in line with the above remuneration policy and accordingly participation in short and long term incentives will be on the same basis as existing directors. In all cases the Group commits to providing shareholders with timely disclosure of the terms of any new executive hires including the approach taken to determine a fair level of compensation. The table opposite outlines the Group's normal recruitment policy.

Remuneration Element	Basis of Determination
Base Salary and Benefits	The pay of any new recruit would be determined following the principles set out in the remuneration policy table.
Pension	The appointee will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with the Company's policy as set out in the remuneration policy table.
Annual Bonus	The appointee will be eligible to participate in the Annual Bonus and Deferred Share Bonus Plan as set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable in the remuneration policy table at the Remuneration Committee's discretion.
Long-Term Incentives	The appointee will be eligible to participate in the Company's Long-Term Incentive Plans as set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable under scheme rules at the Remuneration Committee's discretion.
Share Buy-outs/ Replacement Awards	<p>The Group's policy is to carefully consider whether a buy out is appropriate. Should the Committee determine that the individual circumstances of recruitment justify the provision of a buy out, generally buy out awards will be made on a comparable basis to those awards forfeited taking into account the following:</p> <ul style="list-style-type: none"> • The form of the award • The proportion of the performance period completed on the date of the Director's cessation of employment • The performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied • Any other terms and conditions having a material effect on their value ("lapsed value") <p>The Performance Share Plan allows for awards to be made outside of the plan limit to facilitate the recruitment of an Executive Director. To the extent that it was not possible or practical to provide the buy out within the terms of the Company's existing incentive plans, a bespoke arrangement may be used (including granting an award under the Listing Rule 9.4.2 which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director). Any buy out award made under the Company's Deferred Share Bonus Plan or Long-Term Incentive Plans will not count towards the individual's maximum opportunity under those plans.</p>
Relocation	Where the Group requires a candidate to relocate in order to take up an executive position it will normally reimburse the reasonable costs of the relocation. This may include ongoing expenses such as schooling or housing for a reasonable period of time.

Where an internal candidate is promoted to an executive position the Group will honour any contractual commitments made through their employment prior to the promotion.

Recruitment remuneration for Non-executive Directors would be assessed following the principles set out in the policy for non-executive director fees.

Policy on payment for directors leaving employment

Contractual notice periods for directors are normally set at 6 months' notice from the director and 12 months' notice from the Company and the Company would normally honour contractual commitments in the event of the termination of a director. Notwithstanding this approach it is Company policy to seek to minimise liability in the event of any early termination of a director's employment.

The Group classifies terminations of employment arising from death, ill health, disability, injury, retirement with Company agreement, redundancy or the transfer from the Group of the employing entity as 'good leaver' reasons. In addition the Committee retains discretion under incentive plan rules to determine 'good leaver' status in other circumstances. In the event such discretion is exercised a full explanation will be provided to shareholders.

Leaver reason may impact treatment of the various remuneration elements as follows:

Remuneration Element	Good Leaver Reason	Other Leaver Reason
Salary	Ceases on cessation of employment (salary may be paid in lieu of notice) unless a pre-existing contractual term applies.	Ceases on cessation of employment (salary may be paid in lieu of notice) unless a pre-existing contractual term applies.
Bonus including Deferred Share Bonus Plan*	Unpaid bonus from a completed performance period prior to cessation will be paid in full. For the performance period in which cessation occurs a pro rata bonus may be paid, subject to normal performance conditions. Any unvested deferred bonus share awards will normally continue until the normal vesting date and vest in full. The Committee may determine that awards should vest on cessation of employment. The Committee may also apply time prorating.	All unpaid bonus payments lapse. Any unvested deferred bonus shares also lapse on leaving.
Benefits	Provision or accrual of benefits will cease on cessation of employment or, if later, at the end of the relevant subscription period.	Provision or accrual of benefits will cease on cessation of employment or, if later, at the end of the relevant subscription period.
Performance Share Plan*	Unvested awards will normally vest at the normal vesting date and remain subject to performance. Awards will be prorated for time unless the Committee decides otherwise. Awards would remain subject to any applicable holding period. The Committee may determine that awards should vest and be released at cessation of employment taking into account the extent to which performance targets have been met and unless the Committee decides otherwise the period of time elapsed since award. Where a participant ceases employment during any holding period (other than for reason of gross misconduct) they will continue to retain their award in full and it will be released at the end of the holding period unless the Committee determines that the award should be released at the time of cessation. For awards in the form of options participants will have 6 months from vesting to exercise their award.	Unvested awards lapse at cessation of employment. Where a participant ceases employment during any holding period (other than for reason of gross misconduct) they will continue to retain their award in full and it will be released at the end of the holding period unless the Committee determines that the award should be released at the time of cessation. For awards in the form of options, participants will have 6 months to exercise any vested awards.
Co-Investment Plan*	Unvested awards will normally vest at the normal vesting date and remain subject to performance. Awards will be prorated for time unless the Committee decides otherwise. The Committee may determine that awards should vest at cessation of employment taking into account the extent to which performance targets have been met and unless the Committee decides otherwise the period of time elapsed since award. For awards in the form of options participants will have 6 months from vesting to exercise their award.	Unvested awards lapse at cessation of employment.

* Leaver vesting provisions are fully defined in the appropriate plan documents.

The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment. In addition, the Company may pay any fees for outplacement assistance and/or the Director's legal or professional advice fees in connection with his cessation of office or employment. Where a Director was required to relocate to take up their role then reasonable repatriation expenses may be included.

In the event of a takeover or winding up of the Company, share awards may vest early. For the PSP and the Co-Investment Plan the Committee will determine the extent to which awards shall vest taking into account the extent to which the performance conditions have been satisfied and unless the Committee determines otherwise, the proportion of the performance period that has elapsed. Deferred share awards will normally vest in full. In the case of a winding-up, demerger, delisting, special dividend or similar circumstances, awards may, at the Committee's discretion, vest early on the same basis as for a takeover.

Considering colleagues' views

The Committee reviews information regarding the typical remuneration structure and reward levels for other UK based employees to provide context when determining executive remuneration policy.

The Company undertakes an annual engagement survey for all Group employees to understand their views on working for Travis Perkins and how this can be improved. Feedback on employee reward is provided as part of this survey.

The Company currently does not consult directly with colleagues when developing the Directors' Remuneration Policy. A significant portion of colleagues are shareholders so are able to express their views in the same way as other shareholders.

Considering shareholders' views

The Committee believes that it is very important to maintain open dialogue with shareholders on remuneration matters. The Committee regularly consults with significant shareholders regarding potential changes to remuneration arrangements and the views of shareholders are important in determining any final changes. The Committee intends to continue to engage with shareholders regarding any material changes to remuneration arrangements.

Annual Remuneration Report

The following sets out the Group's Annual Remuneration Report for 2016 which includes details of how its policy was implemented in 2016 and how it intends to implement its policy in 2017. This report shall be subject to an advisory shareholder vote on 24 May 2017.

Statement of implementation of the remuneration policy in 2017

Plan	Individual Maximum Opportunity in 2017	Measures and Weighting	Operation
Base Salary	CEO - £690,131 (2016: £683,298) COO - £533,283 (2016: £528,003 as CFO) CFO - £500,000	N/A	John Carter's and Tony Buffin's salaries were increased by 1% with effect from 1 January 2017. This increase is in line with the increase received by other colleagues.
Benefits	N/A	N/A	Benefit entitlement for 2017 is as per policy.
Pension	25% of salary allowance or contribution:	N/A	Directors participate in a defined contribution arrangement or receive a cash allowance.
Annual Bonus	CEO - 180% max COO - 150% max CFO - 150% max	The 2017 bonus will be based on the following measures: <ul style="list-style-type: none"> Adjusted EBITA 60% LAROCE 20% Business strategy 20% 	For 2017 the Committee decided to replace adjusted EPS with adjusted EBITA as the main financial metric for the annual bonus plan to focus management on driving operational profitability and cost management. Targets are determined in relation to the Group's Annual Operating Plan ('AOP'). Threshold payment is made for performance just below AOP with maximum only being made for performance in excess of AOP. For 2017 the strategic tracker includes measures related to the Group's people, customers, multi-channel, cost of goods for sale and strategic IT systems' objectives. 50% of bonus earned is deferred as shares for three years.
Performance Share Plan	CEO - 150% COO - 150% CFO - 150%	The 2017 PSP award will be based on the following measures: <ul style="list-style-type: none"> Adjusted EPS growth - 40% Aggregate cash flow - 40% Relative TSR - 20% 	Awards are subject to performance over a three year performance period. Vesting awards are subject to a further 12 month holding period. Adjusted EPS - threshold target of 3% p.a. growth over 3 years with full vesting at 10% growth. For 2017, the Committee has decided to delink adjusted EPS targets from RPI to make assessment of performance simpler and more transparent. The aggregate cash flow range is threshold £867m to maximum £959m. Relative TSR - relative position in FTSE 50-150 <ul style="list-style-type: none"> Threshold is median relative position Maximum is upper quartile relative position
Co-Investment Plan	Participants may invest up to 50% of their net salary. Maximum matching awards of twice the gross salary equivalent of the amount invested (i.e. 100% of gross salary).	The 2017 Co-Investment matching award will be based on the following measures: <ul style="list-style-type: none"> Cash Return on Capital Employed (CROCE) 	CROCE performance range is target 8.4% to 9.4%.

Long term incentive targets for awards made in 2017 reflect the current economic uncertainty and the poorer outlook for the construction market since the Group presented its three year plan; the latest forecast from the 'Construction Products Association' is for a contraction in growth for housing repairs and maintenance spend across 2017-2019. This is attributed to rising inflation and a weaker employment market impacting consumer confidence and the decline in the savings ratios during a period of macro-economic uncertainty. Given these external economic factors, the plan is underpinned by the market outlook on housing transactions (Council of Mortgage Lenders latest forecast) which the Committee views as a good indicator of future repair, maintenance and improvement spend. Over the past 10-15 years there has been a strong correlation between this index and the Group's revenues. Whilst transaction trends in 2016 were difficult to read, due to the step-up in stamp duty on the purchase of second homes in March 2016 and the subsequent steep declines following the result of the EU referendum, housing transactions significantly decreased towards the end of 2016 and this decline has been forecast to continue into 2017, levelling in 2018 before a modest rise in 2019.

This decline will make the Group's trading environment much more challenging over the next three years.

Given the market challenges faced the Committee decided to keep aggregate cashflow and CROCE targets at the same level as for 2016 awards. As noted above the Committee decided to remove the adjusted EPS target's link to RPI. Given that adjusted EPS growth in excess of 30% is required to achieve maximum performance, the Committee believes the targets continue to be challenging and appropriate.

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

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

For Non-executive Directors

Fees and Benefits	<p>In line with the Group's remuneration policy Non-executive Directors' fees were reviewed and increased by 1%, in line with general increases across the Group, with effect from 1 January 2017. The Committee chair fees were increased further to recognise the more significant work and time commitment required in these roles.</p> <ul style="list-style-type: none"> • Chairman - £282,326 (2016: £279,531) • Non-executive Director basic fee - £57,511 (2016: £56,942) • Chairs of Audit and Remuneration Committees - £17,000 (2016: £12,424) • Senior Independent Director - £12,500 (2016: £10,353) • Chairman of Health & Safety Committee - £10,000 (2016: £8,000)
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Remuneration elsewhere in the Group

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

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

Over 23,000 colleagues are active members of a Group pension scheme. Under the defined contribution scheme contribution rates made by the Group range from 1% to 20% of qualifying earnings with all employees able to maximise company contributions to at least 6% of qualifying earnings. The defined benefits schemes are closed to new members. The Group recognises that many colleagues find the pension environment complex. Consequently one of the key aims of the Group's financial wellbeing programme, launched in 2017, is to provide a broad range of financial education and guidance including, but not limited to, retirement provision.

The Group's Sharesave scheme continues to be a great success. In 2016, 6,531 colleagues took up the invitation to participate on either 3 or 5 year contracts committing to savings contracts of £29.5m. Plans maturing in 2016 delivered gains of approximately £2.8m shared across the 3,334 participating colleagues.

Audited information

Single total figure of remuneration

	Salary 2016 £000	Salary 2015 £000	Benefits 2016 £000	Benefits 2015 £000	Bonus 2016 £000	
Executive Directors						
John Carter	683	673	44	44	289	
Tony Buffin	528	520	25	24	182	
Non-executive Directors						
Ruth Anderson	69	68	-	-	-	
Coline McConville ¹	69	53	-	-	-	
Pete Redfern	64	57	-	-	-	
Christopher Rogers	67	58	-	-	-	
John Rogers	57	56	-	-	-	
Andrew Simon ²	-	69	-	-	-	
Robert Walker	280	275	-	-	-	
Total	1,817	1,829	69	68	471	

Notes:

1. Coline McConville was appointed a non-executive director on 1 February 2015
2. Andrew Simon retired on 31 October 2015
3. LTI reported for 2016 for John Carter and Tony Buffin include LTI awards vesting in March 2017. The value of these awards has been calculated based on the average share price for the last quarter of 2016 of £14.19683
4. LTI reported for 2015 for John Carter and Tony Buffin were reported on an estimated basis using the average share price of the final quarter of 2015. They are restated here reflecting the actual share price on vesting

	Bonus 2015 £000	LTI 2016 £000 ³	LTI 2015 £000 ⁴	Pension 2016 £000	Pension 2015 £000	Total 2016 £000	Total 2015 £000
	289	1,312	1,186	171	168	2,499	2,360
	186	982	1,627	134	128	1,851	2,485
	-	-	-	-	-	69	68
	-	-	-	-	-	69	53
	-	-	-	-	-	64	57
	-	-	-	-	-	67	58
	-	-	-	-	-	57	56
	-	-	-	-	-	-	69
	-	-	-	-	-	280	275
	475	2,294	2,813	305	296	4,956	5,481

Explaining the single figure table

Benefits

Benefits for 2016 for John Carter and Tony Buffin include private medical insurance and the provision of a company car or car allowance.

Annual bonus for 2016

The tables below provide a summary of the performance achieved under the annual bonus for 2016:

Director	Maximum Bonus Opportunity	Actual Bonus (% of salary)	Actual Bonus
John Carter	180%	42.3%	£289,035
Tony Buffin	150%	34.4%	£181,527

All bonus earned in respect of 2016 performance is included in the annual bonus column in the single figure table. Half of the bonus earned is deferred as shares for three years.

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

Performance Measure	Weighting	Targets			Actual Performance	Pay-out (as a % of maximum)
		Threshold	Plan	Maximum		
Adjusted EPS	60%	122.6p	129p	135.5p	120.4p	0%
LAROCE	20%	10.5%	10.9%	11.3%	10.7%	27.5%
Business Strategy	20%	The Committee assessed performance against a number of strategic targets which were set at the start of the year. A summary of performance is provided below.				90.0% (CEO) 87.1% (CFO)

LAROCE for the year ended 31 December 2016 was 10.7%. For comparative purposes in the report and accounts the opening capital employed at 1 January 2016 was restated to reflect the impairment charge in respect of goodwill and other assets made at 31 December 2016. This restatement resulted in LAROCE increasing to 10.9% for accounting purposes. Further details are given in note 36.

Measure	Summary of Performance	Committee's Assessment
People	There was good deployment of the Stay Safe strategy across the operational divisions during 2016. The framework for Stay Safe risk assessments was implemented across most of the Group. Based on these risk assessments there were a number of areas identified where improvements could be made. Plans were implemented which resulted in a reduction in speeding offences and rest break and other tachograph infringements across a number of business units. Targets to implement plans to improve safety around manual handling were mostly met across all divisions.	Met in part
Customer	The overall customer satisfaction score improved 7% over 2015 and was significantly ahead of target demonstrating strong progress against our customer proposition objectives.	Met in full
Network	Delivering growth from new space is an important generator of long-term shareholder value. The new stores opened during 2016 have delivered strong sales resulting in the total Group sales growth delivered from new space target being met in full.	Met in full
Multi-Channel	Year-on-year growth for online sales in Wickes, Toolstation, Plumbnation, Tile Giant, Tile HQ, Tile Magic and Insulation Giant has been very strong. The rate of growth was almost 50% ahead of performance last year and was significantly ahead of target.	Met in full
COGS/GNFR* Savings	Annualised savings from COGS and GNFR programmes were achieved, resulting in improvements to the business in many areas.	Met in full
IT System	Delivery of a broad and significant portfolio of IT programmes was achieved, resulting in improvements to the business in many areas.	Good progress
Personal	Individual objectives specific to individual priorities: CEO The CEO's objective related to the implementation and execution of plans to increase the strength of the management team. The Committee was pleased with the progress made in identifying and developing high potential individuals and judged that this had been met in full. CFO The CFO's personal objective related to improvements in systems as well as reducing costs in relation to these to further support performance. The Committee judged that good performance had been made against these metrics.	Met in full Good progress

*Goods Not For Resale

In 2016 the political landscape was dominated by the result of the EU referendum. The resultant economic uncertainty acutely impacted the construction and housing markets, and has been particularly difficult for domestic UK businesses. In this context, the Group delivered a resilient financial performance. Adjusted EPS was slightly behind 2015 and just below the threshold target for bonus purposes. The Group delivered strong LAROC performance ahead of 2015 and the threshold targets.

As outlined above, the Committee judged that there was strong performance against the strategic tracker particularly in relation to online sales growth, sales from new space, customer satisfaction and commercial programmes. The strategic tracker is an important part of the short term incentive. It focuses short-term management effort towards delivering on strategic goals which are considered critical for delivering long term returns and sustainability of performance.

The Committee considered that the level of bonus awarded was appropriate, reflecting strong progress against strategic objectives and resilient financial performance in a challenging economic environment.

Long-term incentive plans ('LTIP')

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

	Performance Share Plan	Co-Investment Plan	Deferred Share Bonus Plan	Total
John Carter	£443,801 (28,857 shares plus £34,123 cash in lieu of dividends)	£540,122 (35,120 shares plus £41,529 in lieu of dividends)	£328,333 (21,349 shares plus £25,245 in lieu of dividends)	£1,312,256
Tony Buffin	£342,948 (22,299 shares plus £26,359 in lieu of dividends)	£417,364 (27,138 shares plus £32,091 in lieu of dividends)	£221,324 (14,391 shares plus £17,017 in lieu of dividends)	£981,636

The value of shares vesting has been calculated with reference to the average price over the last quarter of 2016 of £14.19683.

Performance Share Plan

The following table sets out the performance targets, achievements and vesting levels for the Performance Share Award granted in 2014 and vesting in 2017 in respect of performance period ending in 2016:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
EPS Growth	40%	RPI +3% pa	RPI +10% pa	16.7%	14%
Relative TSR	20%	Median	Upper quartile	Below median	0%
Aggregate Cash Flow	40%	£802m	£887m	£903m	40%
Total Vesting					54%

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

Co-Investment Plan

The following table sets out the performance targets, achievements and vesting levels for the matching awards granted in 2014 and vesting in respect of 2017:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
Cash Return on Capital Employed	100%	8.37%	9.37%	9.32%	97%
Total Vesting					97%

Director's pension entitlements

The Company's defined benefit pension (DB) schemes are closed to new members. John Carter ceased DB accrual on 31 December 2010 and took his benefits from the scheme on 1 November 2016.

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

	John Carter £000	Tony Buffin £000
Pension value in the year from company contributions to DC scheme	N/A	17
Pension value in year from cash allowance (salary supplement in place of Employer pension contributions)	171	117
Total Pension Benefit Accrued in 2016	171	134

Share interests awarded during the financial year

Performance Share Plan

	Date of Award	Type of Award	Basis	% Vesting at Lower Target	Face Value	Performance Period
John Carter	4 March 2016	Performance Shares	150% of Salary	30%	£988,353 (55,432 shares at £17.83 p/share)	1 January 2016 to 31 December 2018
Tony Buffin					£763,730 (42,834 shares at £17.83 p/share)	

Performance Share Plan awards are subject to the following performance measures:

Measure	Weighting	Target Range	Vesting Range
Adjusted EPS Growth	40%	Lower target - RPI + 3% per annum over the vesting period Maximum target - RPI + 10% per annum over the vesting period	No vesting below lower target
Aggregate Cash Flow over the performance period	40%	Lower target £867m Maximum target £959m	Lower target - 30% vests Maximum target - 100% vests
Company TSR Relative to FTSE 50-150 Index	20%	Lower target - median performance (top 50%) Maximum target - upper quartile performance (top 25%)	Pro rata vesting between these points

Co-Investment Plan

	Date of Award	Type of Award	Basis	% Vesting at Lower Target	Face Value	Performance Period
John Carter	1 April 2016	Matching Shares	Up to 2:1 matching of shares purchased	30%	£669,330 (37,000 shares at £18.09 p/share)	1 January 2016 to 31 December 2018
Tony Buffin					£517,229 (28,592 shares at £18.09 p/share)	

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

Measure	Weighting	Target Detail	Matching Range
Cash Return on Capital Employed (CROCE) over the performance period	100%	Lower target 8.4% Maximum target 9.4%	0.6:1 matching at lower target 2:1 matching at maximum target Pro rata matching between these points

Deferred Share Bonus Plan

Shares awarded during 2016

Half of the bonus earned in respect of 2015 performance was awarded as deferred shares as follows:

	Date of Award	Face Value	Number of shares**	Share price*
John Carter	4 March 2016	£192,973	9,767	£19.76
Tony Buffin		£124,276	6,290	£19.76

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

** The shares awarded are split into two equal tranches. Tranche 1 will vest after one year if the target share price of £2131 is met for a 30 day period during that year. Tranche 2 will vest after two years if the target share price of £2231 is met for a 30 day period during the two years following grant. The relevant 30 day average share price will be inflated to include any dividends paid per share during the relevant period. If the target share price is not met, 50% of the award will lapse. The remaining shares under Tranche 1 and Tranche 2 which are not subject to the above forfeiture conditions will vest at the end of the two year vesting period, subject to continued employment in the Travis Perkins Group.

Half of the bonuses earned in 2016 will be issued as deferred shares as follows:

	Type of Award	Basis	Face Value
John Carter	Shares	50% of 2016 bonus	£144,518
Tony Buffin			£90,764

Shares vest three years from grant.

No new grants were made to the Executive Directors under the all employee Sharesave (SAYE) plan during 2016.

Unaudited information

Remuneration arrangements for the CFO

Alan Williams was appointed to the role of CFO with effect from 3 January 2017.

Salary, pension and benefits – Alan's salary is £500,000 per annum, his pension contribution is 25% of base salary and his benefits are in line with those set out in our remuneration policy.

Performance incentives – These remain unchanged from the approved arrangements for the former CFO, Tony Buffin. His maximum annual bonus will be 150% of base salary and he will receive a maximum award of 150% of base salary under the Performance Share Plan. Alan will also be eligible to invest up to 50% of his post-tax salary under the Co-Investment Plan and receive a maximum matching award of up to 100% of salary.

Forfeited incentives – On leaving his former employer Alan forfeited outstanding incentives under his deferred bonus and performance share plans. The Committee determined that it was appropriate to 'buy-out' these incentives. The buy-out awards have been structured as far as possible to be on a 'like-for-like' basis with awards he has forfeited being compensated in accordance with our remuneration policy. In addition Alan made a significant personal investment in Travis Perkins shares prior to the awards being granted.

- Deferred bonus shares – Alan will be made an award of shares with a value of £573,002 (the value of awards forfeited including dividends on these awards) to compensate him for deferred shares awarded in respect of 2014 and 2015. This is equivalent to 39,900 shares. These shares will vest in December 2017 and December 2018 in line with the vesting

timing for the forfeited awards. These shares will be subject to continued employment and have no further performance conditions (reflecting the terms of the forfeited awards).

- Performance Share Plan – Alan will also be made an award of shares with a value of £740,796 (the value of awards forfeited including dividends on these shares). This is equivalent to 51,584 shares. These awards compensate him for Performance Share awards made in 2014 and 2015. An assumed vesting rate of 80% has been applied based on an estimate of vesting for these awards at his former employer. As a condition of this award, Alan was required to purchase shares in the Company with a value of at least half the award using his own funds and retain these shares for the vesting period. Prior to joining Alan invested £557,600 to purchase 40,000 shares. The shares awarded will vest 12 months and 24 months after the award is made and will be subject to continued employment and the achievement of stretching role specific objectives over these periods.

The value of these 'buy-out' awards were calculated based on the average Greencore and Travis Perkins share prices between the date on which Alan's appointment was announced (20 September 2016) and 3 January 2017 when he joined. The value of this buy-out is lower than originally announced due to a fall in Greencore's share price over this period.

The 'buy-out' awards outlined above will be made in March 2017 under the Listing Rules provision 9.4.2 which allows for awards on a one-off basis in exceptional circumstances. Details of the awards and the performance targets will be included in the 2017 Annual Remuneration Report.

Governance & Remuneration

Payments to past directors

No payments were made to past directors.

Payments for leaving directors

No payments for loss of office were made during 2016.

Director's shareholding and share interests - executive directors

Formal shareholding requirements (not voluntary guidelines) apply to executive directors and senior executives. The committee may

decide to scale back or withhold participation in long-term incentives if the requirements are not met or maintained. Executive directors are required to hold shares valued at 2 times annual salary within 5 years. As at 31 December 2016 John Carter's shareholding was in excess of 5 times salary and Tony Buffin's 3 times salary. On appointment Alan Williams purchased 40,000 shares equivalent to 1.2 times salary.

Directors' shareholdings and share interests as at 31 December 2016 were as follows:

Executive Director	Beneficial Owner	Conditional Shares Granted Under LTI Plans ¹	Unconditional Shares Granted Under LTI Plans ²	Unvested Options Subject to Performance Conditions ³	Vested but Unexercised Options	Total Interests	Interests Qualifying Towards Shareholder Requirement
John Carter	258,044	284,984	21,723	1,573	6,776	573,100	264,820
Tony Buffin	123,149	218,926	14,708	0	5,007	361,790	128,157

1. Includes awards made under Deferred Share Bonus Plan (subject to a share price performance test), Unapproved Performance Share Plan and Co-Investment Plan.

2. Includes awards made under Deferred Share Bonus Plan (which are not subject to a performance condition) and Sharesave.

3. Market value options awarded under the HMRC tax-advantaged CSOP element of the PSP. These awards are subject to the same performance conditions as outlined below for the PSP award.

There were no changes in executive directors' share ownership between 31 December 2016 and 13 March 2017, with the exception of:

- John Carter who exercised 21,348 options and sold 10,055 shares under the 2014 and 2015 Deferred Share Bonus Plans on 9 March 2017 bringing his beneficial shareholding to 269,337;
- Tony Buffin who acquired 10,000 shares on 2 March 2017 and exercised and sold 5,007 shares under the 2014 Deferred Share Bonus Plan on 7 March 2017 bringing his beneficial shareholding to 133,149; and
- Alan Williams whose spouse acquired 30,000 shares on 3 March 2017 bringing his beneficial shareholding to 70,000.

During 2016 the following awards vested and were then exercised:

John Carter	Vested & Exercised	Price per Share
Performance Share Plan	50,055	£17.82
Performance Share Plan	4,326	£19.26
Deferred Share Bonus Plan	6,777	£17.82
Deferred Share Bonus Plan	3,102	£18.04
Share Matching Scheme	16,485	£17.82
Tony Buffin	Vested & Exercised	Price per Share
Performance Share Plan	46,779	£18.32
Performance Share Plan	4,042	£18.01
Deferred Share Bonus Plan	5,007	£17.82

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

Non-executive Director	Beneficial Shareholding (as at 31 December 2016)	Beneficial Shareholding (as at 13 March 2017)
Ruth Anderson	2,873	3,040
Coline McConville	939	1,106
Pete Redfern	8,017	8,174
Christopher Rogers	6,173	6,342
John Rogers	928	1,065
Robert Walker	77,703	78,649

Between 31 December 2016 and 13 March 2017 non-executive directors' share ownership increased in accordance with the Company's non-executive director fee structure.

Service contracts

Each of the Executive Directors has a service contract, which will be available for inspection at the Annual General Meeting or at the Company's registered office. These contracts provide for 6 months' notice from the Directors and 12 months' notice from the Company. They do not specify any particular level of compensation in the event of termination or change of control. The date these contracts were entered into are as follows:

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

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

Director	Expiry of Appointment Letter
Ruth Anderson	May 2018
Coline McConville	May 2018
Pete Redfern	May 2018
Christopher Rogers	May 2020
John Rogers	May 2018
Robert Walker	May 2018

In accordance with best practice, the Non-executive Directors stand for re-election annually.

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

Total shareholder return

Outside appointments

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

Subject to approval by the Board, Executive Directors are allowed to accept non-executive appointments, provided that these appointments will not lead to conflicts of interest, and they may retain the fees received. John Carter does not currently hold any non-executive appointments. Tony Buffin has been a non-executive director of the Dyson family business since 2014. Tony earned and retained fees of £40,000 during 2016 (2015: £40,000).

Funding of equity awards

Executive incentive arrangements are funded by shares purchased in the market. Entitlements under the HMRC approved all colleague Sharesave scheme are satisfied by newly issued shares. Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. The current dilution usage of all share plans is c.5.4% of shares in issue. There is no dilution due to discretionary executive plans as shares are purchased in the market to satisfy these awards. Where shares are purchased in the market, these are held by a trust in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 31 December 2016 the Trust held 729,680 shares.

Performance graph and table

For comparative purposes the FTSE 100 Index has been selected as this is the index of which the Company was a member during the reporting year.

TSR is rebased to 100 from 1 January 2008

Historic CEO pay

	2009	2010	2011	2012	2013	2014	2015	2016
Single Figure Remuneration (£'000)	£1,412	£1,423	£1,938	£3,506	£2,044	£2,634	£2,360	£2,499
Annual Bonus Payout (% of maximum)	100%	100%	75.9%	27.0%	62.9%	89%	31.9%	23.8%
Vesting of Share Options (% of maximum)	0%	-	-	-	-	-	-	-
Vesting of Performance Share Plan (% of maximum)	-	0%	0%	80.0%	37.4%	44.8%	96.8%	54%
Vesting of Co-Investment Plan (SMS) (% of maximum)	0%	0%	51%	100%	0%	0%	44.2%	97%

Data for 2014-16 relates to John Carter, earlier data relates to the previous CEO, Geoff Cooper.

Change in remuneration of director undertaking the role of CEO

	Percentage Change in Salary Earned (2016 full year compared to 2015 full year)	Percentage Change in Bonus Opportunity Earned (2016 full year forecast compared to 2015 full year)	Percentage Change in Taxable Benefits Received (2015/16 tax year compared to 2014/15 tax year)
CEO	1.5%	-8.1%	6.1%**
Comparative Employee Group*	1.95%	-0.2%	0.8%

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

** The provision of benefits to the CEO has not changed across the two periods. The increase value is entirely attributable to the increased BIK charge associated with allocated company car and fuel.

Relative importance of spend on pay

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

Corporation tax is included as indicator of wider societal contribution facilitated by the Company's operations and is the actual amount of corporation tax paid in the relevant reporting periods.

Governance

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

During the year the Committee comprised Coline McConville (Chairman), Peter Redfern and John Rogers, all of whom are independent non-executive directors, and the Company Chairman Robert Walker.

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

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

Fees are charged on a time and materials basis. During the year Deloitte was paid £68,650 for advice provided to the Committee.

Deloitte provided additional services to the Company in relation to remuneration including support in developing and implementing remuneration proposals, compensation benchmarking and other tax and consulting services.

In addition John Carter (CEO), Tony Buffin (CFO during 2016), Deborah Grimason (Company Secretary), Carol Kavanagh (Group Human Resources Director), Helen O'Keefe (Deputy Company Secretary) and Paul Nelson (Group Head of Reward) have assisted the Committee in its work, but never in respect of their own remuneration.

Responsibilities

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

Key items discussed in 2016 meetings

In 2016 the Remuneration Committee formally met four times with additional conference calls as required. The Committee discussed amongst others the following matters:

Month	Key Issues Considered
February	<ul style="list-style-type: none"> • Co-Investment Plan vesting • Bonus outcomes and personal objectives • LTIP targets for 2016 awards • Executive and leadership salaries
March	<ul style="list-style-type: none"> • 2015 bonus achievement • 2016 bonus plans • 2015 Directors' Remuneration report • LTIP vesting and awards
May	<ul style="list-style-type: none"> • Remuneration policy renewal in 2017
July	<ul style="list-style-type: none"> • Remuneration policy renewal in 2017 and outcomes of shareholder consultation • Review of progress against 2016 annual bonus targets
September	<ul style="list-style-type: none"> • Remuneration policy renewal in 2017 and outcomes of shareholder consultation • Executive Committee appointments
November	<ul style="list-style-type: none"> • Salary review 2017 • Review of remuneration trends and issues • Review of 2016 performance • Remuneration policy renewal in 2017 and outcomes of shareholder consultation • Format for Directors' Remuneration report 2017
December	<ul style="list-style-type: none"> • Director's salary review 2017 • Remuneration policy renewal in 2017 and outcomes of shareholder consultation • Directors' Remuneration Report • Committee governance

Shareholder voting

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

Resolution	Votes For	% For	Votes Against	% Against	Votes Withheld
To receive and approve the Directors' Remuneration Report	169,930,556	97.8%	3,873,640	2.2%	1,310,991
To receive and approve the Directors' Remuneration Policy (2014 AGM)	147,358,040	93.3%	10,622,997	6.7%	3,478,935

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

Coline McConville
Chairman of the Remuneration Committee
14 March 2017



NOMINATIONS COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Dear Shareholder,

Nominations Committee highlights

A few words of introduction to summarise the work of the Nominations Committee during the past year. Compared with only one meeting in 2015, the Nominations Committee held four in 2016. This higher level of activity was for three reasons:

- The search for a new Chief Financial Officer to replace Tony Buffin, who was promoted to Chief Operating Officer, responsible for the Group's Installation and Plumbing and Heating businesses. Following an extensive search, we announced the appointment of Alan Williams as Group CFO, joining the business on 31 January 2017. He was previously CEO of Gearexone Group plc. Alan has a broad range of experience in both corporate and operational roles within large, complex and global businesses. He brings a strong background in leading strategic initiatives, mergers and acquisitions, integration and business transformation.
- The continuing need to review the pipeline and development of executive talent below the Board. A number of transfers and new appointments to the executive leadership team were made during the year as a result of this review.
- Finally and most importantly, the need to prepare and put in place a process to plan for the medium term succession of Chairman and top management. The previous process from 2011 to 2015, which led to the appointment of John Carreras Group CEO, was judged to have been executed smoothly and transparently consistent both with best practice externally and also with the unique culture and values of the Company. We fully intend that the current process will be managed to the same high standard.

Role of the Committee

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

The Committee is also responsible for considering and making recommendations to the Board on succession planning for directors and other senior executives. In this sense the Nominations Committee undertakes a broader role.

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

The Committee operates under formal terms of reference which are available on our corporate website www.travisperkinsplc.co.uk

Activities in 2016

The Committee held four formal meetings during the year. The principal matters discussed at the meetings were:

- Current and future Board composition requirements in light of the evolving business strategy
- Development planning for the Chief Financial Officer
- Appointment of a new CFO following the decision to promote the existing CFO to Chief Operating Officer

Process for appointments

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

A description of how appointments are typically made to the Board is set out below and this was followed in connection with the recent appointment of Alan Williams to the Board as CFO.

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

- The preparation of a role description in light of existing and required capabilities for the role and the Board
- The engagement of independent recruitment consultants who have no other connection to the Company. The Miles Partnership was used in the selection process for Alan Williams.
- The preparation of a 'long list' of potential candidates which takes into account diversity considerations and the outcome of the Committee's latest review of the composition and skill sets of the Board
- The selection of a shortlist of suitable candidates meeting the Committee's criteria
- Interviews of those candidates by a selection of members of the Board
- Following selection of the proposed candidate, interviews with the remaining members of the Board and the taking up of detailed references

2017 objectives

In 2017 we will continue to review succession plans and look further ahead to the future retirement of the current CEO. The Non-executive Directors will also plan my own succession.

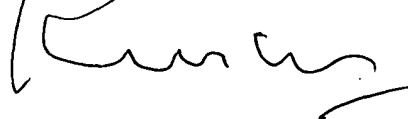
Board diversity

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

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

The Group currently has two female Board directors (22%) and three women on its operating executive (23%). Further details of the Group's workforce diversity are set out in the "Capturing the way things are done around here" section on pages 45 to 49.

Robert Walker
Chairman
14 March 2017





DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their annual report and audited accounts for the year ended 31 December 2016.

The Corporate Governance statement on pages 62 to 66 forms part of the Directors' Report.

Business review

A review of the Group's position, developments, activities in the field of research and development and future prospects can be found in the Strategic Report on pages 6 to 55. Whilst the Group operates predominantly in the UK it does have a few branches in the Isle of Man and the Republic of Ireland.

Greenhouse gas emissions reporting

Details of the Group's Greenhouse Gas Emissions can be found in the Environmental Report on pages 53 to 55.

Results and dividends

The Group results for the year ended 31 December 2016 and dividends for the year ending 31 December 2016 are set out in the income statement and note 12 respectively on pages 114 and 141. If approved at the Annual General Meeting, the final dividend will be paid on 26 May 2017 to those shareholders on the register at the close of business on 18 April 2017.

Balance sheet and post balance sheet events

The balance sheet on pages 116 and 117 shows the Group's financial position. *No important events have occurred since the balance sheet date.*

Principal risks and uncertainties

A review of the Group's principal risks and uncertainties is on pages 37 to 43.

Financial risk management

Details of the Group's approach to capital management and the alleviation of risk through the use of financial instruments are given in the Financial Performance Section on pages 27 to 35. Specific quantitative information on borrowings and financial instruments is given in notes 22 and 23 on pages 152 to 160 of the annual financial statements.

Directors and their interests

The UK Corporate Governance Code ("the Code") requires that all directors of FTSE 350 companies are subject to re-election at the Company's Annual General Meeting (AGM) each year and therefore all Executive Directors and Non-executive Directors will seek re-election at the AGM with the exception of Alan Williams who will be standing for election.

The names of the Directors at 31 December 2016, together with their biographical details are set out on pages 58 to 60. All of these Directors held office throughout the year with the exception of Alan Williams who joined the Board on 3 January 2017. The Executive Directors have rolling 12 month notice periods in their contracts. The Non-executive Directors do not have service contracts. In light of the formal evaluation of their performances and the results of the process described on page 65, Robert Walker, Chairman, confirms on behalf of the Board that all directors continue to be effective in, and committed to, their roles.

Directors and officers of the Company are entitled to be indemnified out of the assets of the Company in respect of any liability incurred in relation to the affairs of the Company, or any associate company, to the extent the law allows. In this regard, the Company is required to disclose that under article 140 of the Company's Articles of Association, the Directors have the benefit of an indemnity, to the extent permitted by the Companies Act 2006 against liabilities incurred by them in the execution of their duties and exercise of their powers. This indemnity is currently in force. In addition, if proceedings against Directors are instituted subsequent to any person acquiring control of the Company, the Company has agreed with each of the Directors that pursuant to article 140(D) of the Company's Articles of Association, the Company shall provide a Director with funds (subject to certain restrictions) to meet expenditure incurred by that Director in defending any criminal or civil proceedings.

A copy of the Company's Articles of Association (which contains this indemnity) is available for inspection at the Company's registered office during normal business hours and will be available for inspection at (and during the period of 30 minutes prior to) the Company's forthcoming Annual General Meeting.

None of the Directors had an interest in any contract to which the Company or any of its subsidiaries was a party during the year.

The Company has undertaken to comply with the best practice on approval of directors' conflicts of interests in accordance with the Company's Articles of Association. These provisions have operated effectively. Under the Companies Act 2006, a director must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

The disclosable interests of Directors at 31 December 2016, including holdings, if any, of spouses and of children aged under 18, were as detailed in the Directors' Remuneration Report on page 94.

Substantial shareholdings

As at 14 March 2017, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company (as at this date no other such notification from any other shareholder had been received by the Company):

	%
BlackRock Inc	5.03
Harris Associates L.P.	5.08
OppenheimerFunds Inc	5.06
Sprucegrove Investment Management Ltd	4.78

Close company status

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

Employees

Statements on employee matters are contained in the section of the annual report entitled "Capturing the way things are done around here" on pages 45 to 49.

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

The Company is committed to equality of opportunity and recognises the benefit of diversity within its workforce. Its approach to the matter of diversity on company boards is set out in the Nominations Committee report on page 101 and in the section of the annual report entitled "Capturing the way things are done around here" on pages 45 to 49. The Company has an equal opportunities policy aimed at ensuring that employment decisions are based on ability and potential regardless of gender, race, colour, ethnic origin or sexual orientation, age or disability. In particular, applications for employment by disabled persons are always fully and fairly considered, bearing in mind the aptitudes of the person concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Group's policies and practices have been designed to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. Employee representatives are consulted regularly on a wide range of matters affecting their interests.

Modern slavery

The issue of slavery and human trafficking is a global issue and no business sector will be able to eliminate or be free of slavery within their supply chain without working collaboratively with industry and interested organisations. The Group will not accept slavery or human trafficking and works with suppliers and colleagues to ensure positive steps are taken to ensure that slavery has no place in the business or supply chain.

The Group's approach is based on its five Cornerstones which, in essence, come down to doing the "right thing". Suppliers are required to take positive steps to ensure slavery and human trafficking is not present in their supply chains and all centrally managed suppliers are required to sign up to the Group's policies for "Supplier Commitments" and undertake an online risk assessment to help identify potential risks in the supply chain. The Group has taken a risk based approach to consider its exposure to modern slavery and periodically audits the factories producing products under the Travis Perkins brands, prioritising these based on previous results, risk, performance and capability. An awareness programme has also been rolled out to commercial and product supply colleagues who are most likely to be confronted with this issue.

If issues are identified, investigations and remedial actions will be taken. No instances of slavery or human trafficking have been identified.

Political donations

The Group did not give any money for political purposes nor did it make any donations to political organisations or independent candidate or incur any political expenditure during the year.

Auditor

KPMG LLP is the Company's auditor at the date of this report, having been appointed following the outcome of the tender for the role of external auditor conducted during late 2014 and early 2015. Resolutions will be proposed at the Annual General Meeting to re-appoint KPMG LLP as the Company's auditor, and to authorise the Audit Committee to fix the auditor's remuneration.

Statement on disclosure of information to the auditor

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

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The director has taken all reasonable steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

Share capital and change of control

As at 31 December 2016 the Company had an allotted and fully paid share capital of 250,804,680 ordinary shares of 10 pence each, with an aggregate nominal value of £25,080,468 (including shares owned by the Travis Perkins Employee Share Ownership Trust). The ordinary shares are listed on the London Stock Exchange. All the shares rank pari passu. The rights and obligations attaching to the shares are set out in the Company's Articles of Association. Fully paid shares in the Company are freely transferable. There are no persons that hold securities carrying special rights with regard to the control of the Company. Details of the structure of the Company's share capital and changes in the share capital during the year are also included in note 19 to the annual financial statements.

As at 31 December 2016 the Travis Perkins Employee Share Ownership Trust owned 729,680 shares in the Company (0.3%) of issued share capital for use in connection with the Company's share schemes (aggregate nominal value £72,968). Any voting or other similar decisions relating to those shares would be taken by the Trustees, who may take account of any recommendation of the Company.

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

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

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

There are no agreements providing for compensation for Directors or employees on change of control. As set out in the Directors Remuneration Report on page 95, service contracts for Executive Directors do not specify any particular level of compensation in the event of termination following change of control of the Company. As noted above, the Company has agreed with each of the Directors that it shall provide a director with funds (subject to certain restrictions) to meet expenditure incurred in defending any criminal or civil proceedings if such proceedings are instituted subsequent to any person acquiring control of the Company.

By order of the Board


Deborah Grimason
Company Secretary & General Counsel
14 March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether the financial statements have been prepared in accordance with IFRSs as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group and the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The Strategic Report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
3. The annual report and financial statements taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy

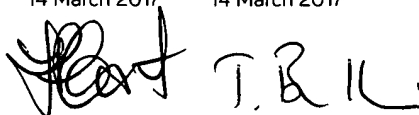
Declaration

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

By order of the Board

John Carter
Chief Executive
14 March 2017

Tony Buffin
Chief Operating Officer
14 March 2017



FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAVIS PERKINS PLC ONLY

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Travis Perkins plc for the year ended 31 December 2016 set out on pages 114 to 181. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Overview	
Materiality: group financial statements as a whole	£17m (2015: £18m) 5% (2015: 5%) of group profit before tax adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement
Coverage	94% (2015: 95%) of group profit before tax adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement
Risks of material misstatement vs 2015	
Recurring risks	Valuation of goodwill and other non-current assets ▲
	Recognition of supplier income ◀▶
	Valuation of inventory ◀▶

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2015):

The risk	Our response
<p>Valuation of goodwill and other non-current assets (£2,848 million; 2015: £2,983 million)</p> <p>Refer to pages 67 to 73 (Audit Committee Report), pages 126 to 127 (Critical judgements and key sources of estimation and uncertainty) and pages 142 to 144 (Financial disclosures).</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Historical comparisons: Considering historical forecasting accuracy, by comparing forecast cash flows to those currently being achieved by the CGUs.
<p>Forecast based valuation</p> <p>A worsening in the UK economy, fall in consumer confidence, the impact of cost price inflation or being slow to respond to changes in customer buying behaviours may impact the performance of certain businesses to the extent that the goodwill balance could become impaired.</p>	

The risk	Our response
<p>In particular the plumbing & heating market has faced significant challenges. The re-segmentation programme (Building the Best) completed in early 2016 has not achieved all of the expected benefits and the City Plumbing business is facing competition from fixed price retailers and loss of market share due to not having a transactional website.</p> <p>In the Consumer division performance in the Tile Giant business has been lower than expected and for Wickes, whilst the headroom has grown year-on-year, the value in use is still sensitive to certain assumptions, such as market and revenue growth and capital expenditure.</p> <p>The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The Group's annual impairment reviews are based on the three year plan, risk adjusted for observed changes to the relevant markets. This review has resulted in an impairment of £235 million, principally in the City Plumbing and Tile Giant cash generating units, being recorded in the financial statements.</p>	<ul style="list-style-type: none"> • Our sector experience: Assessing whether future cash flows, specifically revenue growth, margin assumptions and maintenance capital expenditure, reflect known or probable changes in the business environment. • Benchmarking assumptions: Using our own valuation specialists to challenge the key inputs used in the calculation of the discount rates used by the Group, including comparisons with external data sources for comparable companies. • Sensitivity analysis: Performing our own sensitivity analysis on these CGUs, including a reduction in assumed growth rates, increased capital expenditure, reduced ability to pass through cost price inflation and an increased discount rate. • Assessing transparency: Assessing whether the Group's disclosures regarding the sensitivity of the impairment assessment, to changes in key assumptions, appropriately reflected the risks inherent in the valuation of goodwill and non-current assets.

Recognition of supplier rebate income

Refer to pages 67 to 73 (Audit Committee Report), pages 126 to 127 (Critical judgements and key sources of estimation and uncertainty) and page 150 (Financial disclosures).

Subjective estimate

As a result of the wide range of products and suppliers to the Group, there are a significant number of complex and varying purchase agreements within the business specifically involving fixed price discounts, volume rebates and customer sales support. We consider the risk to relate to the calculation of the income receivable, including and recoverability of the year end receivables from suppliers in respect of these agreements. The risk is driven by the complexity of this calculation across the range of products and divisions and the estimation relating to the collection rate of this income, including recoverability of the amounts outstanding at the year end.

Our procedures included:

- **Historical comparisons:** Considering the success of rebate collection in previous periods for significant balances outstanding at the date of signing the audit report, and agreeing the calculation of the amount accrued to contractual agreements.
- **Tests of details:** Agreeing a statistical sample of the total amount of rebate income recorded in the year, including amounts outstanding at the year end to cash received or credit note raised. Agreeing the calculation of the amount accrued to contractual agreements for balances outstanding at the year end on a sample basis.
- **Enquiry of customers:** Requesting a sample of supplier rebate balance confirmations. We compared the confirmations to the related receivables and challenged management's explanations of any variances.
- **Assessing transparency:** Considering the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the amounts recognised which are based on historic collection rates.

	The risk	Our response
<p>Valuation of inventory (£768 million; 2015: £762 million)</p> <p>Refer to pages 67 to 73 (Audit Committee Report), pages 126 to 127 (Critical judgements and key sources of estimation and uncertainty)</p>	<p>Substantive estimate</p> <p>There is a risk that items are not recorded at the lower of cost and net realisable value. The impact of rebate accounting and overheads allocations makes the inventory valuation complex in the various group businesses. In addition the competitive market and changes in consumer tastes may impact the saleability of the product.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Methodology choice: Evaluation of the appropriateness of the methodologies applied in determining product cost and critically assessing the calculation (including the allocation of rebates) • Tests of details: Comparing the amounts at which a sample of items is stated with the invoiced cost, adjusted for any subsequent rebates and compared that with sales prices achieved after the year-end • Assessing transparency: Considering the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the valuation

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

The materiality for the group financial statements as a whole was set at £17 million (2015: £18 million), determined with reference to a benchmark of Group profit before taxation adjusted for impairment of intangible assets and exceptional items as disclosed on the face of the income statement of £364.7 million of which it represents 5%.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5 million (2015: £0.5 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 64 (2015: 63) reporting components, 17 (2015: 15) were subject to audit for group reporting purposes. The components within the scope of our work accounted for 93% (2015: 93%) of total group revenue; 96% (2015: 95%) of group profit before taxation*; and 86% (2015: 91%) of total group assets. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £1.0 million to £12.8 million (2015: £1.7 million to £10 million), having regard to the mix of size and risk profile of the Group across the components. The work on 2 of the 17 components (2015: 2 of the 14 components) was performed by component auditors and the rest by the Group team. The group team performed procedures on the items excluded from adjusted group profit before tax.

The Group audit team visited component locations (all UK based) of all 17 (2015: 15) in scope components and arranged calls to assess the audit risk and strategy and, subsequently visited to discuss the findings reported to the Group audit team in more detail. Any further work required by the Group audit team was then performed by the component auditor

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006

5. We have nothing to report on the disclosures of principal risks

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

- The directors' statement of viability assessment on page 35, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group continuing in operation over the 3 years to 28 February 2020; or
- The disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting

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

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- The Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- The directors' statements, set out on pages 35 and 65, in relation to going concern and longer-term viability; and
- The part of the Corporate Governance Statement on page 62 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 106, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Greg Watts (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

14 March 2017



Income Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

The Group							
		2016			2015		
	Notes	Pre- exceptional items £m	Exceptional items £m	Total £m	Pre- exceptional items £m	Exceptional items £m	Total £m
Revenue	4	6,217.2	-	6,217.2	5,941.6	-	5,941.6
Operating profit before amortisation and impairment		409.0	-	409.0	412.6	-	412.6
Amortisation of goodwill and acquired intangible assets		(16.6)	-	(16.6)	(18.0)	-	(18.0)
Impairment of assets and other exceptional items	5(d)	-	(292.0)	(292.0)	-	(140.6)	(140.6)
Operating profit	5(a)	392.4	(292.0)	100.4	394.6	(140.6)	254.0
Finance income	9	0.7	-	0.7	1.2	-	1.2
Finance costs	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	10(a)	(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							
Basic	11(a)			5.1p			67.8p
Diluted	11(a)			5.0p			66.2p
Total dividend declared per ordinary share	12			45.0p			44.0p

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

		The Company	
	Notes	2016 £m	2015 £m
Revenue	4	338.8	264.9
Operating profit before exceptional items		317.7	239.5
Exceptional items	5(d)	(19.0)	-
Operating profit		298.7	239.5
Finance income	9	0.6	1.2
Finance costs	9	(44.3)	(47.5)
Profit before tax		255.0	193.2
Tax	10	10.6	10.8
Profit for the year		265.6	204.0

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

Statements of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	The Group		The Company	
		2016 £m	2015 £m	2016 £m	2015 £m
Profit for the year		14.1	167.7	265.6	204.0
Items that will not be reclassified subsequently to profit and loss					
Actuarial (losses) / gains on defined benefit pension schemes	27(h)	(86.9)	24.8	-	-
Deferred tax rate change on actuarial movement	10(b)	-	(1.4)	-	-
Income tax relating to items not reclassified	10(b)	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)	0.1	(0.3)
Other comprehensive (loss) / income for the year net of tax		(70.3)	18.4	0.1	(0.3)
Total comprehensive (loss) / income for the year		(56.2)	186.1	265.7	203.7

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

Balance Sheets

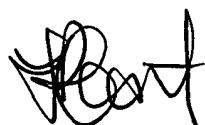
AS AT 31 DECEMBER 2016

	Notes	The Group		The Company	
		2016 £m	2015 £m	2016 £m	2015 £m
Assets					
Non-current assets					
Goodwill	13	1,528.3	1,740.2	-	-
Other intangible assets	14	360.8	371.7	-	-
Property, plant and equipment	15	929.5	849.5	0.1	0.1
Derivative financial instruments	23	-	6.3	-	6.3
Interest in associates	16(a)	11.5	7.9	16.9	12.2
Investment in subsidiaries	16(b)	-	-	3,805.4	3,683.5
Investments	16(c)	9.1	7.8	4.4	3.3
Other receivables	17	8.3	-	-	-
Deferred tax asset	25	-	-	1.8	2.9
Total non-current assets		2,847.5	2,983.4	3,828.6	3,708.3
Current assets					
Inventories		768.0	761.8	-	-
Trade and other receivables	17	1,059.3	986.9	387.6	269.8
Derivative financial instruments	23	1.7	16.2	1.7	16.2
Cash and cash equivalents	18	250.5	83.8	185.9	32.8
Total current assets		2,079.5	1,848.7	575.2	318.8
Total assets		4,927.0	4,832.1	4,403.8	4,027.1

	Notes	The Group		The Company	
		2016 £m	2015 £m	2016 £m	2015 £m
Equity and liabilities					
Capital and reserves					
Issued capital	19	25.1	25.0	25.1	25.0
Share premium account		528.5	518.9	527.4	517.8
Merger reserve	21	326.5	326.5	326.5	326.5
Revaluation reserve	21	16.8	18.4	-	-
Hedging reserve	21	-	(0.1)	-	(0.1)
Own shares	21	(8.7)	(15.5)	(8.7)	(15.5)
Other reserve	21	-	(14)	-	-
Accumulated profits	21	1,760.1	1,918.1	587.0	421.5
Equity attributable to owners of the Company		2,648.3	2,789.9	1,457.3	1,275.2
Non-controlling interests		7.3	5.9	-	-
Total equity		2,655.6	2,795.8	1,457.3	1,275.2
Non-current liabilities					
Interest bearing loans and borrowings	22	621.1	411.4	559.0	360.2
Retirement benefit obligations	27	127.3	52.2	-	-
Long-term provisions	24	21.2	7.4	-	-
Amounts due to subsidiaries		-	-	2,368.4	2,231.6
Deferred tax liabilities	25	45.8	61.3	-	-
Total non-current liabilities		815.4	532.3	2,927.4	2,591.8
Current liabilities					
Interest bearing loans and borrowings	22	6.9	139.8	-	137.0
Trade and other payables	26	1,348.3	1,235.5	19.1	23.1
Tax liabilities		43.8	90.2	-	-
Short-term provisions	24	57.0	38.5	-	-
Total current liabilities		1,456.0	1,504.0	19.1	160.1
Total liabilities		2,271.4	2,036.3	2,946.5	2,751.9
Total equity and liabilities		4,927.0	4,832.1	4,403.8	4,027.1

The financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 14 March 2017 and signed on its behalf by:

John Carter
Director



Tony Buffin
Director



Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

The Group											
£m	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
At 1 January 2015	24.9	510.5	326.5	18.1	0.2	(28.5)	(1.5)	1,827.5	2,677.7	-	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 (note 10c)	-	-	-	-	-	-	-	1.9	1.9	-	1.9
Arising 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
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 (10c)	-	-	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Reserves adjustment	-	-	-	-	-	-	1.4	(1.4)	-	-	-
Own shares movement	-	-	-	-	-	6.8	-	(6.8)	-	-	-
Credit for equity-settled share based payments	-	-	-	-	-	-	-	17.5	17.5	-	17.5
At 31 December 2016	25.1	528.5	326.5	16.8	-	(8.7)	-	1,760.1	2,648.3	7.3	2,655.6

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

The Company

£m	Issued share capital	Share Premium account	Merger reserve	Hedging reserve	Own shares	Retained earnings	Total equity
At 1 January 2015	24.9	509.4	326.5	0.2	(28.5)	315.1	1,147.6
Profit for the year	-	-	-	-	-	204.0	204.0
Other comprehensive income for the period net of tax	-	-	-	(0.3)	-	-	(0.3)
Total comprehensive income for the year	-	-	-	(0.3)	-	204.0	203.7
Dividends	-	-	-	-	-	(100.2)	(100.2)
Issue of share capital	0.1	8.4	-	-	13.0	(11.5)	10.0
Tax on share based payments (note 10c)	-	-	-	-	-	0.4	0.4
Credit for equity-settled share based payments	-	-	-	-	-	13.7	13.7
At 31 December 2015	25.0	517.8	326.5	(0.1)	(15.5)	421.5	1,275.2
Profit for the year	-	-	-	-	-	265.6	265.6
Other comprehensive income for the period net of tax	-	-	-	0.1	-	-	0.1
Total comprehensive income for the year	-	-	-	0.1	-	265.6	265.7
Dividends	-	-	-	-	-	(110.5)	(110.5)
Issue of share capital	0.1	9.6	-	-	-	-	9.7
Own shares movement	-	-	-	-	6.8	(6.8)	-
Tax on share based payments (note 10c)	-	-	-	-	-	(0.3)	(0.3)
Credit for equity-settled share based payments	-	-	-	-	-	17.5	17.5
At 31 December 2016	25.1	527.4	326.5	-	(8.7)	587.0	1,457.3

Cash Flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit before amortisation and impairment of goodwill and other intangible assets and exceptional items	409.0	412.6	317.7	239.5
Adjustments for:				
Depreciation of property, plant and equipment	97.6	83.0	0.1	0.1
Amortisation of internally generated intangibles	7.5	3.1	-	-
Other non cash movement – share based payments	17.5	13.7	6.0	3.4
Other non-cash movements - other	0.2	0.7	-	-
Losses / (gains) of associates	1.1	(2.7)	-	(7.5)
Gain on disposal of property, plant and equipment	(18.0)	(26.3)	-	-
Operating cash flows before exceptional items	514.9	484.1	323.8	235.5
Increase in inventories	(5.7)	(14.1)	-	-
Increase in receivables	(83.3)	(43.0)	(118.0)	(124.1)
Increase / (decrease) in payables	93.9	(38.8)	(1.9)	(49.4)
Payments of 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	203.9	62.0
Interest paid	(22.6)	(19.9)	(21.4)	(18.8)
Current income taxes paid	(62.2)	(47.8)	-	-
One-off income tax payments (note 10)	(42.5)	-	-	-
Total income taxes paid	(104.7)	(47.8)	-	-
Net cash from operating activities	367.4	282.6	182.5	43.2
Cash flows from investing activities				
Interest received	0.4	0.2	0.4	0.2
Proceeds on disposal of property, plant and equipment	42.9	50.8	-	-
Development of computer software	(30.8)	(23.9)	-	-
Purchases of property, plant and equipment	(197.5)	(268.7)	(0.1)	(0.1)
Interest in associates	(4.6)	(3.5)	(4.6)	(3.5)
Investments	(1.1)	(5.3)	(5.6)	(31.3)
Acquisition of businesses net of cash acquired (note 28)	(3.2)	(26.0)	-	-
Net cash used in investing activities	(193.9)	(276.4)	(9.9)	(34.7)
Financing activities				
Net proceeds from the issue of share capital	9.7	10.0	9.7	10.0
Net movement in finance lease liabilities	15.9	(2.7)	-	-
Debt arrangement fees	(2.4)	(3.9)	(2.4)	(3.9)
Repayment of loan notes	(123.1)	(40.8)	(123.1)	(40.8)
(Decrease) / increase in loans and liabilities to pension scheme	(113.2)	106.9	(110.0)	110.0
Gain on settlement of swap contracts	16.8	-	16.8	-
Increase in sterling bonds	300.0	-	300.0	-
Dividends paid	(110.5)	(100.2)	(110.5)	(100.2)
Net cash from financing activities	(6.8)	(30.7)	(19.5)	(24.9)
Net increase / (decrease) in cash and cash equivalents	166.7	(24.5)	153.1	(16.4)
Cash and cash equivalents at the beginning of the year	83.8	108.3	32.8	49.2
Cash and cash equivalents at the end of year (note 18)	250.5	83.8	185.9	32.8

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Overview

Travis Perkins plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 186. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 6 to 55.

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

Basis of accounting

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

Basis of preparation

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

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

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

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

- IFRS 9 – Financial Instruments
- Annual improvements to IFRS 2012–2014 cycle
- Amendments to IAS 12 – Amendments regarding the recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7 – Amendments as a result of the Disclosure initiative
- IFRS 15 – Revenue Recognition
- IFRS 2 – Amendments to clarify the classification and measurement of share-based payment transactions
- Annual improvements to IFRS 2014–2016 cycle

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

• IFRS 16 – Leases

In January 2016 the IASB issued IFRS 16 – Leases which is yet to be endorsed by the European Union. This Standard will have a material effect on the Group because the value of the operating leases it has entered into will be included in the balance sheet in future (see note 29). The Group has initiated a project to determine the effect of this new Standard. Given the complexity of the Standard and the volume of leases, this project has not been completed at the date of these accounts.

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

Detailed considerations of going concern, risks and uncertainties are provided in the Annual Report on pages 65 and 37 to 43 respectively.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES continued

Exceptional items

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

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

Supplier income

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

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

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

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

Other promotional arrangements are not significant.

Customer rebates

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

Business combinations and goodwill

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

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

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

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

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

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

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Leases

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

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

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

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

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

Impairment of tangible and intangible assets

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

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

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

Inventories

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

Financial instruments

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

Trade receivables

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

Impairment of financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES continued

Bank and other borrowings

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

Trade payables

Trade payables are measured at amortised cost.

Foreign currencies

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

Financial assets and financial liabilities

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

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

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

Financial assets and financial liabilities at FVTPL

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

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

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

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

Loans and receivables

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

Other financial liabilities

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

Derecognition of financial assets and financial liabilities

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

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

Taxation

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

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

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

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

Retirement benefit costs

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

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

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

Employee share incentive plans

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

Provisions

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

2. SIGNIFICANT ACCOUNTING POLICIES continued

Equity instruments and own shares

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

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

Dividends

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

3. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. The preparation of financial statements requires the Directors to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions. The Directors frequently re-evaluate these significant factors and make adjustments where facts and circumstances dictate. The Directors believe that the following judgements are critical due to the degree of estimation required and / or the potential material impact they may have on the Group's financial position and performance.

Supplier income

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

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

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

Income taxes

The Group is subject to the income tax laws of the United Kingdom. These laws are complex and subject to different interpretations by taxpayers and tax authorities. When establishing income tax liabilities, the Directors make a number of judgements and interpretations about the application and interaction of these laws to estimate the amount expected to be paid to (or recovered from) the tax authorities. In particular, as set out in the statement of principal risks and uncertainties on pages 42 to 43 and the financial performance section on pages 29 and 30, the Group has claimed approximately £72m of deductions in its submitted tax returns in previous years which HMRC are vigorously disputing. Accordingly, the Group has not recognised the benefit of the disputed amounts in its accounts.

Changes in tax laws or in their interpretation could affect the Group's effective tax rate and the results of operations in a given period. Accordingly, future tax expense may be affected as the uncertain tax matters are resolved.

Cash generating units

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

Goodwill and other intangible assets

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

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

Pension assumptions

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

Inventories

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

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

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

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4. REVENUE AND OTHER INCOME

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Sale of goods	6,049.9	5,795.2	-	-
Sales of services	167.3	148.4	-	-
Management charges	-	-	8.4	8.4
Dividends from subsidiaries	-	-	330.4	256.5
Revenue	6,217.2	5,941.6	338.8	264.9
Other operating income	5.7	5.0	-	7.5
Finance income	0.7	1.2	0.6	1.2
	6,223.6	5,947.8	339.4	273.6

5. PROFIT

a. Operating profit

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Revenue	6,217.2	5,941.6	338.8	264.9
Cost of sales	(4,365.4)	(4,172.6)	-	-
Gross profit	1,851.8	1,769.0	338.8	264.9
Selling and distribution costs	(1,403.1)	(1,066.2)	-	-
Administrative expenses	(369.9)	(480.4)	(21.1)	(32.9)
Profit on disposal of properties	17.0	23.9	-	-
Other operating income	5.7	5.0	-	7.5
Share of results of associate	(1.1)	2.7	-	-
Operating profit	100.4	254.0	317.7	239.5
Add back impairment of assets and other exceptional items	292.0	140.6	19.0	-
Add back amortisation of acquired intangible assets	16.6	18.0	-	-
Adjusted operating profit	409.0	412.6	298.7	239.5
Profit on disposal of properties	(17.0)	(23.9)	-	-
Adjusted operating profit excluding property profits	392.0	388.7	298.7	239.5

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

	The Group	
	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	130	130
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	595	390
Additional fees payable to Company's auditor for the 2015 audit of the Company's subsidiaries	175	-
Fees paid to the Company's auditor for other services:		
Audit related assurance services	55	55
Other services	187	84
	1,142	659

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 67 to 73, and includes an explanation of how auditor objectivity and independence is safeguarded when the auditor provides non-audit services.

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

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Movement of provisions against inventories	4.1	(12)	-	-
Cost of inventories recognised as an expense	4,361.3	4,173.8	-	-
Pension costs in administration expenses	8.7	9.4	0.2	0.4
Pension costs in selling and distribution costs	16.8	21.5	-	-
Depreciation of property, plant and equipment	97.6	83.0	0.1	0.1
Amortisation of internally generated intangible assets	7.5	3.1	-	-
Amortisation of acquired intangible assets	16.6	18.0	-	-
Impairment of goodwill and acquired intangible assets	231.3	140.6	-	-
Impairment of tangible fixed assets	4.1	-	-	-
Impairment of investments	-	-	19.0	14.3
Exceptional restructuring costs	56.6	-	-	-
Staff costs	814.5	748.8	10.9	11.8
Gain on disposal of property, plant and equipment	(18.0)	(26.3)	-	-
Rental income	(5.7)	(5.0)	-	-
Hire of vehicles, plant and machinery	46.3	47.3	-	-
Other leasing charges – property	194.0	185.4	-	-
Auditor's remuneration for audit services	0.7	0.5	-	0.1

b. 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
Property profits	(13.6)	(16.8)	0.3	(4.6)	-	(2.4)	(3.3)	0.1	-	-	(16.6)	(23.9)
Adjusted segment result excluding property profits	193.9	182.0	76.3	78.6	101.0	92.4	36.0	45.6	(14.8)	(9.9)	392.4	388.7
Adjusted operating margin	10.0%	10.1%	6.0%	6.9%	6.7%	6.8%	2.9%	3.3%	-	-	6.6%	6.9%
Adjusted segment margin excluding property profits	9.3%	9.2%	6.0%	6.5%	6.7%	6.7%	2.6%	3.3%	-	-	6.3%	6.5%

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

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5. PROFIT continued

C. Adjusted profit before and after tax

	The Group	
	2016 £m	2015 £m
Profit before tax	72.7	223.5
Exceptional items	292.0	140.6
Amortisation of acquired intangible assets	16.6	18.0
Adjusted profit before tax	381.3	382.1

	The Group	
	2016 £m	2015 £m
Profit after tax	14.1	167.7
Exceptional items	292.0	140.6
Amortisation of acquired intangible assets	16.6	18.0
Tax on amortisation of acquired 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 profit after tax	301.3	306.9

d. Exceptional items

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Impairment of investments, goodwill, other intangible assets and tangible fixed assets	235.4	140.6	19.0	-
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	19.0	-

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

The Group

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 & Heating division have 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 note 13.

In October 2016, as a result of the economic uncertainty, the Group announced a number of branch and distribution centre closures together with other cost reduction measures. In accordance with the accounting policy stated in note 2 the total cost of £56.6m has been treated as exceptional. The exceptional items consist of the following:

- £16.5m of property, redundancy and other costs, together with asset write downs associated with the closure of 51 branches and 10 distribution centres
- £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 & Heating segment on goodwill and other intangible assets totalling £140.6m.

The Company

As a result of the impairment recognised in the Group, the Company has impaired the carrying value of investments in subsidiaries at 31 December 2016 by £19.0m.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

As required by IFRS 8 the operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to assess their performance. All four divisions sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom and consequently no geographical information is presented. The operating segments of the Group are aggregated into the four divisions, the reportable segments of the Group, based on shared economic characteristics and similarities in their customers and products.

Segment result represents the profit earned by each segment without allocation of certain central costs, finance income and costs and income tax expense. Unallocated segment assets and liabilities comprise financial instruments, current and deferred taxation, cash and borrowings and pension scheme assets and liabilities.

Inter-segment trading is eliminated. During 2016 an impairment loss was recognised in the Consumer and Plumbing & Heating segments in respect of goodwill and other assets totalling £235.4m. In 2015 an impairment loss was recognised in the Plumbing & Heating segment in respect of goodwill and other intangible assets totalling £140.6m.

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS continued

	2015					Consolidated £m
	General Merchandising £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Unallocated £m	
Revenue	1,971.5	1,213.6	1,385.8	1,370.7	-	5,941.6
Result						
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 of acquired intangible assets	-	5.9	4.9	7.2	-	18.0
Impairment of goodwill and acquired intangibles	-	-	-	140.6	-	140.6
Depreciation	47.8	9.2	17.6	8.4	-	83.0

During 2016, 13 Keyline branches were transferred from the Contracts segment into Travis Perkins in the General Merchandising segment for their carrying value of £9m. There were no other inter segment transfers in 2016 or 2015.

Unallocated segment assets and liabilities comprise the following:

	2016 £m	2015 £m
Assets		
Interest in associates	11.5	7.9
Financial instruments	1.7	22.5
Property, plant and equipment	0.7	0.4
Investments	9.1	7.8
Cash and cash equivalents	250.5	83.8
Unallocated corporate assets	21.1	0.7
	294.6	123.1
Liabilities		
Tax liabilities	(43.8)	(90.2)
Deferred tax liabilities	(45.8)	(61.3)
Retirement benefit obligations	(127.3)	(52.2)
Interest bearing loans and borrowings	(628.0)	(551.2)
Unallocated corporate liabilities	(40.6)	(21.6)
	(885.5)	(776.5)

7. STAFF COSTS

a. The average monthly number of persons employed (including executive directors)

	The Group		The Company	
	2016 No.	2015 No.	2016 No.	2015 No.
Sales and distribution	22,523	21,204	-	-
Administration	2,133	3,466	50	51
	24,656	24,670	50	51

b. Aggregate remuneration

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Wages and salaries	736.3	680.9	9.1	7.6
Share based payments (note 8)	17.5	13.7	6.0	3.4
Social security costs	60.7	54.2	0.9	0.8
Other pension costs (note 27m)	25.5	30.9	0.2	0.4
	840.0	779.7	16.2	12.2

8. SHARE-BASED PAYMENTS

The Black-Scholes option-pricing model is used to calculate the fair value of the options and the amount to be expensed. The probability of the performance conditions being achieved was included in the fair value calculations. The inputs into the model for options granted in the year expressed as weighted averages are as follows:

	2016			2015		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Share price at grant date (pence)	1,785	1,569	1,797	1,948	2,022	1,964
Option exercise price (pence)	1,847	1,342	-	1,959	1,616	-
Volatility (%)	23.4%	28.2%	23.7%	24.2%	23.4%	24.2%
Option life (years)	3.0	3.4	2.9	3.0	3.3	2.9
Risk-free interest rate (%)	0.5%	0.1%	0.5%	0.7%	0.9%	0.7%
Expected dividends as a dividend yield (%)	2.3%	2.6%	2.3%	2.2%	2.1%	2.2%

Volatility is based on historic share prices over a period equal to the vesting period. Option life used in the model has been based on options being exercised in accordance with historical patterns. For executive share options the vesting period is 3 years. If options remain unexercised after a period of 10 years from the date of grant, these options expire. Options are forfeited if the employee leaves the Group before options vest. SAYE options vest after 3 or 5 years and expire 3½ or 5½ years after the date of grant.

The risk-free interest rate of return is the yield on zero-coupon UK Government bonds on a term consistent with the vesting period. Dividends used are based on actual dividends where data is known and future dividends estimated using a dividend cover of three times (within the Board's target range).

The expected life of options used in the model has been adjusted, based upon management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

A description of the share schemes operated by the Group is contained in the remuneration report on pages 74 to 98.

8. SHARE-BASED PAYMENTS continued

SAYE options were granted on 22 September 2016. The estimated fair value of the shares under option at that date was £8.9m for the Group and £0.1m for the Company.

Shares were granted under the share-matching scheme on 1 April 2016. The estimated fair value of the shares under option at those dates was £5.5m for the Group and £2.8m for the Company.

Shares were granted under the performance share plan on 4 March 2016 and 26 August 2016. The estimated fair value of the shares under option at those dates was £9.5m for the Group and £3.8m for the Company.

Shares were granted under the deferred share bonus plan on 4 March 2016. The estimated fair value of the shares at that date was £0.8m for the Group and £0.6m for the Company.

Shares were granted under the Wickes and Toolstation long-term incentive plans on 18 March 2016. The estimated fair value of the shares at that date was £0.5m for the Group and £nil for the Company.

The Group charged £17.5m (2015: £13.7m) and the Company charged £6.0m (2015: £3.4m) to the income statement in respect of equity-settled share-based payment transactions.

The number and weighted average exercise price of share options is as follows:

	The Group					
	2016			2015		
	Weighted average exercise price (p)	Number of options	Number of nil price options	Weighted average exercise price (p)	Number of options	Number of nil price options
In thousands of options						
Outstanding at the beginning of the year	1,345	5,782	2,946	1,124	5,979	3,872
Forfeited during the year	1,266	(1,401)	(250)	1,226	(609)	(989)
Exercised during the year	906	(1,078)	(545)	791	(1,339)	(863)
Granted during the year	1,194	2,275	856	1,633	1,751	926
Outstanding at the end of the year	1,384	5,578	3,007	1,345	5,782	2,946
Exercisable at the end of the year	1,087	354	408	740	222	253

Share options were exercised on a regular basis throughout the year. The weighted average share price for options exercised during the year was 1,573 pence (2015: 2,000 pence).

Details of the options outstanding at 31 December 2016 is as follows:

	The Group					
	2016			2015		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	201-1,958	657-1,616	-	201-2,018	657-1,616	-
Weighted average exercise price (pence)	1,697	1,376	-	1,503	1,335	-
Number of shares (thousands)	292	5,286	3,007	339	5,444	2,946
Weighted average expected remaining life (years)	1.0	2.1	1.0	1.9	2.1	1.1
Weighted average contractual remaining life (years)	7.5	2.6	7.6	7.5	2.6	7.9

If all 0.3m outstanding executive options vest and then are exercised on the date of vesting, or in the case of SAYE all 5.3m shares are acquired on the first possible day 5.6m of shares will be issued for a consideration of £77.4m in the years ending 31 December:

31 December	2017		2018		2019		2020		2021	
	No. m	Value £m	No. m	Value £m	No. m	Value £m	No. m	Value £m	No. m	Value £m
Options	0.1	2.3	0.1	1.5	0.1	1.1	-	-	-	-
SAYE	1.7	21.8	1.0	15.7	2.0	27.4	0.2	2.5	0.4	5.1

The table above shows theoretical amounts. For the Company to receive the cash indicated in the periods shown, the following must occur:

- All performance conditions on executive share options must be fully met
- Options must be exercised on the day they vest (option holders generally have a 7 year period post vesting to exercise the option)
- The share price at the exercise date for SAYE options must exceed the exercise price and every holder must exercise
- All option/SAYE holders must remain with the Company, or leave on good terms

If none of the requirements are met then the Company will receive no consideration.

The number and weighted average exercise price of share options is as follows:

	The Company					
	2016			2015		
	Weighted average exercise price (p)	Number of options	Number of nil price options	Weighted average exercise price (p)	Number of options	Number of nil price options
In thousands of options						
Outstanding at the beginning of the year	1,481	64	1,195	892	121	1,631
Forfeited during the year	1,569	(8)	(81)	1,168	(7)	(402)
Exercised during the year	1,274	(15)	(242)	462	(67)	(374)
Granted during the year	1,592	19	407	1,722	17	340
Outstanding at the end of the year	1,543	60	1,279	1,481	64	1,195
Exercisable at the end of the year	909	4	30	913	2	169

Details of the options outstanding at 31 December 2016 is as follows:

	The Company					
	2016			2015		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	743-1,958	657-1,616	-	1,020-1,958	657-1,616	-
Weighted average exercise price (pence)	1,837	1,427	-	1,713	1,335	-
Number of shares (thousands)	17	43	1,279	23	42	1,195
Weighted average expected remaining life (years)	0.7	2.5	1.1	2.2	2.3	0.9
Weighted average contractual remaining life (years)	10.6	3.0	11.1	8.2	2.8	7.7

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9. NET FINANCE COSTS

a. Finance costs and finance income

	The Group	
	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 loan	(2.4)	(2.5)
Other interest	(1.2)	(2.7)
Other finance costs - pension scheme	(1.7)	(2.9)
Net loss on remeasurement 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 remeasurement 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 arrangement fees on bilateral loans was charged directly to the Income Statement.

b. Interest cover covenant

	The Group	
	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
Adjusted interest for covenant purposes	(20.8)	(20.0)
Adjusted interest cover for covenant purposes	19.7x	20.6x

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

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

C. Fixed charge cover interest

	The Group	
	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 - SPV loan	(2.4)	(2.5)
Loan note interest (included in other interest)	-	(0.3)
Interest for fixed charge ratio purposes	(25.2)	(24.9)

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

The charge caused by the unwinding of the discounts relates to the property provisions created in 2008 and the liability to the pension scheme associated with the SPV (note 27).

d. The Company

	The Company	
	2016 £m	2015 £m
Interest on bank loans and overdrafts*	(5.7)	(14.0)
Interest on sterling bonds	(16.1)	(7.4)
Interest payable to Group companies	(21.6)	(22.5)
Other interest	(0.9)	(2.4)
Net loss on re-measurement of derivatives at fair value	-	(1.2)
Finance costs	(44.3)	(47.5)
Amortisation of cancellation receipt for swap accounted for as fair value hedge	-	0.9
Net gain on remeasurement of derivatives at fair value	0.3	-
Interest receivable from Group companies	0.1	0.1
Interest receivable	0.2	0.2
Finance income	0.6	1.2
Net finance costs	(43.7)	(46.3)

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

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10. TAX

a. Tax charge in income statement

	The Group						The Company	
	2016			2015			2016	2015
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m	£m	£m
Current tax								
UK corporation tax								
- current year	74.4	(11.3)	63.1	71.8	-	71.8	(10.9)	(11.1)
- prior year	(3.7)	-	(3.7)	(1.3)	-	(1.3)	(0.1)	0.2
Total current tax	70.7	(11.3)	59.4	70.5	-	70.5	(11.0)	(10.9)
Deferred tax								
- current year	2.6	(7.2)	(4.6)	(0.1)	(16.0)	(16.1)	0.6	(0.2)
- prior year	3.8	-	3.8	1.4	-	1.4	(0.2)	0.3
Total deferred tax	6.4	(7.2)	(0.8)	1.3	(16.0)	(14.7)	0.4	0.1
Total tax charge	77.1	(18.5)	58.6	71.8	(16.0)	55.8	(10.6)	(10.8)

During the period, following a change in legislation, HMRC issued a payment demand for £52.5m of unpaid tax relating to historical tax disputes. As shown in the cash-flow statement, the Group made one-off tax payments of £42.5m. The remaining £10m was settled by allocating against the outstanding amount of £10m, historical tax overpayments that were already held by HMRC.

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	The Group			
	2016		2015	
	£m	%	£m	%
Profit before tax	72.7		223.5	
Tax at the UK corporation tax rate	14.5	20.0	45.3	20.3
Tax effect of expenses / credits that are not deductible / taxable in determining taxable profit	0.8	1.1	1.1	0.5
Depreciation of non-qualifying property	2.6	3.6	1.9	0.9
Impairment of goodwill	42.7	58.7	20.0	8.9
Impairment of intangibles	0.5	0.7	0.9	0.4
Share based payments	3.9	5.2	-	-
Deferred tax rate change	(3.1)	(4.3)	(8.5)	(3.8)
Property sales	(3.4)	(4.7)	(5.0)	(2.2)
Prior period adjustment	0.1	0.3	0.1	-
Tax expense and effective tax rate for the year	58.6	80.6	55.8	25.0

The tax charge for 2016 includes an exceptional credit of £3.4m arising from the reduction in the rate of UK corporation tax effective on 1 April 2020 from 18% to 17%.

The standard rate of corporation rate for 2015 of 20.25% was a blended rate of 21% up to 1 April 2015 and 20% thereafter. The tax charge for 2015 included an exceptional credit of £8.5m arising from the reduction in the rate of UK corporation tax from 20% to 19% on 1 April 2017 and a further reduction to 18% on 1 April 2020. In addition the 2015 tax charge included an exceptional credit of £7.5m in respect of the exceptional impairment of other intangible assets.

	The Company			
	2016		2015	
	£m	%	£m	%
Profit before tax	255.0		193.2	
Intercompany dividends	(330.4)		(256.5)	
Loss before tax and dividends received	(75.4)		(63.3)	
Tax at the UK corporation tax rate	(15.1)	20.0	(12.8)	20.2
Tax effect of expenses / credits that are not deductible / taxable in determining taxable profit	(0.1)	0.1	(1.5)	2.4
Impairment of investments	3.8	(5.0)	2.9	(4.6)
Prior period adjustment	(0.3)	0.4	0.5	(0.8)
Deferred tax rate change	-	-	0.1	(0.1)
Share based payments	1.1	(1.5)	-	-
Tax credit and effective tax rate for the year	(10.6)	14.0	(10.8)	17.1

b. Tax charge in statement of comprehensive income

In addition to the amounts charged to the income statement the following amounts relating to tax have been recognised in other comprehensive income:

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Deferred tax				
Items that may not be reclassified				
Deferred tax rate change on actuarial movement	-	(1.4)	-	-
Income tax relating to items not reclassified	16.5	(4.7)	-	-
	16.5	(6.1)	-	-

c. Tax credited directly to equity

In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised in equity:

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Current tax				
Excess tax deductions related to share based payments on exercised options	1.1	4.8	0.4	1.1
Deferred tax				
Share based payments	(2.2)	(2.9)	(0.7)	(0.7)
Tax rate change impact on revaluation reserve	0.4	0.9	-	-
	(0.7)	2.8	(0.3)	0.4

11. EARNINGS PER SHARE

a. Basic and diluted earnings per share

	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
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.

b. Adjusted earnings per share

Adjusted earnings per share is 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 acquired intangible assets	16.6	18.0
Tax on amortisation of acquired 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 Company is proposing a final dividend of 29.75p in respect of the year ended 31 December 2016.

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

There are no income tax consequences in respect of the dividends declared, but not recognised in the financial statements. The dividends 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 anticipated cash payment in respect of the proposed final dividend is £74.6m (2015: £72.7m).

13. GOODWILL

	The Group				Total £m
	General Merchanting £m	Contracts £m	Consumer £m	P&H £m	
At 1 January 2014	466.4	172.9	829.5	345.1	1,813.9
Recognised on acquisitions during the year	-	-	-	2.9	2.9
At 1 January 2015	466.4	172.9	829.5	348.0	1,816.8
Recognised on acquisitions during the year	1.8	8.1	2.1	10.4	22.4
Impairment charged to the income statement as an exceptional item	-	-	-	(99.0)	(99.0)
At 1 January 2016	468.2	181.0	831.6	259.4	1,740.2
Recognised on acquisitions during the year	1.9	-	-	-	1.9
Transferred between segments	10.4	(10.4)	-	-	-
Impairment charged to the income statement as an exceptional item	-	-	(20.9)	(192.9)	(213.8)
At 31 December 2016	480.5	170.6	810.7	66.5	1,528.3

The Company has no goodwill.

Cash generating units

The Directors consider that each branch or distribution network in the Group is an individual Cash Generating Unit ("CGU"). Goodwill and intangible assets with indefinite useful lives have been allocated and monitored for impairment testing purposes to groups of individual CGUs within the same brand. The following table analyses goodwill and intangible assets with indefinite useful lives by CGU grouping.

13. GOODWILL continued

CGU grouping	2016			2015		
	Intangibles with indefinite useful life (note 14) £m	Goodwill £m	Total £m	Intangibles with indefinite useful life (note 14) £m	Goodwill £m	Total £m
Contracts:						
CCF	-	43.6	43.6	-	43.6	43.6
Keyline	-	100.2	100.2	-	109.6	109.6
BSS Industrial	49.3	27.8	77.1	49.3	27.8	77.1
General Merchancing:						
Travis Perkins	-	479.5	479.5	-	468.2	468.2
Consumer:						
Tile Giant	-	5.8	5.8	-	24.6	24.6
Bathrooms.com	-	-	-	-	2.1	2.1
Toolstation	-	103.4	103.4	-	103.4	103.4
Wickes	162.5	701.5	864.0	162.5	701.5	864.0
Plumbing & Heating:						
PTS	-	-	-	2.7	-	2.7
City Plumbing Supplies	-	51.5	51.5	-	240.4	240.4
Plumbnation	-	1.7	1.7	-	1.7	1.7
Primaflow	-	2.9	2.9	-	2.9	2.9
Solfex	-	-	-	-	4.0	4.0
Underfloor Heating	-	10.4	10.4	-	10.4	10.4
F & P	-	-	-	8.3	-	8.3
Other	3.5	-	3.5	3.9	-	3.9
	215.3	1,528.3	1,743.6	226.7	1,740.2	1,966.9

During the year 13 Keyline branches were transferred to Travis Perkins. The goodwill of £9.4m associated with those branches has been reallocated.

Measuring recoverable amounts

The Group tests goodwill and other non-monetary assets with indefinite useful lives for impairment annually or more frequently if there are indications that an impairment may have occurred. The recoverable amounts of the goodwill and other non-monetary assets with indefinite useful lives are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and like-for-like market volume changes which impact sales and therefore cash flow projections and maintenance capital expenditure. Management estimates pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the CGU groupings that are not reflected in the cash flow projections.

At the beginning and end of the financial year the recoverable amount of goodwill and intangible assets with indefinite useful lives in all segments was in excess of their book value after the adjustment for impairment at 31 December 2016 outlined below. In the absence of a binding agreement to sell the assets and active reference market on which fair value can be determined the recoverable amount of the goodwill and intangible assets with indefinite useful lives was determined according to value in use. The Directors' calculations have shown that no impairments have occurred other than detailed in the table opposite. The key variables applied to the value in use calculations were:

- Cash flow forecasts, which were derived from the most recent board approved corporate plan updated for changes in current trading conditions
- The sales market volume assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based on historic performance (excluding future investment and enhancements) and the current outlook for both the UK economy and the UK building materials industry. This is viewed as the key operating assumption because the state of the building materials market determines the Directors' approach to margin and cost maintenance.
- A risk adjusted pre-tax discount rate is calculated by reference to the weighted average cost of capital ("WACC") of the Group. For 2016, the pre-tax discount rate ranged between 9.6% and 11.1% (2015: 9.0% to 9.8%), which is not significantly different for any individual CGU or CGU grouping. That is because each CGU operates in the same market, selling the same product types therefore the risk profiles are not dissimilar.

- For 2016, cash flows beyond the corporate plan (2020 and beyond) have been determined using a growth rate of 2.1%, which is the average long-term forecast GDP growth outlined in the Economic and Fiscal Outlook report produced by the Office for Budget Responsibility. The Directors believe this is the most appropriate indicator of long-term growth rates that is available (2015 growth rate: 2.1%).

Impairment

Following the annual impairment review of goodwill and intangible assets, the Group has recognised an impairment charge in respect of goodwill and other intangible assets of £231.3m (2015: £140.6m) and £4.1m (2015: £nil) in respect of tangible fixed assets. Trading conditions in the Plumbing and Heating and Tile markets have been challenging and as a consequence expectations of future profitability were reduced in the value in use calculations. The impairment charge is analysed as follows:

Cash generating unit	Goodwill £m	Acquired brands £m	Acquired customer relationships £m	Tangible fixed assets £m	Total £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

Sensitivity of results to changes in assumptions

Whilst management believe the assumptions are realistic, it is possible that a further impairment would be identified if any of the above key assumptions were changed significantly. For instance factors which could cause an impairment are:

- Significant underperformance relative to the forecast results
- Changes to the way the assets are used or changes to the strategy for the business
- A deterioration in the UK economy

The impairment review calculations are based upon anticipated discounted future cash flows. For most of the CGU groupings, given the prudence already built into the Group's corporate plan and the level of headroom they show, the Directors do not envisage reasonably possible changes to the key operating assumptions that are sufficient to generate a different outcome to the impairment calculations undertaken. However, for the CGU groupings listed in the table below this is not the case as the Directors consider that reasonably possible changes in key assumptions could result in discounted future cash flows being insufficient to allow full recovery of the carrying value of the CGU's goodwill and other intangible assets.

The Directors have conducted a sensitivity analysis to determine the specific value for each assumption, all other assumptions remaining the same, that would result in the carrying value of goodwill and other intangible assets equalling their recoverable amounts and these are shown in the tables below and on page 144. The sole market value adjustment is the average annual change incorporated in the corporate plan of each CGU grouping.

31 December 2016

CGU Grouping	Headroom	Like-for-like market volume (Average per annum)		Discount rate		Long-term growth rate	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Wickes	£291m	0.5%	(4.4%)	10.0%	11.3%	2.1%	(1.9%)

An increase in maintenance capital expenditure of £1m per annum will reduce headroom by £13m.

13. GOODWILL continued

The only significant CGU where an impairment has been recognised and where reasonably possible changes to key operating assumptions could generate a materially different impairment charge is CPS. The impact on the impairment charge recognised of a 1.0% change in each assumption, all other assumptions remaining the same, is shown in the table below.

CGU Grouping	Like-for-like market volume (Average per annum)		Discount rate		Long-term growth rate	
	Change in assumption	Impact	Change in assumption	Impact	Change in assumption	Impact
CPS	(1.0%)	£3.0m	1.0%	£6.6m	(1.0%)	£4.5m

31 December 2015

CGU Grouping	Headroom	Like-for-like market volume (Average per annum)		Discount rate		Long-term growth rate	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Tile Giant	£10m	3.2%	(3.5%)	9.6%	12.5%	2.1%	(2.2%)
Wickes	£100m	-	(1.7%)	9.6%	10.3%	2.1%	1.1%
PTS	£44m	1.9%	(3.0%)	9.8%	12.5%	2.1%	(2.2%)

14. OTHER INTANGIBLE ASSETS

	The Group				Total
	Brand	Computer software	Customer relationships	Assets under construction	
Cost or valuation	£m	£m	£m	£m	£m
At 1 January 2015	302.4	26.2	147.6	4.9	481.1
Recognised on acquisitions in the year	3.7	-	-	-	3.7
Additions	-	14.6	-	9.3	23.9
At 31 December 2015	306.1	40.8	147.6	14.2	508.7
Additions	-	13.6	-	17.2	30.8
Transfers between categories	-	7.9	-	(7.9)	-
Disposals	-	(0.1)	-	-	(0.1)
Reclassifications	-	5.2	-	(2.8)	2.4
At 31 December 2016	306.1	67.4	147.6	20.7	541.8
Amortisation					
At 1 January 2015	6.2	11.5	56.6	-	74.3
Charged to operating profit in the year on acquired intangibles	2.5	0.9	14.6	-	18.0
Charged to operating profit in the year on internally generated intangibles	-	3.1	-	-	3.1
Impairment charged to the income statement as an exceptional item	38.5	-	3.1	-	41.6
At 31 December 2015	47.2	15.5	74.3	-	137.0
Charged to operating profit in the year on acquired intangibles	2.4	1.0	13.2	-	16.6
Charged to operating profit in the year on internally generated intangibles	-	7.5	-	-	7.5
Reclassification	-	2.4	-	-	2.4
Impairment charged to the income statement as an exceptional item (note 13)	14.0	-	3.5	-	17.5
At 31 December 2016	63.6	26.4	91.0	-	181.0
Net book value					
At 31 December 2016	242.5	41.0	56.6	20.7	360.8
At 31 December 2015	258.9	25.3	73.3	14.2	371.7
				2016	2015
				£m	£m
Cost of brands with an indefinite useful life (note 13) (net of impairment losses)				215.3	226.7
Cost of brands being amortised (net of impairment losses)				37.7	40.9
				253.0	267.6

Where a brand, which is a leading brand in its sector and has significant growth prospects, has not been established for a significant period of time, the Directors do not have sufficient evidence to support a contention that it will have an indefinite useful life. Accordingly for Toolstation, Plumbnation, Primaflow, Underfloor Heating and certain product related brands the Directors have decided it is appropriate to amortise their brand costs over their estimated useful lives. The useful lives of those brands being amortised range from 10 to 20 years with the remaining lives ranging from 3 to 13 years.

The Directors consider that the other brands, which are also all leading brands in their sectors with significant histories and significant growth prospects, have an indefinite useful life. They are reviewed annually for impairment; details of impairment testing and the impairments recognised in 2016 are shown in note 13. Acquired customer relationships are amortised over their estimated useful lives, which range from 5 to 15 years. The remaining lives of amortised customer relationships range from 1 to 9 years. The Company has no intangible assets.

Assets under construction consist of software being developed for use by the Group, which is not yet ready to be used. No amortisation is charged on assets under construction.

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15. PROPERTY, PLANT AND EQUIPMENT

	The Group					The Company
	Freehold £m	Long leases £m	Short leases £m	Plant and equipment £m	Total £m	Plant and equipment £m
Cost or deemed cost						
At 1 January 2015	377.7	37.0	147.2	605.8	1,167.7	0.7
Additions	101.8	0.4	23.4	140.1	265.7	0.1
Additions from acquired businesses	1.9	-	-	0.6	2.5	-
Disposals	(27.6)	-	(8.1)	(40.1)	(75.8)	(0.1)
At 1 January 2016	453.8	37.4	162.5	706.4	1,360.1	0.7
Additions	68.5	0.4	27.0	107.9	203.8	0.1
Disposals	(24.0)	-	(6.0)	(39.1)	(69.1)	-
Reclassification	(0.8)	-	0.8	(2.4)	(2.4)	-
At 31 December 2016	497.5	37.8	184.3	772.8	1,492.4	0.8
Accumulated depreciation						
At 1 January 2015	51.6	12.9	64.3	349.6	478.4	0.6
Charged this year	4.6	0.8	11.1	66.5	83.0	0.1
Disposals	(8.5)	-	(5.8)	(36.1)	(50.4)	(0.1)
At 1 January 2016	47.7	13.7	69.6	380.0	511.0	0.6
Charged this year	6.0	0.7	12.5	78.4	97.6	0.1
Impairment charged to the income statement as an exceptional item (note 5)	-	-	-	4.1	4.1	-
Disposals	(7.8)	-	(1.8)	(37.8)	(47.4)	-
Reclassification	-	-	-	(2.4)	(2.4)	-
At 31 December 2016	45.9	14.4	80.3	422.3	562.9	0.7
Net book value						
At 31 December 2016	451.6	23.4	104.0	350.5	929.5	0.1
At 31 December 2015	406.1	23.7	92.9	326.4	849.1	0.1

The cost element of the fixed assets carrying value is analysed as follows:

	The Group					The Company
	Freehold £m	Long leases £m	Short leases £m	Plant and equipment £m	Total £m	Total £m
At deemed cost	22.2	3.9	-	-	26.1	-
At cost	475.3	33.9	184.3	772.8	1,466.3	0.8
	497.5	37.8	184.3	772.8	1,492.4	0.8

Included within freehold property is land with a value of £149m (2015: £157m) which is not depreciated. No assets are pledged as security for the Group's liabilities.

The carrying amount of assets held under finance leases is analysed as follows:

	The Group				The Company
	Long leases £m	Short leases £m	Plant and equipment £m	Total £m	Total £m
2016	0.8	5.0	14.1	19.9	-
2015	0.8	6.0	4.3	11.1	-

16. INVESTMENTS

a. Interest in associates

	The Group		The Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Equity investment	1.2	1.2	1.2	1.2
Loan facility	15.7	11.0	15.7	11.0
Share of losses	(5.4)	(4.3)	-	-
	11.5	7.9	16.9	12.2

Travis Perkins plc holds a 49% investment in The Mosaic Tile Company Limited, a 49% investment in Toriga Limited and a 49% investment in Toolstation Europe Limited. There is no impairment in the carrying value of the investment in and loan to Toolstation Europe because the future profitability forecasts fully support the current carrying value.

The Group's share of associates' assets, liabilities, income and expenses are as follows:

	The Group	
	2016	2015
	£m	£m
Current assets	12.6	7.8
Current liabilities	(8.1)	(5.0)
Non-current assets	1.8	1.1
Non-current liabilities	(0.6)	(0.7)
Net assets	5.7	3.2
Group share of net assets (49%)	2.8	1.6
Goodwill	8.7	6.3
Carrying amount of investment in associates	11.5	7.9
Income	30.3	18.1
Expense	(32.8)	(21.3)
Net expense of equity accounted investments	(2.5)	(3.2)
Group share of revenue (49%)	14.9	8.9
Group share of net expense (49%)	(16.0)	(10.4)

The reconciliation of investments in associates is given below:

	The Group	
	2016	2015
	£m	£m
At 1 January	7.9	1.7
Additions of investments	4.7	3.5
Reversal of impairment	-	4.2
Share of losses	(1.1)	(1.5)
At 31 December	11.5	7.9

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16. INVESTMENTS continued

b. Investment in subsidiaries

	The Company	
	2016 £m	2015 £m
Cost		
At 1 January	3,714.9	3,676.6
Additions	140.9	38.3
At 31 December	3,855.8	3,714.9
Provision for impairment	(50.4)	(31.4)
Net book value at 31 December	3,805.4	3,683.5

In 2016 the Group recognised an impairment charge in respect of some plumbing and heating businesses (note 13) and its tile businesses. The associated impairment has been recognised on the Company's investments.

During the year 100% of the issued share capital of Wickes Building Supplies Limited was transferred to the Company from Wickes Holdings Limited, a subsidiary undertaking, for its carrying value of £125.0m.

In 2015 the company placed some dormant subsidiaries into members voluntary liquidation and consequently an impairment was recognised on these investments.

A full listing of all related undertakings is provided in note 38.

c. Investments

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Available for sale investments at fair value				
Investments in property entities	3.4	3.5	-	-
Shares held in invested entities	1.0	1.0	1.0	1.0
Loans to property entities	1.3	1.0	-	-
Loans to invested entities	3.4	2.3	3.4	2.3
	9.1	7.8	4.4	3.3

The investments in property entities represent minority holdings in property owning entities that acquired properties from the Group in 2006 and 2015. These investments present the Group with an opportunity to generate returns through both income and capital gains. The Directors consider that the carrying amount of these investments approximates to their fair value. The Group provides loans to one of the property entities totalling £1.0m and charges interest at rates of between 10% and 12%.

On 20 February 2015 the Group acquired a strategic non-controlling interest of 15% in Staircraft Limited, a major supplier of timber staircases to house builders for a consideration of £1.0m. These shares are not held for trading and accordingly are classified as available for sale. The Group provides a loan facility and charges interest at 3.0%.

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Current				
Trade receivables	709.2	690.4	-	-
Allowance for doubtful debts	(21.6)	(23.9)	-	-
	687.6	666.5	-	-
Amounts owed by subsidiaries	-	-	387.6	269.8
Other receivables	290.5	246.1	-	-
Prepayments and accrued income	81.2	74.3	-	-
Non-current				
Prepayments	8.3	-	-	-
Trade and other receivables	1,067.6	986.9	387.6	269.8

The Group's trade and other receivables at the balance sheet date comprise principally of amounts receivable from the sale of goods, together with amounts due in respect of rebates and sundry prepayments. The Directors consider the only class of asset containing significant credit risk is trade receivables. The average credit term taken for sales of goods is 57 days (2015: 55 days). The allowance for doubtful debts is estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Directors consider the carrying amount of trade and other receivables approximates to their fair values. The business has provided fully for all receivables outstanding for more than 90 days beyond agreed terms. Trade receivables which have been outstanding for less than 90 days and that are not considered recoverable are specifically provided for. No interest is charged on the trade receivable from the date of the invoice until the date the invoice is classified as overdue according to the trading terms agreed between the Group and the customer. Thereafter, the Group retains the right to charge interest at between 2% to 4% per annum above the clearing bank base rate on the outstanding balance.

Movement in the allowance for doubtful debts

	The Group	
	2016	2015
	£m	£m
At 1 January	23.9	25.3
Amounts written off during the year	(14.5)	(13.7)
Increase in allowance recognised in the income statement	12.2	12.3
At 31 December	21.6	23.9

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable that may have occurred between the date credit was initially granted and the reporting date. The concentration of credit risk is limited due to the customer base being large. Accordingly, the Directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

Included in the Group's trade receivable balance are debtors unprovided against with a carrying amount of £44.3m (2015: £66.8m) which are past due at the reporting date for which the Group has not identified a significant change in credit quality and as such, the Group considers that the amounts are still recoverable and therefore there is no allowance for doubtful debts. Except for some instances of personal guarantees the Group does not hold any collateral over these balances.

17. TRADE AND OTHER RECEIVABLES continued

Ageing of past due but not impaired receivables.

Days overdue	The Group	
	2016	2015
	£m	£m
0 - 30 days	27.8	45.3
31 - 60 days	11.1	10.2
61 - 90 days	5.4	11.3
	44.3	66.8

Included in the allowance for doubtful debts are specific trade receivables with a balance of £1.1m (2015: £3.9m) where the customer has been placed into liquidation. The impairment represents the difference between the carrying amount of the specific trade receivable and the amount it is anticipated will be recovered.

None of the Company's debts are overdue. The Directors do not consider there to be any significant credit risk, as the majority of the debt is due from subsidiaries.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and cash deposits with an original maturity of three months or less held by the Group and Company, net of overdrafts. The carrying amount of these assets approximates to their fair value.

19. SHARE CAPITAL

Ordinary shares of 10p	The Group and the Company Issued and fully paid	
	No.	£m
At 1 January 2015	248,702,988	24.9
Allotted under share option schemes	1,111,734	0.1
At 1 January 2016	249,814,722	25.0
Allotted under share option schemes	989,958	0.1
At 31 December 2016	250,804,680	25.1

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

20. OWN SHARES

	The Group and the Company	
	2016 No.	2015 No.
At 1 January	1,318,532	2,428,176
Movement during the year	(588,852)	(1,109,644)
At 31 December	729,680	1,318,532
Allocated to grants of executive options	-	-
Not allocated to grants of executive options	729,680	1,318,532
	729,680	1,318,532

The own shares are stated at cost and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes. All rights attaching to own shares are suspended until the shares are reissued.

21. RESERVES

Details of all movements in reserves for both the Group and Company are shown in their respective Statement of Changes in Equity. A description of the nature and purpose of each reserve is given below:

- The merger reserve represents the premium on equity instruments issued as consideration for the acquisition of BSS
- The revaluation reserve represents the revaluation surplus that arose from property revaluations in 1999 and prior years
- The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (net of tax) related to hedged transactions that have yet to occur
- The own shares reserve represents the cost of shares purchased in the market and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes
- The other reserve represented anticipated gross outflow on potential exercise of the put option held over the noncontrolled 24% shareholding in Plumbnation and was derecognised following the acquisition of the noncontrolling interest

The cumulative total of goodwill written off directly to reserves for acquisitions from December 1989 to December 1998 is £40.1m. The aggregate information for the accounting periods prior to this period is not available.

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22. BORROWINGS

A summary of the Group's objectives, policies procedures and strategies with regard to financial instruments and capital management can be found in the Strategic Report on pages 33 and 34. At 31 December 2016 all borrowings were denominated in Sterling (2015: Sterling except for the unsecured senior notes which were denominated in US dollars).

a. Summary

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Unsecured senior notes	-	137.0	-	137.0
Liability to pension scheme (note 27)	34.5	35.4	-	-
Bank loans (note 22c)	-	110.0	-	110.0
Sterling bonds	566.0	256.2	566.0	256.2
Finance leases (note 22d)	34.5	18.6	-	-
Finance charges netted off bank debt	(3.0)	(3.8)	(3.0)	(3.8)
Finance charges netted off sterling bonds	(4.0)	(2.2)	(4.0)	(2.2)
	628.0	551.2	559.0	497.2
Current liabilities	6.9	139.8	-	137.0
Non-current liabilities	621.1	411.4	559.0	360.2
	628.0	551.2	559.0	497.2

b. Analysis of borrowings

	The Group			
	Bank loans		Other borrowings	
	2016 £m	2015 £m	2016 £m	2015 £m
Borrowings repayable				
On demand or within one year	-	-	6.9	139.6
More than one year, but not more than five years	-	110.0	22.3	8.2
More than five years	-	-	605.8	299.4
Gross borrowings	-	110.0	635.0	447.2
Unamortised fees	(3.0)	(3.8)	(4.0)	(2.2)
	(3.0)	106.2	631.0	445.0
	The Company			
	Bank loans		Other borrowings	
	2016 £m	2015 £m	2016 £m	2015 £m
Borrowings repayable				
On demand or within one year	-	-	-	137.0
More than one year, but not more than five years	-	110.0	-	-
More than five years	-	-	566.0	256.2
Gross borrowings	-	110.0	566.0	393.2
Unamortised fees	(3.0)	(3.8)	(4.0)	(2.2)
	(3.0)	106.2	562.0	391.0

C. Facilities

At 31 December 2016, the following facilities were available:

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Drawn facilities				
5 year committed revolving credit facility	-	110.0	-	110.0
£250m sterling bond	266.0	256.2	266.0	256.2
£300m sterling bond	300.0	-	300.0	-
Unsecured senior notes	-	137.0	-	137.0
	566.0	503.2	566.0	503.2
Undrawn facilities				
5 year committed revolving credit facility	550.0	440.0	550.0	440.0
Bank overdrafts	30.0	30.0	30.0	30.0
	580.0	470.0	580.0	470.0

The Group's £550m banking agreement with a syndicate of banks runs until December 2020. The \$200m of unsecured senior notes were repaid on 26 January 2016. The disclosures in note 22(c) do not include finance leases, loan notes, or the effect of finance charges netted off bank debt.

d. Obligations under finance leases

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts payable under finance leases:				
Within one year	7.2	3.6	6.9	2.8
In the second to fifth years inclusive	19.8	10.6	21.0	8.5
After five years	17.4	14.0	6.6	7.3
	44.4	28.2	34.5	18.6
Less: future finance charges	(9.9)	(9.6)	-	-
Present value of lease obligations	34.5	18.6	34.5	18.6
Less: Amount due for settlement within one year (shown under current liabilities)			(6.9)	(2.8)
Amount due for settlement after one year			27.6	15.8

The average loan term for properties held under finance leases is 49 years (2015: 49 years) and the average borrowing rate has been determined at the inception of the lease to be 9.0%. Interest rates are fixed at the contract date. All lease obligations, which are denominated in sterling, are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

22. BORROWINGS continued

e. Interest

The weighted average interest rates received on assets and paid on liabilities were as follows:

	2016 %	2015 %
Assets:		
Short term deposits	0.5	-
Liabilities:		
Unsecured senior notes	5.9	5.9
£250m sterling bond	3.0	4.4
£300m sterling bond	4.5	-
Bank loans and overdrafts	1.3	2.0
Other borrowings	-	2.1

In October 2016, to manage the risk of interest rate rises, the Group exited the fixed to floating swap contracts which had swapped the £250m principal of the sterling bond maturing in 2021 into floating rates (note 23).

The £300m sterling bond issued in May 2016 is maintained at a fixed coupon of 4.5%.

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date. All assets and liabilities reprice within six months.

	The Group			
	2016		2015	
	Effective interest rate	£m	Effective interest rate	£m
Assets				
Short term deposits	0.39%	184.5	-	-
Liabilities				
Unsecured senior notes	-	-	5.9%	137.0
Unsecured variable rate bank facilities	-	-	1.38%	110.0
£250m sterling bond	4.375%	266.0	4.375%	256.2
£300m sterling bond	4.5%	300.0	-	-
		566.0		503.2

	The Company			
	2016		2015	
	Effective interest rate	£m	Effective interest rate	£m
Assets				
Short term deposits	0.39%	184.5	-	-
Liabilities				
Unsecured senior notes	-	-	5.9%	137.0
Unsecured variable rate bank facilities	-	-	1.38%	110.0
£250m sterling bond	4.375%	266.0	4.375%	256.2
£300m sterling bond	4.5%	300.0	-	-
		566.0		503.2

f. Fair values

For both the Group and the Company the fair values of financial assets and liabilities have been calculated by discounting expected cash flows at prevailing rates at 31 December. There were no significant differences between book and fair values on this basis and therefore no further information is disclosed.

Details of the fair values of derivatives are given in note 23c.

g. Guarantees and security

There are cross guarantees on the overdrafts between Group companies.

Travis Perkins Trading Company Limited, Wickes Building Supplies Limited, Travis Perkins (Properties) Limited, Keyline Builders Merchants Limited and Travis Perkins Plumbing and Heating LLP are guarantors of the following facilities advanced to Travis Perkins plc:

- £250m sterling bond;
- £300m sterling bond;
- £550m revolving credit facility;
- Currency derivatives (note 23)

The Group companies have entered into other guarantee and counter-indemnity arrangements in respect of guarantees issued in favour of Group companies by the clearing banks amounting to approximately £22m (2015: £22m).

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23. FINANCIAL INSTRUMENTS

a. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

b. The carrying value of categories of financial instruments

	The Group		The Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Financial assets				
Derivative instruments in designated hedge accounting relationships	-	21.2	-	21.2
Designated as fair value through profit and loss (FVTPL)	1.7	1.3	1.7	1.3
Loans and receivables (including cash and cash equivalents)	1,228.6	999.7	186.0	304.9
Available-for-sale	4.4	4.5	-	-
	1,234.7	1,026.7	187.7	327.4
Financial liabilities				
Designated as fair value through profit and loss (FVTPL)	-	1.2	-	1.2
Borrowings (note 22a)	628.0	551.2	559.0	497.2
Trade and other payables at amortised cost (note 26)	1,124.9	1,061.9	18.4	21.9
	1,752.9	1,614.3	577.4	520.3

Loans and receivables exclude prepayments of £89.5m (2015: £74.3m). Trade and other payables exclude taxation and social security and accruals and deferred income totalling £223.4m (2015: £172.4m). The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group has considered the impact of credit risk on its financial instruments and because the counterparties are banks with strong credit ratings considers its impact to be immaterial.

c. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Foreign currency forward contracts are measured using quoted forward exchange rates
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There were no transfers between levels during the year.

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Included in assets				
Level 2				
Interest rate swaps designated and effective as hedging instruments carried at fair value	-	6.3	-	6.3
Cross currency interest rate swaps designated and effective as hedging instruments carried at fair value	-	11.7	-	11.7
Foreign currency forward contracts designated and effective as hedging instruments carried at fair value	-	3.2	-	3.2
Foreign currency forward contracts at fair value through profit and loss	1.7	1.3	1.7	1.3
	1.7	22.5	1.7	22.5
Current assets	1.7	16.2	1.7	16.2
Non-current assets	-	6.3	-	6.3
	1.7	22.5	1.7	22.5
Included in liabilities				
Current liabilities				
Level 3				
Deferred consideration at fair value through profit and loss	-	1.2	-	1.2

d. Interest risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts when appropriate. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Group adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is on either a fixed rate basis or is subject to movements within pre-defined limits. To achieve its desired interest rate profile the Group uses interest rate swap contracts where necessary.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held.

On 15 September 2014 the Group and Company entered into interest rate swap contracts with seven syndicate banks which swapped the fixed rate payable on the listed £250m sterling bond of 4.375% maturing in 2021, to floating rates based on 6 month libor.

On 12 October 2016 these swap contracts were cancelled to mitigate the impact of expected increases in interest rates from historically low levels in the medium term. At the point of cancellation the fair value of the interest rate derivatives was measured at £16.8m.

On cancellation of the swaps the bond was held on the balance sheet at its fair value of £266.8m, and the Group received £16.8m of cash.

During the remaining life of the bond the balance sheet carrying value will amortise from £266.7m to £250m with an annualised P&L credit of approximately £3.4m. This will partially offset the increase in interest charges caused by moving the bond from floating interest rates to a higher fixed interest rate of 4.375%, giving an effective rate of 3.0%. At 31 December 2016, £0.7m of the settlement benefit had been amortised, matched by a fair value reduction in the carrying value of the associated sterling bond which had reduced to £266.0m.

23. FINANCIAL INSTRUMENTS continued

The following table details the notional principal amounts and remaining terms of interest rate swap contracts at the reporting date:

Interest rate swap contracts

	Average contract floating interest rate		Notional principal amount		Fair value	
	2016	2015	2016	2015	2016	2015
Fair value hedges - receive fixed / pay floating contracts	%	%	£m	£m	£m	£m
Over five years	-	2.98	-	250.0	-	6.3

The floating rate on the interest rate swaps outstanding at 31 December 2015 was six month LIBOR plus a basis point increment averaging 223.3. These interest rate swaps were settled in October 2016.

e. Cross currency swaps and currency forward contracts

The \$200m unsecured senior notes hedged using cross currency swaps were repaid in January 2016 and the three currency forward contracts with a notional value of \$30m each and one with a notional value of \$20m were duly settled. The Group had no outstanding cross currency swaps at 31 December 2016.

The following table details the notional principal amounts and remaining terms of currency swap contracts accounted for as fair value hedges as at the reporting date:

Fair value hedges – outstanding receive fixed pay floating contracts

	Average contract floating interest rate		Notional principal amount		Fair value	
	2016	2015	2016	2015	2016	2015
	%	%	£m	£m	£m	£m
Less than 1 year	-	1.6	-	52.0	-	11.7

The Group acquires goods for sale from overseas, which when not denominated in sterling are paid for principally in US dollars. The Group has entered into forward foreign exchange contracts (all of which are less than one year in duration) to buy US dollars to hedge the exchange risk arising from these anticipated future purchases. At the balance sheet date the total notional value of contracts to which the Group was committed was US\$63.0m (2015: US\$72.4m). The fair value of these derivatives was £1.7m (2015: £1.3m). These contracts are not designated cash flow hedges and accordingly the fair value movement has been reflected in the income statement.

f. Liquidity analysis

The following table details the Group's liquidity analysis for its derivative financial instruments and other financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis and the undiscounted gross cash flows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

	2016				Total £m
	0-1 year £m	1-2 years £m	2-5 years £m	5+ years £m	
Gross settled:					
Foreign exchange forward contracts	49.5	-	-	-	49.5
Total gross settled and total derivative financial instruments	49.5	-	-	-	49.5
Net settled:					
Borrowings	-	-	-	(600.6)	(600.6)
Other financial liabilities (note 26)	(1,124.9)	-	-	-	(1,124.9)
Finance leases (note 22d)	(7.2)	(5.5)	(14.3)	(17.4)	(44.4)
Total financial instruments	(1,082.6)	(5.5)	(14.3)	(618.0)	(1,720.4)
	2015				Total £m
	0-1 year £m	1-2 years £m	2-5 years £m	5+ years £m	
Gross settled:					
Interest rate swaps – receipts	62.8	-	-	-	62.8
Interest rate swaps – payments	(52.4)	-	-	-	(52.4)
	10.4	-	-	-	10.4
Foreign exchange forward contracts	(47.6)	-	-	-	(47.6)
Total gross settled	(37.2)	-	-	-	(37.2)
Net settled:					
Interest rate swaps	3.5	2.6	4.5	0.5	11.1
Total derivative financial instruments	(33.7)	2.6	4.5	0.5	(26.1)
Borrowings	(125.6)	-	(106.2)	(289.4)	(521.2)
Deferred consideration	(1.2)	-	-	-	(1.2)
Other financial liabilities (note 26)	(1,061.9)	-	-	-	(1,061.9)
Finance leases (note 22d)	(3.6)	(3.6)	(7.0)	(14.0)	(28.2)
Total financial instruments	(1,226.0)	(1.0)	(108.7)	(302.9)	(1,638.6)

23. FINANCIAL INSTRUMENTS continued

g. Interest rate sensitivity analysis

A sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to key management personnel.

At the 31 December 2016 the Group had no floating rate liabilities, after the repayment of the US private placement in January, the cancellation of the interest rate swaps on the £250m sterling bond and no drawdown on the revolving credit facility at 31 December 2016. There was £184.5m on short term deposit at 31 December 2016.

A 1.0% increase / decrease in interest rates, with all other variables held constant, would have the following impact on:

- Profit before taxation for the year ended 31 December 2016 would have increased / decreased by £1.8m (2015: decreased / increased by £4.1m) due to the short term deposits;
- Net equity would have increased / decreased by £1.5m (2015: decreased / increased by £3.2m)

24. PROVISIONS

	The Group				
	Property £m	Insurance £m	Exceptional £m	Other £m	Total £m
At 1 January 2015	22.1	30.1	16.1	1.2	69.5
Additional provision charged to the income statement	-	10.5	-	-	10.5
Utilisation of provision	(9.3)	(12.2)	(11.9)	(1.0)	(34.4)
Unwinding of discount	0.3	-	-	-	0.3
At 31 December 2015	13.1	28.4	4.2	0.2	45.9
Additional provision charged to income statement	7.4	9.4	56.6	-	73.4
Utilisation of provision	(4.4)	(8.9)	(27.9)	(0.1)	(41.3)
Unwinding of discount	0.2	-	-	-	0.2
At 31 December 2016	16.3	28.9	32.9	0.1	78.2
Included in current liabilities	9.7	28.9	18.3	0.1	57.0
Included in non-current liabilities	6.6	-	14.6	-	21.2
	16.3	28.9	32.9	0.1	78.2

The Group has a number of vacant and partly sublet leasehold properties. Where necessary provision has been made for the residual lease commitments after taking into account existing and anticipated subtenant arrangements.

In 2016, as set out in note 5, the Group established additional exceptional provisions as a result of reorganising parts of its branch and distribution networks.

The Group recognised in 2014 an exceptional provision of £16.1m relating to the reconfiguration of the Plumbing & Heating division. The provision covered expected property costs, legal costs and IT costs arising from the reconfiguration.

Should a provision ultimately prove to be unnecessary then it is credited back into the income statement. Where the provision was originally established as an exceptional item, any release is shown as an exceptional credit.

It is Group policy to insure itself using policies with a high excess against claims arising in respect of damage to assets, or due to employers or public liability claims. The nature of insurance claims means they may take some time to be settled. The insurance claims provision represents management's best estimate, based upon external advice of the value of outstanding claims against it where the final settlement date is uncertain.

The following table details the Group's liquidity analysis of its provisions. The table has been drawn up based on the undiscounted net cash outflows.

	0-1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
2016					
Property	10.0	2.0	3.0	3.0	18.0
Insurance	28.9	-	-	-	28.9
Exceptional	18.3	4.4	8.2	3.2	34.1
Other	0.1	-	-	-	0.1
	57.3	6.4	11.2	6.2	81.1
2015					
Property	8.0	1.6	2.8	2.4	14.8
Insurance	28.4	-	-	-	28.4
Exceptional	2.1	2.1	-	-	4.2
Other	0.2	-	-	-	0.2
	38.7	3.7	2.8	2.4	47.6

The Company has no provisions.

25. DEFERRED TAX

The following are the major deferred tax liabilities and assets fully recognised by the Group and movements thereon during the current and prior reporting periods.

(Asset) / liability	The Group				At 31 Dec 2016 £m
	At 1 Jan 2016 £m	Arising on acquisition £m	Recognised in income £m	Recognised in equity £m	
Capital allowances	2.6	-	(1.2)	-	1.4
Revaluation of property	8.0	-	-	(0.4)	7.6
Share-based payments	(8.5)	-	2.1	2.2	(4.2)
Provisions	0.3	-	5.6	-	5.9
Property assets acquired in business combinations	7.5	-	(0.9)	-	6.6
Brand	61.2	-	(8.6)	-	52.6
Pension scheme liability	(9.8)	-	2.2	(16.5)	(24.1)
Deferred tax	61.3	-	(0.8)	(14.7)	45.8

25. DEFERRED TAX continued

	The Group				
	At 1 Jan 2015 £m	Arising on acquisition £m	Recognised in income £m	Recognised in equity £m	At 31 Dec 2015
Capital allowances	16	-	1.0	-	2.6
Revaluation of property	8.9	-	-	(0.9)	8.0
Share based payments	(11.1)	-	(0.3)	2.9	(8.5)
Provisions	(0.6)	-	0.9	-	0.3
Property assets acquired in business combinations	8.8	0.4	(1.7)	-	7.5
Brand	78.3	0.8	(17.9)	-	61.2
Pension scheme liability	(19.2)	-	3.3	6.1	(9.8)
Deferred tax	66.7	1.2	(14.7)	8.1	61.3

At the balance sheet date the Group had unused capital losses of £43m (2015: £42.3m) available for offset against future capital profits. No deferred tax asset has been recognised because it is improbable that future taxable profits will be available against which the Group can utilise the losses. £42.1m arose prior to the Group acquiring Wickes the remainder arose in PTS in 2015. Those businesses own no assets that may generate a future capital gain against which the losses can be offset.

Other than disclosed above, no deferred tax assets and liabilities have been offset.

(Asset) / Liability	The Company			
	At 1 Jan 2016 £m	Recognised in income £m	Recognised in equity £m	At 31 Dec 2016 £m
Share-based payments	(2.8)	0.6	0.7	(1.5)
Other timing differences	(0.1)	(0.2)	-	(0.3)
	(2.9)	0.4	0.7	(1.8)

	The Company			
	At 1 Jan 2015 £m	Recognised in income £m	Recognised in equity £m	At 31 Dec 2015 £m
Share-based payments	(3.3)	(0.2)	0.7	(2.8)
Other timing differences	(0.4)	0.3	-	(0.1)
	(3.7)	0.1	0.7	(2.9)

26. OTHER FINANCIAL LIABILITIES

	The Group		The Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Trade payables	940.2	904.6	-	-
Other taxation and social security	71.8	58.2	-	-
Deferred consideration payable	-	1.2	-	1.2
Other payables	184.7	157.3	18.4	21.9
Accruals and deferred income	151.6	114.2	0.7	-
Trade and other payables	1,348.3	1,235.5	19.1	23.1

The Group

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The Company

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

27. PENSION ARRANGEMENTS

Defined benefit schemes

The Group operates four final salary schemes being The Travis Perkins Pensions and Dependants' Benefit Scheme ("the TP DB scheme") and the immaterial Platinum pension scheme ("the TP Schemes") and the "BSS Schemes" being the BSS Defined Benefit Scheme ("the BSS DB Scheme") and the immaterial BSS Ireland Defined Benefit Scheme. All defined benefit schemes are closed to new members. The TP scheme is for the majority of members a 1/60th scheme. The assets of the TP DB schemes are held separately from those of the Group under the control of the scheme's trustees. Employees are entitled to start drawing a pension, based on their membership of a scheme, on their normal retirement date. If employees choose to retire early and draw their pension, then the amount they receive is scaled down accordingly.

The TP schemes are funded by contributions from Group companies and employees. Contributions are paid to the Trustees on the basis of advice from an independent professionally qualified actuary who carries out a valuation every three years. A full actuarial valuation of the TP DB scheme was carried out on 30 September 2014. The IAS 19 valuation has been based upon the results of the 30 September 2014 valuation, and then updated to 31 December 2016 by a qualified actuary. The present values of the defined obligations, the related current service costs and the past service costs for the scheme were measured using the projected unit method.

The assets of the BSS schemes are held separately from those of the Group in funds under the control of the schemes' trustees.

The most recent actuarial valuations of the BSS schemes' assets and the present value of the defined benefit obligations were carried out at 30 September 2014. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit method with a control period equal to the future working lifetime of the active members.

In June 2010, an agreement was reached with the Trustees of the TP DB scheme to fund £34.7m of the deficit using a Group-controlled special purpose vehicle ("SPV"). The pension scheme is entitled to receive the income of the SPV for a period of up to 20 years, subject to funding levels. This income is backed by the security of 16 Travis Perkins freehold properties. As the SPV is consolidated into the Travis Perkins plc group accounts, advantage has been taken of Regulation 7 of The Partnership (Accounts) Regulations 2008 and accounts for the SPV will neither be audited or filed.

The TP schemes and the BSS schemes expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. A summary of the risks and the management of those risks is given below.

Investment risk	The present value of the defined benefit liabilities of the schemes is calculated using a discount rate predetermined by reference to high quality corporate bond yields. If the return on scheme assets is below this rate it may create a plan deficit. Currently the schemes have investments in equity securities, debt instruments and real estate. Due to the long term nature of the scheme liabilities the trustees of the pension funds previously considered it appropriate that a reasonable portion of the scheme assets should be invested in equities. However, following a review of the investment strategy, a derisking exercise is currently being undertaken that will result in a higher proportion of the largest two pension schemes' assets being invested in gilts and corporate bonds ('liability driven investments').
Interest risk	A decrease in corporate bond yields will increase the schemes' liabilities, but the effect will be partially offset by an increase in the return on the schemes' debt assets.
Longevity risk	The present value of the liabilities of the schemes is calculated by reference to the best estimate of mortality of pension scheme members both during and after their employment. An increase in the life expectancy of the schemes' members will increase the schemes' liabilities.
Salary risk	The present value of the defined benefit schemes' liabilities is calculated by reference to the future salaries of scheme members. As such an increase in salaries of scheme members will increase the schemes' liabilities.

a. Major assumptions used by the schemes' actuaries at the balance sheet date (in nominal terms)

	At 31 December 2016	At 31 December 2015
Rate of increase in pensionable salaries	2.65%	2.45%
Rate of increase of pensions in payment post 2006	2.25%	2.20%
Rate of increase of pensions in payment 1997 - 2006	3.30%	3.10%
Discount rate	2.65%	3.85%
Inflation assumption - RPI	3.40%	3.20%
Inflation assumption - CPI	2.40%	2.20%

In respect of longevity, the valuation adopts the S2PA year of birth tables with improvements in life expectancy to continue in the medium term, with base year appropriate to the member's date of birth. This results in the following life expectancies at illustrative ages:

Weighted average life expectancy for mortality tables used to determine pension liabilities at 31 December 2016:

	Male Years	Female Years
Member age 65 (current life expectancy) - TP Schemes	22.2	25.0
Member age 45 (life expectancy on reaching age 65) - TP Schemes	23.9	27.0
Member age 65 (current life expectancy) - BSS Schemes	22.2	24.2
Member age 45 (life expectancy on reaching age 65) - BSS Schemes	23.9	26.1

b. Amounts recognised in income in respect of the defined benefit schemes

	2016			2015
	TP Schemes £m	BSS Schemes £m	Group £m	Group £m
Current service costs charged to operating profit in the income statement	(6.7)	(2.0)	(8.7)	(18.8)
Past service gains from settlements	-	-	-	2.2
Net interest expense	-	(1.7)	(1.7)	(2.9)
Total pension charge	(6.7)	(3.7)	(10.4)	(19.5)

The Directors have agreed with the Schemes' Trustees to pay £10m more than ongoing contributions in 2017 to reduce the deficit in the BSS schemes. In addition the Company has agreed to pay voluntary excess contribution of £1.5m to the BSS schemes and £2.3m to the TP DB schemes. These contributions can be stopped at any time with one months notice at the Company's sole discretion. Accordingly in 2017, the excess of funding over the on-going service contributions will be between £10.0m and £13.8m in total for the Group.

Note 5 shows where pension costs have been charged in the income statement. Actuarial gains and losses have been included in the Statement of Comprehensive Income.

27. PENSION ARRANGEMENTS continued

C. The amount included in the balance sheet arising from the Group's obligations in respect of all of its defined benefit schemes and the movements during the year

	2016			2015		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
Fair value of plan assets	1,076.9	291.5	1,368.4	913.8	247.5	1,161.3
Present value of defined benefit obligations	(1,138.6)	(357.1)	(1,495.7)	(879.4)	(283.0)	(1,162.4)
Actuarial (deficit) / surplus	(61.7)	(65.6)	(127.3)	34.4	(35.5)	(1.1)
Restriction an asset recognised	-	-	-	(34.4)	-	(34.4)
Additional liability recognised for minimum funding requirements	-	-	-	(0.2)	(16.5)	(16.7)
Gross pension liability at 31 December	(61.7)	(65.6)	(127.3)	(0.2)	(52.0)	(52.2)
Deferred tax asset			24.1			9.8
Net pension liability at 31 December			(103.2)			(42.4)

In finalising the 30 September 2014 actuarial valuations the Trustees of the two material defined benefit schemes reached agreement with the Company that in order to eliminate the funding shortfalls at that date the Company would pay recovery plan contributions to each scheme. Amounts receivable by each scheme from 1 January 2017 are as follows:

- TP DB Scheme - nil
- BSS DB Scheme - £10.0m p.a. payable in monthly instalments until 1 September 2021

The Company has agreed to make voluntary recovery plan contributions of £2.3m per annum to the TP DB Scheme and £1.5m per annum to the BSS scheme both paid in equal monthly instalments until September 2023. These contributions are not contractual and can be stopped at any time with one month's notice at the Company's sole discretion.

	2016			2015		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January actuarial asset / (deficit)	34.4	(35.5)	(1.1)	(38.9)	(56.7)	(95.6)
Restriction of asset recognised	(34.4)	-	(34.4)	-	-	-
Additional liability recognised for minimum funding requirements	(0.2)	(16.5)	(16.7)	(19)	-	(19)
	(0.2)	(52.0)	(52.2)	(408)	(56.7)	(97.5)
Current service costs and administration expenses charged to the income statement	(6.7)	(2.0)	(8.7)	(15.9)	(2.9)	(18.8)
Past service gains from settlements credited to the income statement	-	-	-	19	0.3	2.2
Net interest expense	-	(1.7)	(1.7)	(1.1)	(1.8)	(2.9)
Contributions from sponsoring companies	8.3	13.9	22.2	27.4	12.5	39.9
Foreign exchange	-	-	-	-	0.1	0.1
Return on scheme assets (excluding amounts included in net interest)	154.5	29.8	184.3	(25.8)	3.0	(22.8)
Actuarial gain arising from changes in demographic assumptions	-	4.8	4.8	39.6	8.2	47.8
Actuarial (loss) / gain arising from changes in financial assumptions	(255.5)	(80.1)	(335.6)	27.2	8.0	35.2
Actuarial gain / (loss) arising from experience adjustments	1.9	4.5	6.4	19.4	(6.2)	13.2
Reduction / (increase) in minimum funding requirement liability	36.0	17.2	53.2	(32.1)	(16.5)	(48.6)
At 31 December actuarial deficit	(61.7)	(65.6)	(127.3)	(0.2)	(52.0)	(52.2)

d. Major categories and fair value of scheme assets

The major categories and fair values of scheme assets at the end of the reporting period for each category are as follows:

	At 31 December 2016		At 31 December 2015	
	TP	BSS	TP	BSS
	Schemes £m	Schemes £m	Schemes £m	Schemes £m
Level 1				
Domestic equities	250.4	16.6	218.8	16.6
Overseas equities	304.6	167.9	247.8	133.2
Fixed interest government bonds	1.4	-	-	-
Corporate bonds	130.3	24.3	116.6	20.7
Diversified growth funds	130.1	73.4	125.4	71.2
Liability driven investments	108.1	-	75.5	-
Level 3				
Property	46.7	0.5	44.8	0.4
SPV asset	18.5	-	21.7	-
Cash and other	86.8	8.8	63.2	5.4
	1,076.9	291.5	913.8	247.5

e. Actual return on scheme assets

	2016		2015	
	£m		£m	
TP Schemes	189.3	20.7%	8.2	0.9%
BSS Schemes	39.3	15.9%	11.5	4.6%

f. Movements in the fair value of scheme assets in the current period

	2016			2015		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January	913.8	247.5	1,161.3	908.9	230.9	1,139.8
Interest on scheme assets	34.8	9.5	44.3	34.0	8.5	42.5
Return on scheme assets not included above	154.5	29.8	184.3	(25.8)	3.0	(22.8)
Foreign exchange	-	1.3	1.3	-	(0.3)	(0.3)
Administration expenses	(0.9)	-	(0.9)	(0.6)	-	(0.6)
Contributions from sponsoring companies	8.3	13.9	22.2	27.4	12.5	39.9
Contributions from members	0.1	0.1	0.2	-	0.1	0.1
Benefits paid	(33.7)	(10.6)	(44.3)	(30.1)	(7.2)	(37.3)
At 31 December	1,076.9	291.5	1,363.4	913.8	247.5	1,161.3

27. PENSION ARRANGEMENTS continued

g. Movements in the present value of defined benefit obligations in the current period

	2016			2015		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January	(879.4)	(283.0)	(1,162.4)	(947.8)	(287.6)	(1,235.4)
Service cost	(5.8)	(2.0)	(7.8)	(13.4)	(2.6)	(16.0)
Interest cost	(33.4)	(10.5)	(43.9)	(34.5)	(10.3)	(44.8)
Foreign exchange	-	(1.3)	(1.3)	-	0.4	0.4
Contributions from members	(0.1)	(0.1)	(0.2)	-	(0.1)	(0.1)
Experience adjustments	1.9	4.5	6.4	19.4	(6.2)	13.2
Actuarial gain arising from changes in demographic assumptions	-	4.8	4.8	39.6	8.2	47.8
Actuarial (loss) / gain arising from changes in financial assumptions	(255.5)	(80.1)	(335.6)	27.2	8.0	35.2
Benefits paid	33.7	10.6	44.3	30.1	7.2	37.3
At 31 December	(1,138.6)	(357.1)	(1,495.7)	(879.4)	(283.0)	(1,162.4)

h. Amounts recognised in the statement of other comprehensive income are as follows:

	2016			2015		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
Return on scheme assets (excluding amounts included in net interest)	154.5	29.8	184.3	(25.8)	3.0	(22.8)
Actuarial gain arising from changes in demographic assumptions	-	4.8	4.8	39.6	8.2	47.8
Actuarial (loss) / gain arising from changes in financial assumptions	(255.5)	(80.1)	(335.6)	27.2	8.0	35.2
Actuarial gain arising from experience adjustments	1.9	4.5	6.4	19.4	(6.2)	13.2
Decrease / (increase) in minimum funding requirement liability	36.0	17.2	53.2	(32.1)	(16.5)	(48.6)
Remeasurement of net defined pension liability	(63.1)	(23.8)	(86.9)	28.3	(3.5)	24.8

i. Reconciliation of asset ceiling / additional liability

	2016			2015		
	TP Schemes £m	BSS Schemes £m	Group £m	TP Schemes £m	BSS Schemes £m	Group £m
At 1 January	(34.6)	(16.5)	(51.1)	(1.9)	-	(1.9)
Interest expense	(1.4)	(0.7)	(2.1)	(0.6)	-	(0.6)
Change in asset ceiling	36.0	17.2	53.2	(32.1)	(16.5)	(48.6)
At 31 December	-	-	-	(34.6)	(16.5)	(51.1)

j. Maturity profile of obligations

The weighted average duration of the schemes' liabilities are:

TP Schemes – 18.3 years

BSS Scheme – 18.5 years

The maturity profile of the defined benefit obligations for the schemes are as follows:

	TP Schemes %	BSS Schemes %
2017 - 2026	15.3	14.7
2027 - 2036	22.9	23.3
2037 - 2046	24.0	24.8
2047 - 2056	20.1	20.3
2057 - 2066	12.4	12.2
2067 - 2076	4.5	4.1
2077 - 2086	0.9	0.6
2087 - 2096	0.1	0.0

k. Sensitivities

The estimated effects of changing the key assumptions (discount rate, inflation and life expectancy) on the IAS19 (revised 2011) balance sheet position as at 31 December 2016 is given below.

Assumption		TP Scheme	BSS Schemes
Discount rate	Increase of 0.1%	22.7	6.9
	Decrease of 0.1%	(23.4)	(7.1)
Inflation	Increase of 0.1%	(10.0)	(3.9)
	Decrease of 0.1%	14.5	6.0
Longevity	Increase of 1 year	(46.8)	(14.4)
	Decrease of 1 year	48.0	14.7

l. Defined contribution schemes

The Group operates two defined contribution schemes for all qualifying employees. The pension cost, which represents contributions payable by the Group, amounted to £16.8m (2015: £14.3m).

m. Pension scheme contributions for year

The total charge to the income statement disclosed in note 7 of £25.5m (2015: £30.9m) comprises defined benefit scheme current and past service costs of £8.7m (2015: £16.6m) and £16.8m (2015: £14.3m) of contributions made to the defined contribution schemes.

28. 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 Garratt Timber Supplies 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.

29. OPERATING LEASE ARRANGEMENTS

The Group has entered into a significant number of property operating leases for its trading sites, the commercial terms for which tend to vary. The leases, at inception, are typically 25 years in duration, although some have lessee only break clauses of between 10 and 15 years. No leases place any commercial restriction on the Group's ability to conduct its business in the manner it sees fit (for instance restrictions on dividends, debt levels or further leases). No lease has clauses that link rental payments to performance, for instance turnover leases and no lease contains contingent rent clauses.

All leases include rent escalation clauses setting out the basis for future rent reviews. Typically these are based on open market conditions or are linked to RPI or CPI. The Group has a small number of leases that are subject to fixed reviews, but these are not material.

There are no significant pre-emption rights in any of the Group's leases.

The Group also leases certain items of plant and equipment. The Company has no operating lease arrangements.

a. The Group as lessee

	2016 £m	2015 £m
Minimum lease payments under equipment operating leases recognised in income for the year	35.5	38.8
Minimum lease payments under property operating leases recognised in income for the year	194.0	185.4

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under noncancellable operating leases. The table below sets out the lease commitments of the Group as they fall due up until the end of the existing leases and do not include the effect of possible lease renewals:

	2016 £m	2015 £m
Within one year	194.2	191.4
In the second to fifth years inclusive	656.2	662.2
In the sixth to ten years inclusive	532.0	524.8
In the eleventh to fifteenth years inclusive	252.4	377.8
After fifteen years	127.8	42.1
	1,762.6	1,798.3

b. The Group as lessor

The Group sublets a number of ex-trading properties to third parties. Property rental income earned during the year in respect of these properties was £5.7m (2015: £5.0m).

At the balance sheet date, the Group had contracts with tenants for the following future minimum lease payments:

	2016 £m	2015 £m
Within one year	5.2	5.2
In the second to fifth years inclusive	15.1	16.7
After five years	15.4	17.9
	35.7	39.8

30. CAPITAL COMMITMENTS

	The Group		The Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Contracted for but not provided in the accounts	14.9	39.2	-	-

31. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries, its Directors and with its pension schemes (note 27). Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition the remuneration of the Directors, and the details of their interests in the share capital of the Company are provided in the audited part of the remuneration report on pages 88 to 94.

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2016	2015
	£m	£m
Short-term employee benefits	10.9	10.7
Post employee benefits	0.2	0.4
Share-based payments	4.2	4.2
	15.3	15.3

The Company undertakes the following transactions with its active subsidiaries:

- Providing day-to-day funding from its UK banking facilities
- Paying interest to members of the Group totalling £21.6m (2015: £22.5m)
- Levying an annual management charge to cover services provided to members of the Group of £8.4m (2015: £8.4m)
- Receiving annual dividends totalling £330.4m (2015: £256.5m)

Details of balances outstanding with subsidiary companies are shown in note 18 and in the Balance Sheet on pages 116 and 117.

Other than the payment of remuneration there have been no related party transactions with directors.

The Group advanced a total of £4.7m (2015: £3.5m) to all the Group's associate companies in 2016. Operating transactions with the associates during the year were not significant.

32. NET DEBT

a. Movement in net debt

	The Group						Total
	Cash and cash equivalents	Finance leases	Revolving credit facility and loan notes	Unsecured senior US\$ notes and sterling bonds	Liability to pension scheme	Exchange and fair value adjustments on derivatives hedging net debt items	
	£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 amortised	-	-	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

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32. NET DEBT continued

b. Balances at 31 December

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

c. Net debt under covenant calculations

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

33. LEASE ADJUSTED GEARING

	The Group	
	2016	2015 Restated (note 36)
	£m	£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%

34. FREE CASH FLOW

	The Group	
	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 before exchange and fair value adjustments	89.9	(92.2)
Dividends paid	110.5	100.2
Net cash outflow for expansion 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 payments	42.5	-
Increase in 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	(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 (note 17).

Net debt before exchange and fair value adjustments is reconciled to the financial statements in note 32.

35. LEVERAGE RATIOS

a. The adjusted ratio of net debt to earnings before interest, tax and depreciation ("EBITDA")

	The Group	
	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 (note 32c)	337.2	403.7
Adjusted net debt to EBITDA under covenant calculations	0.66x	0.81x

35. LEVERAGE RATIOS continued

b. Adjusted ratio of net debt to earnings before interest, tax, depreciation and operating lease rentals ("EBITDAR")

	The Group	
	2016	2015 Restated (note 36)
	£m	£m
Adjusted EBITDA	514.1	498.7
Property operating lease rentals net of rent receivable	188.3	180.4
Adjusted EBITDAR	702.4	679.1
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
Lease adjusted net debt to adjusted EBITDAR	2.7x	2.8x

c. Fixed charge cover

	The Group	
	2016	2015 Restated (note 36)
	£m	£m
Adjusted EBITDAR	702.4	679.1
Property operating lease rentals net of rent receivable	188.3	180.4
Interest for fixed charge calculation (note 9)	25.2	24.9
	213.5	205.3
Fixed charge cover net of rent receivable	3.3x	3.3x

36. RETURN ON CAPITAL RATIOS

Group return on capital employed is calculated as follows:

	2016 £m	2015 Restated* £m
Operating profit	100.4	254.0
Amortisation of acquired intangible assets	16.6	18.0
Exceptional items	292.0	140.6
Adjusted operating profit	409.0	412.6

	2016 £m	2015 Restated* £m
Opening net assets	2,795.8	2,677.7
Net pension deficit	42.4	78.3
Net debt before exchange and fair value adjustments	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 debt before exchange and fair value adjustments	377.5	467.4
Exchange and fair value adjustment	-	(20.0)
Closing capital employed	3,136.3	3,285.6

*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 £m	2015 Restated* £m
Opening 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 £235.4m of impaired goodwill respectively in order to provide a comparable calculation basis.

36. RETURN ON CAPITAL RATIOS *continued*

Revised Group lease adjusted return on capital employed is calculated as follows:

	2016 £m	2015 Restated* £m
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%

* Revised for the changes to the capital employed calculation detailed above.

37. REVENUE RECONCILIATION AND LIKE FOR LIKE SALES

	General Merchanting £m	Plumbing & Heating £m	Contracts £m	Consumer £m	Total £m
2015 revenue	1,972	1,371	1,213	1,386	5,942
Like-for-like revenue	34	(21)	59	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

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

38. RELATED UNDERTAKINGS

The registered office of all subsidiary undertakings is Lodge Way House, Lodge Way, Harlestone Road, Northampton NN5 7UG except for companies with a superscript where the registered office is given after the list of subsidiary companies and investments.

Active subsidiary companies (100% ownership and UK registered)

Benchmark Kitchens and Joinery Limited	Toolstation Limited
Built for Trade Limited	Travis Perkins Acquisitions Company Limited
CCF Limited	Travis Perkins Bridge Properties LLP
City Plumbing Supplies Holdings Limited	Travis Perkins Finance Company Limited
Connections (AML) Limited	Travis Perkins Financing Company No.2 Limited
Garratt Timber Supplies Limited	Travis Perkins Financing Company No.3 Limited
Hunter Estates Limited	Travis Perkins Leasing Company Limited
IJM Enterprises Limited	Travis Perkins P&H Partner Limited
Keyline Builders Merchants Limited ⁹	Travis Perkins Plumbing & Heating LLP
Plumbnation Limited	Travis Perkins Trading Company Limited
Primaflow Limited	Travis Perkins (Properties) Limited
Property Newco (SLAD) Limited	Travis Perkins (PSL 2015) Limited
PTS Group Limited	Wickes Building Supplies Limited
Rudridge Limited	Wickes Developments Limited
Solfex Limited	Wickes Holdings Limited
T&T (Sussex) Plant Hire Limited	Wickes Properties Limited
The Cobtree Scottish Limited ⁹ Partnership	
Tile Giant Limited	

Dormant & non-trading subsidiary companies (100% ownership and UK registered)

A. Warren & Sons Limited	Christie & Vesey Limited
A.M. Supplies (Pumps And Controls) Limited	City Plumbing Supplies (Poole) Limited
Actionbridge Limited	City Plumbing Supplies (Salisbury) Limited
Ahed Limited	City Plumbing Supplies (Scotland) Limited
Angelery Limited	City Plumbing Supplies Limited
B. & G. (Heating & Plumbing) Limited	Cobtree Nominees Limited
Baird Lindsay Limited ⁹	Commercial Ceiling Factors (Midlands) Limited
Basic Partition Systems Limited	Commercial Ceiling Factors Limited
Basildon Heating Services Limited	Contract Supplies (North East) Limited
Birchwood Group Holdings Limited	Coppas Controls (UK) Limited
Birchwood Products Limited	County Hire Services (Wollaton) Limited
Blyth & Taylor (Hants) Limited	County Landscape Products Limited
BMSS Limited	Curran Sawmills Limited - The ¹¹
Bondco 909 Limited	D.W. Archer Limited
Bonham Lilley Timber Limited	Direct Building Supplies Truro Limited
Border Building Supplies Limited	Direct Heating Spares Limited
Boston (2011) Limited	Domestic Heating Supplies (Warrington) Limited
Boxbrook Holdings Limited	Downpatrick Timber Slate & Coal Company Limited ³
Brasscapri Limited	Dyfed Building and Plastic Supplies Limited
Brassware Sales Limited	E Fletcher (Timber) Limited
British Steam Specialties (International) Limited (The)	E. Salisbury Limited
British Steam Specialties Limited(The)	Edwards & Company (Longfield) Limited
Broombys Limited	Elecnation Limited formerly Malden Timber Limited
BSS (UK) Limited	Elias Wild & Sons Limited
Builders Mate Limited	F W Darby & Co (Tunbridge Wells) Limited
Builders Traders Limited	Fishguard Building Supplies Limited
Bulwell Timber Company Limited	Floorsystems Limited
Burt Boulton (Timber) Limited	Flortek Limited
Buywell Building Supplies Limited	Four Oaks Timber and Joinery Supplies Limited
C & C Building Supplies (Marple) Limited	Fry & Pollard Limited
C & G Building Supplies Limited	Gisowatt UK Limited
C.H. Crees and Son Limited	Graylin Limited
Carmichael Browne Associates Limited	Greenwell Building Supplies Limited
Central England Supplies Ltd	Grundy & Pilling Limited
Chandler Forest Products Limited	Hardleys Timber & Building Supplies Limited
Mayalls Limited	Harris of Stirchley Limited
Chinnor Plumbing Supplies Limited	Harrison Trenery Limited

38. RELATED UNDERTAKINGS continued

Dormant & non-trading subsidiary companies (100% ownership and UK registered) continued

Harvey Building Supplies (Scotland) Limited	R A Thomas (Joinery) Limited
Heatek Labone Cadell Limited	Rempe Limited
Heatstall Limited	S & M Bathrooms Limited
HT (1993) Limited	S & M Builders Merchant (Bailey) Limited
HTG (1996) Limited	Sandall Perkins + Newmans Limited
Huner Limited	Seales McLean Limited
UJM Holdings Limited	SES Southern Limited
Index Timber & Building Supplies Limited ⁹	Sharpe & Fisher (Properties) Limited
Instock Limited	Sharpe & Fisher Limited
Ivco Process Valves Limited	Shrres Timber Co. Ltd
J & B Labone Limited	Simmons of Stoke-on-Trent Limited
J T Stanton & Co., Limited	SLBM Systems Limited
J.H. Walker & Co. (York) Limited	Smiths Building Supplies Limited
James Ladd & Sons Limited	Spendlove C. Jabb ¹
Jayhard Holdings Limited	Spendlove C. Jabb Holdings Limited
Jayhard Ltd	Shearns (Shipdon Green) Limited
John Clements (Builders Merchants) Limited	T But & Son Limited
John Dove & Co. Limited	T J Willers (Timber) Limited
John H. Turner & Linsay Limited	Tarstock Building Supplies Limited
Joseph Spark & Son Limited	Taylor Building Supplies Ltd
K X Company Limited	Tenant Supplies Limited
Kelmar (Plumbing & Heating Supplies) Limited	The BSS Group Limited
Keyline (CML) Limited	The Delta Limited
Kisting Limited	The Grant Holdings Limited
Lord Street Building Supplies (Leigh) Limited	The HQ Limited
M & H (North East) Limited	Tile It All (UK) Limited
M G Bailey (Building Materials) Limited	The Magic Holdings Limited
Malden Timber (West) Limited	The Magic Limited
Manor Building & Plumbing Supplies Limited	TP Directors Ltd TP
Manor Copper Supplies Limited	TP General Partner (Scotland) Limited ⁹
May & Hassell (Cumbria) Limited	The Yard Building Supplies Limited
May & Hassell (North West) Limited	The Beta Limited
May & Hassell (Scotland) Limited ⁹	TPG Management Services Limited
May & Hassell Limited	Travis & Arnold Limited
Mayalls Limited	Travis Perkins Capital Partner Limited
MD (1995) Group Limited ⁹	Travis Perkins Installation Services Limited
MD (1995) Limited	Travis Perkins Marketing Company Limited
MD (Park Street) Limited	Travis Perkins Quest Trustees Limited
MD-DOR3 Limited	Tricom Group Limited
MD-DORA Limited	Tricom Supplies Limited
Month Building Services Limited ⁹	UGS Limited
NAGS Building Supplies Limited	UGS South East Limited
Nalindie Limited	Vaner Holdings Limited
Nepronik Controls Ltd	W.A. Hawke & Son Limited
Newcastle The Centre Limited	W.H. Newson & Sons Limited
Norman Mackenzie (Building Supplies) Limited ⁹	W.H. Newson Holding Limited
O J Williams (Merchants) Limited	W.S. Shuttleworth (Maldenhead) Limited
P.C.P. Harris (Builders Merchants) Limited	W.S. Shuttleworth (Slough) Limited
P.C.P. Harris (Holdings) Limited	W.S. Shuttleworth (Timber) Limited
Plumbstall Limited	Water Street Home Improvements Limited
PT S Plumbing Trade Supplies Limited	Whittaker & Co. (Builders Merchants) Limited
Passmore Drywall & Insulation Limited	W. Gaunt Limited
Peck & Goodwin Limited	Wickses Limited
Peckham Timber and Builders Merchants Limited	Wickses Group Trustees Limited
Plasterers & Builders Merchants Limited	Wickses Retail Sourcing Limited
Plumbing Parts Limited	William Bird Holdings Limited
Price & Brown (Heating) Limited	William Bloor & Son Limited
Price Tool Sales Limited	Zenith Plumbpoint Limited
Primaflow (Birmingham) Limited	
Property Newco Two Limited	

Other subsidiary companies

Company Name	Registered	% Ownership	Status
City Investments Limited ⁴	Jersey	100	Active
BSS (Ireland) Limited ¹²	Ireland	100	Active
Travis Perkins Hong Kong Limited ⁸	Hong Kong	100	Active
Travis Perkins Sourcing (Shanghai) Ltd ⁶	China	100	Active
Underfloor Heating Store (The) Limited	UK	55	Active

Investments

Company Name	Registered	% Ownership	Status
Bombala Limited ⁵	UK	49	Active
The Mosaic Tile Company Limited ⁵	UK	49	Active
Toolexpert Benelux BV ¹⁰	Netherlands	49	Active
Toolstation Europe Limited ²	UK	49	Active
Toolstation Europe BV ¹⁰	Netherlands	49	Active
Toriga Energy Limited	UK	49	Active
Toriga Limited	UK	49	Active
Independent Construction Technologies Limited ⁷	UK	15	Active
P H Properties Limited ⁷	UK	15	Active
Staircraft (Midlands) Limited ⁷	UK	15	Active
Staircraft Integrated Solutions Limited ⁷	UK	15	Active

- 1 107-127 Grosvenor Road, Belfast, BT12 4GT, Northern Ireland
- 2 16-18 Whiteladies Road, Clifton, Bristol, BS8 2LG, England
- 3 Marlborough House, 30 Victoria Street, Belfast, BT1 3GS, Northern Ireland
- 4 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
- 5 Project House, Armley Road, Leeds, LS12 2DR, England
- 6 Room 5702-Q, 1486 West Nanjing Road, Jing'an District, Shanghai, China
- 7 Staircraft Building, Dunns Close, Nuneaton, CV11 4NF, England
- 8 Suite 2401, 24/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong
- 9 Suite S3, 8 Strathkelvin Place, Kirkintilloch, G66 1XT, Scotland
- 10 Touwbaan 40, 2352CZ Leiderdorp, Netherlands
- 11 Tughans, Marlborough House, 30 Victoria Street, Belfast, BT1 3GS, Northern Ireland
- 12 White Heather Industrial Estate, South Circular Road, Dublin, 8, Republic of Ireland

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Five-year summary

Consolidated income statement	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	6,217.2	5,941.6	5,580.7	5,148.7	4,844.9
Operating profit before amortisation and exceptional items	409.0	412.6	384.0	347.6	325.7
Amortisation	(16.6)	(18.0)	(17.6)	(17.9)	(17.4)
Exceptional items	(292.0)	(140.6)	(23.3)	-	(8.7)
Operating profit	100.4	254.0	343.1	329.7	299.6
Exceptional investment income	-	-	-	9.4	39.5
Net finance costs	(27.7)	(30.5)	(21.7)	(26.5)	(39.9)
Profit before tax	72.7	223.5	321.4	312.6	299.2
Income tax expense	(58.6)	(55.8)	(62.7)	(47.9)	(50.5)
Net profit	14.1	167.7	258.7	264.7	248.7
Basic earnings per share	5.1p	67.8p	105.9p	109.9p	104.3p
Adjusted earnings per share	120.4p	124.1p	119.0p	103.6p	90.6p
Dividend declared per ordinary share	45.0p	44.0p	38.0p	31.0p	25.0p
Number of branches at 31 December (Includes branches of associates)	2,053	2,028	1,975	1,939	1,896
Average number of employees (FTE)	24,656	24,670	23,480	21,937	21,632
Consolidated cash flow statement	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Cash generated from operations	494.7	350.3	310.2	319.2	327.6
Net interest paid	(22.2)	(19.7)	(15.0)	(20.5)	(27.3)
Income taxes paid	(104.7)	(47.8)	(49.9)	(59.2)	(64.5)
Net purchases of investments, property and plant	(186.5)	(247.1)	(134.1)	(90.3)	(49.7)
Interest in associates	(4.6)	(3.5)	(2.1)	(2.9)	(2.9)
Acquisition of businesses net of cash acquired	(3.2)	(26.0)	(15.7)	(9.3)	(24.5)
Proceeds from issuance of share capital	9.7	10.0	14.3	13.9	8.9
Dividends paid	(110.5)	(100.2)	(81.1)	(65.1)	(51.2)
Bank facility finance charges	(2.4)	(3.9)	(2.6)	-	-
Movement in finance lease liabilities	15.9	(2.7)	(2.5)	(2.1)	5.7
Repayment of unsecured loan notes	-	(40.8)	-	-	-
Increase / (decrease) in loans	80.5	106.9	7.0	(143.0)	(61.6)
Net increase / (decrease) in cash and cash equivalents	166.7	(24.5)	28.5	(59.3)	60.5
Net debt at 1 January	(467.4)	(375.2)	(347.6)	(452.2)	(583.2)
Non cash adjustment	17.1	(8.3)	(54.2)	18.8	14.6
Cash flow from debt and debt acquired	(93.9)	(59.4)	(1.9)	145.1	55.9
Net debt before exchange and fair value adjustments at 31 December	(377.5)	(467.4)	(375.2)	(347.6)	(452.2)
Free cash flow	436.1	316.6	254.7	239.6	241.8

Consolidated balance sheet	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Assets					
Non-current assets					
Property, plant and equipment	929.5	849.5	689.3	609.9	578.4
Goodwill and other intangible assets	1,889.1	2,111.9	2,223.6	2,223.7	2,232.3
Derivative financial instruments	-	22.5	21.2	9.3	12.8
Interest in associates	11.5	7.9	1.7	7.3	6.7
Other receivables	8.3	-	-	-	-
Investment property and other investments	9.1	7.8	3.6	3.1	2.8
Current assets					
Inventories	768.0	761.8	742.7	687.7	637.1
Trade and other receivables	1,059.3	986.9	931.8	822.9	746.4
Derivative financial instruments	1.7	-	-	-	-
Cash and cash equivalents	250.5	83.8	108.3	79.8	139.1
Total assets	4,927.0	4,832.1	4,722.2	4,443.7	4,355.6
Capital and reserves					
Issued capital	25.1	25.0	24.9	24.7	24.5
Share premium account	528.5	518.9	510.5	498.0	487.2
Merger reserve	326.5	326.5	326.5	326.5	326.5
Own shares	(8.7)	(15.5)	(28.5)	(40.6)	(62.4)
Other reserves	16.8	16.9	16.8	16.7	18.5
Accumulated profits	1,760.1	1,918.1	1,827.5	1,689.9	1,461.3
Equity attributable to owners of the Company	2,648.3	2,789.9	2,677.7	2,515.2	2,255.6
Noncontrolling interests	7.3	5.9	-	-	-
Total equity	2,655.6	2,795.8	2,677.7	2,515.2	2,255.6
Non-current liabilities					
Interest bearing loans and borrowings	621.1	411.4	440.0	421.6	195.2
Derivative financial instruments	-	-	0.5	4.5	4.9
Retirement benefit obligations	127.3	52.2	97.5	71.4	125.9
Long-term provisions and other payables	21.2	7.4	7.8	22.6	67.0
Deferred tax liabilities	45.8	61.3	66.7	61.3	69.1
Current liabilities					
Interest bearing loans and borrowings	6.9	139.8	43.5	5.8	396.1
Derivative financial instruments	-	-	-	1.8	2.6
Trade and other payables	1,348.3	1,235.5	1,255.2	1,218.1	1,107.6
Tax liabilities	43.8	90.2	71.6	73.2	74.8
Short-term provisions	57.0	38.5	61.7	48.2	56.8
Total liabilities	2,271.4	2,036.3	2,044.5	1,928.5	2,100.0
Total equity and liabilities	4,927.0	4,832.1	4,722.2	4,443.7	4,355.6

Other shareholder information

FINANCIAL DIARY

Ex-dividend date	13 April 2017
Record date	18 April 2017
Trading statement	27 April 2017
Annual General Meeting	24 May 2017
Payment of final dividend	26 May 2017
Announcement of 2017 interim results	2 August 2017*
Trading statement	19 October 2017*
Announcement of 2017 annual results	28 February 2018*

* These are provisional dates. The Travis Perkins financial calendar can be found online under the Investor Relations section of our website: www.travisperkinsplc.co.uk

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held on 24 May 2017 at 12.00 noon at Northampton Rugby Football Club, Franklins Gardens, Weedon Road, Northampton NN5 5BG. The notice and proxy card for the meeting is enclosed with this report. A hot luncheon will be served following the AGM.

REGISTRARS

For Information about shareholdings, dividends and to report changes to personal details please contact the Company's registrars:

Capita Asset Services,
The Registry,
34 Beckenham Road,
Beckenham,
Kent,
BR3 4TU

Email: shareholderenquiries@capita.co.uk

Telephone: 0371 664 0300

Calls will be charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate; lines are open 9am to 5.30pm, Monday to Friday.

Please inform Capita if there are any changes to your address, bank details or any other account information. You can view and manage your shareholder account online via the shareholder portal at www.travisperkins-shares.com. You will need to register to use this service and to do so you will require your unique investor code (IVC), which can be found on your share certificate, proxy card or dividend confirmation.

It is more secure to have your dividends paid directly into your bank account than by cheque. If you do not already have your dividends paid directly into your account and would like to do so, you can do this on the shareholder portal at www.travisperkins-shares.com or you can contact Capita and they will send you the relevant form to complete.

SHAREHOLDER COMMUNICATIONS

Company Website

Travis Perkins plc Annual and Interim Reports, results announcements and presentations are available on the Investor Relations section of our website at www.travisperkinsplc.co.uk. The website also carries a range of information about the Group and its principal brands, products and services which can be accessed via the "Our Businesses" section.

Annual Report

The Annual Report and Financial Statements 2016 is published on our website at www.travisperkinsplc.co.uk/investor-relations and a hard copy has been posted to shareholders who have requested it in paper copy format. All other shareholders have been notified of its availability on the website, either in writing or by email.

A paper copy is available by writing to the Company Secretary at the Company's registered office: Lodge Way House, Lodge Way, Harlestone Road, Northampton NN5 7UG or you can email your request to cosec@travisperkins.co.uk.

Electronic Shareholder Communications

The Company prefers that you receive your shareholder communications electronically. This is a much faster, environmentally-friendly and cost effective way to communicate with you. If you have received a hard copy of this report, or notification of its availability by post and would like to receive fully electronic communication, please register your preference on the shareholder portal at www.travisperkins-shares.com and follow the instructions. Terms and conditions apply. If you have any queries please telephone Capita Asset Services on the number provided opposite.

SHAREHOLDER SERVICES

The Company's registrars, Capita Asset Services ("Capita"), provide a number of other services that, as a shareholder, might be useful to you:

Duplicate Share Register Accounts

If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that is not your intention you may wish to consider merging the accounts into one single entry. Please contact Capita who will be pleased to help you.

Dividend Re-Investment Plan ("DRIP")

This is a scheme which allows you to use your dividends to buy further shares in Travis Perkins. For any shareholders who wish to reinvest dividend payments in the Company, a facility is provided by Capita IRG Trustees Ltd in conjunction with Capita Asset Services. Full details are available from Capita on 0371 664 0381 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate); lines are open from 9am to 5.30pm Monday – Friday.

Email shares@capitaregistrars.com

Alternatively, you can sign up for this service on the shareholder portal or visit www.travisperkins-shares.com (by clicking on 'reinvest your dividends' and following the on screen instructions).

Please note that this facility is only available to shareholders with an address in the UK or EEA. The value of shares and income from them can fall as well as rise and you may not recover the full amount of money you invested.

Overseas Shareholders

Capita has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your local bank account, or alternatively, you can be sent a currency draft.

You can sign up for this service on the share portal (by clicking on 'manage your account' and 'Change your dividend details' and following the on screen instructions) or by contacting the Customer Support Centre. Further details are available from Capita Asset Services: by telephone: 0371 664 0300 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate). Lines are open 9am to 5.30pm, Monday to Friday, excluding public holidays.

SHARE DEALING SERVICES

There are two share dealing services that you may wish to use to buy or sell shares in Travis Perkins (but alternatively there are many other options that you could use):

- Capita offers an on-line and telephone share dealing service which is available by logging on to www.capitadeal.com or telephoning 0371 664 0445 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate; lines are open 8am to 4.30pm, Monday - Friday).
- These services are only available to private shareholders resident in the EEA, the Channel Islands and the Isle of Man. Further details including costs are available at www.capitadeal.com

SHARE FRAUD – WARNING TO SHAREHOLDERS

In recent years, share fraud has been increasing, with shareholders receiving unsolicited correspondence concerning investment matters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams; offering to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. Sometimes these individuals imply that they represent Travis Perkins, but in fact they have no connection with the Company and have no authority to claim or imply that they are.

If you are approached by fraudsters, please tell the Financial Conduct Authority using the share fraud reporting form at www.fca.org.uk/scams, where you can also find out more about investment scams.

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