

Travis Perkins ^{plc}



Annual Report
& Accounts 2018

Highlights

Revenue

£6,741m

Like-for-like revenue growth

4.9%

Adjusted operating profit

£375m

Net debt

£354m

Dividend per share

47.0p

Stronger second half profit performance – well positioned in uncertain market conditions

£m	2018	2017	Change
Revenue	6,741	6,433	4.8%
Like-for-like revenue growth	4.9%	3.3%	
Adjusted operating profit	375	380	(1.3)%
Adjusted operating profit excluding property profits	348	351	(0.9)%
Adjusted earnings per share	114.5p	110.4p	3.7%
Net debt	(354)	(342)	(12)
Dividend per share	47.0p	46.0p	2.2%
Lease adjusted ROCE	10.5%	10.7%	(0.2)ppt
Adjusting items	387	41	
Operating (loss)/profit	(22)	327	
(Loss)/profit before taxation	(49)	290	
Basic (loss)/earnings per share	(34.4)p	93.1p	

- Strong Group revenue growth of 4.8% and 4.9% on a like-for-like basis
- Continued market outperformance in Contracts division and Toolstation
- Adjusted operating profit declined by 1.3% while adjusted EPS grew by 3.7%
- Adjusted operating profit excluding property profits grew by 10.7% in the second half of the year, underpinned by successful cost reduction activities
- Adjusting items includes a non-cash impairment of £246m against the goodwill in Wickes and restructuring costs across the Group
- Full-year total dividend increased by 2.2% to 47.0p per share
- Good progress has been made on the strategic actions set out in December 2018, including simplification through the removal of the divisional structure above the merchant businesses
- 2019 adjusted operating profit expected to be similar to 2018

Alternative performance measures are used to provide a guide to underlying performance. Details of the calculations can be found in the Performance review on pages 18 and 19 and the notes to the financial statements.

Contents

3

STRATEGIC REPORT

- 4 Divisional structure
- 6 Chairman's statement
- 8 Simplifying our Group to create value
- 16 Chief Executive's statement
- 18 Performance review
- 34 Statement of principal risks and uncertainties
- 42 Our people
- 45 Charities and communities
- 46 Cornerstones
- 47 Keeping people safe
- 50 Environmental sustainability

55

GOVERNANCE AND REMUNERATION

- 56 The Board of Directors
- 59 Corporate governance report
- 66 Audit Committee report
- 72 Directors' remuneration report
- 90 Nominations Committee report
- 92 Directors' report
- 96 Statement of Directors' responsibilities

97

FINANCIAL STATEMENTS

- 98 Independent auditor's report
- 106 Financial statements
- 116 Income and Expenses
- 126 Assets and Liabilities
- 142 Capital
- 152 Risks
- 159 Group Structure
- 165 People
- 169 Other

173

SHAREHOLDER INFORMATION

- 174 Five-year summary
- 176 Other shareholder information

Strategic report

- 4 Divisional structure
- 6 Chairman's statement
- 8 Simplifying our Group to create value
- 16 Chief Executive's statement
- 18 Performance review
- 34 Statement of principal risks and uncertainties
- 42 Our people
- 45 Charities and communities
- 46 Cornerstones
- 47 Keeping people safe
- 50 Environmental sustainability

Divisional structure

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

General Merchancing

£2.1bn sales 837 branches 9,700 colleagues	Market-leading general merchant to trade customers Kitchen distributor to trade The General Merchancing division supplies products for all types of repair, maintenance and improvement projects as well as new residential and commercial construction. The customer base is largely made up of trade professionals, ranging from sole traders to national housebuilders whose key requirements are locally stocked product ranges (immediately available for collection or delivery), access to extended ranges (often delivered direct to site), competitive pricing, credit accounts and problem-solving expertise.
--	--

Contracts

£1.5bn sales 164 branches 4,300 colleagues	Leading specialist distributor of civils, heavy building materials and drainage Leading specialist distributors of pipeline and heating solutions Specialist distributor of ceilings, insulation and drywall The customers of the three large Contracts businesses, Keyline, BSS and CCF, are typically main contractors and sub-contractors in the residential, infrastructure, commercial and industrial construction sectors. The products they supply are generally used in large construction projects ranging from new road and rail infrastructure, power generation construction, public service infrastructure such as hospitals and schools through to commercial and residential construction and refurbishment.
--	---

Consumer

£1.6bn sales 672 stores 12,000 colleagues	Home improvement retailer Fully integrated multichannel retailer Tile retailer The Consumer division supplies domestic building and decorative materials through its store network to DIY and trade customers. It is differentiated by providing the best value in each of its respective channels through operating efficient stores and delivery services, a superior online proposition and high levels of availability of the brands and products that customers demand in a modern customer shopping environment, with an increasing focus on providing a comprehensive Kitchen and Bathroom design and installation service. Toolstation has a rapidly growing European business, with 40 stores in the Netherlands and France and online businesses in Belgium and Germany.
--	---

Plumbing & Heating

£1.5bn sales 377 branches 2,800 colleagues	Digital footprint Physical network Leading wholesaler to trade distributors The Plumbing & Heating division delivers a coherent and consistent proposition to installer and contract customers through an integrated national branch network and online capability, as well as being a leading wholesaler to trade distributors, enabled by an industry-leading supply chain. The division has an extended category reach including its successful own brand products and expanding electrical offering enabling improved customer convenience.
---	--

Chairman's statement

I am pleased to introduce the Company's Annual Report for the year ended 31 December 2018, a year in which the Group announced a new strategic direction, focusing on its advantaged trade businesses and simplifying the organisation. The Group is taking positive action to respond to the ongoing macroeconomic uncertainty and deliver financial performance in the short-term, whilst positioning its businesses to take advantage when market conditions improve, and to maximise value creation in the future.

Stuart Chambers
Chairman

25 February 2019

2018 performance

Starting with safety, we were encouraged by another year of improvement with our accident frequency rate declining again for the fifth year running. Our Stay Safe Committee (chaired by Pete Redfern) signed off our new Health and Safety strategy, with further details on pages 47 and 48 of this report.

One key consideration is that 25% of our lost time incidents occurred "out of branch" last year, up from 17%. Furthermore, the importance of focus in this area was highlighted in August 2018 when a cyclist, Dr Peter Fisher, tragically lost his life in an accident involving one of the Group's commercial vehicles at slow speed in London. This all serves to remind us that safety must be at the forefront of our minds in everything we do, and our aim remains to cause zero harm to our employees, and to everyone with whom we interact as we go about our work.

Turning now to financials, the Group produced a solid overall performance in 2018 against a market backdrop of considerable uncertainty. Sales grew by 4.8% to £6,741m, and by 4.9% on a like-for-like basis.

Group adjusted operating profit, excluding property profits, declined by 1.3% in the year, although with a distinct half on half split. An 11.5% decline in the first half of the year was followed by growth of 10.7% in the second half, with earnings progression driven by the improved trading and cost reduction. Adjusted earnings per share increased by 3.7% to 114.5p.

Strategy

The Group has grown considerably in recent years, both organically and through acquisitions, expanding our reach into new markets but leading to increasing levels of complexity. This has resulted in a higher cost base and has challenged the effectiveness of the Group's management focus and capital allocation.

In response to this, and following a comprehensive strategic review, the Board concluded that the purpose of the Travis Perkins Group should be defined more tightly, to provide best-in-class service to trade customers.

At a Capital Markets day in December we outlined our plans for this future direction under two key themes: to focus on trade customers through advantaged businesses and simplify the Group. The main initiatives underway to drive this strategy are:

- To reinvigorate the Travis Perkins merchant business, by placing trade customers at the heart of our strategy and thinking
- To explore options to divest the Plumbing and Heating division
- To improve the performance of Wickes to create optionality for the future
- To reduce above-branch costs throughout the Group with the aim of speeding up decision making and simplifying the Group
- To continue to invest in the growth of Toolstation
- To continue to upgrade our IT systems and improve our digital capability

In parallel with these significant workstreams we remain committed to delivering on our day to day performance.

Dividend

The Board takes a balanced view between the ongoing uncertainty in the UK's political and economic climate and the continued strong cash generation of the Group. Whilst the Group's adjusted operating profit declined modestly in 2018, the earnings per share increased by 3.7%, and the Board recommends a final dividend of 31.5p, payable on 17 May 2019 to shareholders on the register on 5 April 2019. This will give a full-year dividend of 47p (2017: 46p) per share. This modest increase in dividend reflects the Board's confidence in the ongoing positive cash generation of the Group and its robust balance sheet.

Employees

At Travis Perkins our people are, of course, our greatest resource. We have nearly 30,000 employees across the Group, and we take our responsibility to all of our colleagues very seriously. We were recently recognised as a Top Employer by the Great Place to Work Institute for the 10th year running, which is a huge credit to all of our colleagues' hard work, particularly in the HR function and across the branch network. As a Group we continue to push for continuous improvement in colleague support, with specific programmes dedicated to colleague health, safety, career development, diversity, flexible benefits and financial planning and assistance.

I would like to take this opportunity, on behalf of the Board, to thank all our colleagues for their commitment, energy and hard work during the course of 2018, and look forward to further success in 2019 and beyond.

Board of Directors

I am leading a review of Board composition at the Nomination Committee, which was started in 2018, in order to plan the evolution of the Board and to ensure that we have the right balance of skills, experience and diversity going forwards.

Outlook

The fundamental drivers of the Group's end markets remain robust, the level of new house building in the UK is not keeping pace with demand, and there remains a significant underinvestment in the existing stock of 27 million homes. At the same time, customer habits are changing, with consumers increasingly likely to engage a tradesperson to carry out repair, maintenance or improvement work on their home.

In the near-term, the Group is planning for the current levels of market uncertainty to continue. It is therefore vital that the Group concentrates its efforts on the self-help actions laid out in the strategic update in December 2018. These actions, to simplify the Group and streamline decision making, will underpin performance in the short-term, whilst focusing on advantaged trade businesses will enable the Group to take advantage as market conditions improve and maximise shareholder value in the medium and long-term.

Stuart Chambers
Chairman
25 February 2019

Main image: Segou Grant – Wickes, Cricklewood

Bottom image: Shiap Bajgora & John Deighton – Wickes, Cricklewood

Simplifying our Group to create value

In December 2018 the Group laid out its strategic vision to deliver best-in-class service to trade customers through businesses with clear competitive advantages in their markets.

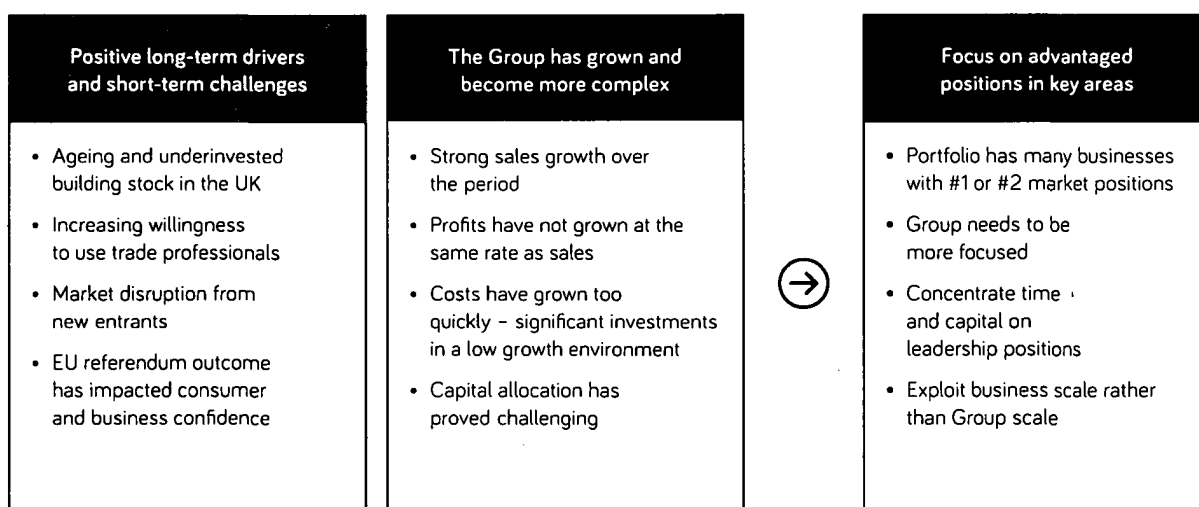
Rationale for change

The Group's strategy is designed to deliver profitable growth through market outperformance, building on the momentum in the Contract Merchancing businesses, the continuing strong growth in Toolstation and the reinvigoration of our market-leading General Merchancing division.

The Group has delivered good sales growth, with all businesses contributing at some point during the five year cycle. The consistent contributions from the Group's Contract Merchancing

businesses and the ongoing growth of Toolstation are of particular note.

Profits have not grown as fast and the Group has not demonstrated the expected operational leverage. This is due in part to external reasons including flat market volumes and internal factors including cost levels being increased to support growth. In the current challenging market environment the Group must simplify to increase agility and reduce cost.



The outcome of this is that the Group needs to be more focused: on key markets, on leading businesses and on more selective opportunities. The Group needs to focus less on extracting

benefits from the overall size of the Group and instead to ensure that the businesses are focused on generating competitive advantage based on their own scale.

Our markets

Fundamentals

The fundamental long-term growth drivers of the Group's business remain robust, with a continued shortage of housing in the UK and underinvestment in the maintenance and improvement of the UK's existing ageing housing stock.

Current conditions

In the short-term market conditions remain uncertain, impacting secondary housing market transactions and consumer confidence.

Market channels

The markets addressed by the Group's businesses have grown at an estimated compound annual rate of 4% over the last five years. This growth however can be divided into two periods, with significant volume growth from 2013 to mid-2016 as the economy recovered from the global financial crisis, followed by a

Sources: GfK Consumer Confidence Index, HMRC seasonally-adjusted UK property transactions

period with marginal volume growth as the economy slowed after the EU Referendum in June 2016.

Within the overall market, the channel mix has changed as different models emerge and customer preferences drive change.

Source: Travis Perkins plc 2018 estimates

Retail

The proportion of the market supplied by retail channels has decreased as consumers increasingly prefer 'Do It For Me' ("DIFM") solutions and the market has been disrupted by the impact of the Bunnings purchase and disposal of Homebase. In these challenging conditions our Wickes business has performed well relative to its market.

Trade formats

Offsetting the decline of retail is a growth in trade formats, both generalist and specialist. Merchant sectors have performed well (general, specialist and direct to site via merchant), with Travis Perkins Group businesses well represented. Trade customers continue to perform well, with large customers in particular providing a slightly larger share of sales.

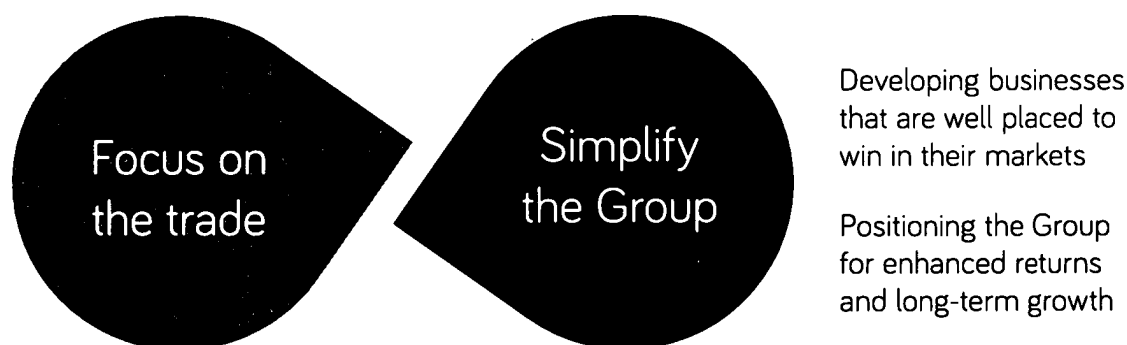
New models

New business models have also prospered. Fixed Price Operators including Toolstation have grown impressively and offer enhanced propositions to customers, including extended hours and extensive ranges with high availability and competitive fixed pricing.

Group strategy – clarifying our purpose

Following a comprehensive review the Board concluded that the purpose of the Group is to provide best-in-class service to trade customers. To deliver this the Group will focus on serving trade customers through advantaged businesses in attractive markets and will simplify the Group to reduce complexity and drive growth in shareholder returns.

Two major themes



Focus on trade

The heritage of the Travis Perkins Group is serving UK trade customers and this represents the majority of the Group's activity today. Generalist and specialist merchants continue to see the largest share of industry growth, with returns remaining resilient over time. Whilst trade customers are becoming increasingly demanding of the quality of service they receive, they still place considerable value on a convenient, reliable and competitive supply relationship that supports growth of their businesses.

All of the Group's businesses serve trade customers to a greater or lesser extent. Some are entirely focused on trade customers due to the markets and products served (e.g. Keyline and

Primaflow F&P) and some have a strong majority of trade customers but will serve consumers when requested (e.g. Travis Perkins). Two businesses are particularly noteworthy:

- Toolstation is reported as part of our Consumer division today, however Toolstation is a majority trade business with approximately 70% of its sales going to trade customers
- Wickes is a minority trade business with approximately 70% of its sales going to non-trade customers. Its sales are evenly split three ways, between kitchen and bathroom sales to homeowners, DIY sales and trade sales

- Trade is the Group's heartland
- Margins more resilient in trade
- Trade cycle is more predictable
- Customers demand competitive prices but still recognise value of good service
- DIY customers moving to DIFM: trade channels are filling the gap
- Digital is an untapped opportunity in trade markets: potential to differentiate

Delivering best-in-class services to trade customers

The Group is dedicated to delivering fantastic service to our customers and to continuously improving its customer offer to ensure that the business continues to grow.

Deep understanding of customer needs

Significant effort is made to understand and meet customer needs. The most important need articulated by our trade customers is a deep relationship with their channel of choice. This is often a personal relationship but increasingly digital relationships are becoming important. The Group will be monitoring and listening to customer requirements to ensure that their needs continue to be met. Teams that love selling and serving customers are vital to the success of the Group.

Delivery of leading propositions

All elements of the Group's proposition are subject to continuous review to ensure they remain relevant in dynamic markets. Value, Range, Service and Convenience are blended in different proportions across the Group's businesses to deliver propositions that are market-leading and promote performance ahead of the market average.

Development of advantaged business models

The Group's businesses generally hold a #1 or #2 position in their markets and capitalising on the competitive advantages of our businesses is vital to the Group's economic success. This includes:

- the empowerment and incentivisation of colleagues and businesses to outperform the market
- leveraging infrastructure to provide nationwide networks and optimised supply chains
- innovations in technology that drive efficiency and accuracy

The capabilities of the Group deliver a meaningful difference across all points of the value chain.

Optionality around Wickes

In the short-term management is focused on strengthening the performance of Wickes in a market environment with significant challenges. It is important that Wickes continues to capitalise on its clear competitive advantages in the DIY, small trade and Kitchen & Bathroom markets, with an aim to return to profitable growth.

As it is a predominantly consumer-focused business, the Board will review the options for maximising the value of Wickes in the medium-term.

Recovery and response to market environment	Capitalise on advantaged model	Exploit medium-term opportunities
• Significant competitor disruption, especially pricing • Ongoing customer shift from DIY to DIFM • Growing market share of fixed price operators • Tactical trading plan underway	• Best-value price model • Customer base split between trade and DIY • Efficient network of right-sized stores • Tight SKU count in store, extended online range • Digital leadership	• Advantage as sole provider of end-to-end K&B service • Use experience to extend DIFM service beyond K&B • Greater focus on customer inspiration • Leverage digital strength • Extend trade offer

Review of the options to maximise value in the medium-term

Simplifying the Group

Six key priorities

Creating a more focused Group

1. Focusing on trade

Focusing on trade will clarify the purpose of the Group. In a challenging market environment, it is important that the Group's purpose is clearly and tightly defined. This will facilitate faster decision making and allow prioritisation decisions to be made more efficiently, including the allocation of capital to businesses which will deliver the strongest returns and enhance shareholder value.

2. Sale of the Plumbing & Heating division

The Plumbing & Heating transformation programme has delivered significant success in improving the performance of the division, and the Board has decided that this is the right time to explore the potential sale of the division. This will facilitate more focused management attention and capital deployment in higher returning areas of the Group and creates significant opportunities to simplify and reduce costs.

Preparing for divestment requires a substantial amount of separation work, with activities expected to be successfully completed in the first half of 2019. Close consultation with customers, suppliers and colleagues will ensure that this is a smooth process with due consideration given to the requirements of all.

3. Simpler IT operating model

The Group's technology strategy is centred on the simplification of the IT operating model. This involves aligning the merchanting businesses around common practices and shared technology to deliver both operational benefits and efficiency.

Toolstation will remain on the bespoke platform that is central to its successful model. Wickes will separate as part of the broader strategy and will be based on a standalone retail platform.

This technology strategy is based on annual IT capital spend of £40-50m over the next three years.

Benefits of simplification

4. More focused capital allocation

Capital allocation is a key role of the Group centre. The Group has high-performing management teams with plans to grow and sustain their businesses, including many investment opportunities that are worthy of support. The challenge this presents across a broad Group is one of "too many mouths to feed", and simplifying the Group will enable management to act with greater discipline in allocating capital to the opportunities with the best strategic fit that deliver the highest returns. The priorities are:

- Continued investment in the Toolstation and specialist merchanting businesses
- Re-allocation of capital within the General Merchant business to ensure an efficient and high-performing branch estate

Overall future capital expenditure will be lower than in recent years.

5. Faster decision making

Clarifying the purpose and reducing the scale of the Group will speed up decision making. Closer proximity of management to businesses and to the Group's customers, will make the Group more nimble and better able to respond in a dynamic market.

6. Overhead cost reduction

Significant work was undertaken in 2018 to reduce overheads, with annualised cost savings of £20m in General Merchanting and £18m in Wickes already announced. These have helped to reduce the overhead cost to sales ratio, which increased in 2016 and 2017 as the Group invested behind a plan predicated on a growing economy in a market environment with restricted volume growth.

Simplification of the Group will facilitate further reductions in above-branch and distribution costs. The Group is targeting additional annualised cost savings of £20-30m, which will underpin earnings progression and drive operating cost leverage.

Improving returns

Sales	Profit	Cash flow
• Continued sales growth in Toolstation and the specialist merchanting businesses • Return to market outperformance in General Merchanting as the strategy develops, momentum builds and selective investments are made	• Stable gross margin at a Group level, with modest medium-term gross margin decline driven by sales mix and some price investment offset by the sale of P&H • Cost reductions further improve the ratio of overheads to sales • Sales momentum and operating cost leverage create sustainable operating profit growth	• Disciplined capital expenditure that prioritises growth in trade businesses and supports Toolstation's expansion • Self-funded property investment • Stable working capital • Significant free cash flow generation over the medium-term

Generating returns from property

The Group operates from over 2,000 trading locations and successful management of the property portfolio is a core capability of the Group. Securing the best sites tailored to the specific needs of the Group's businesses is a key pillar in delivering the Group's strategic objectives.

The expertise in the purchase, development and recycling of freehold assets generates considerable value for the Group, with investments fully financed by disposals and delivering sustainable annual profits of around £20m.

Focus on improving performance

General Merchanting

The General Merchanting division is a powerful driver of profit and cash generation within the Group. The management team has a clear plan to improve returns by rebalancing decision-making and empowering branch managers and local sales teams. Ensuring branch managers are at the heart of our

merchant business with flexibility on pricing and branch stock and lower administrative burdens will enable them to focus more closely on the customer and to win in their local market.

A greater focus on effective recycling of capital gives additional opportunities to enhance growth and returns.

Retuning the engine

Winning share in a flat market	
Exploit the advantages of the merchant business	• Clear focus on the needs of the general builder: building on existing key relationships and delivering services tailored to local requirements • Utilise key supply chain and supplier relationship economies of scale
Ensure the right balance between central control and local empowerment	• Rebalance the business to ensure quick and efficient decisions are made locally to win and retain business • Empower branch managers to make the right price and range decisions quickly to ensure their customers receive exceptional service and attention
Address customer needs on pricing	• Improve price perception by investing selectively in key categories and customers • Address concerns on price consistency and focus on delivering consistent prices to customers across all sales channels
Win a greater share of wallet from customers	• Capitalise on research insight into 'share of wallet' trends by customer type to grow through smarter ranging, service and pricing
Recycle capital to enhance growth	• Take opportunities to consolidate clustered small branches into trading hubs designed to increase local share of business and improve efficiency • Recycle capital from the forced closure of the Tilbury range centre into trading space, local stocking points and selective credit extension

Rebalancing the business

Central Control

- Operational and business support
- Focus on economies of scale where achievable
- Disciplined capital allocation
- Reduced costs above-branch
- Efficient operating model

Local Empowerment

- Branch managers at the heart of merchant business – closer to the customer
- Winning the best builders in town
- Empowered to make faster decisions in the interests of the customer
- Incentivised to grow sales and profits
- Encourage flexibility on pricing and stock

Contract Merchenting

The Contract Merchenting businesses are well placed to continue their outstanding performance, growing both sales and returns for the Group. Strategic plans build on recent success, enhancing the strength of existing customer relationships and specialist propositions, sharing best practice between businesses and

developing a high-performing and efficient branch network. Ensuring that product ranges meet customer demands and maintaining an excellent level of customer service fulfilment will sustain the strong relationships between colleagues, customers and suppliers which is key to achieving continued growth.

Customer and proposition	• Focused account management • Range and depth of stock • Civils and drainage focus • New customers	• Leverage technical expertise • 'Everyday range' extension • Delivery fulfilment – OTIF • Heating, Ventilation & Air-conditioning	• Account management excellence • Range extension to insulation and fixings • New customers
Network	• Relocations to larger, lower cost sites	• Maintain leadership	• Selective branch openings
Best practice	• Earlier tracking of large projects • Improved fleet efficiency • Digital enhancement to customer journey • Tool hire growth		

Toolstation

The Toolstation model has a competitive advantage in its market and serves as a platform for growth in the UK and Europe. Customer needs are well understood and are met by a leading proposition based on value and availability. With the business

delivering attractive returns and market outperformance, the strategy is to continue to invest in network expansion in the UK, the development of the newer European businesses and continuous improvement of the proposition.

The Toolstation model

	Customer need	Proposition	Advantaged model
Value	• Fixed low prices	• Price leadership	Low cost, capital light • Small shops • Simple fit out • Open source IT • Unique stock depth
Range	• Wide in-shop range • Trade quality • 100% availability	• 12,000 products in store • 3,000+ online extension • c. 98% availability	
Service	• Fast in-store service • Online product search • Trade credit	• Serviced in < 3 minutes • Online & catalogue • Trade credit card	Formulaic efficiency • Uniform shop range • In shop logistics
Convenience	• Long opening hours • Delivery flexibility • Shops nationwide • Click & Collect	• c. 90 hours per week • Free delivery > £10 • 330+ branches • C&C time < 10 minutes	• Auto-replenishment • Auto-ranging • Intuitive systems

Chief Executive's statement

Whilst 2018 has been a challenging year for the Group, with continued market uncertainty and a challenging macroeconomic backdrop, we have worked extremely hard to take appropriate actions across all of our businesses to deliver a good performance.

John Carter
Chief Executive
25 February 2019

In December we set out the Group's plan for the coming years with two main pillars; focusing on delivering best-in-class service to trade customers, and simplifying the Group to reduce complexity, speed up decision making and reduce costs. These self-help initiatives will enable us to underpin performance in the short-term, and position the Group strongly to achieve sustainable, profitable growth in the future.

At Travis Perkins we always put the customer at the heart of our business, and whilst there are always improvements to be made, I am extremely proud of the feedback we receive from our customers. This has always been, and will always be, an industry built upon strong relationships, and it is key to our ongoing success that we retain our focus on delivering excellent service for customers, whether through traditional branch channels or through our growing digital platforms.

Our philosophy is very much that it's our people who make our business great, and I, and my fellow leaders across the business, are inspired on a daily basis by their commitment and dedication to delivering a fantastic service to customers. We continue to develop a pipeline of future talent, with our apprenticeship scheme giving generally younger people opportunities at every level of the business.

Developing this pipeline is vital to the ongoing success of Travis Perkins, and I am delighted with the progress we continue to make. We are also making progress in improving the diversity of our team, with our 'Workforce with a Difference' programme making positive changes within the Group.

Keeping people safe is a cornerstone of our Group, and we continue to make our sites safer for all of our stakeholders. It is through the dedicated and rigorous efforts of our business leaders, line managers, our colleagues and the Stay Safe function, that we are able to report a modest reduction in the number and frequency of lost time accidents in 2018. Nevertheless we remain totally committed to seeing further and continued improvement in this area.

A key focus of 2018 was to set out a refreshed Group strategy for the years ahead. At a capital markets event in December 2018 we set out a clear plan with two main pillars; to focus on delivering best-in-class service to our trade customers, and to simplify the Group. Serving the trade is the Group's heritage, with over 200

years of experience, and traditionally trade markets have been proven to be more resilient, and generate higher margins and returns. Our trade businesses hold strong positions in attractive markets, and we therefore plan to focus management time and prioritise capital investment in the highest returning businesses.

The success of the transformation programme in the Plumbing & Heating division has provided the opportunity for the Group to explore the disposal of the business during the course of 2019.

Our businesses in 2018

General Merchanting

I am very pleased with how Travis Perkins performed through the year, and is extremely well positioned heading into 2019. I would categorise 2018 as a tale of two halves; with the first being impacted by both a sustained period of poor weather with 'the Beast from the East', and a higher cost base driven by inflationary pressures and investments we have made, particularly the additional cost to offer the Heavyside Range Centre proposition to customers across all branches in England and Wales. In the second half the benefits of some of the self-help initiatives began to come through, with savings made through greater efficiency in the distribution network and the streamlining of some central functions. This focus on managing costs ensured that Travis Perkins showed positive profit growth period on period in the second half of 2018.

As we look into 2019 I am confident that we can build on the investments we have made to improve the business in recent years, with the aim of growing sales ahead of the market. We will achieve this by increasing local empowerment of the branch manager and sales teams, enabling faster decision making closer to the local customer base – what we call "winning the best builders in town".

Our kitchen distribution business, Benchmarkx, had a challenging first half of the year, mainly due to competitive pricing pressure, but performance improved in the second half of the year, with our strongest ever promotional campaign in October.

Plumbing & Heating

The transformation programme has excelled in 2018 with growth across all three main channels; the branch network, the wholesale business and the specialist online businesses. Strong sales growth, with significant market share gains, combined with tight control of costs has resulted in excellent profit growth year on year. Building on the network restructuring work completed in 2015, the transformation team have made significant improvements to the customer proposition, with broader branch stock range, improved product availability and the modernisation of ranges in the Bathroom Showroom network.

We announced in December 2018 that we believe it is the right time to explore the divestment of the P&H division during the course of 2019. Significant work has already been completed to separate the business from the Group, and this work should be completed in the first half of 2019.

Contracts

Our Contracts division delivered another year of excellent trading performance, with all three businesses, Keyline, BSS and CCF, taking market share and improving profits. Following a challenging start to the year, with significant uncertainty caused by the collapse of Carillion, the division rebounded well despite the market uncertainty.

The success of the Contracts division is built on the foundations of the understanding of customer requirements, and the laser-like focus on delivering a market leading service. There is a philosophy of continuous improvement, with trials of new and innovative ways of supporting and working with our customers, and a constant drive to improve efficiency.

The commercial construction market has a later cycle than some of our markets, but the order book for 2019 remains robust. The Contracts businesses have done a great job in diversifying their end markets in recent years, growing revenues in infrastructure, residential house building and industrial projects, and I am certain that our Contracts businesses will continue to significantly outperform the market and produce profitable growth in 2019.

Consumer

Wickes had a challenging year, as a result of uncertainty in the wider macro environment, declining consumer confidence and intense competitive pricing pressure. The management team did an excellent job of managing the cost base, and the turnaround in performance in the second half of the year was extremely pleasing. The recovery in trading in the second half of the year, particularly in Kitchen & Bathrooms, drove profit growth year on year in the second half of the year, and I am confident that we can continue to improve the performance of Wickes to create options to maximise value over the medium-term.

Toolstation UK has had another extremely successful year with double digit revenue and like-for-like sales growth. We opened our 335th store, a third distribution centre to give capacity for 500 stores, and we plan to open up to 60 further stores in 2019. We are also working hard to improve the proposition, increase the extended range available online and the number of trade brands stocked in store. We launched a trade credit card to extend credit to smaller trade customers and launched a new website in December 2018.

The years ahead

I feel truly blessed to be in my 41st year working with this amazing company and having such fantastic people around me, be it at the branches, head offices, distribution centres or anywhere else in the Group. I have seen significant change in the Group during my time, but one thing has always remained; our unending commitment to understand and serve our customers in the best way possible. I again thank all our colleagues for their hard work and contributions towards the Group's performance.

The current market uncertainty is likely to continue and it is therefore vital that the Group concentrates on self-help to underpin performance in the near-term, and to build a strong foundation for when market conditions improve. The fundamental drivers of the Group's end markets remain robust, and our strategic plan to focus on the trade and to simplify the Group will help us to generate the greatest value for our shareholders over the long-term.

John Carter
Chief Executive
25 February 2019

Performance review

Key performance indicators (KPIs)

The Group tracks its performance using two operating KPIs, four financial KPIs and one funding target that the Board believes are key indicators of progress against the Group's 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 the financial performance section on pages 28 to 31. These include non-GAAP measures, the derivation of which is shown in the notes to the financial statements referenced in the heading to each measure. Where the Group's KPI is based on a non-GAAP measure, rather than its GAAP equivalent, this is because in the Directors' view the non-GAAP measure provides a better indicator of the performance of the underlying business.

Operating key performance indicators

Adjusted operating profit

Definition (note 2a)

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

Reason

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

Like-for-like sales growth

Definition (note 1b)

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.

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.

Funding key performance indicator

Leverage ratio

Definition (note 24b)

The ratio of lease adjusted net debt to earnings before tax, interest, depreciation, amortisation, property lease rentals and adjusting 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 2.5x.

Financial key performance indicators

Lease adjusted return on capital employed*†

Definition (note 25)

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.

Free cash flow

Definition (note 22)

Net cash flow before dividends, growth capital expenditure, pension deficit repair contributions, adjusting 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, pay dividends to shareholders and access the best property locations.

Adjusted earnings per share*

Definition (note 18b)

Profit after tax, adjusted to exclude the effects of amortisation and adjusting 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.

Fixed charge cover

Definition (note 24c)

The ratio of earnings after adding back property lease rentals, but before interest, tax, depreciation, amortisation and adjusting 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 settle its fixed financing obligations. The Group is targeting a ratio of 3.5x.

*KPIs used in determining elements of Directors' remuneration, details of which are set out on pages 72 to 89.

†Prior year ratios are restated to include the 2018 impairment of Wickes and Tile Giant goodwill (note 27) for comparability purposes.

Business performance

The Group produced a solid performance in 2018 against a market backdrop of considerable uncertainty. Sales growth was strong, with overall growth of 4.8% to £6,741m, and growth of 4.9% on a like-for-like basis. The Group continued the exceptional growth in the Contracts businesses and Toolstation throughout the year, outperforming their end markets.

The successful transformation in Plumbing & Heating delivered significant sales growth, winning market share through the branch network, the wholesale business and through the specialist online businesses. Sales and operating profit improved in the General Merchandise division in H2 and with the UK DIY market was particularly challenging due to both macro and competing pressures, the Wickes business performance also improved in the second half of the year.

Group adjusted operating profit, excluding property, declined by 1.5%, with an 11.5% decline in the first half of the year followed by growth of 10.7% in the second half. Operating profit progression in the second half of the year was driven by the improved trading performance and the successful cost reduction actions carried out, primarily in the General Merchandise division and Wickes, which reduced the overhead cost to sales ratio below recent years and helped to mitigate overhead inflationary pressure in the year.

The Group demonstrated good cash generation in 2018, with free cash flow of £340m. Net debt increased modestly by £12m to £554m, primarily due to working capital investment in the year.

The Board recommends full year dividend of 4.20p (2017: 4.60p), reflecting the Board's confidence in the future cash generation and prospects of the Group.

Strategic progress

At Capital Markets event in December 2018, the Group set out its strategy for the years ahead with two main pillars. The core purpose of the Group will be to deliver best-in-class service to trade customers. Supplying trade customers is the Group's traditional heartland, with the trade markets typically being more resilient and generating higher margins and returns. The second pillar is to focus on simplifying the Group to reduce business complexity, reduce the choice branch cost base and speed up decision making.

Changes to Group structure

Through simplification, the Group expects to achieve cost reduction of £20m-£30m from the above branch cost base by mid-2020. A number of actions were initiated towards this target in Q4 2018 which will deliver c£5m of the envisaged benefits in 2019.

A key component of the simplification of the Group is the removal of the existing divisional structure above the Merchandise businesses which will reduce costs and speed up decision making. General functions will be streamlined to support businesses directly, enabling branch managers and their teams to provide the best possible service to customers.

The revised structure will alter how the businesses are managed and reported from 2019; the Group will report under the following segments: Merchandise, Toolstation, Retail and Plumbing & Heating.

The Group's Merchandise businesses, which focus on close trade customer relationships and offering customer-specific pricing and product sourcing tailored to local customer demands, will be grouped for reporting purposes, but will be managed as individual businesses, placing decision making as close as possible to the customer.

Toolstation will remain as an autonomous business within the Group. It will be reported separately from the Retail segment to reflect that it is predominantly a fixed price, trade customer business.

Wickes and Tile Giant will be reported as a Retail segment, with a different operating model from the merchandise businesses, with fixed prices and a fixed national price framework. The retail businesses primarily target retail consumers, both through traditional methods and increasingly by providing end-to-end Do-It-For-Me services from design to installation, particularly in Kitchens and Bathrooms.

In December 2018, the Group announced its intention to divest the P2H division during the course of 2019, and significant work has been undertaken to separate the P2H businesses from the remainder of the Group. These actions include separation of commercial agreements, creating designated back office support functions and creating a P2H specific version of the existing IT platform. This work should be completed during Q2 2019.

2019 reporting structure

Outlook

The long-term drivers of market growth remain favourable, supported by the ongoing requirement for more homes in the UK, and the underinvestment in the repair, maintenance and improvement (RMI) of existing dwellings and infrastructure. In the near-term, however, considerable economic uncertainty remains, which is driving the current mixed backdrop of market lead indicators. Levels of mortgage approvals and housing transactions remain subdued, house price growth is inconsistent across the UK and depressed consumer confidence continues to put pressure on wider retail sales figures across many UK consumer-facing markets.

Investments made in the business in recent years have created a market-leading customer proposition which will drive outperformance of the market. In the short-term, the Group is focusing on self-help initiatives which will underpin performance, and position the Group strongly for the future.

At this early stage in the year, and given current market uncertainty, the Group expects adjusted operating profit in 2019 to be similar to 2018.

The Group will continue to prioritise investment in future growth opportunities such as Toolstation, with progress on cost reduction activities mitigating inflationary pressures on rent, rates and wages.

Technical guidance

The Group's technical guidance for 2019 is as follows:

- Effective tax rate of 19%
- Finance charges similar to 2018
- Capital expenditure, excluding freehold property investments, of around £110m to £130m
- Property profits of around £20m
- Progressive dividend underpinned by strong cash generation
- H1 / H2 EBITA split more normalised in 2019

This guidance has been given before the impact of IFRS 16. For details of the impact of IFRS 16 on the 2018 results, please refer to note 39.

Divisional performance

General Merchanting

	2018	2017	Change
Total revenue	£2,137m	£2,109m	1.3%
Like-for-like growth	1.4%	1.2%	0.2ppt
Adjusted operating profit*	£179m	£183m	(2.2)%
Adjusted operating margin*	8.4%	8.7%	(30)bps
LAROC	12%	12%	-
Branch network	837	849	(12)

*Divisional adjusted operating profit figures are presented excluding property profits

Financial performance

Total revenue grew by 1.3% in the year, and by 1.4% on a like-for-like basis. Growth was driven by pass through of cost price inflation of 2.8%, offset by a modest decline in volume. Regionally, the South East was most heavily impacted by the challenging macro environment, with declining house prices and significantly lower secondary housing transactions. Volume trends were stronger in H2 following significant weather impacts on volume in the first half.

Adjusted operating profit declined by 2.2% in the year, but with differing performance half-on-half. In the first half, the business was impacted by an increase in the cost base, driven by inflation on wages, rent, rates and utilities, and also by investments in the business including the additional cost to offer the Heavyside Range Centre service throughout the TP branch network in England and Wales. In the second half, there was a concerted focus on controlling and reducing costs, with savings made through greater efficiency in the distribution network, streamlining central functions and some branch consolidation. These cost savings, together with the stronger volume trends, drove year-on-year profit growth in the second half of 8.1%.

Gross margins were stable across the year, despite stronger growth in sales to large, lower margin customers, and with the selective price investments in dedicated categories in 2017 showing a positive impact on volumes. Adjusted operating margin

reduced by 30 basis points in the year as a whole, driven by the higher cost base and the impact of sustained poor weather in H1, offset by a 50bp H2 on H2 improvement in operating margin.

For Benchmarkx the market environment was particularly challenging in the first half of the year, with a tougher macro backdrop and competitor pricing pressure. This pressure eased in H2, with volumes returning to growth and the strongest ever Big Bang promotional event in October.

Operational performance

Four new Travis Perkins branches were opened in the year, plus one added through acquisition, and an additional three Managed Services sites. This was offset by 19 closures, including eight Managed Services sites at the end of fixed term contracts. The remaining branch closures focused on consolidation of the network as part of ongoing estate management, with smaller branches closed and resources and customer relationships moved to larger local branches with a very encouraging transfer of sales. Three branches were refitted to the modern format, with a further four relocated to more optimal trading sites within their catchments.

The process to devolve more power to branch managers is underway, with initial communications being well received and work being undertaken to streamline central support services enabling branch colleagues to spend more time with customers. In addition, improvements are being made to branch stock ranges, with more products specified for local customers in the right quantities, particularly for heavy building materials.

Planned changes to the delivery of the extended heavyside range proposition in the South East are underway, in response to the operational issues at the Tilbury HRC. A combination of local stock investment and management, together with regional transport planning will ensure customers retain access to the proposition, and will reduce the cost burden to the business in the medium-term.

Contracts

	2018	2017	Change
Total revenue	£1,472m	£1,369m	7.5%
Like-for-like growth	7.0%	8.4%	(1.4)ppt
Adjusted operating profit*	£94m	£86m	9.3%
Adjusted operating margin*	6.4%	6.3%	10bps
LAROC	15%	14%	1ppt
Branch network	164	169	(5)

*Divisional adjusted operating profit figures are presented excluding property profits

Financial performance

Strong revenue growth continued in the Contracts division, growing 7.5% in total, and by 7.0% on a like-for-like basis. Sales growth was good across all three businesses, with price growth of 4.5% to mitigate input cost inflation and 2.5% volume growth reflecting continued market share gains. After a difficult start to the year in Q1, with markets suffering uncertainty following the collapse of Carillion, the division maintained a strong like-for-like growth rate throughout the remainder of the year.

Adjusted operating profit grew by 9.3% to £94m. Gross margin declined modestly in the year, reflecting a shift in customer mix, with stronger sales growth to larger customers. This was more than offset by tight control of costs, continued success from ongoing activities to improve efficiency, and operating leverage which improved overall adjusted operating margin to 6.4%.

At this early stage in the year, whilst the order book for 2019 remains robust, the Group remains cautious on the outlook for commercial construction, and continues to look out for any changing dynamics in the market.

LAROC increased to 15%, driven by higher profitability on a similar capital base.

Operational performance

The Tool Hire business delivered a strong performance in the year as it continues to mature, with 17% growth in revenue.

Network developments continue in Keyline as the business aims to relocate and consolidate branches into lower cost sites, and providing fit-for-purpose branches for customers and colleagues. In 2018, eight branches were closed (including one transferred to the Travis Perkins brand), with two new, low cost branches opened.

The acquisition of TF Solutions in 2017 added air conditioning systems to the product range. The business generated outstanding growth of over 30%. A fourth TF Solutions branch was opened in 2018 and another branch was extended.

The focus on outstanding customer service continued, with a trial in two branches to give customers transparency of their delivery fulfilment. Feedback was excellent, and further work will be completed to develop the offering in 2019. A Work Winning initiative is also in place to make sure we deliver the right service to the right customer, differentiating customer needs and providing a tailored service that is valued by customers.

A unique efficient driver bonus scheme was implemented, which has led to a 1% reduction in diesel usage across the Contracts delivery fleet. This is a significant saving for businesses where the vast majority of sales are delivered, and sharing the benefits with drivers has driven a change in culture across the division.

Consumer

	2018	2017	Change
Total revenue	£1,604m	£1,589m	0.9%
Like-for-like growth	(1.3)%	3.0%	(4.3)ppt
Adjusted operating profit*	£69m	£82m	(15.9)%
Adjusted operating margin*	4.3%	5.2%	(90)bps
LAROC**	7%	8%	(1)ppt
Branch network***	712	666	46

*Divisional adjusted operating profit figures are presented excluding property profits

**LAROC calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

***Branch network includes 40 stores relating to Toolstation Europe (2017: 23 Stores), an associate of the Group

Wickes

Financial performance

Wickes revenues declined by 2.5% in 2018, and by 4.4% on a like-for-like basis. The UK DIY market environment has been extremely challenging, driven by the wider macro environment, with declining consumer confidence, and through competitive pricing pressure. The first half was particularly difficult, with poor weather conditions in March and April impacting the Easter trading period.

The negative sales impact was felt across the business, but with Kitchen & Bathroom (K&B) showroom sales being hard hit in H1, partially in response to the poor promotional period in Q4 2017 and also reflecting a challenging retail environment. Delivered K&B sales reduced by 10% in H1.

In the second half of the year, K&B "leads activity" strengthened in response to improved promotional activity in Wickes, and through competitor decisions to exit the design and install service for end-consumers. This activity began to develop into improved sales in Q4, and sets the business up well heading into 2019. Selective price investments in specific core DIY categories, combined with early signs of the competitive price pressure easing, helped to drive positive sales growth in H2, with an encouraging trend throughout Q4.

Adjusted operating profit declined by 19% in the year, but this was split between a 39% decline in H1, followed by 15% growth in H2. This recovery can be attributed mainly to the level of cost reduction that was achieved in the year, with significant reductions in central support service, reduction in shrinkage and efficiency gains in the distribution network, as well as the improved trading in Q4.

Gross margins declined in the year, driven by sales mix, as K&B sales declined more than core sales in H1, and due to the competitive pricing environment. This was more than offset in H2 by the cost reduction actions that were taken to reduce the overhead burden on the business.

Operational performance

The Wickes TradePro scheme was launched 18 months ago, and has been well received by customers. Giving a 10% discount on all purchases, it is a simple mechanism for customers to

understand, and is improving customer loyalty, helping to support core sales through 2018. In 2019 the digital experience for trade customers will be enhanced, giving access to the discount for online transactions to drive higher participation.

A further 24 store refits were completed in 2018, bringing the total number of stores in the modern format to 121. The proportion of kitchens sold with a full installation service increased to 54% (up from 44% in 2017), reflecting the high-quality turnkey service provided to end customers.

Toolstation

Financial performance

Toolstation revenue grew by 18% in 2018, and by 11.4% on a like-for-like basis. Sales growth was driven by the continued expansion of the store network, existing stores continuing to mature, and through the extended ranges available to customers on a next-day basis.

Adjusted operating profit was broadly flat year-on-year, as anticipated, as additional volume growth was offset by investment in the higher operating costs associated with the 40 additional stores and a new distribution centre which will support further network expansion.

Gross margin was unchanged, despite maintaining Toolstation's value leadership position.

Operational performance

An additional 4,000 products were added to the range, with a key focus on trade relevant ranges, with an extra 58 trade brands added, contributing over £25m of additional sales. The product range available for next-day delivery or dropship was also extended, with categories including bathrooms, garden sheds and radiators. A trade credit card was launched in 2018 providing small trade customers with access to up to 116 days of credit on purchases in Toolstation and other Travis Perkins brands.

Development of IT systems continued, with a new EPOS system implemented in store, and a new website launched in December 2018, alongside providing 6 day deliveries to customers. Multichannel transactions increased by over 30%, with strong growth in click and collect, and the new website has improved conversion rates by over 1%.

A third distribution centre was opened, increasing capacity to over 500 stores. 40 new stores were opened in 2018, including the successful trials of smaller format and high street concepts, with branch performance in line with growth expectations.

Toolstation Europe

The expansion of Toolstation Europe continued, with 12 stores opened in the Netherlands taking the total to 32, and supported by a new distribution centre. Growth characteristics for both stores and online are extremely encouraging, and mirroring the experience of the UK business.

A further 5 stores were added to the network around Lyon in France, bringing the total up to 8 in total and developing brand recognition with local trade customers. The Belgian website continues to develop well, and some trial stores will be added in 2019, to be serviced from the Dutch distribution centre.

Plumbing & Heating

	2018	2017	Change
Total revenue	£1,528m	£1,366m	11.9%
Like-for-like growth	16.1%	2.1%	14.0ppt
Adjusted operating profit*	£39m	£31m	25.8%
Adjusted operating margin*	2.6%	2.3%	30bps
LAROCCE	11%	9%	2ppt
Branch network	377	391	(14)

*Divisional adjusted operating profit figures are presented excluding property profits

Financial performance

The transformation programme in the Plumbing & Heating division was highly successful in 2018, generating total revenue growth of 11.9%, and growth of 16.1% on a like-for-like basis. Growth was strong across the division, through the branch network, wholesale business and the specialist online businesses.

Adjusted operating profits increased by 25.8% to £39m, reflecting both the improved trading performance and tight control of the cost base, which benefited from the branch closures carried out in late 2017 and from combining and simplifying management and support team structures. This improved cost performance offset a modest reduction in gross margins, primarily driven by the change in business mix, with strong wholesale revenues and increased promotional activity to underpin the proposition in branches.

LAROCCE increased by 2ppt to 11% reflecting the higher profits on a stable capital base.

Operational performance

Improvements to branch stock range and depth, and increasing product availability through the supply chain to 98% has improved credibility with customers. A catalogue with 12,000 SKUs was launched, broadening customer awareness of the ranges available, and providing visible, competitive pricing. A trial to introduce a greater range of electrical products across 13 branches, reflecting the increasing role of electrical work required within domestic plumbing projects was successful, and further implants are planned for 2019.

Bathroom Showroom ranges have been modernised and updated across the 240-branch showroom network, combined with a more focused drive to interact with end customers.

The Specialist online businesses continued to grow strongly, particularly the Underfloor Heating Store, Direct Heating Spares and National Shower Spares businesses. The City Plumbing Supplies online transactional website continues to grow after its launch in July 2017.

Significant work has been undertaken to separate the P&H businesses from the remainder of the Group. These actions include separation of commercial agreements, creating designated back office support functions and creating a P&H specific instance of the existing IT platform. This work should be completed during Q2 2019.

Central costs

Unallocated central costs remained broadly unchanged in 2018, at £33m (2017: £31m). Investment continues in developing the Group's IT capabilities and digital platforms, in particular the new ERP system for the Merchant businesses.

Property transactions

The Group continues to recycle its freehold property portfolio to provide the best trading locations for its businesses, whilst managing the level of capital allocated to owning and developing freehold sites.

Ten new freehold sites were purchased in 2018 at an investment of £38m (2017: £41m), with a further £10m of construction costs to develop sites ready for trading (2017: £20m). These investments were fully funded in the year by property disposals of £98m, which also generated property profits of £27m.

Financial performance

Revenue

Group revenue grew by 4.8% in 2018, and by 4.9% on a like-for-like basis, primarily driven by the strong growth in the Plumbing & Heating and Contracts divisions and the Toolstation business, partially offset by the challenges faced by the Wickes business in the first nine months of the year.

Volume, price and mix analysis

Total revenue growth (%)	General Merchandising	Plumbing & Heating	Contracts	Consumer	Group
Volume	(1.4)	13.3	2.5	(2.0)	2.2
Price and mix	2.8	2.8	4.5	0.7%	2.7
Like-for-like revenue growth	1.4	16.1	7.0	(1.3)	4.9
Network expansion and acquisitions	(0.1)	(4.2)	0.5%	2.2%	(0.1)
Total revenue growth	1.3	11.9	7.5	0.9	4.8

The continued expansion of the Toolstation network was offset by the branch closures in P&H in 2017. There was no difference in the number of trading days in 2018 compared to 2017. The Group maintained its stance to recover input cost inflation across the trade-focused businesses in 2018, with overall price inflation across the Group of 2.7%. The highest inflation was experienced in the Contracts division where commodity price inflation had the most concentrated impact, but this tempered over the course of the year.

Pricing in the UK DIY market was extremely competitive through the year, with Wickes making targeted investments in price in certain categories to drive volume. This was successful, particularly in core categories in the fourth quarter of the year, but had a detrimental impact on gross margins. The competitive pressures began to ease towards the end of 2018 and market pricing became more rational.

Quarterly like-for-like revenue analysis

Like-for-like revenue growth (%)	General Merchandising	Plumbing & Heating	Contracts	Consumer	Group
Q1 2018	(1.3)	19.7	0.9	(4.6)	3.0
Q2 2018	3.0	20.1	9.5	(3.1)	5.9
Q3 2018	1.3	14.8	8.9	(4.2)	4.1
Q4 2018	2.8	12.0	8.8	5.6	6.9
H1 2018	0.6	19.8	5.1	(4.2)	4.2
H2 2018	2.0	12.9	8.9	1.0	5.5
FY 2018	1.4	16.1	7.0	(1.3)	4.9

The quarterly like-for-like sales trend across the Group shows the impact of the severe weather in the first quarter, which negatively impacted General Merchandising, Contracts, Wickes and Toolstation, but supplied a modest boost to P&H.

Operating profit and margin

£m	2018	2017	Change
General Merchanting	179	183	(2.2)%
Plumbing & Heating	39	31	25.8%
Contracts	94	86	9.3%
Consumer	69	82	(15.9)%
Property	27	29	(6.9)%
Unallocated costs	(33)	(31)	6.5%
Adjusted operating profit	375	380	(1.3)%
Amortisation of acquired intangibles	(10)	(12)	
Adjusting items	(387)	(41)	
Operating (loss) / profit	(22)	327	

Adjusting items

Adjusting items in 2018 were £387m, including £252m of goodwill impairment in Wickes and Tile Giant. A full breakdown of adjusting items is included in note 3.

Finance charge

Net finance charges, shown in note 6, were £24m (2017: £35m). While interest costs on borrowings were broadly unchanged from 2017 at £24m, interest received was higher in the year at £2.4m, reflecting higher rates earned on higher average cash balances and interest received on the investment made in Toolstation Europe.

The impact of marking-to-market currency forward contracts outstanding at 31 December 2018 was a gain of £1.8m (2017: charge of £2.9m). These contracts are used to hedge commercial currency transactions.

Net interest on the pension deficit decreased by £2.3m due to a lower valuation of the pension liability.

Taxation

The tax charge for the year ended 31 December 2018 including the effect of adjusting items is £34.1m (2017: £55.7m). This represents an effective tax rate (ETR) of negative 69.2% (2017: positive 19.2%).

The tax charge for the year before adjusting items is £58.2m (2017: £63.5m) giving an adjusted ETR of 17.3% (standard rate 19%, 2017 actual: 19.2%). The adjusted ETR rate is lower than the standard rate due to the release during the year of tax provisions held for uncertain tax positions that have now been agreed with HMRC, partially offset by a reduced deferred tax asset related to employee share schemes following a decline in the share price in 2018.

The impairment of goodwill of £252.1m included in the financial statements as an adjusting item does not attract a tax deduction and so does not affect the tax charge for the period.

Earnings per share

The Group reported a loss after taxation of £84m (2017: profit after tax of £234m) resulting in a basic loss per share of 34.4 pence (2017: earnings per share of 93.1 pence). The reduction is primarily due to the impairment of goodwill and intangible assets in the Wickes business by £246m in 2018. There is no significant difference between basic and diluted basic earnings per share.

Adjusted profit after tax increased by 3.3% to £285m (2017: £276m) resulting in adjusted earnings per share (note 18b) increasing by 3.7% to 114.5 pence (2016: 110.4 pence). There is no significant difference between adjusted basic and adjusted diluted earnings per share.

Reconciliation of reported to adjusted earnings

£m	2018 Earnings	2017 Earnings
Basic (loss) / earnings and EPS attributable to shareholders	(86)	233
Plumbing & Heating division transformation	45	41
Restructuring costs	59	-
IT-related impairment charge	16	-
Pension related items	5	-
Loss on disposal of BPT	10	-
Impairment of Wickes and Tile Giant goodwill	252	-
Adjusting items	387	41
Amortisation of acquired intangibles	10	12
Tax on amortisation of acquired intangibles	(1)	(2)
Tax on adjusting items	(24)	(8)
Adjusted earnings	285	276

Cash flow and balance sheet

Free cash flow

The Group generated good free cash flow of £340m, at a cash conversion rate of 91%.

£m	2018	2017
EBITA	375	380
Depreciation of PPE and other non-cash movements	138	130
Disposal proceeds in excess of property profits	72	83
Change in working capital	(107)	(54)
Maintenance capital expenditure	(57)	(48)
Net interest	(26)	(27)
Tax paid	(55)	(57)
Free cash flow	340	407
Underlying cash conversion rate	91%	107%

The primary driver of the year-on-year change in cash generation is the increase in net working capital. Around two-thirds of this difference can be attributed to trade-related net working capital, with growth in the customer debtor book moving in line with the growth in sales in the trade-focused merchant businesses, and higher inventory resulting from stock build activities ahead of the UK leaving the EU at the end of March 2019.

An increase in non-trade related net working capital was primarily driven by higher rebate receivables, impacted by both higher sales and the phasing of payments over the year end.

The Group has not seen an appreciable change in its bad debt rate year-on-year, which remains at 0.4% of trade credit sales. There has been some disruption in the construction industry through the course of 2018, and the Group continues to support customers with tailored payment plans as required, and remains vigilant for any signs of payment practices changing over time.

Maintenance capex increased modestly to £57m, reflecting the timing of vehicle replacements across the Group.

Capital investments

The Group continues to make investments to deliver a new ERP system to support the Group's merchant businesses. The initial launch of the new platform into the BSS business has been delayed until the autumn of 2019 in order for the scope of the programme to be extended to include a number of the applications used by the Group's businesses which need to link into the new system. Reducing the total number of linked applications requires more work in the near-term, and will extend the overall programme by around one year, but will mitigate significant risk in the implementation phase of the project.

£m	2018	2017
Maintenance	57	48
IT	42	49
Growth capex	44	69
Base capital expenditure	143	166
Freehold property	48	61
Gross capital expenditure	191	227
Property disposals	(107)	(114)
Net capital expenditure	84	113

Growth capex spend of £44m was lower than in 2017 (£69m), as expected, and reflects a tighter approach to investing new capital during a period where market volume growth is weak. Growth capex was focused on the Group's main growth priorities, in particular the continued expansion of the Toolstation network in the UK, with a further 40 stores opened. A small number of new Travis Perkins branches were opened, but mainly focused on relocation or consolidation of existing branches. The refitting of Travis Perkins branches and Wickes stores continued, albeit at a slower rate.

New property purchases were lower in 2018, with purchases focused on sites that will be strategically important in the long-term. Property disposals continued, with £98m received in the year. The Group has now disposed of nearly all of the retail sites as the risk of significant rent inflation in a challenging UK retail environment is low.

Net debt and funding

Net debt of £354m at 31 December 2018 was a modest increase of £12m from the end of December 2017, reflecting the good cash generation and tighter control on capital investment.

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

- £250m guaranteed notes due September 2021, listed on the London Stock Exchange
- £300m guaranteed notes due September 2023, listed on the London Stock Exchange
- A revolving credit facility of £550m, refinanced in December 2015, which runs until December 2020, advanced by a syndicate of 8 banks.

As at 31 December 2018, the Group had undrawn committed facilities of £550m (2017: £550m) and cash on deposit of £190m (2017: £215m).

In January 2019, the Group agreed a new revolving credit facility, replacing the previous £550m facility. The new agreement provides committed funding of £400m until January 2024 from a syndicate of eight banks, with options in place to extend funding to £550m if required, and two one-year extension options to be exercised in Q1 2020 and Q1 2021. This refinancing process was completed early in order to remove the potential refinancing risk surrounding the UK's exit from the EU.

The Group's credit rating, issued by Standard and Poors, was maintained at BB+ stable following its review in April 2018.

The Group has a policy of funding through floating interest rate facilities owing to the significant implicit fixed interest charges within its leases. However, owing to the uncertainty surrounding the UK's decision to leave the EU and historically low fixed interest rates achieved on its bonds, it took a decision in 2016 to fix all of its interest rate costs other than the rates it receives through drawings on its revolving credit facility, which were nil as at 31 December 2018.

The Group's lease debt reduced modestly, down £46m from the end of 2017. Overall branch numbers increased modestly in the year from 2,076 to 2,091; while the Group reduced the overall number of merchanting branches, the number of Toolstation units grew. These units are typically smaller with shorter lease terms.

Lease-adjusted net debt modestly reduced compared with 31 December 2017 as the lower lease obligations offset the modestly higher net debt position.

Lease adjusted gearing (note 23) increased by 1.1ppts in 2018 to 43.7%, primarily due to the write off of goodwill in the Wickes business, which has reduced the lease adjusted equity through the course of the year.

The Group's fixed charge cover ratio (note 24c) rose to 3.2x, with broadly stable earnings on a lower interest charge, with broadly stable rent charge. The LA net debt / EBITDAR ratio (note 24b) was stable year on year, at 2.7x.

	2018	2017	Change
Net debt	£354m	£342m	£12m
Lease debt	£1,479m	£1,525m	£(46)m
Lease adjusted net debt	£1,833m	£1,867m	£(34)m
Lease adjusted gearing	43.7%	42.6%	1.1ppt
Fixed charge cover (medium-term target: 3.5x)	3.2x	3.1x	0.1x
LA net debt to EBITDAR (medium-term target: 2.5x)	2.7x	2.7x	-

Dividend

At the Capital Markets event in December 2018 the Group reiterated its commitment to a progressive dividend policy, which is supported by the Board's confidence in the Group's expected future cash flow generation. The proposed dividend for the full year 2018 of 47.0 pence (2017: 46.0 pence) results in a 2.2% increase (2017: 2.2% increase).

An interim dividend of 15.5 pence was paid to shareholders in November 2018 at a cost of £38m. If approved, the proposed final dividend of 31.5 pence per share will be paid on 17 May 2019 to shareholders on the register at the close of business on 5 April 2019, the cash cost of which will be approximately £78m.

Pensions

The Group made £7m (2017: £11m) of additional cash contributions to its defined benefit schemes in 2018. At 31 December 2018, the combined gross accounting surplus for the Group's final salary pension schemes was £81m (31 December 2017: deficit of £28m), which equated to a net surplus after tax of £66m (31 December 2017: net deficit of £23m). During the year, the Group closed its two principal UK Defined Benefit Schemes to future accrual resulting in a curtailment gain of £4.7m as described in the adjusting items note (note 3). The Group also agreed the triennial actuarial reviews as at 30 September 2017 with the trustees of both schemes resulting in a modest reduction in funding contributions required over the period to September 2020.

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 negotiated a new revolving credit facility with a syndicate of eight banks in January 2019. The new facility is for a total value of £400m and matures in January 2024. Built into the agreement is an option to extend the size of the facility to £550m and two one-year extension options which can be activated in April 2020 and April 2021.

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

The Group settles its currency denominated purchases using a combination of currency purchased at spot rates and currency bought in advance on forward contracts. It purchases forward contracts for approximately 90% of its committed requirements six months to ward based on the firm placement of forward stock purchases. At 31 December 2018 the nominal value of currency forward contracts, all of which were US dollar denominated, was \$41m (2017: \$76m).

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 2018 was approximately 0.4% (2017: 0.4%) of credit sales.

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

- Run the business to investment grade credit parameters
- Reduce reliance on the bank market for 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 has to be lower than 30x and it was 0.65x (2017: 0.62x) at the year-end (note 24a)

- The number of times adjusted operating profit covers interest charges has to be at least 5.5x and it was approximately 11x (31 December 2017: 10x)

- Have a conservative hedging policy that reduces the Group's exposure to currency fluctuations

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 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 risk and takes appropriate tax advice from reputable professional firms where it is considered to be necessary. The Group's tax strategy is published on its website.

Viability assessment

In accordance with provision G22 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 34 to 41 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 January 2019. Three years has been chosen because the Board believes that this is the period that is possible to forecast with a sufficient degree of confidence in order to make a viability assessment. The Group is subject to the vagaries of the economic cycle and property markets which cannot reasonably be forecast with sufficient certainty for more than three years. Whilst the Board has no reason to believe the Group will remain viable over a longer period, the inherent uncertainty involved means three years is the 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 the 2008/2009 financial crisis and the mitigating actions that were adopted at that time to protect the Group's viability, which it is assumed would again be available to it. Those 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 2018

The Group operates in markets and an industry which by their nature are subject to a number of inherent risks.

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

The Board has a risk reporting framework that ensures it has visibility of the Group's key risks, the potential impacts on the Group and how and to what extent those risks are mitigated. The Board has assessed its risk appetite, which is set to balance opportunities for growth and business development in areas of potentially higher risk and return, whilst maintaining its reputation, legal and regulatory compliance and high levels of customer service and satisfaction. As part of its risk management process, the principal risks stated in the Group's risk register are reviewed, challenged and updated by the Board and monitored throughout the year.

Each operating business within the Group monitors a separate risk register. These risk registers are used to determine strategies adopted by the Group's various businesses to mitigate the identified risks and are embedded in their operating plans.

Details of the Group's risk management processes are given in the Corporate Governance report on page 59.

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 our IT infrastructure.

The risk environment in which the Group operates does not remain static. During the year, the Directors have reviewed the Group's principal risks and have concluded that as the nature of the business and the environment in which it operates remain broadly the same, the principal risks it faces are largely unchanged. However, following the announcement in December 2018 that the Group strategy is being refined

to achieve greater simplification and focus on serving trade customers through advantaged businesses, activities are underway to reshape the portfolio with the proposed divestment of the Plumbing & Heating businesses. As a result, the Directors have concluded that acquisition and disposal activity, previously combined with risks associated with business transformation projects, is a key area of focus and heightened risk for the Group and it is now described separately. The Directors have also extended the description of health and safety risk to consider in more detail the transport related risk faced by the Group, due to the scale of the fleet it operates and the associated regulatory and compliance requirements. Finally, the reduction in the deficit for the Group's two main defined benefit schemes, supported by the closure of the schemes to future accrual in 2018 and a continued focus on liability management, means that the Board no longer believes that this area represents a principal risk.

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

The table on pages 36 to 41 sets out, in no particular order, the current principal risks that the Board considers to be material, their potential impacts, the factors that mitigate them and those areas of the businesses' strategies they potentially impact. The inherent risk (before the operation of control) is stated for each risk area together with an indication of the current trend for that risk.

Changing customer and competitor landscape

INHERENT RISK:

HIGH

TREND:

STATIC

STRATEGY:

IMPACT:

Adverse effect on financial results
Loss of market share

RISK DESCRIPTION

The Group sells and distributes building materials through a number of channels. The number of outlets and channels where building materials can be purchased continues to grow with new competitors entering the market. These new entrants may operate business models which differ significantly from the traditional merchanting, retail and online formats from which the Group operates and may take market share.

At the same time, customer purchasing habits continue to evolve with increasing online transactions. Customers' preference for purchasing materials through a range of supply channels and not just through the Group's traditional competitors may affect the Group's performance and adversely impact the profitability of branch-based operations.

Increasing price transparency could lead to a perception that the Group is less price competitive leading to downward pressure on price and margins.

RISK MITIGATION

Changes to market practice are tracked on an ongoing basis and reported to the Board.

The Group continues to build multi-channel capabilities that complement its existing operations and provide its customers with the opportunity to transact with the Group through channels that best suit their needs.

The Group's strategy allows it to use sites flexibly. Alternative space utilisation models are possible, including maintaining smaller stores and implanting additional services into existing branches.

The development of new, innovative and competitive supply solutions is a key strength of the Group. It works closely with customers and suppliers on a programme of continuous improvement designed to improve its customer proposition.

Pricing strategies across the Group are regularly reviewed and where necessary refined to ensure they remain competitive.

Colleague recruitment, retention and succession plans do not deliver the required skills and experience

INHERENT RISK:

MEDIUM

TREND:

STATIC

STRATEGY:

IMPACT:

Inability to develop and execute development and succession plans
Adverse effect on delivery of strategy
Competitive disadvantage

RISK DESCRIPTION

The ability to recruit, develop, retain and motivate suitably qualified staff is an important driver of the Group's overall performance. The Group may also be exposed to skills shortages in certain areas which can result in salary cost pressures. The availability of suitably qualified commercial drivers is one such area of focus for the Group, which is critical to the operation of its fleet to meet customer delivery expectations.

The strength of the Group's customer proposition is underpinned by the quality of people working throughout the Group, particularly in customer facing roles. Many of them have worked for Travis Perkins for some considerable time, during which they have gained valuable product and customer knowledge and expertise.

The Group faces competition for the best people from other organisations. Ensuring the retention and development of employees and that robust succession plans exist for key positions is important for the Group to deliver on its strategic objectives.

RISK MITIGATION

The Group's employment policies and practices are kept under regular review.

Staff engagement and turnover by job type is reported regularly to the Executive Committee and to the Board. Succession plans are established for the most senior positions within the Group and these are reviewed annually.

The Group's reward and recognition systems are actively managed to ensure high levels of employee engagement.

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.

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.

Supplier dependency, relationship and disintermediation leading to adverse impacts on ranging and price.

INHERENT RISK:**MEDIUM****TREND:****STATIC****STRATEGY:****IMPACT:**Adverse effect on
financial resultAdverse effect
on reputation**RISK DESCRIPTION**

The Group is the largest customer to a number of its suppliers. In some cases, those suppliers are large enough to cause significant supply difficulties to the Group if they are unable to meet their supply obligations due to either economic or operational factors.

Alternative sourcing may be available, but the volumes required and the time it may take those suppliers to increase production could result in significant stock-outs for some considerable time leading to poor customer service.

The Group has increased the sourcing of products from overseas factories. This has increased the Group's exposure to sourcing, quality, trading, warranty and currency issues, which again may lead to an adverse impact on customer service.

Manufacturers of building materials sold by the Group may also look to sell their products directly to end customers in the future diminishing the role of distributors such as merchanting and retail distribution businesses.

RISK MITIGATION

Making decent returns is one of the Group's cornerstones which requires it to treat both customers and suppliers fairly. The commercial and financial teams have established strong relationships with the Group's key suppliers and work closely with them to ensure contracts that are beneficial to both parties and the continuity of quality materials.

To spread the risk where possible contracts exist with more than one supplier for key products.

The Group has made a significant investment in its Far East infrastructure to support its direct sourcing operation which allows the development of own brand products, thereby reducing the reliance on branded suppliers. The Group has also adopted a conservative hedging policy to reduce its exposure to currency fluctuations.

Comprehensive checks are undertaken on the factories manufacturing products and the quality and the suitability of those products before they are shipped to the UK.

Unsafe practices result in harm to colleagues, customers, suppliers or the public

INHERENT RISK:**MEDIUM****TREND:****STATIC****STRATEGY:****IMPACT:**Harm to our colleagues,
customers and the
wider communityPotential legal action,
fines and penaltiesAdverse effect on
financial resultsAdverse effect
on reputation**RISK DESCRIPTION**

Keeping the Group's colleagues, customers, suppliers and the public safe is a cornerstone of the business. The Group operates over 2,000 sites, many with complex and busy yards. It also operates one of the largest vehicle fleets in the UK, distributing heavy and bulky materials. Poorly implemented safety practices on site, on the road or at delivery locations could result in significant harm to people which would damage the Group's reputation and could impact trading performance.

RISK MITIGATION

The Group continues to challenge its thinking and approach to improving its safety performance through its 'Stay Safe' brand.

Governance of Stay Safe is well-established and designed to promote a continual focus on health and safety. Stay Safe performance is reviewed at all Board meetings, by the Executive Committee and by the dedicated Stay Safe Committee, which is chaired by a Non-executive Director.

The Group's regular Divisional leadership meetings also focus on performance and continuous improvement in this area. These forums also monitor the achievement of transport-related compliance requirements, including driver licencing and professional competence.

Incidents are monitored, investigated and corrective action taken to reduce the likelihood of similar incidents in future. Stay Safe assurance reviews are regularly undertaken at sites by dedicated safety professionals with any resulting improvement actions tracked to completion.

De-risking the Group's operations, improving health and safety awareness and implementing improved ways of working are at the forefront of the Group's activities. Further information on progress made during 2018 can be found in the Health and Safety report on pages 47 to 49.

The Group allocates capital inefficiently or under invests in advantaged business and does not achieve desired returns

INHERENT RISK:

MEDIUM

TREND:

STATIC

STRATEGY:

IMPACT:

Adverse effect on financial results

RISK DESCRIPTION

The Group operates a number of different businesses in the UK which operate in different but complementary channels. As the Group's markets continue to develop, it is investing to enhance its existing businesses and to develop new propositions to better serve its customers.

Whilst the Group operates a disciplined capital allocation process, there is a risk that it may be over-investing in channels which may decline or that it may not be allocating sufficient capital to new propositions resulting in sub-optimal returns on capital.

RISK MITIGATION

Return on capital is one of the Group's key performance indicators as shown on page 19. The Group's decision to refine its strategy and focus on trade customers in the most advantaged businesses will impact the allocation of capital with more focused management attention and capital deployment in areas of higher return.

Responsibility for identifying and implementing opportunities to expand, improve or modify the Group's operations rests with each of the Divisional Boards. Capital is deployed or re-deployed through a Group-led forum to the strategically-aligned opportunities expected to achieve the best return on capital.

Major projects are kept under review to monitor progress and ensure the deployment of capital remains appropriate.

Post-implementation reviews are undertaken on all major projects and returns are monitored on an ongoing basis to ensure that the expected returns are achieved and allow the Group to modify its capital allocation when appropriate.

Business transformation and improvement projects fail to deliver the expected benefits, cost more or take longer to implement than anticipated

INHERENT RISK:

MEDIUM

TREND:

STATIC

STRATEGY:

IMPACT:

Adverse effect on financial results

Adverse effect on shareholder value

RISK DESCRIPTION

The Group undertakes a variety of projects throughout its business in order to generate returns for its shareholders. These projects include the transformation of the Group's core IT systems and infrastructure, ongoing development of its supply chain operations and its branch and store networks, and the simplification of the Group to speed up decision making and reduce costs.

By their nature, such strategic projects are often complicated, interlinked and may require considerable resource to deliver them. As a result, the expected benefits, timescale for delivery and costs of implementation of each project may deviate from those anticipated at their outset. Colleague engagement may be impacted during a period of significant change and cost-focus.

RISK MITIGATION

All potentially significant projects are subject to detailed investigation, assessment and approval prior to commencement.

Dedicated teams, including financial resource, are allocated to each project, with additional expertise brought into the Group to supplement existing resource when necessary.

All strategic projects are supported by an appropriate governance structure and are closely monitored by the Executive Committee with regular reporting to the Board.

Regular communications are undertaken to keep affected colleagues informed.

Uncertainty caused by the UK's decision to leave the European Union

INHERENT RISK:

HIGH

TREND:

INCREASING

STRATEGY:

IMPACT:

Adverse effect on financial results

RISK DESCRIPTION

The result of the UK vote to leave the European Union and the subsequent process to determine the terms of the withdrawal agreement continues to cause considerable market uncertainty. It remains difficult to predict the economic outlook and impact to the Group in the short-term. The Group continued to experience significant volatility in the value of Sterling against the principal currencies used to pay for imported goods during 2018.

Future trading relationships with foreign markets have yet to be determined and these may result in higher tariffs or duties on imports of construction products as well as extended lead times on imported supplies or result in the need to source some products elsewhere. These risks have the potential to impact the Group significantly. Of less risk to the Group, but potentially significant for its customers, are the significant numbers of non-UK nationals employed in the construction industry and the distribution and logistics markets. If the UK becomes a less attractive place for them to work this could result in labour shortages and consequent salary cost pressures and could change dynamics in our key markets. Whilst significant changes to product standards and legislative requirements more generally are not anticipated in the short-term, they could impact the Group if introduced in the future.

The continued uncertainties that surround Brexit mean that a more precise assessment of the impact on the Group's operations is unlikely to be possible until the terms of the withdrawal agreement are confirmed.

RISK MITIGATION

It remains too early to determine the full impact of the UK's decision to leave the European Union, but the Board is closely monitoring market conditions and will react accordingly.

The Board has undertaken a process to assess the known and proximate risks associated with Brexit. This includes assessment of existing risk mitigations and actions in progress and is updated on a regular basis.

The Board has already taken steps to reduce some costs, but is carefully balancing the current needs of the business against what may or may not occur in the future.

The Group continues to invest in the business where those investments are expected to realise acceptable returns, but it is prepared to reduce activity levels should market conditions so dictate.

Exercises have been undertaken by the divisional leadership teams to assess the level of stock holding required in each business unit to minimise disruption to customers. A customer statement is in place and will be reassessed as the terms of the UK's withdrawal are clarified. Engagement with the Group's key suppliers is ongoing.

Where the cost of goods increases due to the exchange rate deteriorating or additional tariffs and duties, the Group will seek to pass those price increases through to its customers, but its ability to do so will depend upon market conditions at the time.

The processes in place around the recruitment and retention of people are set out in the principal risk pertaining to such matters on page 36.

Market conditions leading to demand uncertainty

INHERENT RISK:

HIGH

TREND:

INCREASING

STRATEGY:

IMPACT:

Adverse effect on financial results

RISK DESCRIPTION

The Group's products are sold to businesses, trade professionals 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 specific drivers of construction, Renovation, Maintenance and Improvement and DIY activity. These include mortgage availability and affordability, housing transactions and the timing and nature of government activity to stimulate activity, net disposable income, house price inflation, consumer confidence, interest rates and unemployment.

A significant downturn in economic conditions or alternatively major uncertainty about the future outlook could affect the levels of construction activity in the Group's markets and the confidence levels of the Group's customers, which could reduce their propensity to purchase products and services from the Group's businesses.

RISK MITIGATION

The Board conducts an annual review of strategy, which includes an assessment of likely competitor activity, market forecasts and possible future trends in products, channels of distribution and customer behaviour.

The Group maintains a comprehensive tracking system for lead indicators that influence the market for the consumption of building materials in the UK.

Significant events including those in the supply chain that may affect the Group are monitored by the Executive Committee and reported to the Board monthly by the Group CEO.

Should market conditions deteriorate then the Board has a range of options dependent upon the severity of the change. Historically these have included amending the Group's trading stance, cost reduction, lowering capital investment and cutting the dividend.

Execution of planned disposals and potential acquisitions fails to deliver the expected benefits to the expected cost and timescale

INHERENT RISK:

MEDIUM

TREND:

INCREASING

STRATEGY:

IMPACT:

Adverse effect on financial results
Adverse effect on shareholder value

RISK DESCRIPTION

The Group undertakes acquisition and disposal activity to optimise its portfolio of businesses and drive shareholder return. In December 2018, the Group announced its intention to explore the potential divestment of the Plumbing & Heating division, as part of the broader strategy of simplifying the Group. This division comprises a number of businesses of varying size which operate on a range of systems, some of which are shared with the wider Group.

The programme to separate the Plumbing & Heating businesses for a potential sale is complex with many linkages to Group systems and processes. The Group has not undertaken a restructure and disposal on this scale for some time and it requires careful management. The costs and timescale for the separation may deviate from those originally planned, which could in turn impact the progression of a sale process and the value realised.

RISK MITIGATION

All merger, acquisition and disposal activities are subject to a detailed appraisal process and ultimate approval by the Board.

A formal programme of work with dedicated resource has been put in place to support the execution of the Plumbing & Heating disposal. External expertise and advisors are involved as required to support the programme team.

All activity of this kind is supported by robust governance and monitoring. The Plumbing & Heating programme is closely monitored by a programme Steering Committee, with Executive sponsorship and representation. There is regular reporting to the Executive Committee and Board.

Data security

INHERENT RISK:
MEDIUM
TREND:
INCREASING
STRATEGY:
IMPACT:

 Adverse effect
on financial results

 Adverse effect on
the Group's reputation

RISK DESCRIPTION

Incidents of sophisticated cyber-crime represent a significant and increasing threat to all businesses including the Group. A major breach of cyber security could result in disruption to customer-facing, supplier-facing and financial systems through theft and misuse of confidential data, damage to or manipulation of operationally critical data or interruption to IT services, any of which may have serious impacts on the Group's reputation or ability to trade.

RISK MITIGATION

The strategic demands of the business, the resources available to IT, the performance levels of key systems and IT security are kept under review by the Executive Committee, with responsibility for monitoring and maintaining cyber security delegated to a data security committee.

Investments in best-of-breed solutions are made that continually adapt and are updated to mitigate the risk associated with the most advanced threats and the evolution of Group technology adoption.

Cyber security controls are in place to protect IT systems and data including firewalls, virus protection and penetration testing. A programme of risk-oriented reviews is undertaken to ensure the level of control around IT systems remains robust.

An IT disaster recovery plan exists together with a business continuity plan. Arrangements are in place for alternative data sites for both trade and consumer businesses. Off-site back-up routines are in place.

The changing regulatory framework increases the risk of non-compliance and fines

INHERENT RISK:
MEDIUM
TREND:
STATIC
STRATEGY:
IMPACT:

 Adverse effect on the
Company's reputation

 Adverse effect on financial
and operational performance

 Potential legal action, fines
and penalties

RISK DESCRIPTION

The Group is subject to a broad range of existing and evolving governance requirements, 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 for non-compliance and potential limitations on the development of the Group's operations.

RISK MITIGATION

The Group's in-house legal team is responsible for monitoring changes to laws and regulations that affect the business and is supported by external advisors.

The Group has a comprehensive framework of policies in place that sets out the ways employees and suppliers are expected to conduct themselves. Those expectations are widely disseminated using a range of methods to ensure colleagues and suppliers understand their responsibilities to

comply with the law and other regulations affecting the Group at all times.

The Group provides online training to colleagues in key areas of legal and regulatory compliance, including a suite of mandatory training for those that join the Group. During 2018 Group-wide training was undertaken in respect of GDPR.

The Executive Committee and the Board regularly monitor compliance with laws and regulations.

The Group operates a whistleblowing process that allows the anonymous reporting through an independent hotline of any suspected wrongdoing or unethical behaviour, including reporting instances of non-compliance with laws and regulations. All reported cases are investigated.

Our people

The key to the Group's success has always been its people. The Group has the best people and is the best place to work in its industry and as a result is well placed to win in the market.

Branch managers at the heart of the business

Branch managers are at the heart of the business and play a pivotal role in making the Travis Perkins Group the best place to work in its industry. They create the conditions that enable colleagues to thrive, be their best and deliver outstanding service to the Group's customers. Branch managers are at the centre of the Group's strategy, with a clear plan to rebalance decision-making and empower branch managers and local sales teams.

In 2018 a cross-section of managers and leaders were engaged in a programme to crystallise what makes the best branch managers so successful. This high-quality research forms the basis of the Group's leadership development agenda, helping make the most of the Group's culture so customers can continue to get the great service they deserve.

Over 40 promotions to senior leadership roles from the Group's internal talent pool in 2018 including three Managing Directors

Developing the best branch managers and leaders

Development investment has focused on strengthening the leadership pipeline at all levels. This has been delivered through a tailor-made approach, with programmes and activities in each of the Group's businesses. For example:

- In the Contract Merchanting division over 100 leaders attended a **Leading Change** programme focused on strategy, wellbeing and coaching
- In the General Merchanting division over 300 leaders have benefited from the newly developed **Brilliant Branch Manager** programme
- Across the Group, the launch of an exciting new **Chief Executive's Challenge** enabled high-potential leaders to increase their networking skills and their profile by working together to solve real business issues on behalf of the Executive

This approach has already created benefits, with particular delight at 60% of all appointments to senior leadership roles in 2018 being made from home-grown talent. The Group has been able to make more than 40 promotions to senior leadership roles from its internal talent pool, including three Managing Directors.

In 2019 the Group will continue to invest in its leadership pipeline, including making even more use of the industry-leading LEAP apprenticeship programmes.

LEAP apprenticeships

The Group continued to make significant progress with the Learn & Earn Apprenticeship Programme ("LEAP") introduced in 2017. LEAP enables colleagues – from new work entrants to Managing Directors – to gain the skills and experience they need to capitalise on the opportunities that the Group offers whilst continuing to earn.

These programmes are a key part of the Group's strategy to develop great leaders and build on its proud heritage. Over 800 colleagues enrolled on them this year, including 12 on a new degree-level programme run in conjunction with

the Open University. The Group is proud that 50% gained a distinction in their final assessment against the national standard in 2018.

Making life easier for colleagues

The Group has continued to help colleagues focus on delivering for customers, by making it easier to "do business" internally and building an energising environment where everyone is welcome and valued for their contribution. To support this the Group:

- Implemented a new HR System to streamline the administration of important work-life events
- Made significant enhancements to the Group's digital learning system so learning support is universally available and easy to use
- Encouraged community engagement through involvement with the Group's chosen charities and participation in nationally recognised initiatives like the Duke of Edinburgh Gold Award

All of these developments help build high levels of engagement and foster a climate of trust.

Recruiting the best people

Whilst the Group is proud of its track record of developing from within, it's equally committed to bringing in fresh talent and different perspectives. The in-house resourcing team supports business managers and leaders and helped recruit over 5,000 new colleagues in 2018.

This team has been instrumental in widening reach and raising awareness of the Group's businesses and the opportunities they offer to grow, develop and build a career. To support this major upgrades were made to the Group's career websites in 2018 and these were nominated for 'Best Careers Site' awards by leading recruitment industry bodies.

People drive the success of the Group. Passion for "the best people and the best place to work" means colleagues who love coming to work, to the benefit of the Group's customers and communities.

Gender diversity reporting 2018

	Men		Women		Total
	Number	%	Number	%	Number
Executive	15	75	5	25	20
Manager	632	74	222	26	854
Colleague	20,707	74	7,304	26	28,011
Total	21,354	74	7,531	26	28,885

	Men		Women		Total
	Number	%	Number	%	Number
Central Services	552	53	485	47	1,037
Consumer	6,929	62	4,234	38	11,163
Contract Merchanting	2,691	81	614	19	3,305
General Merchanting	7,882	85	1,373	15	9,255
Plumbing & Heating	3,300	80	825	20	4,125
Total	21,354	74	7,531	26	28,885

*The "Women in senior management" comparative figures have been restated as the Group adopted a more restrictive definition of senior management in 2018. Senior management is now defined as Directors and department heads.

The business raised
more than
£2.5 million

in 2018 through a variety of
activities principally driven
and supported by Group
colleagues, customers
and local communities.

Charities and communities

The Group is incredibly proud of how it supports the charities and communities around it. It continues to empower each of the Group's businesses to support charities that mean something special to them and enter into a partnership, usually for three years or more.

Group colleagues also support charitable activity through payroll giving and via a colleague lottery. The popularity of these schemes remains undiminished and in 2019 the Group will be looking at ways to make these schemes even more accessible to colleagues.

Our shared successes - charity partnerships

Cornerstones

The Group's business is built upon five cornerstones.
The cornerstones provide strong values and foundations for
the development of everything we do.

Upholding family values

This is what makes the Group different. Everyone works hard together to deliver results and have some fun along the way. It's about doing the right thing. The Group is straightforward and values honesty, trust and kindness. It's 'new-fashioned' family values built on the Group's heritage.

Keeping people safe

Safety is everything. The Group expects everyone to go home to their families exactly as they arrived at work.

Making decent returns

Making a decent return is less about making money and more about creating value for shareholders, employees, customers and suppliers. It depends on building business relationships based on trust and respect; strong enough to keep going through bad and good times.

Working for our customers

The success of the Group's business relies on strong relationships. This is about a 'can do, will do' attitude and understanding the lifelong value of each customer relationship.

Being the best

The aim is to set the bar high and make the Group's customers feel special. The business is built on maintaining good relationships with customers and suppliers. It's essential the Group attracts and retains the best people to enable the Group to operate the best business in every catchment area.

Keeping people safe

As Chairman of the Stay Safe Committee I am pleased to present the Committee's Health and Safety report for 2018.

Keeping people safe is at the very heart of how the Group operates and the Committee continues to help, support and challenge the Executive Team in continually improving workplace standards as well as managing the risks associated with out-of-branch activities which affect customers, members of the public and colleagues.

This year the Committee approved the Group's new Health and Safety strategy and continued to monitor performance including the progress made by each business across a range of key risks areas. Whilst there is still much to do, I am pleased with the progress made and the momentum and colleague engagement the Group has in this important area.

Pete Redfern

Chairman, Stay Safe Committee

25 February 2019

Performance

In 2018 415 lost time incidents ("LTIs") were reported across the Group compared to 438 in 2017 and 502 in 2016. Consequently the number of LTIs per million hours worked (the "Accident Frequency Rate") decreased by 3%, continuing the downwards trend.

The Group lost 6,127 work days in 2018 as a result of LTIs; this compares favourably to 2017 when 6,518 work days were lost. Despite this improvement in absolute numbers, a reduction in the number of hours worked means that the number of lost work days per 1,000 hours worked (the "Severity Rate") remained stable at 0.11.

The mix of LTIs the Group is experiencing is changing. In 2018 25% of incidents occurred out-of-branch (2017: 19%), typically in the final part of delivery to the customer, so reducing risks associated with out-of-branch activities is an increasing priority for the Group.

The Group continues to embed the safety assurance programme that is gathering pace. In 2018 635 locations underwent a detailed safety review comparing local arrangements to the Group's expectations in a range of key risk areas.

The Group remains committed to managing occupational road risk, with the Contract Merchanting and General Merchanting divisions retaining their Fleet Operators Recognition Scheme (FORS) Gold accreditation. The importance of road risk was highlighted in August 2018 when a cyclist, Dr Peter Fisher, tragically lost his life in an accident involving one of the Group's commercial vehicles travelling at slow speed in London.

Strategy

The Group's Stay Safe strategy has been in place since 2015 and has delivered significant cultural and performance improvement as well as raising local standards. The Group reviewed its approach in 2018 and decided to evolve this strategy. Each business will continue to focus on risk assessment, safety leadership and embedding a fair and just culture. Over the next three years the Group's businesses will be given more flexibility in how they improve safety and wellbeing, enabling them to take into account their specific risk profiles, accident experience and colleague wellbeing needs.

Moving more accountability to the businesses will enable them to focus more closely on the unique challenges and opportunities that each face and facilitate a continued reduction in the number and severity of incidents.

Accident frequency rate

Severity rate

Improvements and innovation

Throughout 2018 there has been significant Health and Safety innovation and improvement across the Group.

Manual handling

Manual handling continues to be one of the major accident categories involving colleagues. Whilst focus continues on reducing the amount of lifting and handling colleagues have to do, resources are also being deployed to provide more innovative solutions and support effective training.

The Contract Merchancing division worked with Soter Analytics to pilot the use of wearable technology that helps make colleagues aware of their ergonomic injury risk and provides personalised insights to reduce the chances that they will suffer an injury. The pilot delivered impressive results and investment is now being made to deploy the technology more widely across the division.

Delivery safety

With an increasing number of LTIs occurring out-of-branch, the Plumbing & Heating division undertook a 'hands on' review of the final 25 yards of delivery, holding listening groups with drivers and learning from other organisations that carry out home deliveries of large and bulky items.

As a result the division is rolling out a complete 'tool kit' for drivers that helps them reduce the amount they have to lift and carry as well as a driver-led training programme.

Wickes have invested in two new driver training venues to improve safety and the customer delivery experience. Every kitchen and bathroom home delivery driver will receive training at one of these venues in 2019 covering real-life product lifting, handling up and down stairs, risk awareness and product placement.

Workplace transport

For a number of years the Group has been working hard to improve pedestrian safety at branches and stores by keeping them apart from vehicle movements. This work continues, with six Travis Perkins branches relocating in 2018 to sites with safety designed in. More broadly, a significant amount of money continues to be invested in improving local arrangements across the Group.

Wellbeing and Mental Health

A number of business units have engaged with colleagues to understand their wellbeing needs using the Vitality Health Survey. Each achieved strong response rates that provide the businesses with insight into how to best shape their wellbeing plans.

Recognising the importance of mental health, BSS Industrial gave their front line managers the opportunity to complete mental health awareness training with their chosen corporate charity, MIND, providing managers and colleagues with tools to help improve their mental health and to spot signs and symptoms in others.

The Group partnered with Neyber, one of the UK's largest financial wellbeing companies, to help colleagues improve their financial wellbeing and happiness in the workplace by providing financial guidance and education and offering affordable loans, repaid directly from colleagues' salaries.

External recognition

All of the Group's merchancing businesses have had their Health and Safety management systems subjected to external, independent scrutiny to the Safety Schemes in Procurement (SSIP) standard. Having successfully passed this annual review they can now provide further confidence to customers that their arrangements meet or exceed legal requirements.

The businesses in the Contract Merchancing division and the primary distribution hubs for the General Merchancing and Plumbing & Heating divisions received awards from the Royal Society for the Prevention of Accidents for their arrangements and continued cultural development and performance.

Achieving external recognition is more than a certificate for the sites and business units that take part. They use it as an important external benchmark as well as an opportunity to thank those colleagues who have been champions and ambassadors for health and safety.

Environmental sustainability

The Group¹ retains an ambition to:

Process

Materiality

Since the Group last formally checked on stakeholder priorities in 2017 there has been the beginnings of a collective response to plastic pollution, a new and alarming United Nations report on climate change, a Construction Sector Deal with a focus on whole life impacts and a revised approach in the UK to funding material recovery and reuse. This report reflects the issues identified in 2017 and those arising in the year.

KPIs

The Group progressed against its environmental KPIs in 2018 as the result of action plans governed by the Group's ISO 14001 certified environmental management system ("EMS"). Governance processes were strengthened by successfully transferring to the 2015 standard, which significantly extends the requirements of the previous 2004 standard.

1. This report includes data for companies where Travis Perkins plc has operational control.
2. 2018 data is Office of National Statistics deflated figures. It uses best available financial data at the time the report was produced. A proportion of waste data is estimated and 2017 intensity has been recalculated based on better information. Previously the 2017 intensity figure reported was 9 tonnes/£m of yard or core sales.

Recorded incidents & complaints

Carbon Disclosure

Carbon Disclosures Project

The Group participated in the Carbon Disclosures Project disclosure exercise in 2018, as it has every year since 2010, and received a B- rating for climate change and timber and a C rating for water security. The Group restated its commitment to developing a set of "Science Based Targets" for future carbon reductions.

Carbon reporting table

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 2018⁴ on an operational control basis. 95% of Scope 1 and 2 data is from measured sources⁵ with the remainder extrapolated from either expenditure on fuel or distance travelled.

Incidents

In 2018 the Group recorded and followed up on 18 non-reportable incidents and nine incidents or complaints meeting internal guidelines as being reportable to competent authorities. Of the reported incidents, five were of spillages involving fuel, hydraulic oil or paint where small amounts may have entered controlled waters, two resulted in the issuing of fixed penalty notices for minor waste management issues, while the Group received a single noise complaint and abandoned shopping trolley complaint. The Group referred one of its businesses, Primaflow, to the Environment Agency for breaches to the packaging regulations and a civil sanction proceeding is currently underway. No part of the Group was prosecuted or received a civil sanction in 2018 for any environmental offence.

	Carbon Dioxide Equivalent (CO ₂ e) Tonnes	
	2018	2017
Scope 1 Direct emissions from burning gas and solid fuel for heating and from road fuel use for distribution	131,284 ⁶	129,756 ⁷
Scope 2 Indirect emissions from our use of electricity	45,672	57,205
Intensity⁸ Tonnes of CO ₂ e from scope 1 and 2 sources per million pounds of inflation adjusted sales	28.14 ⁹	30.19 ⁹

3. 2018 data is Office of National Statistics deflated figures. It uses best available financial data at the time the report was produced. 2017 Carbon intensities have been recalculated with better fuel consumption data and previously were reported at 18.76 for Transport.

4. Fugitive emissions from domestic refrigeration, vehicles and building air conditioning are excluded as they are not material to the Group's overall emissions.

5. 5% of the energy data is estimated due to supplier data provision issues.

6. Scope 1 CO₂e emissions include 24,017 tonnes from buildings and 107,267 tonnes from transport.

7. Corrected from previously stated figure of 138,160 tCO₂e with increased accuracy around road fuel consumption accounting.

8. Carbon intensity is referenced to turnover, which is adjusted to allow for inflation, relative to baseline year. It uses best available financial data at the time the report was produced.

9. Corrected from previous figure of 31.55 tCO₂e per £m of inflation adjusted sales because of scope 1 changes.

Products

Life cycle carbon (scope 3)¹⁰

The Group estimates that life-cycle greenhouse gas emissions associated with its products equate to:

In 2016 the Group started asking for Environmental Product Declarations ('EPDs') from suppliers of cement, gypsum, timber and insulation products. Since that time the number of construction material EPDs produced has increased by over 250%. BREEAM¹¹ standard credits and the Construction Sector Deal have also made the production and use of EPDs in material selection more likely. The Group welcomes this increased sharing of information as it allows meaningful conversations to take place throughout the construction value chain that will lead to reduced environmental impacts, including reducing carbon emissions across product life cycles.

Material efficiency and circularity

Packaging accounts for 75% of all the material the Group sends for recycling or recovery. The Group estimates that 20% is damaged product and was pleased to see a 4% reduction in used material being sent to landfill in comparison to 2017.

For a circular economy to function there needs to be a market for the recycled material. Certain products the Group sells have high recycled content: plasterboard at 90%, blocks as high as 80%, chipboard at 40% and all steel hangers and components at 56%. The Group will continue to ask for more use of non-virgin materials in both products and packaging to ensure that it remains tax efficient and that the material requirements for construction products are reduced.

Plastic

A number of customers have asked the Group about plastic use in its products. Many construction products use the properties of plastics to good effect, creating durable building products and tools with a long design life. Plastics are also used to package products and allow for safe and convenient delivery and storage. These benefits however have to be set against the growing and significant problem of plastic pollution.

The Group directly recycled over 1,600 tonnes of plastic packaging in 2018 and in recognition of UK wide system deficiencies identified by the National Audit Office, started discussions with its producer responsibility compliance scheme on the current and future use of Packaging Export Recovery Notes. In 2019 the Group will accelerate its work identifying opportunities to reduce the amount of single use plastic packaging used and will use its influence with suppliers to make material reductions.

Timber

The Group was disappointed to see the winding up of the WWF's flagship timber and paper supply chain platform UKGFTN¹² in 2018, but pleased that the WWF is still planning to publish a 2019 timber scorecard. The Group secured a best possible "3 trees" rating in the previous two scorecards, demonstrating the Group's understanding of the issues and its commitment to implementing solutions. Over 97% of timber and timber fibre products purchased by the Group in 2018 were certified as responsibly sourced (76% FSC and 21% PEFC).

The Group has operated a timber chain of custody certification scheme since July 2003. With over 750 sites currently participating, the Group is the largest UK merchant certified to buy and sell FSC and PEFC timber products. FSC and PEFC certificates are issued by BM TRADA on a 5 year cycle and are subject to annual checks of the Group's management and control systems, as well as a random audit of 31 sites. The Group's latest certificates were issued in July 2018 and go through to July 2023. The Group invests in training and internal audits of all branches on an annual basis.

Used material recycled or recovered in 2018

Material	Weight (000 tonnes)	Contribution to total arising
Wood	12.0	21%
Cardboard	6.2	11%
Aggregate, plaster, metal and ceramics	4.4	8%
Plastic	1.6	3%
Paper	0.8	1%
Hazardous materials (e.g. paint, oil other chemical substances)	0.8	1%
Mixed materials for recovery	28	50%

10. Not verified by LRQA.

11. Building Research Establishment Environmental Assessment Method.

12. WWF Global Forest & Trade Network-UK.

Trucks and transport

Carbon (scope 1)

82% of the Group's scope 1 carbon emissions come from distribution, where real efficiency improvements were made in 2018 through scheduling and driver behaviour change that may have accounted for 4% of the Group's Greenhouse Gas (GHG) reduction. The adoption of fuel efficiency benchmarks into the Group's fleet compliance management has helped deliver this benefit and suggests greater reductions are possible.

Air quality

25% of diesel engines in the Group's HGV fleet now meet the Euro 6 emissions standard (2017: 20%) as the result of investment in new vehicles. The Group is well placed to meet low emission zone requirements of major towns and cities.

Electric vehicles

The Group will deploy its first 26 tonne zero emission truck in the CCF business in 2019. The Electra vehicle will be one of the first electric distribution commercial vehicles of its type in the UK, with both the drive train and the lorry-mounted forklift powered by its batteries. The truck will have a range of approximately 250 miles and will go into service initially in London.

People

The Group carries out environmental training to ensure all colleagues are aware of the environmental impacts associated with their activities. The Group builds on that base knowledge using the tools and programme available from the Supply Chain Sustainability School. The Group is a Gold member of the School, reflecting how much the Group accesses the learning opportunities the School offers.

Lighting up buildings

Carbon (scope 2)

The Group continues to invest in LEDs with over 60 installations in 2018. An estimated 65% of Wickes retail space now uses LED lighting. Reduced electricity consumption in 2018 over 2017 resulted in a reduction in GHG emissions of almost 700 tonnes.

Renewables

The Group generates about 120 MWh of renewable energy from solar PV on its sites, which represents less than 0.1% of electricity consumed. The Group will continue to invest in on-site generation on new builds and make internal investments in energy efficiency as this is the most cost effective way of achieving targeted scope 2 carbon reductions.

Assurance

The content of the Environmental Sustainability report (with the exception of supply chain carbon emissions values) has been assured against LRQA verification procedure which is based on AA1000AS (2008) and ISAE 3000. A copy of their verification statement is available at <http://www.travisperkinsplc.co.uk/responsibility/environment-hub/resource-library1.aspx>

Strategic report approval

The Strategic Report on pages 3 to 53 was approved by the Board of Directors and signed on its behalf by:

John Carter
Chief Executive
25 February 2019

Alan Williams
Chief Financial Officer
25 February 2019

Governance & Remuneration

- 56 The Board of Directors**
- 59 Corporate governance report**
- 66 Audit Committee report**
- 72 Directors' remuneration report**
- 90 Nominations Committee report**
- 92 Directors' report**
- 96 Statement of Directors' responsibilities**

The Board of Directors

Stuart Chambers

Non-executive Chairman

Nationality British

Appointment Date

1 September 2017 (Non-executive Director)
7 November 2017 (Chairman)

Committee membership

Nominations (Chairman)
Remuneration
Stay Safe

Skills and experience

Stuart has extensive global executive management and boardroom experience across industrial, logistical and consumer sectors. He is currently Chairman of Anglo American plc and a member of the UK Takeover Panel. Stuart was Chairman of Rexam plc from 2012 to 2016 and ARM Holdings plc from 2014 to 2016. He served as a Non-executive Director on the Boards of Tesco plc, Tesco Bank, Manchester Airport Group, Smiths Group plc and Associated British Ports Holdings plc. Stuart's executive career included 10 years with Shell and 10 years with the Mars Corporation. Stuart then joined Pilkington plc in 1996, where he was appointed Group Chief Executive in 2002. Pilkington was acquired by Nippon Sheet Glass in 2006 and Stuart became Group Chief Executive of the new combined group until 2010.

John Carter

Chief Executive

Nationality British

Appointment Date

1 July 2001 (Executive Director)
1 January 2014 (Chief Executive)

Committee membership

Executive (Chairman)
Stay Safe

Skills and experience

John has extensive management and in-depth merchanting and construction experience as well as expansive knowledge of the Travis Perkins Group. John joined Travis Perkins plc in 1978 as a Management Trainee. With over 40 years' experience in the business, John has held various senior strategic roles in Sales, Marketing and Operations and has managed sector-leading functions such as Procurement, Supply Chain, International Sourcing and Category Management. During his career John has headed up the integration of key strategic acquisitions for the Group including Keyline in 1999, Wickes in 2005 and BSS Group in 2010. John is a Non-executive Director of McCarthy & Stone plc.

Tony Buffin

Group Chief Operating Officer

Nationality British

Appointment Date

8 April 2013 (Chief Financial Officer)
1 March 2017 (Chief Operating Officer)

Committee membership

Executive

Skills and experience

Tony is a qualified Chartered Accountant and has a strong financial background and extensive retail experience. Prior to joining the Group Tony was CFO of the Coles Group, the leading Australian grocery retailer, where he was accountable for Finance, Property, IT, Strategy and the Group's online, financial services and hotel businesses. Prior to this Tony was the CFO and then CEO of the Loyalty Management Group and held senior finance roles at The Boots Group plc. Tony has been a Non-executive Director on the Dyson Shareholder Board since 2013.

Alan Williams

Chief Financial Officer

Nationality British**Appointment Date**
3 January 2017**Committee membership**
Executive**Skills and experience**

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

Ruth Anderson

Non-executive Director

Nationality British**Appointment Date**
24 October 2011**Committee membership**
Audit (Chairman)
Nominations
Stay Safe**Skills and experience**

Ruth is a Chartered Accountant and has extensive financial and taxation experience as well as strong boardroom and audit committee experience. Ruth has 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. Ruth is a Non-executive Director of Ocado plc and The Royal Parks, which is a charitable public corporation, and a trustee of the charity The Duke of Edinburgh's Award.

Coline McConville

Non-executive Director

Nationality Australian**Appointment Date**
1 February 2015**Committee membership**
Remuneration (Chairman)
Audit
Nominations**Skills and experience**

Coline has a wealth of international experience with a background in management, marketing and media as well as extensive remuneration and boardroom experience. Coline is currently a Non-executive Director of TUI AG, Inchcape plc, Fevertree Drinks plc and 3i Group plc and was formerly a Non-executive Director of UTV Media plc, Wembley National Stadium Limited, Shed Media plc and HBOS plc and a global advisor and Director of Grant Thornton International Limited. Prior to that Coline was Chief Operating Officer and Chief Executive Officer Europe of Clear Channel International Limited. She holds an MBA from Harvard Business School where she was a Baker Scholar.

Pete Redfern

Non-executive Director

Nationality British

Appointment Date

1 November 2014

Committee membership

Stay Safe (Chairman)
Nominations
Remuneration

Skills and experience

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

Christopher Rogers

Senior Independent Non-executive Director

Nationality British

Appointment Date

1 September 2013

Committee membership

Audit
Nominations
Remuneration

Skills and experience

Christopher has extensive financial, operational and retail experience and expertise in corporate governance and strategic planning. Chris is currently Interim Executive Chairman of Walker Greenbank plc until a new chief executive is appointed, a Non-executive Director of Vivo plc and Kerry Group, and a visiting fellow at Durham University. Prior to this, Chris was a Director of Whitbread plc from 2005 to 2016 where he served as Group Finance Director from 2005 to 2012 and Managing Director of Costa Coffee from 2012 to 2016. He was Group Finance Director of Woolworth Group plc and Chairman of the Woolworth Entertainment businesses from 2001 to 2005 and previously held senior roles in both finance and commercial functions in Comet Group plc and Kingfisher.

John Rogers

Non-executive Director

Nationality British

Appointment Date

1 November 2014

Committee membership

Audit
Nominations

Skills and experience

John has extensive finance, strategy, digital online, property and retail experience. John 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 he also held the posts of Property Director, Director of Group Finance and Director of Corporate Finance. Before joining Sainsbury's, John held a variety of financial, operational and strategy roles.

Corporate governance report

For the year ended 31 December 2018

Stuart Chambers

Chairman

25 February 2019

I am pleased to present our Corporate Governance Report for the year ended 31 December 2018.

Good governance is essential to the successful delivery of our long-term strategy and the way in which our business operates on a day-to-day basis. The Board is committed to maintaining the highest standards across the Group for the benefit of all our stakeholders.

Over the past year, the primary focus of the Board has been the development of our strategy to simplify the Group and improve returns by focusing on our trade customers. The Board has also been preparing for the succession of the Group CEO. Whilst vital at all times, strong and effective governance will be especially critical to managing the volume of change and the delivery of our commitments during the implementation of our strategy.

We were due to carry out an external Board evaluation in 2017. However, due to the timing of my appointment, we decided to

defer this. I am pleased to report that we have completed an externally-facilitated evaluation of the Board, its Committees and individual Directors. Further details are set out on page 63.

Looking forward, the Board and I welcome the Financial Reporting Council's updated UK Corporate Governance Code (the 'new Code'). The new Code places an explicit requirement on us as Directors and as a Board to consider the views of our stakeholders and the impact of our activities on wider society. The new Code aligns with our focus on colleagues and customers, who are central to our strategy. The new Code applies to the Company from the 2019 financial year so we are reporting against the 2016 UK Corporate Governance Code in this Governance Report.

All members of the Board will be available at the Annual General Meeting to answer any questions.

UK Corporate Governance Code

Throughout the year ended 31 December 2018, the Company was in full compliance with the provisions set out in the April 2016 edition of the UK Corporate Governance Code issued by the Financial Reporting Council available at www.frc.org.uk

1. Leadership

Role of the Board and Committees

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

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

The Board also has a schedule of matters reserved to it, which is reviewed annually. Revisions were made in December 2018 to reflect latest best practice and the operations of the Group. The schedule of matters reserved to the Board is available on the Group's corporate website www.travisperkinsplc.co.uk.

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

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

John Carter	Chief Executive Officer
Tony Buffin	Group Chief Operating Officer
Frank Elkins	Chief Operating Officer, Merchanting
Andrew Harrison	Deputy CEO, Plumbing and Heating
Carol Kavanagh	Group Human Resources Director
Simon King	Managing Director, Wickes
Patrick Knight	Chief Information Officer
Martin Meech	Group Property Director
Robin Miller	Company Secretary and General Counsel
Alan Williams	Chief Financial Officer

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

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

The Company maintains Director's & Officer's insurance in respect of the risk of claims against Directors which is reviewed annually.

Board meetings

The Board held eight scheduled meetings in 2018. 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 units and divisions, funding, capital expenditure, investor feedback, risk and governance.

During the year the Board visited a number of operational sites and held an offsite strategy meeting. The agenda for meetings is agreed by the Chairman in conjunction with the Chief Executive and the Company Secretary and General Counsel. Agendas are based on an annual plan and also include topical items and matters of particular interest or concern to the Board.

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

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

The Company liaises closely with the Non-executive Directors to ensure as far as possible that clashes with external appointments are avoided. Directors are able to attend meetings by video or

telephone conference if there is an issue with location or travel. The number of Board and Committee meetings attended by each Director during the year is detailed in the table below.

	plc Board	Audit Committee	Nominations Committee	Remuneration Committee*	Stay Safe Committee	Overall attendance
Number of meetings	8	5	8	4	3	
Ruth Anderson	8	5	-	-	3	100%
Tony Buffin	8	-	-	-	-	100%
John Carter	8	-	-	-	3	100%
Stuart Chambers	8	-	8	4	3	100%
Coline McConville	8	5	8	4	-	100%
Pete Redfern	8	-	7	4	3	96%
Christopher Rogers	8	5	8	4	-	100%
John Rogers	8	5	8	-	-	100%
Alan Williams	8	-	-	-	-	100%

Eight out of nine Directors had full attendance and the average attendance for the Board and Committees combined was 99%.

Pete Redfern was unable to attend one Nominations Committee meeting which was arranged at short notice.

Division of responsibilities

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

Role of the Chairman

The Chairman leads the Board and ensures its effectiveness. The Chairman, Stuart Chambers, was independent at appointment.

Role of Non-executive Directors

Meetings are held between the Non-executive Directors in the absence of the Executive Directors and in the absence of the Chairman. The Senior Independent Director, Christopher Rogers, is available as a sounding board to the Chairman and other Non-executive Directors and is also available to shareholders should they wish to raise any matters through a different channel. No shareholders have expressed any concerns or asked to speak to the Senior Independent Director.

2. Effectiveness

Board composition

As at 31 December 2018 the Board comprised six Non-executive Directors and three Executive Directors. The biographies for the Board are listed on pages 56 to 58. 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, diversity and knowledge to meet the needs of the business.

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

Appointment of Directors

Appointments of new Directors are made by the Board on the recommendation of the Nominations Committee. The Chairman normally chairs the Nominations Committee and all other members are independent Non-executive Directors. The Committee's report can be found on page 90.

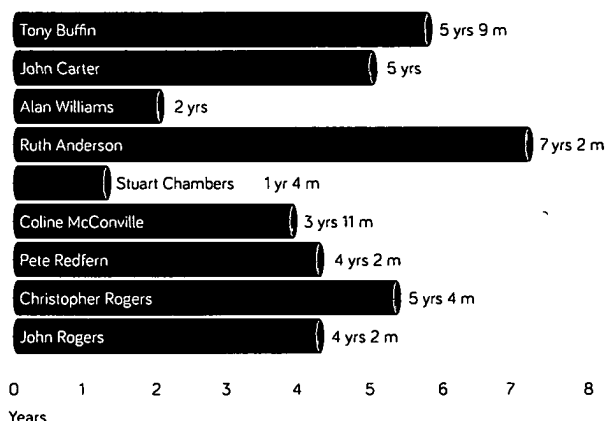
The Group's policy is to recruit people of the highest calibre, with a breadth of skills and experience appropriate for the business. The Group supports the principles of the Davies Review and the Hampton Alexander Review and the need for a diverse board, although it does not intend to commit to specific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

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

The tenure of each Director is shown below:

Board Tenure

At 31 December 2018



*John Carter's tenure in the chart above reflects his tenure as CEO. He has been a member of the Board for 17 years and 6 months.

Time commitments

The Company allows Executive Directors to hold no more than one external non-executive directorship at a listed entity.

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

The Board considers on an annual basis the time commitments of each Non-executive Director. The Board is satisfied that all Directors continue to have sufficient time available to fulfil their duties. New external appointments in the year were given careful consideration, taking into account the number and scale of each Director's other commitments and the Board was satisfied that the new external appointments would not impact the attendance of Directors or their contribution to the Company.

Induction and development

The Group has an induction process for new Directors, which is facilitated by the Company Secretary and General Counsel. This includes a programme of meetings with senior management in both operations and central functions and visits to a range of branches and stores. The Chairman ensures that all Directors receive an appropriate tailored 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 34 to 41. In the year the Board attended training sessions on audit and accounting developments and artificial intelligence and machine learning. Ongoing development needs are considered when setting the Board forward planner and include deep-dives, topic briefings and site visits.

Provision of information and support

All Directors have direct access to the Company Secretary and General Counsel and may take independent professional advice at the Company's expense in the furtherance of their duties if required.

Evaluation of Board performance

Each year, the Board undertakes an evaluation of its performance and the performance of its Committees and individual Directors. This provides an opportunity to identify efficiencies, maximise strengths and highlight areas for further development. The Board's policy is to engage an external

facilitator to assist this process every three years. An external evaluation was undertaken in 2018 facilitated by Lisa Thomas at Independent Board Evaluation following the process outlined below. Neither Lisa Thomas nor Independent Board Evaluation has any other connection with the Group.

Stage 1 Programme design	Stage 2 Observation	Stage 3 Interviews	Stage 4 Feedback	Stage 5 Reporting
The Chairman and Independent Board Evaluation held meetings to discuss and agree the programme objectives and areas of particular focus	Board and Committee meetings were observed by Independent Board Evaluation	Detailed interviews with every Board member which were structured around a set agenda Interviews with other key contributors to gain a broader perspective of the Board's work	Discussion of draft conclusions with the Chairman Discussion of feedback on the Chairman with the Senior Independent Director	Detailed reports presented to: - the Board on the findings, best practice and a proposed action plan - the chairman of each Committee on the performance of their Committee - the Senior Independent Director on the performance of the Chairman - the Chairman on the performance of individual Directors

Overall the Board's feedback was positive. The Board was thought to be functioning well and effectiveness has improved over the last year with more rigour and structure in the boardroom. Reaching alignment on strategy had been important and helpful in positioning the Board to move forward.

The key areas identified by this year's external evaluation for extra focus and development during the 2019 financial year are set out below.

Focus area	Actions being or to be taken in 2019
Review Board and Committee responsibilities, composition and diversity	- Deeper mapping of existing skills against future business needs - Planning for Non-executive Director refreshment - Review of Committee structures and responsibilities
Build on the progress made with strategy	Increasing the proportion of Board time focused on core brands, stakeholders and culture
Succession planning	Broadening of talent programmes to include more diversity initiatives
Board engagement with the business	- Review of stakeholder engagement processes - Planning Board operational visits around updated strategic priorities

Feedback confirmed that each Director brings considerable expertise and experience to Board discussions and the Board is satisfied that each one continues to contribute effectively to Board debate and guide and challenge management's strategic plans and their implementation.

Re-election of Directors

In light of the assessment that all Directors continue to perform and provide a valuable contribution to the Board and its Committees, all Directors will be eligible to submit themselves for re-election at the 2019 AGM.

3. Accountability

Financial and business reporting

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 20 to 31. 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 96.

Going concern

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

In arriving at their opinion the Directors considered:

- The Group's cash flow forecasts and revenue projections
- Reasonably possible changes in trading performance
- The committed facilities available to the Group and the covenants thereon
- The Group's robust policy towards liquidity and cash flow management
- The Group's ability to successfully manage the principal risks and uncertainties outlined on pages 34 to 41 during periods of uncertain economic outlook and challenging macroeconomic conditions

Risk management and internal control

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

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

It is the responsibility of the Board to establish the risk framework within which the Group operates. The Board and the Executive Committee review the risk register and risk appetite at least once each year. Members of the Audit Committee also receive reports of Internal Audit reviews. If appropriate these reports include recommendations for improvements 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 32, the Board considered the principal risks and uncertainties and mitigating factors set out on pages 34 to 41.

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 2018 are contained in its report, which is set out on pages 66 to 70.

The Board's fair, balanced and understandable declaration

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

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

the Board concluded that the Annual Report and Accounts are fair, balanced and understandable and accordingly the Directors' declaration to that effect can be found in the Statement of Director's Responsibilities on page 96.

4. Remuneration

The Board has established a Remuneration Committee consisting of three independent Non-executive Directors and the Chairman of the Board. Its responsibilities include setting the Company's remuneration policy, approving the remuneration of Executives and reviewing the performance against targets prior to determining the pay-outs on incentive arrangements.

The remuneration of the Non-executive Directors, other than the Chairman, is determined by the Chairman and the Executive Directors. The Remuneration Committee determines the Chairman's fee. No Director plays a part in the discussion about his or her own remuneration.

The Committee's key responsibilities and a description of its work in 2018 are contained in its report, which is set out on pages 72 to 89.

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 Investor Relations team has an ongoing programme of engagement with shareholders. The Board receives regular updates on the shareholder register and the views of shareholders. At least once each year the Company reviews its strategy for engaging with shareholders to ensure that their needs are being met. The Board also reviews reports discussing governance matters and engages with governance bodies to contribute to the debate and development of good governance practices.

In 2018 the Executive Directors and Investor Relations team attended a large number of meetings. The Group held two briefings on results and a Capital Markets Day attended by a large number of shareholders, equity analysts and debt holders. Copies of the presentations are available on the Investor Relations section of the Group's corporate website.

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

Annual General Meeting

Shareholders receive more than twenty working days' notice of the Annual General Meeting ("AGM") at which all Directors are available for questions and a short business presentation takes place. Each substantive issue considered at the AGM is the subject of a separate resolution. The numbers of proxy votes for and against each resolution are announced at the meeting and the final votes are subsequently published on the Company's website.

There was strong support from shareholders for the majority of resolutions at last year's meeting with over 90% of votes in favour. However 18% of shareholders voted against the disapplication of pre-emption rights for an additional 5% of the issued capital. The Board has noted the voting outcomes from last year and this year we are again proposing that the Company continues to be given authority for the disapplication of pre-emption rights authority for up to 5% of the issued capital but the authority allowing the disapplication for an additional 5% in connection with acquisitions and specified capital investments will not be sought.

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

Stuart Chambers

Chairman

25 February 2019

Audit Committee report

For the year ended 31 December 2018

Ruth Anderson
Chairman, Audit Committee
25 February 2019

I am pleased to present the Audit Committee's report for the year ended 31 December 2018, which sets out our work in relation to financial reporting, internal audit and risk management and oversight of the external audit process.

This year saw further preparation for the new accounting standard IFRS 16 – Leases which will be significant for the Group because of the large number of leases it holds, the value of which will be included in the balance sheet in future. Although IFRS 16 – Leases did not come into force until 1 January 2019, because of the scale and significance of the work, the Audit Committee has monitored progress in preparing for this new standard as well as agreeing the approach to implementing it.

Also during the year the Group recruited a new Director of Internal Audit and Risk. Nicola Bartley joined mid-year and, with management's and the Committee's support, has focused on adding further Internal Audit resources now needed in the business, reassessing the Internal Audit strategy and starting work on refreshing the Group's risk management framework. Work on developing further the Group's risk management processes will continue in 2019.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Role of the Audit Committee

The Committee assists the Board in fulfilling its oversight responsibilities. The key responsibilities of the Committee are to:

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

The Committee operates under formal terms of reference which are reviewed annually. They were last updated in December 2018 and are available on the Group's corporate website. www.travisperkinsplc.co.uk

Committee membership and meeting attendance

The Committee comprised Ruth Anderson, who chaired the Committee, Coline McConville, Christopher Rogers and John Rogers throughout 2018.

All members are independent Non-executive Directors. Three of the members have recent and relevant financial experience and all members have expertise relevant to the Company's sector, gained through a variety of corporate and professional appointments as required by the UK Corporate Governance Code (see biographies on pages 56 and 58).

The Deputy Company Secretary was Secretary to the Committee throughout 2018.

The Committee held five formal meetings during 2018. Attendance at meetings is set out in the Governance Report on page 61. The Group Chairman, Chief Executive, Chief Financial Officer, General Counsel & Company Secretary, Director of Group Finance, Director of Internal Audit, Group Chief Accountant and external auditors also attended the Committee's meetings at the invitation of the Committee. Separate meetings with the Director of Internal Audit and with the external auditors without the presence of management were also held with the Committee Chairman and with the Committee.

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

Work of the Committee

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

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

In addition, during the year, the Committee reviewed:

- The Group's systems of internal control, the effectiveness of controls and management's continuing control improvement programme
- The control framework for new IT systems under development
- Management's approach to accounting developments and the Group's readiness for their implementation, notably the implementation of IFRS 16 – Leases
- The Group's approach to risk, key risks and the effectiveness of the risk management framework
- The external audit plan, audit conduct and audit findings
- The internal audit plan and resourcing, alongside a revised strategy for the development of Internal Audit's activities
- The Group's tax strategy and compliance

- The Group's cyber attack response
- The effectiveness and independence of Internal Audit and the external auditors

The Committee reviewed management's approach to mitigating the risks created by the Group's ageing systems and reviewed system, process and control changes introduced by management in response to these risks. The Committee has asked for the inclusion of a review of the key preventative and detective controls related to the legacy systems in the 2019 Internal Audit plan.

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

- Internal Audit reports
- criminal activity investigations, bribery, whistleblowing, and cyber attack reports
- progress on implementing recommendations arising from internal and external audit work
- non-audit fees

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

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

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 overleaf sets out the key judgement areas associated with the Group's financial statements for the year-ended 31 December 2018 that were considered by the Audit Committee. This is not a complete list of all accounting issues, estimates and policies, but includes those which the Committee believes are the most significant.

In reaching its conclusions, set out in more detail in the table, 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 pages 98 to 105 and had the opportunity to discuss it with them in depth.

The process of replacing ageing systems in the Group's major businesses with new systems began in 2018 and will continue for several years. The Committee reviewed the judgements made in accounting for the development of these new systems and assessed the judgements made by management in determining which elements of ongoing software development activity had ceased to meet the criteria in IAS 38 – Intangible Assets for capitalisation as development spend and so required impairment.

Area	Issue and Nature of Judgement	Factors Considered and Conclusions Reached
Accounting for inventory and inventory valuation	To meet customer expectations the Group carries a wide range of inventory in over 2,000 locations. Inventory should be included in the balance sheet at the lower of cost or net realisable value. At 31 December inventory was valued at £0.9bn. The determination of cost is made more difficult by the ageing accounting systems and also by material rebate and fixed price discount agreements, so requiring regular reconciliations in areas such as goods received not invoiced accruals.	During the year management regularly reported on inventory valuation and provisioning to the Committee and did so again at its meeting to discuss the year-end Annual Report & Accounts. The Committee reviewed and discussed the information presented about gross inventory values and the adjustments made by management to reduce inventory carrying values to allow for rebates and fixed price discounts attributable to inventory and provisions to reflect obsolescence or slow moving inventory. The Committee assessed the judgements made by management and concluded from the information it had received and its discussions with management and the Auditors that inventory was fairly stated in the balance sheet. Further information is given in the balance sheet on page 107 and in the notes to the financial statements (note 10 – inventories and note 11 – supplier income).
Accounting for rebate income and fixed price discounts ("supplier income")	The terms of supplier agreements result in a significant value of Supplier Income being received by the Group. The calculation of the value receivable and the value deferred into stock is complicated due to the number, nature and structure of the agreements in place. However, only two agreements are not coterminous with the Group's accounting year end. Furthermore, approximately 80% of amounts due to the Group are received during the course of the year. Therefore the key judgements relate to the calculation of the total value of rebates and fixed price discounts still to be received at the year-end and the value of fixed price discounts and rebates to be set against the gross value of inventory in the balance sheet.	During the year the Committee discussed reports presented by management about the progress of improvements to systems, controls and processes which included the implementation of a new deal tracking and rebate management system. It also received reports that enabled it to monitor supplier income collection rates and compare them with the prior year and it discussed the Group's adherence to its accounting policies and procedures. A summary of supplier income received during the year and amounts included in the balance sheet at 31 December 2018 was given to the Committee at the meeting held to consider the year-end results. The Committee reviewed management's judgements regarding the estimates of supplier income and amounts included in the balance sheet. The Committee concluded that the controls over recognising and recovering supplier income were appropriate, that the £381m of supplier income included in debtors or offset against creditors was recoverable and that the amount set against the gross carrying value of stock was appropriate. Further information is given in the financial statements (note 11 – supplier income).

Area	Issue and Nature of Judgement	Factors Considered and Conclusions Reached
The carrying value of goodwill and other intangibles and tangible fixed assets	The Group balance sheet contains £1.5bn of goodwill and other intangible assets with indefinite useful lives that arose from historical acquisitions and £0.9bn of tangible fixed assets. The Directors are required to determine annually whether those assets have suffered any impairment. They do so by comparing the present value of future cash flows for each cash generating unit with the carrying value of assets. In addition, the Company balance sheet contains £3.6bn of investments in subsidiaries. The Directors compare the net present values of future cash flows from each investment to the carrying value of the investment in the balance sheet. The calculations undertaken to help arrive at a conclusion incorporate a consideration of the risks associated with each cash generating unit and are based upon forecasts of their long-term future cash flows, which by their nature require judgement to be exercised and are subject to considerable uncertainty.	The cash flow forecasts used for impairment considerations are prepared from the strategic business plans presented to, and approved by, the Board of Directors annually. Management presented the Committee with papers setting out the results of the work done, the assumptions made and the conclusions reached. They explained to the Committee how the cash flow and discount rate calculations were prepared, the key assumptions and judgements that were made and how sensitive those cash flows were to changes in the key assumptions. After reviewing management's papers and obtaining further explanation where necessary, the Committee concluded that management had taken a consistent, balanced and reasoned approach to preparing its calculations and that the judgements made were acceptable. It noted that the value in use model used by management showed that all material cash generating units except for Wickes and Tile Giant had significant headroom. The Committee concurred with the £252m impairment recognised in respect of Wickes and Tile Giant. The Committee also discussed the calculations supporting the carrying value of investments held by the parent Company and concurred with management's conclusions. Further information is given in the financial statements: • note 8 – goodwill and other intangible assets, which sets out details of the Group's intangible fixed assets and associated accounting policies • note 27 – impairment, which outlines key variables applied to the value-in-use calculations and sensitivity of results to changes in assumptions.

Internal audit

Internal Audit executed a risk-based audit plan, focused on areas of significant risk, development and change within the Group. The annual plan of activity, reviewed and approved by the Audit Committee, is constructed through Internal Audit evaluation and consultation with the Executive Committee and other key stakeholders in the business. Audit activities are reviewed at each Committee meeting and updated as business priorities and risks change. The 2018 audit plan covered a broad range of operational, legal and regulatory, IT and transformation activities, as well as a continued focus on reviewing financial controls in areas considered higher risk. Core key financial control areas are audited regularly, with annual reviews of balance sheet control accounts and statements by the divisions on their compliance with internal financial controls.

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

At each meeting the Committee considered reports from Internal Audit setting out the findings from the audits carried out. It also continued to review the implementation of recommendations proposed by Internal Audit and agreed by management, through an Internal Audit system which tracks activity on all active recommendations by age and level of risk to the business.

During 2018 the Committee reviewed and approved a revised strategy for the development of Internal Audit activities, which is designed to support the team's ongoing conformance to professional standards, to continue to align the work of Internal Audit with key risks and business priorities and to move to greater use of technology in the delivery of audits. The Committee will review progress in 2019. Taking into account these developments, along with the performance of the Internal Audit team, the Committee was satisfied with the overall effectiveness of the Internal Audit function during the year.

Risk management and internal controls

Details of risks faced by the Group are maintained in Group or business risk registers. These risks are regularly reviewed by the Executive Committee and 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. The Group's approach to risk was reviewed in 2018 and risk identification workshops were run with the major business units. As a result of this the processes to capture and assess risks will be refreshed during 2019.

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 34 to 41, 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 continued its programme of work to improve the control environment. The Audit Committee will monitor progress through the year and reviewing these programmes will continue to be an area of focus for Internal Audit.

External auditor

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

Audit scope and effectiveness

The scope of the external audit of the 2018 Annual Report and Accounts was presented by the external auditor to the Committee in September 2018 so the Committee had the opportunity to discuss and challenge the audit plan and gain a good understanding of the key elements.

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

In undertaking this assessment the Committee considers:

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

Independence and objectivity

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

The process for approving all non-audit work provided by the external 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. In 2018 KPMG did not provide any services not connected to the audit except for the maintenance of the Group's employee benefits system.

From 2019 KPMG will no longer provide any services that are not connected to the audit except for maintenance of the Group's employee benefits system which will continue until the current maintenance contract ends in 2021.

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

Reporting

The Chief Financial Officer reports to the Committee on fees for non-audit services payable to the external auditor at every meeting. As shown in note 5 to the accounts, during the year the Auditors were paid £1,101,000 (2017: £935,000) for audit-related work, and £119,000 (2017: £120,000) for non-audit work. Non-audit work related to the review of the Group's interim financial statements and the maintenance of the Group's employee benefits system. In addition, £3.7m (2017: £3.7m) of fees were paid to other accounting firms for non-audit work. The total fees paid by the Group to KPMG LLP in 2018 amount to less than 0.05% of KPMG's UK fee income.

Assessment of the external auditor

Having considered the external auditor's performance and representations from the auditors about their internal independence processes, the Committee concluded that it was satisfied with the independence, objectivity and effectiveness of the external auditor and recommended to the Board that it recommend KPMG be reappointed by shareholders at the Annual General Meeting on 8 May 2019.

This report has been approved by the Board of Directors and signed on its behalf by:

Ruth Anderson
Chairman, Audit Committee
25 February 2019

Directors' remuneration report

For the year ended 31 December 2018

Coline McConville
Chairman, Remuneration Committee
25 February 2019

Dear Shareholders,

As Chairman of the Remuneration Committee I am pleased to introduce the 2018 Directors' Remuneration Report.

No changes to remuneration policy

Our current remuneration framework was approved by shareholders at the 2017 AGM and the Committee continues to believe that this framework supports the link between strategy and reward.

No changes are proposed to policy or the approach to implementation (including quantum and metrics) this year. In accordance with the remuneration reporting regulations we are required to submit a new remuneration policy to shareholders at the 2020 AGM. During the forthcoming year, therefore, the Committee will undertake a detailed review of policy to ensure it supports the new strategic approach outlined at the Capital Markets day in December 2018. We plan to consult with shareholders on any changes towards the end of the year.

Link between pay and performance

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

The Committee believes that there has been good alignment between the Group's incentive payouts and performance and the value created for shareholders in recent years. In the Quick View of remuneration set out on page 74 the link between the Group's strategic ambition and corresponding incentive KPIs is detailed.

Salary review

With effect from 1 January 2019 John Carter, Tony Buffin and Alan Williams salaries were increased by 2% in line with the general increase applied across the Group. New salaries are £703,934, £543,949 and £510,000 respectively.

The annual review date for Non-executive Directors' fees has been moved to 1 July and therefore Non-executive Directors' fees are unchanged.

2018 remuneration outcomes

Uncertainty following the triggering of article 50 in March 2017 has continued largely unabated with significant impact for domestic UK businesses heavily exposed to the economic cycle such as Travis Perkins. In the face of these continued market headwinds and declining consumer confidence, the Group has delivered robust financial performance, broadly in line with our expectations for the year.

Performance against key financial objectives is as follows:

- EBITA of £375m (2017: £380m)
- LAROC of 9.9%¹ (2017: 10.1%)

2018 bonus payout

Bonuses for Executive Directors are based on EBITA (60%), LAROC (20%) and performance against our strategic tracker (20%). The Group EBITA achievement of £375m resulted in a payout of 17.5% of maximum bonus potential for this element and LAROC of 9.9% led to a 62.5% payment reflecting strong cash control throughout the year.

There was solid progress against the strategic tracker during 2018. Highlights include:

- A comprehensive deployment of our Stay Safe safety assurance and risk assessment programmes
- Achievement, albeit towards the lower end, of our employee engagement target. We view this as a positive result in the context of challenging markets and significant change activity within the Group.
- Overall growth in customer satisfaction, as measured by account growth
- Strong year-on-year growth for online sales across the Group
- Reduction in overheads as a percentage of sales.

Further details are provided on page 80. The strategic tracker is an important part of the short-term incentive. It focuses management effort towards delivering strategic goals which are considered critical for delivering sustainable growth in returns over the long-term but which may require short-term investment. It is closely aligned to the corporate plan and the levers of value creation and so provides an important bridge from annual bonus to long-term incentive plans. Payout against the strategic tracker was assessed by the Committee to be 60% of maximum.

This performance has resulted in bonuses of 35% of maximum for the Executive Directors. For the CEO this equates to 63% of salary and for the COO and CFO 52.5% of salary. Half of this bonus will be paid in cash following the year end. The remaining half will be deferred as shares which will vest after three years.

The Committee considered that these levels of bonus were an appropriate reflection of the resilient financial performance and progress against strategic objectives achieved in 2018.

Long-term incentives

Vesting of 2016 long-term incentive awards has been impacted by the current market uncertainty following the UK's decision to leave the European Union. In this context, EPS growth and relative total shareholder return targets have not been achieved. Against this backdrop however the cash generation has remained robust supporting strong CROCE performance. Further details on each element of the long-term incentives is provided below:

2016 PSP vesting

PSP awards granted in 2016 were subject to Adjusted EPS (40%), TSR (20%) and cash flow (40%) performance. Both the Adjusted EPS performance and the TSR performance were below the trigger required for any vesting of these elements of the award. Aggregate cash flow over the three year period was £1.1bn which was above the maximum target and resulted in the full 40% of the cash flow element vesting. Overall 40% of PSP awards granted in 2016 vested.

2016 Co-investment awards

The CEO and COO invested the maximum amount possible under the Co-Investment Plan in 2016 and awards were made under the plan of twice the gross value of the investments made. These awards were subject to CROCE performance. CROCE performance over the three year period was 11% reflecting strong cash generation underpinned by improvements in working capital, judicious capital expenditure and asset recycling. This performance was above the maximum target set and resulted in 100% of awards vesting.

The Committee considered that the level of vesting under the PSP and Co-Investment Plan in respect of 2018 to be an appropriate reflection of performance over the last three years and in particular the work management have undertaken to deliver strong cash performance.

The Group will implement the new lease accounting standard IFRS 16 from January 2019 which will have an impact of the financial metrics for LTIP awards granted in 2017 and 2018. The impact will be considered by the Remuneration Committee to ensure that performance continues to be measured on a like for like basis and that targets remain appropriately stretching. Any adjustments required will be set out in next year's report.

UK Corporate Governance Code

A key focus for the Committee during the year will be considering the application of the 2018 UK Corporate Governance Code ("the Code") including new areas such as post-employment shareholding requirements.

We already comply with the Code in many areas, for example our PSP awards are subject to a post vesting holding period of two years and we have the ability to exercise discretion under our policy. In addition, the Committee has decided that for any new external appointments to the Board our pension policy will be reduced from the current level of 25% to 10% of base salary which is more closely aligned with the rate available across the wider workforce.

The Committee will be submitting its remuneration report to the 2019 AGM where the report will be subject to an advisory shareholder vote. We look forward to receiving your support.

Coline McConville

Remuneration Committee Chairman
25 February 2019

1. LAROC for performance against key financial objectives is stated before the effect of the impairment of Wickes and Tile Giant goodwill. Performance has been assessed on this basis as this was the basis on which the target was set.

Quick view – Remuneration in 2018

Measuring performance

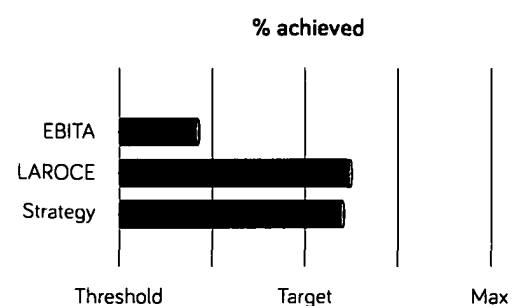
Ambition	Strategic KPI	Bonus Weighting	LTIP Weighting
Profit growth	Earnings before interest, tax and amortisation (EBITA)	60%	-
	Earnings per share (EPS) Growth	-	40% PSP
Delivery against investments	Lease Adjusted Return on Capital Employed (LAROCE)	20%	-
	Cash Return on Capital Employed (CROCE)	-	100% CIP
Strategic delivery	Strategic trackers	20%	-
Turning profit into cash	Aggregate Cash Flow	-	40% PSP
Delivering value to shareholders	Relative Total Shareholders Return	-	20% PSP

2018 outcomes

Element	John Carter	Tony Buffin	Alan Williams
Base salary	£690,131	£533,283	£500,000
Annual bonus (% of Max)	35%	35%	35%
LTIP (% of Max)	64%	64%	n/a

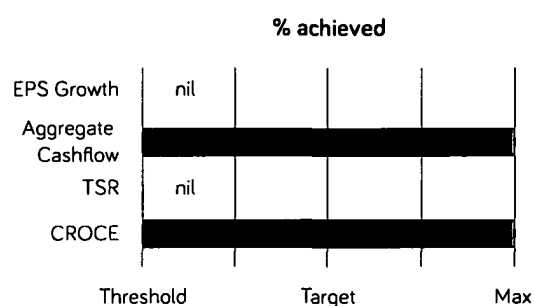
Annual Bonus Outcome

The maximum bonus opportunity for the CEO is 180% of salary and 150% of base salary for other Executive Directors. Half of bonus earned is deferred into shares for three years. All bonus is subject to malus and clawback. Performance weighting and measures are unchanged from the previous year.



LTIP Outcome

The maximum PSP award for Executive Directors is 150% of base salary. The maximum award under the Co-Investment Plan is 100% of base salary subject to an Executive investing 50% of their net salary.



Share Ownership Guidelines

Executive Directors are required to hold shares valued at two times annual salary within 5 years of appointment. All Executive Directors meet this requirement.

Remuneration policy report

The Group's Directors' Remuneration Policy (the 'Policy') was approved by 97% of shareholders at the AGM held on 24 May 2017. The policy can be found on pages 77 to 85 of the Annual Report & Accounts 2016, available on the company website. A summary of the policy is also provided below under the 'Statement of Implementation of Remuneration Policy in 2019' section.

Annual remuneration report

The following sets out the Group's Annual Remuneration Report for 2018 which includes details of how its policy was implemented in 2018 and how it intends to implement its policy in 2019. This report is subject to an advisory shareholder vote at the 2019 AGM.

Statement of implementation of the remuneration policy in 2019

Executive Directors:

The following provides a summary of the Group's remuneration policy and how the Group intends to implement the policy during 2019.

Plan	Individual Maximum Opportunity in 2019	Measures and Weighting	Operation
Base Salary	CEO - £703,934 (2018: £690,131) COO - £543,949 (2018: £533,283) CFO - £510,000 (2018: £500,000)	n/a	The remuneration committee agreed a 2% increase for the Executive Directors in line with salary increases applied across the Group.
Benefits	n/a	n/a	Directors continue to be entitled to benefits in-line with policy, including private medical insurance, income protection, annual leave, company car (or cash alternative), life insurance of up to 5 times salary and participation in all-employee share plans operated such as Sharesave (SAYE) and BAYE.
Pension	25% of salary, allowance or contribution	n/a	Directors participate in a defined contribution arrangement or receive a cash allowance. The Committee has decided that for any new external appointments to the Board our pension policy will be reduced from the current level of 25% to 10% of base salary which is more closely aligned with the rate available across the wider workforce.
Annual Bonus	Maximum annual bonus opportunity: CEO - 180% of salary COO - 150% of salary CFO - 150% of salary	The 2019 bonus will be based on the following measures: • EBITA 60% • LAROCCE 20% • Business strategy 20%	Targets are determined in relation to the Group's budget. Threshold payment is made for performance just below the Group's budget with maximum only being made for performance well in excess of the Group's budget. Performance below threshold results in zero bonus. For 2019 the strategic tracker includes measures related to the Group's strategy announced at the Capital Markets day: Group simplification, major IT change programmes and safety and people related objectives. 50% of bonus earned is deferred as shares for three years. Malus and clawback provisions apply.

Plan	Individual Maximum Opportunity in 2019	Measures and Weighting	Operation
Performance Share Plan	Maximum annual award of 150% of base salary	The 2019 PSP award will be based on the following measures (these are unchanged from 2018): - Adjusted EPS growth 40% - Aggregate cash flow 40% - Relative TSR 20%	Awards are subject to performance over a three year performance period. Awards that vest are subject to a further 2 year holding period. Performance below threshold results in zero vesting. From the threshold level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum. 2019 awards will be subject to the following performance conditions and targets: Adjusted EPS - threshold target of 3% p.a. growth over 3 years with full vesting at 10% p.a. growth. The aggregate cash flow range is £1,100m to £1,200m Relative TSR - relative position in FTSE 50-150 - Threshold is median relative position - Maximum is upper quartile relative position As noted above, the Group will implement the new lease accounting standard IFRS 16 from January 2019. Targets for 2019 PSP awards have been set taking this into account. Malus and clawback provisions apply.
Co-Investment Plan	Participants may invest up to 50% of their net salary Maximum matching awards of twice the gross salary equivalent of the amount invested (i.e. 100% of gross salary)	The 2019 Co-investment matching award will be based on: Cash Return on Capital Employed (CROCE)	Awards are subject to performance over a three year performance period. Performance below threshold results in zero vesting. From the threshold level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum. 2019 awards will be subject to: CROCE target performance range 8.3% to 9.3% As noted above, the Group will implement the new lease accounting standard IFRS 16 from January 2019. Targets for 2019 Co-Investment awards have been set taking this into account. It is estimated that IFRS 16 will have an impact of c.3.2ppt on CROCE performance and therefore on a pre-IFRS 16 basis the CROCE targets are equivalent to 11.5% to 12.5%. Malus and clawback provisions apply.

Shareholding guidelines apply to Executive Directors as set out on page 84.

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

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

Non-executive Directors:**Fees and Benefits**

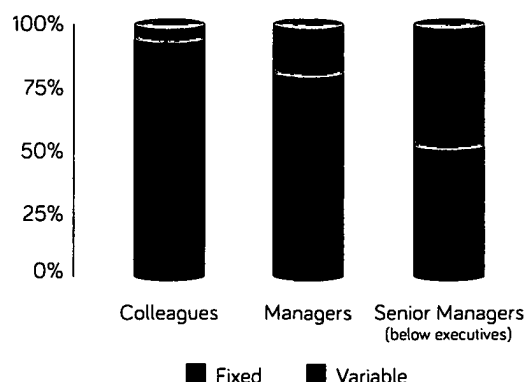
- Non-executive Director fees policy is to pay:
 - A basic fee for membership of the Board
 - An additional fee for the chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role.
- The Non-executive Chairman receives an all-inclusive fee for the role. The Group also pays part of the employment costs of the Chairman's assistant.
- A minimum of 25% of Non-executive Director and Chairman fees is paid in shares. Non-executive Directors do not receive any other benefits (other than a staff discount card for purchasing products) and are not eligible to join a company pension scheme.
- The review date for Non-executive Directors' fees has been changed to 1 July. Therefore there are no changes with effect from 1 January 2019.
 - Chairman - Upon appointment on 7 November 2017, it was agreed that the Chairman's fee will be fixed at £320,000 for a period of three years. His fee will next be reviewed with effect from 1 January 2021.
 - Non-executive basic fee - £57,511
 - Chairs of Audit and Remuneration Committees - £17,000
 - Chair of Health & Safety Committee - £10,000
 - Senior Independent Director - £12,500

Remuneration elsewhere in the Group

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

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

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. This platform is open to all employees of the Group and it provides detailed information about all the rewards and benefits that are included in the MyPerks scheme as well as specific access to colleague rewards, flexible benefits (where employees can 'trade' some of their benefits in favour of others or elect to increase or decrease their benefits to suit their lifestyle or circumstances), discounts, advice and guidance.



Over 25,000 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. In 2018, as part of this programme, the Group launched an employee loan proposition with its partner Neyber. This provides affordable and responsible lending to colleagues who might otherwise struggle to secure support. In 2019 we plan to launch a range of employee savings products.

The Group's Sharesave scheme continues to be a great success. In 2018 over 6,300 colleagues took up the invitation to participate on either 3 or 5 year contracts committing to savings contracts of £34.1m.

Audited information

Single total figure of remuneration

2018							
£000	Salary	Benefits	Bonus	LTI ⁴	Pension	Buy-out ⁶	Total
Executive Directors							
John Carter	690	49	435	686	173	-	2,033
Tony Buffin	533	35	280	531	133	-	1,512
Alan Williams ¹	500	19	263	-	125	272	1,179
Non-executive Directors							
Ruth Anderson	75	-	-	-	-	-	75
Stuart Chambers ²	320	-	-	-	-	-	320
Coline McConville	75	-	-	-	-	-	75
Pete Redfern	68	-	-	-	-	-	68
Christopher Rogers	70	-	-	-	-	-	70
John Rogers	58	-	-	-	-	-	58
Robert Walker ³	-	-	-	-	-	-	-
Total	2,389	103	978	1,217	431	272	5,390

Notes:

1. Alan Williams was appointed CFO from 3 January 2017.
2. Stuart Chambers was appointed Chairman on 7 November 2017 having been appointed Non-executive Director, Chairman Designate on 1 September 2017. Between 1 September 2017 and 7 November 2017 he was paid one-third of his chairman fee (£106,666 per annum).
3. Robert Walker retired on 6 November 2017.
4. LTI reported for 2018 for John Carter and Tony Buffin include LTI awards vesting in March 2019. The value of these awards has been calculated based on the average share price for the last quarter of 2018 of £10.60. Further details are provided on page 85.
5. LTI reported for 2017 for John Carter (£890k) and Tony Buffin (£687k) and the PSP element of buyout awards reported for 2017 for Alan Williams (£1024k) were calculated on an estimated basis using the average share price of the final quarter of 2017 of £15.16. They are restated here to reflect the actual share prices on vesting (PSP £12.27, Co-investment Plan £12.29 and Buyout PSP awards £13.07) giving revised figures of £734k, £568k and £966k for John Carter, Tony Buffin and Alan Williams respectively.
6. On appointment Alan Williams was made awards to buy-out remuneration forfeited on leaving his previous employer. Further details are provided on page 81. This amount relates to a portion of the buy-out (24,036 shares) which is due to vest on 15 March 2019 as the performance conditions have been met.

Explaining the single figure table

Benefits

Benefits for 2018 for John Carter, Tony Buffin and Alan Williams include private medical insurance and the provision of a company car and fuel (or allowance alternative).

2017						
Salary	Benefits	Bonus	LTI ⁵	Pension	Buy-out ⁶	Total
690	47	888	734	173	-	2,532
533	29	572	568	133	-	1,835
500	20	536	-	125	966	2,147
75	-	-	-	-	-	75
68	-	-	-	-	-	68
75	-	-	-	-	-	75
68	-	-	-	-	-	68
70	-	-	-	-	-	70
58	-	-	-	-	-	58
289	-	-	-	-	-	259
2,396	96	1,996	1,302	431	966	7,187

Annual bonus for 2018

The tables below provide a summary of the performance achieved under the annual bonus for 2018:

Director	Maximum Bonus Opportunity (% of salary)	Actual Bonus (% of salary)	Actual Bonus
John Carter	180%	63%	£434,783
Tony Buffin	150%	52.5%	£279,974
Alan Williams	150%	52.5%	£262,500

All bonus earned in respect of 2018 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 (0% bonus)	Plan (50% bonus)	Maximum (100% bonus)		
EBITA	60%	£370m	£385m	£404m	£375m	17.5%
LAROCCE	20%	9.4%	9.8%	10.2%	9.9% ⁷	62.5%
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 on the following page.				60%

7. LAROCCE for performance against key financial objectives is stated before the effect of the impairment of Wickes and Tile Giant goodwill. Performance has been assessed on this basis as this was the basis on which the target was set.

Area	Measure	Summary of Performance	Committee's Assessment
People	Stay Safe	Stay Safe strategy deployment with effective safety assurance programmes and risk assessment	Met at around target
	Colleague engagement	Colleague engagement, as measured by our engagement surveys, exceeded the industry average but was towards the lower end of the target range set.	Met in part
Customer	Overall customer satisfaction	Customer satisfaction score is measured by overall trading account growth in each business. There were areas of strong growth in some of our Merchant but in others growth was flat.	Met in part
Multi-Channel	Online sales growth	Strong year-on-year growth for online sales across the Group with particularly strong performance in Travis Perkins and Toolstation.	Mostly met
Overheads	Cost management	The target was a zero year on year increase in overheads as a % of sales, and this was exceeded.	Exceeded
IT	Delivery of key strategic programmes	Achievement against three major IT programmes namely core systems, HR / payroll and multichannel programmes. Significant progress in HR and Multichannel programmes but slower progress in core systems.	Met in part

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	Total
John Carter	£257,536 (24,298 shares including 2,126 dividend equivalents added in the vesting period)	£428,806 (40,457 shares including 3,457 dividend equivalents added in the vesting period)	£686,342
Tony Buffin	£199,008 (18,776 shares including 1,643 dividend equivalents added in the vesting period)	£332,079 (31,331 shares including 2,739 dividend equivalents added in the vesting period)	£531,087

The value of shares vesting has been calculated with reference to the average price over the last quarter of 2018 of £10.60

Performance share plan

The following table sets out the performance targets, achievements and vesting levels for the Performance Share Award granted in 2016 and vesting in 2019 in respect of performance period ending on 31 December 2018:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
Adjusted EPS Growth	40%	RPI +3%pa	RPI +10% pa	(8.2%)	0%
Relative TSR	20%	Median	Upper quartile	Below median	0%
Aggregate Cash Flow	40%	£867m	£959m	£1,150m	40%
Total Vesting					40%

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

Co-investment plan

The following table sets out the performance targets, achievements and vesting levels for the matching awards granted in 2016 and vesting in 2019 in respect of performance period ending on 31 December 2018:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
Cash Return on Capital Employed (3 year average)	100%	8.4%	9.4%	11.0%	100%
Total vesting					100%

Alan Williams' buy-out arrangements

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

Deferred bonus shares

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

These awards were included in the single figure table for 2017 based on the value of these shares at the date of award (total value of £593,712) (share price £14.88).

Performance share plan

Alan Williams was also made an award of 51,584 shares. This award was to compensate him for Performance Share awards forfeited, which were awarded in 2014 and 2015. In determining this amount the Committee applied an assumed vesting rate based on the anticipated level 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. Vesting of awards is subject to achievement of stretching role specific performance conditions.

27,548 shares vested on 15 March 2018 and were reported in the single figure table for 2017. The remaining 24,036 shares are due to vest on 15 March 2019.

The Committee assessed that Alan has continued to perform well and has built on his achievements in 2018, in particular leading the Board review of strategy culminating in the redefinition of Company's strategy which was communicated at the Capital Market's Day in December 2018. Alan has also met objectives set around the finance operating model and organisational design.

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

The portion of the buy-out (24,036 shares) that vests on 15 March 2019 has been included in the single figure table on the basis of the average share price for the last quarter of 2018 of £10.60. The value disclosed also includes 1,621 shares, with a value of £17,181, based on a share price of £10.60, to reflect the dividend equivalents accrued since award, giving a total value of £271,940.

Directors' pension entitlements

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

	John Carter £000	Tony Buffin £000	Alan Williams £000
Pension value in the year from company contributions to DC scheme	n/a	10	n/a
Pension value in year from cash allowance (Salary Supplement in place of Employer pension contributions)	173	123	125
Total pension benefit accrued in 2018	173	133	125

Share interests awarded during the financial year

Performance share plan

	Date of Award	Type of Award	Basis	% vesting at lower target	Face Value*	Performance Period
John Carter	13 March 2018	Performance Shares - nil cost option	150% of Salary	25%	£1,035,197 (79,624 shares at £13.001/share)	1 January 2018 to 31 December 2020 Awards are subject to an additional 2 year holding period post vesting
Tony Buffin					£799,925 (61,527 shares at £13.001/share)	
Alan Williams					£750,000 (57,687 shares at £13.001/share)	

On the same date, John Carter was also awarded 592 market value options under the HMRC tax-advantaged CSOP element of the PSP with a face value of £7,697 and an exercise price of £13.001 (the average market value over the 5 dealing days prior to the award). This award is subject to the same performance conditions as the PSP award. If the options vest they are exercisable until the tenth anniversary of grant.

* Face value is calculated based on the lower of the share price on the day prior to the award and the average share price over the five days prior to the date of the award. Awards are increased at each dividend payment date to reflect the dividends that would have been paid on vested shares between grant and vesting.

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

Measure	Weighting	Target Range	Vesting Range
Adjusted EPS Growth	40%	Lower target – 3% per annum over the vesting period Maximum target – 10% per annum over the vesting period	No vesting below lower target Lower target – 25% vests Maximum target – 100% vests Pro-rata vesting between these points
Aggregate Cash Flow over the performance period	40%	Lower target £953m Maximum target £1,053m	
Company TSR Relative to FTSE 50:150 Index	20%	Lower target – median performance (top 50%) Maximum target – upper quartile performance (top 25%)	

Co-investment plan

	Date of Award	Type of Award	Basis	% vesting at lower target	Face Value*	Performance Period
John Carter	29 March 2018	Matching Shares - nil cost option	up to 2:1 matching of shares purchased	25%	£685,324 (55,403 shares at £12.3698/share)	1 January 2018 to 31 December 2020
Tony Buffin					£529,551 (42,810 shares at £12.3698/share)	
Alan Williams					£496,499 (40,138 shares at £12.3698/share)	

*Face value is calculated based on the lower of the share price on the day prior to the award and the average share price over the five days prior to the date of the award. Awards are increased at each dividend payment date to reflect the award that would have been paid on vested shares between grant and vesting.

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

Measure	Weighting	Target Detail	Matching Range
Cash Return on Capital Employed (CROCE)	100%	Lower target 9.7% Maximum target 10.7%	0.5:1 matching at lower target 2:1 matching at maximum target Pro-rata matching between these points

As noted in the Chairman's statement, the Group will implement the new lease accounting standard IFRS 16 from 1 January 2019 which will have an impact on the financial metrics for LTI awards granted in 2017 and 2018. The impact will be considered by the Committee to ensure that performance continues to be measured on a like-for-like basis and that targets remain appropriately stretching. Any adjustment required will be set out in next years' report.

Deferred share bonus plan

Shares awarded during 2018

Half of the bonus earned in respect of 2017 performance was awarded as deferred shares as follows:

	Date of Award	Face Value	Number of shares**	Share price*
John Carter	13 March 2018	£443,888	29,280	£15.16
Tony Buffin		£285,837	18,854	£15.16
Alan Williams		£267,998	17,677	£15.16

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

**Shares vest three years from the date of award. Awards are increased at each dividend payment date to reflect the dividends that would have been paid on vested shares between grant and vesting.

Half of the bonuses earned in 2018 will be issued as deferred shares as follows:

	Type of Award	Basis	Face Value
John Carter	Shares	50% of 2018 bonus	£217,391
Tony Buffin			£139,987
Alan Williams			£131,250

Shares vest three years from the date of award.

Payments to past Directors

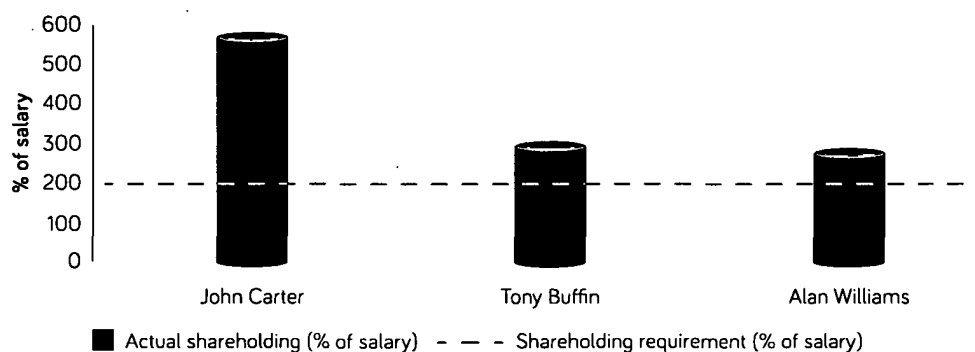
No payments were made to past Directors.

Payments for leaving Directors

No payments for loss of office were made during 2018.

Directors' 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 two times annual salary within 5 years of appointment. As at 31 December 2018 John Carter's shareholding was 5.7 times salary, Tony Buffin held 2.9 times salary and Alan Williams held 2.8 times salary based on the average share price for the last quarter of 2018 (£10.60). All senior executives also met their shareholding requirements. Executive Directors' shareholdings are illustrated in the chart below:



Directors' shareholdings and share interests as at 31 December 2018:

Executive Director	Beneficial Owner	Conditional Shares Granted Under LTI Plans ¹	Unconditional Shares Granted Under LTI Plans ²	Unvested Options Subject to Performance Conditions ³	Vested but Unexercised Options	Total Interests	Interests Qualifying Towards Shareholder Requirement ⁴
John Carter	368,536	363,459	42,283	1,034	3,939	779,251	371,176
Tony Buffin	147,580	279,062	28,532	2,016	1,573	458,763	148,413
Alan Williams	131,630	213,782	19,868	2,016	-	367,296	131,630

1. Includes unapproved Performance Share Plan awards, Co-Investment Plan awards and buyout awards which are subject to performance conditions.
2. Includes awards made under Deferred Share Bonus Plan (which are not subject to further performance conditions), Sharesave and buyout awards not subject to performance conditions.
3. Market value options awarded under the HMRC tax-advantaged CSOP element of the PSP. These awards are subject to the same performance conditions as outlined below for the PSP award.
4. Interests qualifying towards shareholding requirement comprise ordinary shares beneficially held at 31 December 2018 by the executive and their spouse/partner, vested but unexercised SAYE options and the post-tax value (53%) of any share options or awards which have vested but have not been exercised.

There were no changes in Executive Directors' share ownership between 31 December 2018 and 25 February 2019.

During 2018 the following awards were exercised:

John Carter	Exercise date	Number of shares	Price per share
Performance Share Plan	27 March 2018	20,308	£12.3385
Deferred Share Bonus Plan	27 March 2018	17,016	£12.3385
Co-investment Plan	27 March 2018	33,447	£12.3385

Tony Buffin	Exercise date	Number of shares	Price per share
Performance Share Plan	27 March 2018	15,940	£12.3385
Deferred Share Bonus Plan	15 March 2018	10,956	£13.1050
Co-investment Plan	27 March 2018	25,847	£12.3385

Alan Williams	Exercise date	Number of shares	Price per share
Buy-out Award - PSP	3 May 2018	27,548	£12.8600
Buy-out Award - bonus	18 December 2018	15,317	£10.9877

Directors' shareholding and share interests – Non-executive Directors

Non-executive Director	Beneficial Shareholding (as at 31 December 2018)	Beneficial Shareholding (as at 25 February 2019)
Ruth Anderson	4,446	4,608
Stuart Chambers	3,796	4,411
Coline McConville	2,498	2,655
Pete Redfern	9,432	9,574
Christopher Rogers	7,634	7,774
John Rogers	2,088	2,194

A minimum of 25% of Non-executive Director fees is paid in shares. Between 31 December 2018 and 25 February 2019 Non-executive Directors' share ownership increased due to the payment of a portion of their fees in shares.

Unaudited information

Service contracts

Each of the Executive Directors has a service contract, which will be available for inspection at the Annual General Meeting or at the Company's registered office. These contracts provide for 6 months notice from the 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. Details of the Group's policy on payments in respect of loss of office are provided in the Group's Directors' Remuneration Policy on pages 77-85 of the Annual Report & Accounts 2016.

The dates Executive Directors service contracts were entered into are as follows:

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

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

Director	Expiry of Appointment Letter
Ruth Anderson	2021 AGM
Coline McConville	2021 AGM
Pete Redfern	2021 AGM
Christopher Rogers	2020 AGM
John Rogers	2021 AGM
Stuart Chambers	2021 AGM

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.

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 one non-executive directorship or other significant appointment, provided that these appointments will not lead to conflicts of interest, and they may retain the fees received. John Carter was appointed a Non-executive Director of McCarthy & Stone on 1 October 2017. He earned and retained fees of £54,600 during 2018 (£13,650 2017). Tony Buffin has been a Non-executive Director of the Dyson family business since 2014. Tony earned and retained fees of £42,000 during 2018 (£42,000 2017). Alan Williams held no external appointments during 2018.

Funding of equity awards

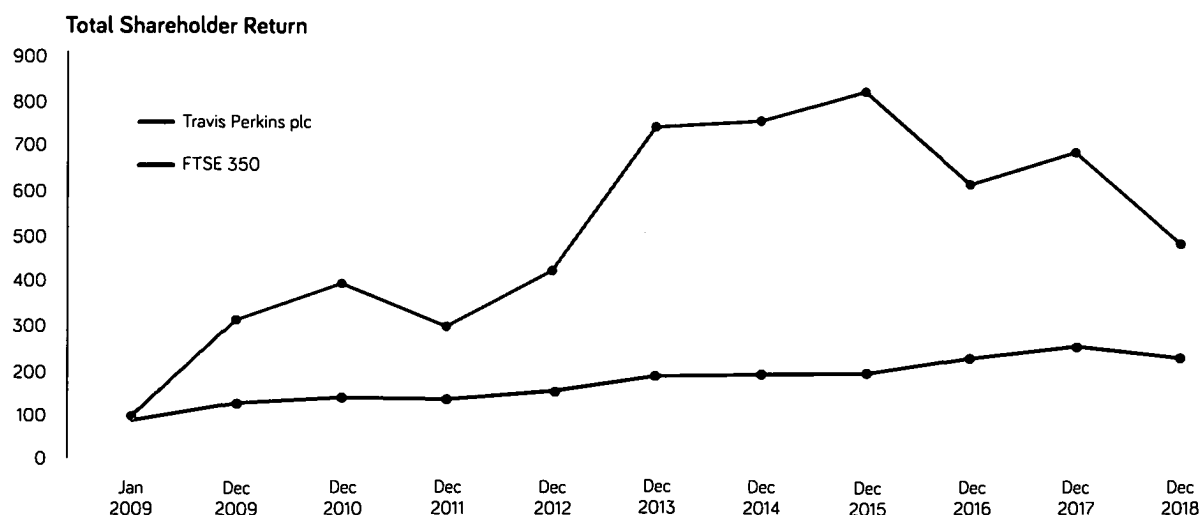
Executive incentive arrangements are funded by shares purchased in the market. Entitlements under the HMRC approved all colleague Sharesave scheme were satisfied by newly issued shares until May 2018 but are now funded by shares purchased in the market.

Shares purchased in the market are held by a trust and the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 31 December 2018 the Trust held 3,803,841 shares.

At 31 December 2018 the historical dilution usage was 4.8% of shares in issue. The dilution usage will fall to nil over the next 10 years as shares are purchased in the market to satisfy all share plan awards.

Performance graph and table

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



TSR is rebased to 100 from 1 January 2009

Historic CEO pay

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Single Figure Remuneration (£'000)	£1,412	£1,423	£1,938	£3,506	£2,044	£2,634	£2,360	£2,575	£2,532	£2,033
Annual bonus payout (% of maximum)	100%	100%	75.9%	27.0%	62.9%	89%	31.9%	23.8%	71.5%	35%
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%	40%	40%
Vesting of Co-investment Plan (% of maximum)	0%	0%	51%	100%	0%	0%	44.2%	97%	100%	100%

Data for 2014-2018 relates to John Carter, earlier data relates to the previous CEO, Geoff Cooper.

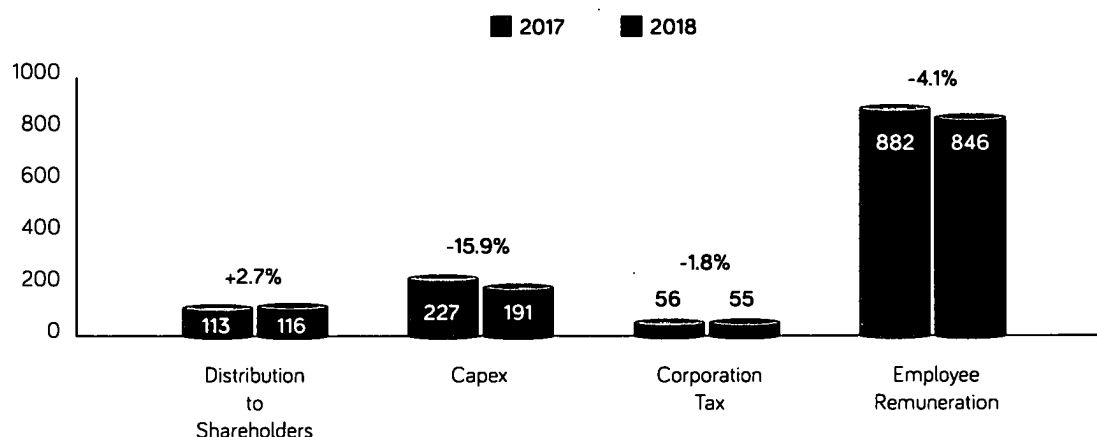
Change in remuneration of Director undertaking the role of CEO

	Percentage Change in Salary Earned (2018 full year compared to 2017 full year)	Percentage Change in Bonus Opportunity Earned (2018 full year forecast compared to 2017 full year)	Percentage Change in Taxable Benefits Received (2017/18 tax year compared to 2016/17 tax year)
CEO	2.0%	(36.5)ppt	5.4%
Comparative Employee Group*	2.2%	(1.1)ppt	0.9%**

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

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

Relative importance of spend on pay



Capital expenditure is shown, for comparison, as an indicator of investment by the Company in future growth. It includes funds invested in the purchase of property, plant and equipment. Corporation tax is included as indicator of wider societal contribution facilitated by the Company's operations and is the actual amount of corporation tax paid in the relevant reporting periods.

Governance

During the year the Committee comprised Coline McConville (Chair), Pete Redfern and Christopher Rogers, all of whom are independent Non-executive Directors, and Stuart Chambers, Chairman of the Board, who was independent on appointment.

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

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

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

Fees are charged on a time and materials basis. During the year Deloitte was paid £26,400 for advice provided to the Committee.

In addition John Carter (CEO), Alan Williams (CFO), Deborah Grimason (Company Secretary) until she left the business on 4 May 2018 and Robin Miller (Company Secretary) from when he joined the business on 24 September 2018, Carol Kavanagh (Group Human Resources Director), Helen O'Keefe (Deputy Company Secretary), Jon Erb (Director of Group Finance) and Paul Nelson (Group Head of Reward) have assisted the Committee in its work and attended Committee meetings where appropriate. No individual is involved in the setting of their own remuneration.

Responsibilities

The Remuneration Committee is responsible for developing and implementing the remuneration policy within the Company. It determines and recommends to the Board the policy for the remuneration and benefits of the Chairman of the Company, Executive Directors and executive committee members and other senior executives. The Committee also oversees the administration of the Company's share plans. The Committee's terms of reference are available on the Company website www.travisperkinsplc.co.uk or from the Company Secretary.

Key items discussed in 2018 meetings

In 2018 the Remuneration Committee formally met four times, with additional conference calls as required. The Committee discussed amongst others the following matters:

Month	Key Issues Considered
January	• 2018 incentive targets • Committee Governance
February	• Review of 2017 performance against targets and determining annual and long-term incentive outcomes • Annual bonus and LTIP targets for 2018 • Directors' salary review 2017 • 2017 Directors' Remuneration Report • Committee governance
September	• Review of performance for 2017 • Annual bonus and LTI targets for 2018 • Committee governance • Corporate governance including the new UK Corporate Governance Code
December	• Salary review 2019

Items normally discussed in December including:

- Review of remuneration trends and issues;
 - Review of 2018 performance against targets and considering annual and long-term incentive outcomes Format for Directors' Remuneration Report 2018;
 - Committee governance;
 - Corporate governance including the new UK Corporate Governance Code; and
 - Group consultation forum,
- were considered at a meeting in January 2019.

Shareholder Voting

The following resolutions in relation to remuneration were put by the Company's AGM (2018 Directors' Remuneration Report and 2017 Policy):

Resolution	Votes For	% For	Votes Against	% Against	Votes Withheld
To receive and approve the Directors' Remuneration Report (2018 AGM)	190,070,174	97.32%	5,231,337	2.68%	5,011,722
To receive and approach the Directors' Remuneration Policy (2017 AGM)	183,055,598	96.97%	5,725,210	3.03%	51,858

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

Coline McConville
Chair of the Remuneration Committee
25 February 2019

Nominations Committee report

For the year ended 31 December 2018

Stuart Chambers
Chairman
25 February 2019

As Chairman of the Nominations Committee, I am pleased to present the Nominations Committee's report for the year ended 31 December 2018. The Nominations Committee performs an important role, demonstrated by the fact that in addition to myself, all of the Non-executive Directors are also members of the Committee.

Our current Board members each bring a variety of individual skills, knowledge and experience to the Board and the Committees on which they serve. During the year the Committee reviewed the size and composition of the Board and created a skills matrix setting out the core skills of the Board members against the broad range of skills required for running the business. This provides a framework for considering the skills the Committee may wish to prioritise when preparing Non-executive Director role briefs and when evaluating potential new candidates. A summary of the skills of serving Non-executive Directors can be found in the biographies on pages 56 to 58.

The Committee started planning for the succession of the CEO in 2018 and this process will be concluded in 2019.

The Committee will continue to review the composition of the Board and its Committees and the Group's long-term succession planning at Board and executive level. Supporting our strategy to simplify the business and improve returns will remain a key priority for 2019.

Role of the nominations committee

The principal responsibilities of the Committee are to regularly review the structure, size and composition of the Board, to support the Board in fulfilling its responsibilities to ensure that effective succession planning processes are in place for Directors and other senior executives and to ensure there are formal, rigorous and transparent processes in place for the appointment of Directors to the Board and other senior executives.

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

Committee membership and meeting attendance

The Nominations Committee comprises all Non-executive Directors (see biographies on pages 56 to 58) and is chaired by Stuart Chambers, the Chairman of the Board, other than when it is dealing with matters in relation to the chairmanship of the Company. Directors, other employees of the Company, and external advisors are invited to attend meetings when appropriate.

The Committee held eight formal meetings during the year. Attendance is set out in the Governance Report on page 61.

Activities in 2018

The principal activities undertaken by the Committee in the year were:

- planning for the succession of the CEO
- reviewing the size, diversity, skills and experience of the Board in light of the future needs of the business

In 2019 the Committee will be focused on:

- completing the CEO succession process
- planning Board composition changes
- succession planning for Board Committee chairman roles, notably the Audit Committee
- developing a central talent programme with diversity initiatives

Process for appointments

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

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 appointment process includes:

- Agreeing the key skills, attributes and business experience required for the role
- The preparation of a role description
- The engagement of independent recruitment consultants
- A market search conducted by the recruitment consultant

- The preparation of a 'long list' of potential candidates taking 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
- Candidate assessments
- Following selection of the proposed candidate, interviews with the remaining members of the Board and the taking up of detailed references

Board diversity

The Committee has noted the recommendations of the Davies Review and Hampton-Alexander Review. It is the Group's firm belief that having diversity in the Executives and Non-executives on the Board provides us with different perspectives, which promotes a healthy culture with a good balance between challenge and support and minimises the risk of 'group-thinking'. This does not just make good commercial and business sense, but it is positive for the Group's colleagues and its customers as well.

It is part of the Committee's policy when making new Board appointments to consider the importance of diversity, including gender diversity. 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. The Board is committed to appointing the best people and ensuring all employees are able to develop their careers within the Group regardless of their background, gender, age or ethnicity. The Group believes that diversity should be considered broadly and not just focusing on one element such as gender and the Group therefore does not believe it is appropriate to set targets in this area.

The Group currently has two female Board directors (22%) and one woman on its Executive Committee (9%). Further details of the Group's workforce diversity are set out in the Our People section on pages 42 to 44. The Group's gender pay gap report is available on the Group's corporate website.

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

Stuart Chambers

Chairman
25 February 2019

Directors' report

For the year ended 31 December 2018

The Directors present their annual report and audited accounts for the year ended 31 December 2018. The Corporate Governance report on pages 59 to 65 forms part of the Directors' Report.

Business review

A review of the Group's position, developments, activities in the field of research and development and future prospects can be found in the Strategic Report on pages 4 to 53. Whilst the Group operates predominantly in the UK, it does have a small number of branches in the Isle of Man and the Republic of Ireland and its associate company Toolstation Europe has 40 branches in The Netherlands and France.

Information to be disclosed under LR 9.8.4R

Listing rule	Detail	Page reference
9.8.4R (1-2)(5-11)(14)	Not applicable	
9.8.4R (4)	Long-term incentive schemes	73
9.8.4R (12)	Dividend waiver	143
9.8.4R (13)	Dividend waiver	143

Board of Directors

The names of the Directors at 31 December 2018 together with their biographical details are set out on pages 56 to 58. All of these Directors held office throughout the year. The Executive Directors have rolling 12 month notice periods in their contracts. The Non-executive Directors do not have service contracts. In the light of the results of the formal evaluation of their performances described on page 63 and due to the skills and experience that each Director brings to their role, the Board concluded that each Director's contribution is, and continues to be, important to the Company's long-term sustainable success.

Directors' conflicts of interest

None of the Directors had an interest in any contract to which the Company or any of its subsidiaries was a party during the year. The Company has undertaken to comply with best practice on approval of Directors' conflicts of interests in accordance with the Company's Articles of Association. These provisions have operated effectively. Under the Companies Act 2006 a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. The disclosable interests of Directors at 31 December 2018 including holdings if any, of spouses and of children aged under 18 are contained in the Directors' Remuneration Report on pages 72 to 89.

Directors' indemnities

Article 141 of the Company's Articles of Association permits the Company to indemnify any person who is or was a Director of the Company or of any associated company in respect of any liability incurred in relation to the affairs of the Company or any associated company to the extent the law allows (including in connection with any associated company's activities as trustee of an occupational pension scheme). The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for legal action brought against its Directors. The Company has granted indemnities to its Directors and Directors of associated companies to the extent permitted by law and these remained in force in the year ended 31 December 2018.

Greenhouse gas emissions reporting

Details of the Group's greenhouse gas emissions can be found in the Environmental report on pages 50 to 53.

Results and dividends

The Group results for the year ended 31 December 2018 and dividends for the year ending 31 December 2018 are set out in the income statement and note 19 respectively on pages 106 and 144. The final dividend will be paid on 17 May 2019 to those shareholders on the register at the close of business on 5 April 2019.

Balance sheet and post balance sheet events

The balance sheet on page 107 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 set out in the strategic report which can be found on pages 34 to 41.

Financial risk management

Details of the Group's approach to capital management and the alleviation of risk through the use of financial instruments are given in the Financial Review on pages 28 to 33. Specific quantitative information on borrowings and financial instruments is given in notes 20 and 26 on pages 145 to 147 and 152 to 155 of the financial statements.

Substantial shareholding

As at 31 December 2018, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

		Number	%
BlackRock, Inc.	Indirect	Not disclosed	Less than 5%
Harris Associates L.P.	Indirect	12,689,670	5.04
Investec Asset Management	Indirect	12,741,837	5.05
OppenheimerFunds, Inc.	Indirect	12,381,080	4.91
Sanderson Asset Management LLP	Indirect	12,321,382	4.89
Sprucegrove Investment Management Ltd	Not disclosed	12,006,659	4.76
TIA-CREF Investment Management/ Teachers Advisors, LLC/ Nuveen Asset Management, LLC	Direct	10,475,466	4.16

Between 31 December and 25 February 2019, the following notifications were received by the Company:

		Number	%
TIA-CREF Investment Management/ Teachers Advisors, LLC/ Nuveen Asset Management, LLC	Direct	10,337,496	4.10

Close company status

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

Employees

Statements on employee matters are contained in the section of the annual report entitled *Our People* on pages 42-44.

Details of the number of employees and related costs can be found in note 34 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 is set out in the Nominations Committee report on pages 90 to 91 and in the section of the annual report entitled *Our People* on pages 42 to 44. 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. To achieve a common awareness of the financial and economic factors affecting the performance of the Group, employees are briefed on the Group's financial performance and strategy. This is carried out through emails, webcasts and personal briefings which take place during half year and full year results announcements. All employees with more than three months' service are eligible to participate in the Company's Sharesave and Buy As-You-Earn plans. Details can be found in the Directors' Remuneration report on page 77.

Modern slavery

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

Political donations

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

Auditor

KPMG LLP, appointed in 2015, is the Company's auditor at the date of this report. 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 2018 the Company had an allotted and fully paid share capital of 252,143,923 ordinary shares of 10 pence each, with an aggregate nominal value of £25,214,392 (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 17 to the financial statements.

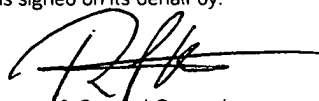
As at 31 December 2018 the Travis Perkins Employee Share Ownership Trust owned 3,803,841 shares in the Company (1.5% of issued share capital) for use in connection with the Company's share schemes. Any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of any recommendation of the Company. There are no restrictions on voting rights attaching to the Company's ordinary shares. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

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

There are a number of agreements to which the Company is a party that may take effect, alter or terminate upon a change of control following a takeover bid. None of these agreements is considered significant in the context of the Company as a whole. The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

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

Robin Miller
Company Secretary & General Counsel
25 February 2019



Statement of Directors' responsibilities

For the year ended 31 December 2018

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 (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Company financial statements under IFRS 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 IFRS as adopted by the EU
- Assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Directors' Remuneration and a Corporate Governance statement, which comply with that law and those regulations.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

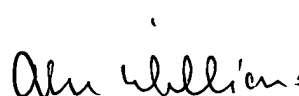
Declaration

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

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



John Carter
Chief Executive
25 February 2019



Alan Williams
Chief Financial Officer
25 February 2019

Financial statements

98	Independent auditor's report
106	Financial statements
116	Income and Expenses
126	Assets and Liabilities
142	Capital
152	Risks
159	Group Structure
165	People
169	Other

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAVIS PERKINS PLC

1. Our opinion is unmodified

We have audited the financial statements of Travis Perkins plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes, including the accounting policies.

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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were appointed as auditor by the shareholders on 28 May 2015. The period of total uninterrupted engagement is for the four financial years ended 31 December 2018.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard have been provided in the last three years.

Overview		
Materiality:	£16m (2017: £17m)	
Group financial statements as a whole	5% (2017: 5%) of Group loss before tax and adjusting items as disclosed on the face of the income statement	
Coverage	95% (2017: 94%) of Group loss before tax and adjusting items as disclosed on the face of the income statement	
Risks of material misstatement		vs 2017
New risks	The impact of uncertainties due to the UK exiting the European Union on our audit	New
	Going Concern	New
Recurring risks	Valuation of Wickes goodwill	◀▶
	Parent Company's key audit matter: Recoverability of the parent Company's investments in subsidiaries	◀▶
	Recognition of supplier income and recoverability of respective receivables	◀▶
	Costing of inventory	◀▶

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to pages 34 to 41 (principal risks), pages 32 to 33 (viability statement), pages 66 to 71 (Audit Committee Report).	Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described below with respect to the key audit matters outlined below related to the valuation of Wickes goodwill and recoverability of the parent Company's investments in subsidiaries, and related disclosures and appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: Our Brexit knowledge – We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. Sensitivity analysis – When addressing the valuation of Wickes goodwill and recoverability of the parent Company's investments in subsidiaries and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. Assessing transparency – As well as assessing individual disclosures as part of our procedures on the valuation of Wickes goodwill and of the recoverability of the parent Company's investments in subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. Our results As reported under the valuation of Wickes goodwill and recoverability of the parent Company's investments in subsidiaries, we found the resulting estimates and related disclosures of the valuation of Wickes goodwill and of the recoverability of the parent Company's investments in subsidiaries and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: including our assessment of risks of material misstatement (continued)

The risk	Our response
Going concern (driven by Brexit) Refer to pages 66 to 71 (Audit Committee Report) and page 114 (accounting policy). Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • The impact of a significant business continuity issue affecting the Group's suppliers; and • The uncertainty of Brexit and knock on impact on consumer demand and the Group's supply chain. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: Funding assessment: Assessing the current and available committed facilities to understand the financial resources available to the Group during the forecast period. Considering any related covenants requirements and the evidence available regarding whether they will be met. Market analysis: We performed inquiries with key management personnel and our own restructuring specialists to better understand the implications of the Company's share price performance and implied market expectations on the Company's going concern assessment. Historical comparisons: Assessing historical forecasting accuracy, by comparing forecast cash flows to those actually achieved by the Group. Sensitivity analysis: Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively resulting from Brexit; Benchmarking assumptions: Comparing the Group's assumptions used in the cash flow projections to externally derived data in relation to key inputs such as projected growth and cost inflation; Assessing transparency: Assessing the completeness and accuracy of the Going concern disclosures in the Annual Report and considering whether they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern. Our results: We found the going concern disclosure without any material uncertainty to be acceptable.

	The risk	Our response
Valuation of Wickes goodwill (Goodwill: £455 million; 2017: £702 million) Refer to pages 66 to 71 (Audit Committee Report), pages 126 and 157 (Critical judgements and key sources of estimation uncertainty) and pages 126 to 128 and 156 to 157 (financial disclosures).	Forecast based valuation A worsening in the UK economy, fall in consumer confidence, the impact of cost price inflation or being slow to respond to changes in customer buying behaviours are factors that could impact the performance of certain of the Group's businesses in a manner that the related goodwill could become impaired. In particular, in the Consumer division performance in the Wickes business has been lower than forecast. The headroom has decreased year-on-year and has resulted in an impairment being recognised during the year. The recoverable amount which is based on value in use remains sensitive to certain assumptions, such as discount rate, forecast revenue growth, profit margins and maintenance capital expenditure and so further impairments may arise. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: • Historical comparisons: Assessing the reasonableness of the forecast used by considering the historical accuracy of previous forecasts and the results currently being achieved. • Our sector experience: Assessing whether assumptions used, in particular those relating to forecast revenue growth, profit margins and maintenance capital expenditure, reflect our knowledge of the business and industry, including known or probable changes in the business environment. • Benchmarking assumptions: Challenging, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rate by comparing it to externally derived data, including available sources for comparable companies. • Sensitivity analysis: Performing our own sensitivity analysis on the forecast, including a reduction in assumed growth rates, increased capital expenditure, reduced ability to pass through cost price inflation and an increased discount rate to identify key assumptions to consider further. • Assessing transparency: Assessing whether the Group's disclosures regarding the sensitivity of the impairment assessment, to changes in key assumptions, appropriately reflects the risks inherent in the valuation of goodwill. Our results We found the resulting estimate of the valuation of Wickes goodwill to be acceptable (2017: acceptable).
Recoverability of the parent Company's investments in subsidiaries (£3,545 million; 2017: £3,805 million) Refer to pages 66 to 71 (Audit Committee Report), pages 126 and 156 to 157 (accounting policy) and pages 126 to 128 and 157 to 158 (financial disclosures)	Subjective estimate The carrying amounts of the parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to the risk factors described above, which resulted in an impairment being recognised during the year. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the cost of investments in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: • Benchmarking assumptions: Where net assets of the subsidiary do not support the total value of the investment, challenging the assumptions used in the budgets supporting the carrying value of the investment based on our knowledge of the Group and the markets in which the subsidiaries operate; • Historical comparisons: Assessing the reasonableness of the budgets by considering the historical accuracy of the previous forecasts; • Our sector experience: Evaluating the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; and • Assessing transparency: Assessing the adequacy of the parent Company's disclosures in respect of the investments in subsidiaries. Our results We found the resulting estimate of the recoverable amount of the parent's investments in subsidiaries to be acceptable (2017: acceptable).

2. Key audit matters: including our assessment of risks of material misstatement (continued)

	The risk	Our response
Recognition of supplier rebate income and recoverability of respective receivables Refer to pages 66 to 71 (Audit Committee Report), page 131 (Critical judgements and key sources of estimation uncertainty) and page 131 (financial disclosures).	Subjective estimate As a result of the wide range of products and suppliers to the Group, there are a significant number of complex and varying purchase agreements within the businesses specifically involving fixed price discounts, volume rebates and customer sales support. We consider the risk relates to the calculation of the income receivable, including the recoverability of the year end receivables from suppliers in respect of these agreements. The risk is driven by the complexity of this calculation across the range of products and divisions and the estimation relating to the collection rate of this income, including recoverability of the amounts outstanding at the year end. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of the year end receivables from suppliers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: • Tests of details: Agreeing a statistical sample of rebate income recorded in the year, including amounts outstanding at the year end, to cash received or credit notes raised. • Historical comparisons: For a sample of supplier balances outstanding post the year end, assessing the success rate of previous years collections. • Third party confirmations: Comparing a sample of supplier rebate balances to the third party confirmations and challenging the explanations of variances, if any. • Assessing transparency: Considering the adequacy of the Group's disclosures about the degree of estimation involved in the recognition of the supplier rebate income receivable and its respective recoverability. Our results We consider the amount of supplier income recognised and the estimated recoverability of the respective receivables to be acceptable (2017: acceptable).
Costing of inventory (£806 million; 2017: £806 million) Refer to pages 66 to 71 (Audit Committee Report), page 130 (Critical judgements and key sources of estimation uncertainty).	Complex calculation As the Group carries a wide range of stock, the volume of supplier income and fixed price discounting agreements that are required to be deducted from the cost make the inventory cost accounting a significant audit risk. Additional complexities include overhead allocations and ageing accounting systems. We consider the risk to relate to the accuracy of the inventory cost held on the balance sheet at the year end.	Our procedures included: • Accounting analysis: Evaluating the appropriateness of the methodologies applied in determining product cost and critically assessing the respective calculations (including the allocation of rebates attributable to inventory at the year end as described in the supplier rebate income recognition risk above). • Data analytics: Recalculating the merchandising inventory net purchase cost at year end from the full year's product cost database. • Tests of details: For a statistical sample of recalculated stock cost vouching the product cost to third party purchase documentation. • Assessing transparency: Considering the adequacy of the Group's disclosures regarding the degree of estimation involved in arriving at the cost. Our results As a result of our work, we consider the costing of inventory to be acceptable (2017: acceptable).

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

Materiality for the Group financial statements as a whole was set at £16 million (2017: £17 million), determined with reference to a benchmark of Group profit before taxation adjusted for impairment of intangible assets and adjusting items as disclosed on the face of the income statement ('Adjusted Group profit before tax') of £337.3 million of which it represents 4.7% (2017: 5.1%).

Materiality for the parent Company financial statements as a whole was set at £8.0 million (2017: £9.1 million), determined with reference to a benchmark of Company total assets, of which it represents 0.2% (2017: 0.2%).

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

Of the Group's 67 (2017: 50) reporting components, we subjected 10 (all UK based) (2017: 10 (all UK based)) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite which refer to the total adjusted profit and adjusted losses that made up the total Group loss before tax and before adjusting items, total revenue and total assets.

The remaining 12% of total Group revenue, 5% of adjusted Group profit before tax and before adjusting items* and 11% of total Group assets is represented by 40 reporting components, none of which individually represented more than 4% of any of total Group revenue, adjusted Group profit before tax and before adjusting items* or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £1.5 million to £8.0 million, having regard to the mix of size and risk profile of the Group across the components. The work on 2 of the 10 components (2017: 2 of the 10 components) was performed by component auditors, and the rest, including the audit of the parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from adjusted Group profit before tax.

The Group audit team visited 1 of the 2 (2017: 2 of 2) component locations subject to full scope audits to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group audit team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in notes to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on pages 32 to 33 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

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

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

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

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the viability statement pages 32 to 33 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

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

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

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 96, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, health and safety regulation and employment law and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

25 February 2019



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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 96, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern; disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, health and safety regulation and employment law and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

25 February 2019

Consolidated Income Statement

For the year ended 31 December 2018

£m	Notes	2018	2017
Revenue	1	6,740.5	6,433.1
Adjusted operating profit		374.5	380.1
Amortisation of acquired intangible assets		(9.5)	(12.3)
Adjusting items	3	(386.7)	(40.9)
Operating (loss) / profit	2(a)	(21.7)	326.9
Share of associates' result		(4.0)	(2.2)
Finance income	6(a)	4.2	0.7
Finance costs	6(a)	(27.9)	(35.7)
(Loss) / profit before tax		(49.4)	289.7
Tax	7(a)	(34.1)	(55.7)
(Loss) / profit for the year		(83.5)	234.0
Attributable to:			
Owners of the Company		(85.6)	232.8
Non-controlling interests		2.1	1.2
		(83.5)	234.0
Earnings per ordinary share:			
Basic	18(a)	(34.4)p	93.1p
Diluted	18(a)	(34.4)p	92.2p

All results relate to continuing operations. The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

£m	Notes	2018	2017
(Loss) / profit for the year		(83.5)	234.0
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gains on defined benefit pension schemes	16(h)	102.0	90.8
Income tax relating to other comprehensive income	7(b)	(19.3)	(17.1)
Other comprehensive income for the year net of tax		82.7	73.7
Total comprehensive (loss) / income for the year		(0.8)	307.7

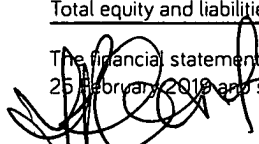
All other comprehensive income is attributable to the owners of the Company.

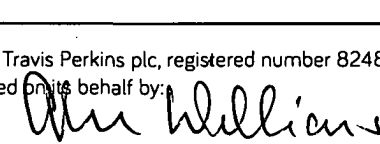
Consolidated Balance Sheet

As at 31 December 2018

£m	Notes	2018	2017
Assets			
Non-current assets			
Goodwill	8(a)	1,289.2	1,539.2
Other intangible assets	8(b)	385.4	387.1
Property, plant and equipment	9	913.2	932.0
Interest in associates	30(a)	34.2	20.3
Investments	30(c)	6.6	9.5
Retirement benefit asset	16(c)	81.2	-
Other receivables	12	43.3	30.4
Total non-current assets		2,753.1	2,918.5
Current assets			
Inventories	10	855.3	816.3
Trade and other receivables	12	1,253.8	1,130.2
Cash and cash equivalents	21(b)	255.4	276.8
Total current assets		2,364.5	2,223.3
Total assets		5,117.6	5,141.8
Equity and liabilities			
Capital and reserves			
Issued share capital	17	25.2	25.2
Share premium account	17	545.4	543.4
Merger reserve	17	326.5	326.5
Revaluation reserve	17	14.7	15.7
Own shares	17	(47.8)	(15.3)
Other reserve	17	(5.6)	(4.9)
Retained earnings	17	1,847.5	1,958.0
Equity attributable to owners of the Company		2,705.9	2,848.6
Non-controlling interests		11.8	11.7
Total equity		2,717.7	2,860.3
Non-current liabilities			
Interest bearing loans and borrowings	20	605.2	612.1
Derivative financial instruments	26	0.9	4.9
Retirement benefit obligations	16	-	28.3
Deferred tax liabilities	14	77.8	61.0
Long-term provisions	13	18.4	17.1
Total non-current liabilities		702.3	723.4
Current liabilities			
Interest bearing loans and borrowings	20	3.8	6.2
Derivative financial instruments	26	4.7	1.2
Trade and other payables	15	1,603.2	1,453.6
Tax liabilities		25.9	44.5
Short-term provisions	13	60.0	52.6
Total current liabilities		1,697.6	1,558.1
Total liabilities		2,399.9	2,281.5
Total equity and liabilities		5,117.6	5,141.8

The financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:


 John Carter
 Director


 Alan Williams
 Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

£m	Share capital	Share premium	Merger reserve	Revaluation reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non-controlling interest	Total equity
At 1 January 2017	25.1	528.5	326.5	16.8	(8.7)	-	1,760.1	2,648.3	7.3	2,655.6
Profit for the year	-	-	-	-	-	-	232.8	232.8	1.2	234.0
Other comprehensive income for the period net of tax	-	-	-	-	-	-	73.7	73.7	-	73.7
Total comprehensive income for the year	-	-	-	-	-	-	306.5	306.5	1.2	307.7
Dividends	-	-	-	-	-	-	(113.0)	(113.0)	-	(113.0)
Issue of share capital	0.1	14.9	-	-	-	-	-	15.0	-	15.0
Purchase of own shares	-	-	-	-	(19.2)	-	-	(19.2)	-	(19.2)
Adjustments in respect of revalued fixed assets	-	-	-	(1.1)	-	-	1.1	-	-	-
Equity-settled share-based payments, net of tax	-	-	-	-	-	-	15.7	15.7	-	15.7
Options on non-controlling interest	-	-	-	-	-	(4.9)	-	(4.9)	-	(4.9)
Arising on acquisition	-	-	-	-	-	-	-	-	3.2	3.2
Foreign exchange	-	-	-	-	-	-	0.2	0.2	-	0.2
Own shares movement	-	-	-	-	12.6	-	(12.6)	-	-	-
At 31 December 2017	25.2	543.4	326.5	15.7	(15.3)	(4.9)	1,958.0	2,848.6	11.7	2,860.3
IFRS 9 adoption (note 12)	-	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
At 31 December 2017 (restated)	25.2	543.4	326.5	15.7	(15.3)	(4.9)	1,955.6	2,846.2	11.7	2,857.9
Loss for the year	-	-	-	-	-	-	(85.6)	(85.6)	2.1	(83.5)
Other comprehensive income for the period net of tax	-	-	-	-	-	-	82.7	82.7	-	82.7
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(2.9)	(2.9)	2.1	(0.8)
Dividends	-	-	-	-	-	-	(114.1)	(114.1)	(2.0)	(116.1)
Dividend equivalent payments	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Issue of share capital	-	2.0	-	-	-	-	-	2.0	-	2.0
Purchase of own shares	-	-	-	-	(43.4)	-	-	(43.4)	-	(43.4)
Adjustments in respect of revalued fixed assets	-	-	-	(1.0)	-	-	1.0	-	-	-
Equity-settled share-based payments, net of tax	-	-	-	-	-	-	19.7	19.7	-	19.7
Option on non-controlling interest	-	-	-	-	-	(0.7)	-	(0.7)	-	(0.7)
Foreign exchange	-	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Own shares movement	-	-	-	-	10.9	-	(10.9)	-	-	-
At 31 December 2018	25.2	545.4	326.5	14.7	(47.8)	(5.6)	1,847.5	2,705.9	11.8	2,717.7

Consolidated Cash Flow Statement

For the year ended 31 December 2018

£m	2018	2017
Cash flows from operating activities		
Adjusted operating profit	374.5	380.1
Adjustments for:		
Depreciation of property, plant and equipment	101.0	102.0
Amortisation of internally-generated intangibles	15.5	12.6
Share-based payments	19.6	15.6
Other non-cash movements	2.1	0.2
Gain on disposal of property, plant and equipment	(26.8)	(30.6)
Adjusted operating cash flows	485.9	479.9
Increase in inventories	(49.5)	(47.0)
Increase in receivables	(141.4)	(106.3)
Increase in payables	83.8	76.8
Payments in respect of adjusting items	(40.6)	(20.2)
Pension payments in excess of the income statement charge	(7.2)	(11.3)
Cash generated from operations	331.0	371.9
Interest paid	(26.2)	(27.6)
Current income taxes paid	(55.1)	(57.2)
Net cash from operating activities	249.7	287.1
Cash flows from investing activities		
Interest received	0.7	0.5
Proceeds on disposal of property, plant and equipment	98.4	113.9
Development of computer software	(44.4)	(48.1)
Purchases of property, plant and equipment	(146.9)	(179.0)
Interest in associates	(17.6)	(11.3)
Dividends received	-	0.3
Acquisition of businesses	(3.0)	(9.7)
Disposal of business	19.0	-
Net cash used in investing activities	(103.8)	(133.4)
Cash flows from financing activities		
Proceeds from the issue of share capital	2.0	15.0
Purchase of own shares	(43.4)	(19.2)
Repayment of finance lease liabilities	(6.5)	(7.0)
Payments to pension scheme	(3.3)	(3.2)
Dividends paid	(116.1)	(113.0)
Net cash from financing activities	(167.3)	(127.4)
Net (decrease) / increase in cash and cash equivalents	(21.4)	26.3
Cash and cash equivalents at 1 January	276.8	250.5
Cash and cash equivalents at 31 December (note 21b)	255.4	276.8

Company Statement of Comprehensive Income

For the year ended 31 December 2018

£m	Notes	2018	2017
Revenue	1	385.8	328.2
Adjusted operating profit		367.1	308.3
Adjusting items	3	(274.7)	(10.5)
Operating profit	2(a)	92.4	297.8
Finance income	6(a)	4.1	0.6
Finance costs	6(a)	(48.3)	(48.9)
Profit before tax		48.2	249.5
Tax	7(a)	12.9	12.2
Profit for the year		61.1	261.7
Total comprehensive income for the year		61.1	261.7

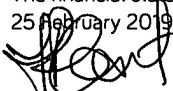
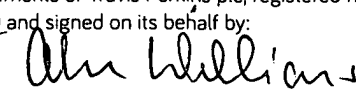
All results relate to continuing operations and are attributable to the owners of the Company. The accompanying notes form an integral part of these financial statements.

Company Balance Sheet

As at 31 December 2018

£m	Notes	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	9	0.4	0.2
Interest in associates		46.4	28.2
Investment in subsidiaries	30(b)	3,558.3	3,814.3
Investments	30(c)	4.6	4.5
Deferred tax asset	14	1.5	1.9
Total non-current assets		3,611.2	3,849.1
Current assets			
Trade and other receivables	12	615.4	407.9
Cash and cash equivalents		177.4	226.8
Total current assets		792.8	634.7
Total assets		4,404.0	4,483.8
Equity and liabilities			
Capital and reserves			
Issued capital	17	25.2	25.2
Share premium account	17	544.3	542.3
Merger reserve	17	326.5	326.5
Own shares	17	(47.8)	(15.3)
Other reserve	17	(5.6)	(4.9)
Accumulated profits	17	693.2	738.8
Equity attributable to owners of the Company		1,535.8	1,612.6
Total equity		1,535.8	1,612.6
Non-current liabilities			
Interest bearing loans and borrowings	20(a)	555.2	557.1
Derivative financial instruments	26	0.9	4.9
Amounts due to subsidiaries		2,285.6	2,287.4
Total non-current liabilities		2,841.7	2,849.4
Current liabilities			
Derivative financial instruments	26	4.7	1.2
Trade and other payables	15	21.8	20.6
Total current liabilities		26.5	21.8
Total liabilities		2,868.2	2,871.2
Total equity and liabilities		4,404.0	4,483.8

The financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:



 John Carter Alan Williams
 Director Director

Company Statement of Changes in Equity

For the year ended 31 December 2018

£m	Share capital	Share premium	Merger reserve	Own shares	Other	Retained earnings	Total equity
At 1 January 2017	25.1	527.4	326.5	(8.7)	-	587.0	1,457.3
Profit and total comprehensive income for the year	-	-	-	-	-	261.7	261.7
Dividends	-	-	-	-	-	(113.0)	(113.0)
Issue of share capital	0.1	14.9	-	-	-	-	15.0
Purchase of own shares	-	-	-	(19.2)	-	-	(19.2)
Own shares movement	-	-	-	12.6	-	(12.6)	-
Equity-settled share-based payments, net of tax	-	-	-	-	-	15.7	15.7
Options on non-controlling interest	-	-	-	-	(4.9)	-	(4.9)
At 31 December 2017	25.2	542.3	326.5	(15.3)	(4.9)	738.8	1,612.6
Profit and total comprehensive income for the year	-	-	-	-	-	61.1	61.1
Dividends	-	-	-	-	-	(114.1)	(114.1)
Dividend equivalent payments	-	-	-	-	-	(0.8)	(0.8)
Issue of share capital	-	2.0	-	-	-	-	2.0
Purchase of own shares	-	-	-	(43.4)	-	-	(43.4)
Own shares movement	-	-	-	10.9	-	(10.9)	-
Foreign exchange	-	-	-	-	-	(0.5)	(0.5)
Equity-settled share-based payments, net of tax	-	-	-	-	-	19.6	19.6
Options on non-controlling interest	-	-	-	-	(0.7)	-	(0.7)
At 31 December 2018	25.2	544.3	326.5	(47.8)	(5.6)	693.2	1,535.8

Company Cash Flow Statement

For the year ended 31 December 2018

£m	2018	2017
Cash flows from operating activities		
Adjusted operating profit	367.1	308.3
Adjustments for:		
Depreciation of property, plant and equipment	-	0.1
Share-based payments	5.7	6.9
Adjusted operating cash flows	372.8	315.3
Increase in receivables	(193.6)	(7.9)
Decrease in payables	(29.7)	(100.8)
Cash generated from operations	149.5	206.6
Interest paid	(26.2)	(26.8)
Net cash from operating activities	123.3	179.8
Cash flows from investing activities		
Interest received	0.6	0.6
Purchases of property, plant and equipment	(0.2)	(0.2)
Interest in associates	(17.6)	(11.3)
Investments	-	(10.8)
Net cash used in investing activities	(17.2)	(21.7)
Financing activities		
Proceeds from the issue of share capital	2.0	15.0
Purchase of own shares	(43.4)	(19.2)
Dividends paid	(114.1)	(113.0)
Net cash from financing activities	(155.5)	(117.2)
Net decrease in cash and cash equivalents	(49.4)	40.9
Cash and cash equivalents 1 January	226.8	185.9
Cash and cash equivalents 31 December	177.4	226.8

Notes to the financial statements

For the year ended 31 December 2018

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 162. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 3 to 53.

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 and other financial instruments and contingent consideration arising from business combinations are stated at fair value through profit and loss and also designated financial instruments are stated at fair value through other comprehensive income. 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.

Key judgements and estimates

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 and current and expected economic conditions. The Directors frequently re-evaluate these significant factors and make adjustments as facts and circumstances dictate.

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.

Going concern

The Directors are currently of the opinion that the Group's forecasts and projections show that the Group should be able to operate within its current facilities and comply with its banking covenants. The Group is however exposed to a number of significant risks and uncertainties, including uncertainty caused by the UK's decision to leave the European Union, 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.

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

Detailed considerations of going concern and principal risks and uncertainties are provided in the Annual Report on pages 63 and 34 to 41 respectively.

Significant accounting policies

The principal accounting policies adopted in preparing the financial statements are provided throughout the notes to the financial statements.

Some financial information is produced by finance systems that were first implemented by the Group over 30 years ago. As the business has grown, these have been amended to cope with significantly higher transaction levels and more complicated ways of doing business. This has made the systems unwieldy and could result in a material misstatement in the information calculated by those systems in areas such as supplier income, and inventories. There are processes and controls in place to mitigate these risks.

Key estimates which are material to the financial statements are found in the following notes:

Page	Note	Description
130	10	Cost of inventories
131	11	Calculation of supplier income
136	16	Pension assumptions
156	27	Impairment of goodwill

Notes to the financial statements

The notes are organised into the following sections:

Income and expenses: Provides a breakdown of individual line items in the income statements and summarises the accounting policies, judgements and estimates relevant to understanding these items.

Assets and liabilities: Provides a breakdown of individual line items in the balance sheets and summarises the accounting policies, judgements and estimates relevant to understanding these items.

Capital: Provides information about the capital management practices of the Group and shareholder returns for the year.

Significant items

During the year ended 31 December 2018 the following significant items took place that are relevant to the understanding of the Group's results and financial position:

Impairment of Wickes goodwill (note 27): In challenging market conditions, the Wickes business underperformed its forecasts in 2018 and the impairment review identified an impairment of £246.3m in the Wickes CGU. The impairment model continues to be sensitive to key assumptions.

Group transformation and restructuring (note 3): In August 2017 the Group announced a transformation programme for the Plumbing & Heating division and, following the success of this, in December 2018 the Group announced its intention to explore the disposal of the Plumbing & Heating division.

The Group has completed a series of cost reduction programmes in the second half of 2018, including significant rationalisation of the Merchanting supply chain, reductions in support centre headcount and the closure of some branches.

The costs associated with these transformation and restructuring activities have been disclosed as adjusting items.

Key judgements which are material to the financial statements are found in the following notes:

Page	Note	Description
156	27	Definition of cash-generating units
127	8	Derecognition of software assets under construction

Other significant judgements made in the preparation of these financial statements include the equity accounting for Toolstation Europe (note 30) and the applicability of IFRIC 14 to the BSS DB Scheme (note 16).

Risks: Discusses the Group's impairment testing and the exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks.

Group structure: Explains aspects of the Group structure and how changes have affected the financial position and performance of the Group.

People: Provides information about people costs.

Other: Provides information on items which require disclosure, but are not considered critical in understanding the financial performance or position of the Group.

Pensions (note 16): The Group's accounting for defined benefit pension schemes in 2018 has been affected by a number of events and judgements:

- The closure of the two largest schemes to further accrual, which resulted in the recognition of a £4.7m curtailment gain
- The recognition of a £9.6m past service cost from the equalisation of benefits relating to guaranteed minimum pensions ("GMP")
- An additional £25.1m recognised as a scheme asset following the removal of contingency on payments to the TP DB Scheme from a special purpose vehicle
- New deficit funding agreements for the two largest schemes
- Following the receipt of further legal advice, the Group concluded that it has an unconditional right to receive any surplus in a winding up of the BSS DB Scheme

IFRS 16 – Leases (note 39): The new lease accounting standard will have a material impact on the Group's income statement and balance sheet. The note includes an update on the Group's implementation of this standard and the results of the Group's modelling of the impact of this standard, which will become effective on 1 January 2019.

1. Revenue

Accounting policy	
Revenue recognition	Customer rebates
Revenue is recognised when the Group has satisfied its performance obligations to the customer and the customer has obtained control of the goods or services being transferred. Revenue is measured at the transaction price 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.	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 based on the most likely outcome, is deducted from turnover in the year in which the rebate is earned.
	Comparative policy under IAS 18 – Revenue
	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.

a. Revenue

	The Group		The Company	
£m	2018	2017	2018	2017
Sale of goods	6,546.6	6,250.6	-	-
Sale of services	193.9	182.5	-	-
Management charges	-	-	4.5	323.4
Dividends from subsidiaries	-	-	385.8	0.3
Dividends receivable	-	-	-	-
	6,740.5	6,433.1	385.8	328.2

b. Revenue reconciliation and like-for-like sales

£m	General Merchandising	Contracts	Consumer	Plumbing & Heating	Total
2017 revenue	2,109.5	1,369.0	1,589.1	1,365.5	6,433.1
Like-for-like revenue	28.8	94.9	(20.7)	210.0	313.0
	2,138.3	1,463.9	1,568.4	1,575.5	6,746.1
Network change	(1.0)	7.6	35.6	(47.8)	(5.6)
2018 revenue	2,137.3	1,471.5	1,604.0	1,527.7	6,740.5

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, including changes to the number of trading days. When branches close, revenue is excluded from the prior year figures for the months equivalent to the post-closure period in the current year.

Network change includes the impact of the disposal of the BPT business of £6m (see note 32).

2. Profit

a. Operating profit

£m	The Group		The Company	
	2018	2017	2018	2017
Revenue	6,740.5	6,433.1	385.8	328.2
Cost of sales	(4,812.7)	(4,527.5)	-	-
Gross profit	1,927.8	1,905.6	385.8	328.2
Selling and distribution costs	(1,607.4)	(1,239.7)	-	-
Administrative expenses	(375.0)	(374.0)	(293.4)	(30.4)
Profit on disposal of properties	26.8	29.4	-	-
Other operating income	6.1	5.6	-	-
Operating (loss) / profit	(21.7)	326.9	92.4	297.8
Adjusting items (note 3)	386.7	40.9	274.7	10.5
Amortisation of acquired intangible assets	9.5	12.3	-	-
Adjusted operating profit	374.5	380.1	367.1	308.3
Profit on disposal of properties	(26.8)	(29.4)	-	-
Adjusted operating profit before property disposals	347.7	350.7	367.1	308.3

Other operating income consists of rents receivable.

b. Adjusted profit

£m	The Group	
	2018	2017
(Loss) / profit before tax	(49.4)	289.7
Adjusting items	386.7	40.9
Amortisation of acquired intangible assets	9.5	12.3
Adjusted profit before tax	346.8	342.9
Tax	(34.1)	(55.7)
Tax on adjusting items	(24.2)	(7.8)
Tax on amortisation of acquired intangible assets	(1.6)	(2.1)
Adjusted profit after tax	286.9	277.3

3. Adjusting items

Accounting policy

Adjusting items are those items of income and expenditure that, by reference to the Group, are material in size or unusual in nature or incidence and 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 adjusting 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.

Adjusting items were previously referred to as exceptional items by the Group. The change of the name does not represent a change in accounting policy.

£m	The Group		The Company	
	2018	2017	2018	2017
Plumbing & Heating transformation and disposal preparation	45.3	40.9	-	-
Impairment of investments and Wickes and Tile Giant goodwill (note 27)	252.1	-	274.7	10.5
IT-related impairment charge	15.7	-	-	-
Restructuring costs	58.4	-	-	-
Pension-related items (note 16)	4.9	-	-	-
Loss on disposal of BPT (note 32)	10.3	-	-	-
	386.7	40.9	274.7	10.5

Plumbing & Heating transformation and disposal preparation

In August 2017 the Group announced that, following a comprehensive strategic review of the Plumbing & Heating division, it would reduce capacity, integrate the CPS and PTS businesses, overhaul the division's customer proposition and create a dedicated Plumbing & Heating supply chain. In accordance with the Group's accounting policy the total cost of £36.4m (2017: £40.9m) has been treated as an adjusting item. The adjusting item consisted of the following:

- £12m of property, redundancy and other costs (2017: £12.0m) associated with the closure of six branches
- £22.8m of costs (2017: £19.1m) arising from the separation and rationalisation of the Plumbing & Heating supply chain and the integration of the CPS and PTS businesses. The costs comprised property-related costs, redundancy and reorganisation costs and inventory write-downs and provision adjustments
- £12.4m of central and divisional costs (2017: £9.8m) including people-related, consultancy and other restructuring costs

Further to this, the Group has embarked on a significant program to create a Plumbing & Heating specific version of the Group's existing IT platform and designated back office support functions and in December 2018 the Group announced its intention to explore the opportunities to dispose of the P&H division. Costs of £8.9m incurred in 2018 in relation to these activities have been disclosed as an adjusting item.

An assessment has been made as to whether the Plumbing & Heating division meets the criteria in IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations for classification as held for sale. The Directors concluded that at 31 December 2018 the division was not available for immediate sale in its present condition and accordingly it has not been classified as held for sale.

Impairment of goodwill

During 2018 the Group has recognised an impairment charge in respect of the Wickes and Tile Giant goodwill, due to underperforming forecasts. This is discussed further in note 8 and note 27.

IT-related impairment charge

The intangible fixed asset impairment charge arises from the termination of certain IT projects in the Wickes business (£6.5m) and in the central IT function (£2.5m) and the charge arising from two specific components of the Group's ERP project where the development activities no longer meet the criteria in IAS 38 – Intangible Assets for capitalisation as development costs (£6.7m).

3. Adjusting items (continued)

Restructuring costs

The restructuring charge relates to the cost-reduction programmes announced for the Wickes business in May 2018 and for the wider Group in July 2018. The adjusting items consist of the following:

- £16.0m relating to rationalisation of the merchanting supply chain, which includes the costs of consolidating the Gowerton Road and Mercury Drive distribution hubs, consolidating the Cardiff Range Centre and Cardiff Timber Centre and closing the Tilbury Range Centre. The Group has made a claim against the developer in respect of the closure of the Tilbury Range Centre as disclosed in note 13
- £16.3m of costs relating to the closure of twenty seven branches and a reduction in support centre headcount in the merchanting businesses. The costs comprised property-related costs, redundancy costs and inventory write-downs
- £12.8m of redundancy and reorganisation costs in the Wickes business
- £13.3m of Group costs, including people-related costs and consultancy

Pension-related items

The £4.9m pension-related charge consists of a £4.7m curtailment gain recognised as a result of the closure of the Group's two main defined benefit pension schemes to future accrual and a £9.6m charge for the equalisation of guaranteed minimum pension ("GMP") benefits between men and women. Further details on the Group's defined benefit pension schemes are given in note 16.

The Company

As a result of the impairment recognised in the Group, the Company impaired the carrying value of investments in subsidiaries by £274.7m (2017: £10.5m).

4. Expenses

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

£m	The Group		The Company	
	2018	2017	2018	2017
Movement of provisions against inventories	6.0	11	-	-
Cost of inventories recognised as an expense	4,806.7	4,526.4	-	-
Pension costs in administration expenses	1.4	7.7	0.1	0.1
Pension costs in selling and distribution costs	22.1	19.2	-	-
Gain on disposal of property, plant and equipment	(26.8)	(30.6)	-	-
Rental income	(6.1)	(5.6)	-	-
Hire of vehicles, plant and machinery	35.7	49.8	-	-
Other leasing charges – property	184.9	196.2	-	-

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

£000	2018	2017
Fees payable to the Company's auditor for audit services:		
Audit of the Company's annual accounts	150	130
Auditor for the audit of the Company's subsidiaries	770	670
Additional fees payable for the prior period audit	151	135
Fees paid to the Company's auditor for other services:		
Audit-related assurance services	55	59
Other services	78	61
	1,204	1,055

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 66 to 70 and includes an explanation of how auditor objectivity and independence is safeguarded when the auditor provides non-audit services.

5. Operating segments

a. Segment information

£m	2018					Consolidated
	General Merchanting	Contracts	Consumer	Plumbing & Heating	Unallocated	
Revenue	2,137.3	1,471.5	1,604.0	1,527.7	-	6,740.5
Segment result	152.0	85.7	(187.8)	(5.4)	(66.2)	(21.7)
Amortisation of acquired intangible assets	-	6.3	2.4	0.8	-	9.5
Adjusting items	28.9	5.5	272.3	46.3	33.7	386.7
Adjusted segment result	180.9	97.5	86.9	41.7	(32.5)	374.5
Less property profits	(2.4)	(3.9)	(17.7)	(2.8)	-	(26.8)
Adjusted segment result excluding property profits	178.5	93.6	69.2	38.9	(32.5)	347.7
Adjusted operating margin	8.5%	6.6%	5.4%	2.7%	-	5.6%
Adjusted segment margin excluding property profits	8.4%	6.4%	4.3%	2.5%	-	5.2%
Lease adjusted capital employed	1,601.5	680.4	1,824.4	436.3	(74.4)	4,468.2
Lease adjusted operating profit excluding property profits	193.4	100.6	128.1	49.7	(31.6)	440.2
Segment assets	1,848.0	910.3	1,333.9	645.2	380.2	5,117.6
Segment liabilities	(490.8)	(318.9)	(458.2)	(392.2)	(739.8)	(2,399.9)
Consolidated net assets	1,357.2	591.4	875.7	253.0	(359.6)	2,717.7
Capital expenditure	131.0	12.8	47.1	4.7	1.9	197.5
Amortisation of acquired intangible assets	-	6.3	2.4	0.8	-	9.5
Depreciation and amortisation of software	63.9	14.5	29.1	8.8	0.2	116.5

During 2018 an impairment loss was recognised in the Consumer segment in respect of goodwill totalling £252.1m (see note 27).

5. Operating segments (continued)

£m	2017					Consolidated
	General Merchanting	Contracts	Consumer	Plumbing & Heating	Unallocated	
Revenue	2,109.5	1,369.0	1,589.1	1,365.5	-	6,433.1
Segment result	200.6	81.3	79.4	(3.5)	(30.9)	326.9
Amortisation of acquired intangible assets	-	6.3	5.0	1.0	-	12.3
Adjusting items	-	-	-	40.9	-	40.9
Adjusted segment result	200.6	87.6	84.4	38.4	(30.9)	380.1
Less property profits	(18.0)	(1.9)	(1.9)	(7.6)	-	(29.4)
Adjusted segment result excluding property profits	182.6	85.7	82.5	30.8	(30.9)	350.7
Adjusted operating margin	9.5%	6.4%	5.3%	2.8%	-	5.9%
Adjusted segment margin excluding property profits	8.7%	6.3%	5.2%	2.3%	-	5.5%
Lease adjusted capital employed*	1,624.5	671.6	1,827.6	436.7	(107.1)	4,453.3
Lease adjusted operating profit excluding property profits	202.0	93.0	142.4	41.0	(31.0)	447.4
Segment assets	1,811.0	867.2	1,544.6	592.3	326.7	5,141.8
Segment liabilities	(441.5)	(323.5)	(403.6)	(317.8)	(795.1)	(2,281.5)
Consolidated net assets	1,369.5	543.7	1,141.0	274.5	(468.4)	2,860.3
Capital expenditure	152.9	14.3	57.3	3.6	2.3	230.4
Amortisation of acquired intangible assets	-	6.3	5.0	1.0	-	12.3
Depreciation and amortisation of software	67.5	11.8	26.4	8.8	0.1	114.6

*Restated for comparability purposes to include 2018 goodwill impairment.

5. Operating segments (continued)

b. Unallocated segment assets and liabilities

Unallocated segment assets and liabilities comprise the following:

£m	2018	2017
Assets		
Interest in associates	34.2	20.3
Financial instruments	0.6	-
Property, plant and equipment	0.4	0.2
Investments	6.6	9.5
Cash and cash equivalents	255.4	276.8
Retirement benefit surplus	81.2	-
Unallocated corporate assets	1.8	19.9
	380.2	326.7
Liabilities		
Financial instruments	(0.9)	(4.9)
Tax liabilities	(25.9)	(44.5)
Deferred tax liabilities	(77.8)	(61.0)
Retirement benefit obligations		(28.3)
Interest bearing loans, borrowings and loan notes	(609.0)	(618.3)
Unallocated corporate liabilities	(26.2)	(38.1)
	(739.8)	(795.1)

c. Reportable segments

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

Segmental operating profit represents the profit earned by each segment without allocation of certain central costs, finance income and costs and income tax expense. Inter-segment trading is eliminated. Unallocated segment assets and liabilities comprise financial instruments, current and deferred taxation, cash and borrowings and pension scheme assets and liabilities.

6. Net finance costs

a. Finance costs and finance income

£m	The Group	
	2018	2017
Interest on bank loans and overdrafts*	(2.7)	(4.1)
Interest on Sterling bonds	(21.0)	(21.0)
Interest on obligations under finance leases	(0.4)	(0.8)
Unwinding of discounts - property provisions	(0.2)	(0.7)
Unwinding of discounts - pension SPV loan	(2.1)	(2.4)
Other interest	(0.7)	(0.7)
Other finance costs - pension scheme	(0.8)	(3.1)
Net loss on remeasurement of derivatives at fair value	-	(2.9)
Finance costs	(27.9)	(35.7)
Net gain on remeasurement of derivatives at fair value	1.8	-
Net gain on remeasurement of foreign exchange	0.7	-
Interest receivable	1.7	0.7
Finance income	4.2	0.7
Net finance costs	(23.7)	(35.0)

*Includes £1.5m (2017: £1.5m) of amortised finance charges.

The charge caused by the unwinding of the discounts relates to the property provisions and the liability to the pension scheme associated with the pension SPV loan (note 16).

£m	The Company	
	2018	2017
Interest on bank loans and overdrafts	(3.4)	(3.9)
Interest on Sterling bonds	(21.0)	(21.0)
Interest payable to Group companies	(23.3)	(20.5)
Other interest	(0.6)	(0.6)
Net gain / (loss) on re-measurement of derivatives at fair value	-	(2.9)
Finance costs	(48.3)	(48.9)
Net gain on remeasurement of derivatives at fair value	1.8	-
Net gain on remeasurement of foreign exchange	0.7	-
Interest receivable	1.6	0.6
Finance income	4.1	0.6
Net finance costs	(44.2)	(48.3)

6. Net finance costs (continued)

b. Fixed charge cover interest charge

£m	The Group	
	2018	2017
Interest on bank loans and overdrafts	2.7	4.1
Interest on Sterling bonds	21.0	21.0
Interest on obligations under finance leases	0.4	0.8
Unwinding of discounts – pension SPV loan	2.1	2.4
Fixed charge cover interest charge	26.2	28.3

7. Tax

Accounting policy	
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 of other assets and liabilities in a transaction (other than in a business combination) 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.

a. Tax charge in income statement

£m	The Group		The Company	
	2018	2017	2018	2017
Current tax:				
Current year	47.1	57.5	(12.1)	(12.2)
Prior year	(10.4)	0.4	(1.2)	0.2
Total current tax	36.7	57.9	(13.3)	(12.0)
Deferred tax:				
Current year	(2.7)	(2.5)	0.4	(0.2)
* Prior year	0.1	0.3	-	-
Total deferred tax	(2.6)	(2.2)	0.4	(0.2)
Total tax charge / (credit)	34.1	55.7	(12.9)	(12.2)

7. Tax (continued)

The differences between the total tax charge and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax for the Group and Company are as follows:

	The Group			
	2018		2017	
	£m	%	£m	%
Loss before tax	(49.4)		289.7	
Tax at the UK corporation tax rate	(9.4)	19.0	55.8	19.3
Tax effect of expenses / credits that are not deductible / taxable	2.0		1.2	
Depreciation of non-qualifying property	3.0		2.5	
Impairment of goodwill	47.9		-	
Impairment of intangible fixed assets	0.8		-	
Share-based payments	3.8		0.9	
Deferred tax rate change	0.2			
Property sales	(5.0)		(5.4)	
Losses	1.1			
Prior period adjustment	(10.3)		0.7	
Tax expense and effective tax rate for the year	34.1	(69.0)	55.7	19.2

	The Company			
	2018		2017	
	£m	%	£m	%
Profit before tax	48.2		249.5	
Dividends from subsidiaries	(385.8)		(323.7)	
Loss before tax and dividends from subsidiaries	(337.6)		(74.2)	
Tax at the UK standard corporation tax rate	(64.1)	19.0	(14.3)	19.3
Tax effect of expenses / credits that are not deductible / taxable	0.1		(0.1)	
Impairment of investments	52.0		2.0	
Prior period adjustment	(1.2)		0.2	
Share based payments	0.3		-	
Tax credit and effective tax rate for the year	(12.9)	3.8	(12.2)	16.5

b. Tax charge in the statement of comprehensive income

The following amounts relating to tax have been recognised in other comprehensive income:

£m	The Group		The Company	
	2018	2017	2018	2017
Items that may not be reclassified:				
Deferred tax charge on actuarial movement	(19.3)	(17.1)	-	-
Income tax relating to other comprehensive income	(19.3)	(17.1)	-	-

c. Tax credited directly to equity

The following amounts of tax have been recognised in equity:

£m	The Group		The Company	
	2018	2017	2018	2017
Current tax: Excess tax deductions for share-based payments on exercised options	0.1	0.4	-	0.2
Current tax: Share-based payments	(0.1)	(0.3)	-	(0.1)
	-	0.1	-	0.1

8. Goodwill and other intangible assets

a. Goodwill by reportable segment

Accounting policy

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

£m	The Group				Total
	General Merchandising	Contracts	Consumer	Plumbing & Heating	
At 1 January 2017	480.5	170.6	810.7	66.5	1,528.3
Recognised on acquisitions during the year	-	7.8	-	3.1	10.9
At 1 January 2018	480.5	178.4	810.7	69.6	1,539.2
Recognised on acquisitions during the year (note 31)	2.1	-	-	-	2.1
Impairment charged to the income statement as an adjusting item (note 27)	-	-	(252.1)	-	(252.1)
At 31 December 2018	482.6	178.4	558.6	69.6	1,289.2

The Company has no goodwill.

b. Other intangible assets

Accounting policy

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 controlled by and for use within the business are capitalised and written off over their estimated useful life, which range 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.

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

Acquired customer relationships are amortised over their estimated useful lives, which range from 5 to 15 years. The remaining lives of amortised customer relationships range from 1 to 7 years. No amortisation is charged on computer software under construction.

8. Goodwill and other intangible assets (continued)

b. Other intangible assets (continued)

	The Group				
£m	Brand	Computer software	Customer relationships	Assets under construction	Total
Cost or valuation					
At 1 January 2017	306.1	67.4	147.6	20.7	541.8
Additions	-	14.3	-	33.8	48.1
Transfers between categories	-	9.0	-	(9.0)	-
Reclassifications	-	3.1	-	-	3.1
At 1 January 2018	306.1	93.8	147.6	45.5	593.0
Additions	-	10.8	-	33.6	44.4
Transfers between categories	-	9.7	-	(9.7)	-
Reclassifications	-	-	-	(0.1)	(0.1)
Disposals	(4.2)	(1.4)	(5.8)	-	(11.4)
Derecognition (note 3)	-	-	-	(11.2)	(11.2)
At 31 December 2018	301.9	112.9	141.8	58.1	614.7
Amortisation					
At 1 January 2017	63.6	26.4	91.0	-	181.0
Charged to operating profit in the year on acquired intangibles	2.1	1.1	9.1	-	12.3
Charged to operating profit in the year on internally-generated intangibles	-	12.6	-	-	12.6
At 1 January 2018	65.7	40.1	100.1	-	205.9
Charged to operating profit in the year on acquired intangibles	2.1	0.9	6.5	-	9.5
Charged to operating profit in the year on internally generated intangibles	-	15.5	-	-	15.5
Disposals	-	(0.2)	(4.1)	-	(4.3)
Impairment charged in the year as an adjusting item (note 3)	-	2.7	-	-	2.7
At 31 December 2018	67.8	59.0	102.5	-	229.3
Net book value					
At 31 December 2017	240.4	53.7	47.5	45.5	387.1
At 31 December 2018	234.1	53.9	39.3	58.1	385.4

The Company has no intangible assets.

Where a brand has not been established for a significant period of time the Directors do not have sufficient evidence to support a contention that it will have an indefinite useful life. Accordingly for Toolstation, Plumbnation, Primaflow, Underfloor Heating and certain product-related brands the Directors have decided it is appropriate to amortise their brand costs over their estimated useful lives. The useful lives of those brands being amortised range from 10 to 20 years with the remaining lives ranging from 1 to 10 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 tests are shown in note 27.

Key judgement – Derecognition of software assets under construction

The charge of £11.2m in respect of the derecognition of assets under construction includes £6.7m in respect of two specific components of the Group's ERP project. An assessment of whether the remaining £48.7m of capitalised spend continued to meet the criteria of IAS 38 – Intangible Assets for capitalisation as development costs at 31 December 2018 concluded that no further derecognition was needed.

8. Goodwill and other intangible assets (continued)

c. 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 fixed 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 fixed assets with indefinite useful lives by CGU grouping.

£m	2018			2017		
CGU grouping	Intangibles	Goodwill	Total	Intangibles	Goodwill	Total
Contracts						
CCF	-	43.6	43.6	-	43.6	43.6
Keyline	-	100.2	100.2	-	100.2	100.2
BSS Industrial	49.3	26.8	76.1	49.3	26.8	76.1
TF Solutions	-	7.8	7.8	-	7.8	7.8
General Merchandising						
Travis Perkins	-	482.6	482.6	-	480.5	480.5
Consumer						
Tile Giant	-	-	-	-	5.8	5.8
Toolstation	-	103.4	103.4	-	103.4	103.4
Wickes	162.5	455.2	617.7	162.5	701.5	864.0
Plumbing & Heating						
City Plumbing Supplies	-	51.5	51.5	-	51.5	51.5
Plumbnation	-	1.7	1.7	-	1.7	1.7
FPC	-	2.9	2.9	-	2.9	2.9
Underfloor Heating Store	-	10.4	10.4	-	10.4	10.4
National Shower Spares	-	3.1	3.1	-	3.1	3.1
Birchwood Price Tools	-	-	-	3.5	-	3.5
	211.8	1,289.2	1,501.0	215.3	1,539.2	1,754.5

9. Property, plant and equipment

Accounting policy 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 retained earnings.
---	---

9. Property, plant and equipment (continued)

£m	The Group				Total	The Company
	Freehold	Long leasehold	Short leasehold	Plant and equipment		Plant and equipment
Cost or deemed cost						
At 1 January 2017	497.5	37.8	184.3	772.8	1,492.4	0.8
Additions	63.9	-	25.3	93.1	182.3	0.2
Additions from acquired business	0.8	-	-	0.3	1.1	-
Disposals	(78.0)	(2.3)	(6.1)	(34.2)	(120.6)	(0.7)
Reclassifications from current assets	-	-	-	10.6	10.6	-
At 1 January 2018	484.2	35.5	203.5	842.6	1,565.8	0.3
Additions	50.1	0.7	44.8	57.5	153.1	0.2
Disposals	(61.5)	(0.1)	(9.8)	(50.9)	(122.3)	-
Reclassifications from current assets	2.3	(0.1)	0.2	(0.2)	2.2	-
At 31 December 2018	475.1	36.0	238.7	849.0	1,598.8	0.5
Accumulated depreciation						
At 1 January 2017	45.9	14.4	80.3	422.3	562.9	0.7
Charged in the year	5.0	1.0	11.9	84.1	102.0	0.1
Disposals	(3.5)	(1.8)	(1.4)	(29.0)	(35.7)	(0.7)
Reclassification from current assets	-	-	-	4.6	4.6	-
At 1 January 2018	47.4	13.6	90.8	482.0	633.8	0.1
Charged in the year	5.8	1.1	12.2	81.9	101.0	-
Disposals	(3.8)	(0.1)	(5.8)	(41.0)	(50.7)	-
Impairment charged in the year as an adjusting item (note 3)	-	-	-	1.5	1.5	-
At 31 December 2018	49.4	14.6	97.2	524.4	685.6	0.1
Net book value						
At 31 December 2017	436.8	21.9	112.7	360.6	932.0	0.2
At 31 December 2018	425.7	21.4	141.5	324.6	913.2	0.4

9. Property, plant and equipment (continued)

The cost element of the tangible fixed assets carrying value is analysed as follows:

£m	The Group				The Company	
	Freehold	Long leases	Short leases	Plant and equipment	Total	Total
At deemed cost	21.9	3.7	-	-	25.6	-
At cost	453.2	32.3	238.7	849.0	1,573.2	0.5
	475.1	36.0	238.7	849.0	1,598.8	0.5

Included within freehold property is land with a value of £205m (2017: £176m) 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:

£m	The Group			The Company	
	Long leasehold	Short leasehold	Plant and equipment	Total	Total
At 31 December 2017	3.7	0.6	18.0	22.3	-
At 31 December 2018	0.6	2.9	12.9	16.4	-

10. Inventories

Accounting policy

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.

£m	2018	2017
Inventories	855.3	816.3

Key estimate – Cost of inventories

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

The Group has entered into a large number of rebate and fixed price discount agreements, the effects of which are offset against the gross invoice price paid for goods. As explained in note 11 setting out the estimates made in respect of supplier income, the calculation of the value deferred into stock is complicated due to the number, nature and structure of the agreements in place. However, the Group has a well tested methodology that is consistently applied. The Directors believe that the £260m deduction from the gross invoice cost of stock (2017: £210m) is appropriate.

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

11. Supplier income

Accounting policy

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.

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 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.

Supplier income balances included within the Group balance sheet are as follows:

£m	2018	2017
Other receivables	310.0	288.0
Inventories	(260.0)	(210.0)
Trade payables	71.0	66.0
Net balance sheet position	121.0	144.0

Key estimate – Calculation of supplier income

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

Approximately 80% of supplier income is receivable during the year as it is earned and settled monthly, although some agreements may also stipulate quarterly, bi-annual or annual payments, with only two of the arrangements not being co-terminous with the Group's statutory year-end.

Therefore the key estimates relate to the total value of rebates and fixed price discounts still to be received at the year-end and the amount to be set against the gross value of inventory. These are determined using established methodologies and in the case of collectability, management's knowledge of the parties involved and historical collection trends. Changes in the assessment of the collectability of outstanding balances may result in adjustments to receivables and stock in the next financial year, however these would not be expected to be material.

12. Trade and other receivables

Accounting policy**Trade and other receivables**

The Group's trade and other receivables at the balance sheet date comprises principally of amounts receivable from the sale of goods, amounts due in respect of rebates in relation to unbilled work in progress and sundry prepayments. Non-current prepayments represent capitalised licence fees in relation to the new ERP system.

Impairment of financial assets

Trade receivables are subject to the new expected credit loss model in IFRS 9 - Financial Instruments and therefore the Group has revised its impairment methodology. The impact of the change in impairment methodology on the Group's retained earnings and equity is a reduction of £2.4m in retained earnings and net assets at 1 January 2018.

The Group applies the IFRS 9 - Financial Instruments simplified approach to measuring expected credit losses.

This uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses trade receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, the loss allowance as at 1 January 2018 was determined to be £2.4m higher than those previously recognised under the incurred loss model of IAS 39 - Financial Instruments: Recognition and Measurement. The amount restated represents the impairment loss recognised on current trade receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group and the commencement of legal proceedings.

£m	The Group		The Company	
	2018	2017	2018	2017
Current:				
Trade receivables	824.6	770.2	-	-
Allowance for doubtful debts	(18.7)	(17.2)	-	-
	805.9	753.0	-	-
Amounts owed by subsidiaries	-	-	614.3	407.9
Other receivables	356.6	291.4	1.1	-
Prepayments and accrued income	91.3	85.8	-	-
	1,253.8	1,130.2	615.4	407.9
Non-current:				
Prepayments	43.3	30.4	-	-
Trade and other receivables	1,297.1	1,160.6	615.4	407.9

The Directors consider that the only class of asset containing significant credit risk is trade receivables. The average credit term taken for sales of goods is 60 days (2017: 57 days). 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 loss allowance at 31 December 2018 is £18.7m. Under the incurred loss model of IAS 39 - Financial Instruments: Recognition and Measurement it would have been £15.5m.

£m	2018	2017 *restated
At 1 January	17.2	21.6
Opening IFRS 9 transition adjustment	2.4	-
Amounts written off during the year	(16.9)	(22.5)
Charge in the year	16.0	18.1
At 31 December	18.7	17.2

*Comparatives have been restated to reflect the actual movement in the year.

12. Trade and other receivables (continued)

Expected credit loss assessment

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2018.

£m	Gross carrying amount	Weighted average loss rate	Loss allowance	Credit impaired
Current (not past due)	692.5	0.3%	(2.2)	No
Days overdue:				
1 - 30	78.1	2.1%	(1.6)	No
31 - 60	19.5	6.8%	(1.3)	No
61 - 90	10.0	13.5%	(1.4)	No
91 - 120	3.6	32.2%	(1.2)	No
More than 120	20.9	52.6%	(11.0)	Yes
	824.6		(18.7)	

Loss rates are based on actual credit loss experience over the past three years.

Comparative information under IAS 39

The ageing of past but not impaired trade receivables as at 31 December 2017 is as follows.

£m	2017
Days overdue:	
0 - 30 days	26.5
31 - 60 days	11.4
61 - 90 days	8.3
	46.2

Impact of adoption IFRS 15 - Revenue from Contracts with Customers:

Provisions for customer returns were previously presented on a net basis, as part of accruals and deferred income. Following adoption of IFRS 15 - Revenue from Contracts with Customers they are now shown on a gross basis and liabilities for the full amount expected to be refunded to customers (£7.7m as at 1 January 2018) are included in trade and other payables. Subsequently assets for the value of goods expected to be returned are included in trade and other receivables (£4.4m as at 1 January 2018).

13. Provisions

Accounting policy

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.

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 adjusting item, any release is shown as an adjusting credit.

The Group has a number of vacant and partly sublet leasehold properties. Where necessary a provision has been made for the residual lease commitments after taking into account existing and anticipated subtenant arrangements.

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.

13. Provisions (continued)

£m	The Group			Total
	Property	Insurance	Restructuring	
At 1 January 2017	16.3	29.0	32.9	78.2
(Release) / charge to income statement	(0.9)	7.5	-	6.6
Charge to income statement - adjusting	17.8	-	11.6	29.4
Utilisation of provisions	(5.4)	(7.5)	(32.3)	(45.2)
Unwinding of discount	0.7	-	-	0.7
At 1 January 2018	28.5	29.0	12.2	69.7
Charge to income statement	11.1	9.0	17.5	37.6
Utilisation of provision	(10.0)	(6.7)	(12.4)	(29.1)
Unwinding of discount	0.2	-	-	0.2
At 31 December 2018	29.8	31.3	17.3	78.4
Included in current liabilities	11.4	31.3	17.3	60.0
Included in non-current liabilities	18.4	-	-	18.4
	29.8	31.3	17.3	78.4

The Company has no provisions.

As set out in note 3, in 2017 the Group recognised an adjusting charge relating to the transformation of its Plumbing & Heating division and in 2018 the Group announced its intention to dispose of the Plumbing & Heating division and a wider cost-reduction programme. The adjusting provision relates to these items. It excludes property-related provisions and inventory and trade creditor amounts which are separately classified.

Should a provision ultimately prove to be unnecessary then it is credited back to the income statement. Where the provision was originally established as an adjusting item, any release is disclosed as an adjusting credit. The 2018 adjusting charge to property provisions of £11.1m is presented after a credit of £3.5m relating to the release of property provisions originally created through adjusting items.

The following table details the Group's liquidity analysis of its provisions, based on the undiscounted net cash outflows.

£m	0-1 year	1-2 years	2-5 years	5+ years	Total
2018:					
Property	11.4	8.7	7.4	2.9	30.4
Insurance	31.3	-	-	-	31.3
Restructuring	17.3	-	-	-	17.3
	60.0	8.7	7.4	2.9	79.0
2017:					
Property	11.4	5.0	10.6	1.9	28.9
Insurance	29.0	-	-	-	29.0
Restructuring	12.2	-	-	-	12.2
	52.6	5.0	10.6	1.9	70.1

In December 2018 one of the Group's subsidiaries, Travis Perkins (Properties) Limited, commenced proceedings against Roxhill (Tilbury) Limited and Roxhill Developments Limited in the Technology and Construction Court in respect of defective external hardstanding at the Group's Tilbury Range Centre. Due to the inherent uncertainty associated with legal disputes, it is not possible to be virtually certain that the Group will recover all costs associated with this defective external hardstanding. Accordingly no asset has been recognised in respect of the £30.0m that the Group is seeking to recover.

14. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

£m (Asset) / liability:	The Group							
	At 1 Jan 2017	Recognised in income	Recognised in equity	Recognised in other comprehensive income	At 1 Jan 2018	Recognised in income	Recognised in equity	Recognised in other comprehensive income
Capital allowances	1.4	(0.7)	-	-	0.7	(2.9)	-	-
Revaluation of property	7.6	-	-	-	7.6	-	-	-
Share-based payments	(4.2)	0.1	0.3	-	(3.8)	1.7	0.1	-
Provisions	5.9	(0.4)	-	-	5.5	0.5	-	-
Property assets acquired in business combinations	6.6	(0.5)	-	-	6.1	(0.6)	-	-
Brand	52.6	(2.3)	-	-	50.3	(2.8)	-	-
Pension scheme asset	(24.1)	1.6	-	17.1	(5.4)	1.5	-	19.3
Deferred tax	45.8	(2.2)	0.3	17.4	61.0	(2.6)	0.1	19.3

At 31 December 2018 the Group had unused capital losses of £40.6m (2017: £40.6m) available for offset against future capital profits. No deferred tax asset has been recognised because it is improbable that future taxable profits will be available against which the Group can utilise the losses. £38.7m arose prior to the Group acquiring Wickes and 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.

£m (Asset) / liability:	The Company						
	At 1 Jan 2017	Recognised in income	Recognised in other comprehensive income	At 1 Jan 2018	Recognised in income	Recognised in other comprehensive income	At 31 Dec 2018
Share-based payments	(1.5)	(0.1)	0.1	(1.5)	0.4	-	(1.1)
Other timing differences	(0.3)	(0.1)	-	(0.4)	-	-	(0.4)
	(1.8)	(0.2)	0.1	(1.9)	0.4	-	(1.5)

15. Trade payables and other liabilities

Accounting policy

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs and are measured at amortised cost. 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.

£m	The Group		The Company	
	2018	2017	2018	2017
Trade payables	1,136.6	1,065.9	-	-
Other taxation and social security	62.4	54.6	-	-
Other payables	201.8	176.0	20.9	20.0
Accruals and deferred income	202.4	157.1	0.9	0.6
Trade and other payables	1,603.2	1,453.6	21.8	20.6

16. Pension arrangements

Accounting policy

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.

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 and future accrual.

The assets of the TP DB schemes are held separately from those of the Group under the control of the schemes' trustees. Employees are entitled to start drawing a pension, based on their membership of a scheme, on their normal retirement date. If employees choose to retire early and draw their pension, or late and defer drawing their pension, then the amount they receive is scaled down or up accordingly.

A full actuarial valuation of the TP DB scheme was carried out as at 30 September 2017. The IAS 19 valuation has been based upon the results of the 30 September 2017 valuation and then updated to 31 December 2018 by a qualified actuary. The present values of the defined benefit obligations, the related current service costs and the past service costs for the TP Schemes 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 as at 30 September 2017. 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.

In June 2010, an agreement was reached with the Trustees of the TP DB scheme to fund £34.7m of the funding deficit using a Group-controlled special purpose vehicle ("SPV"). The pension scheme is entitled to receive the income of the SPV for a period of up to 20 years. This entitlement was previously contingent and subject to funding levels, which resulted in a restriction in the amount recognised as a scheme asset. These payments were guaranteed in December 2018, which is the primary reason for an additional £25.1m being recognised as a scheme asset. 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 and continued overleaf.

Investment risk	The present value of the defined benefit liabilities of the schemes is calculated using a discount rate predetermined by reference to high quality corporate bond yields. If the return on scheme assets is below this rate it may create a plan deficit. Following a review of the investment strategy, a derisking exercise is currently being undertaken with a higher proportion of the largest two pension schemes' assets being invested in gilts and corporate bonds ('liability driven investments'). Currently the schemes have investments in equity securities, secured finance assets, bonds, debt instruments and real estate. Due to the long-term nature of the scheme liabilities the trustees of the pension funds previously considered it appropriate that a reasonable portion of the scheme assets should be invested in equities.
Interest risk	A decrease in corporate bond yields will increase the schemes' liabilities, but the effect will be partially offset by an increase in the return on the schemes' bond and gilt assets.
Longevity risk	The present value of the liabilities of the schemes is calculated by reference to the best estimate of mortality of pension scheme members both during and after their employment. An increase in the life expectancy of the schemes' members will increase the schemes' liabilities.

16. Pension arrangements (continued)

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Company. The scheme assets do not include any of the Group's own financial instruments.

All fair values are provided by the fund managers. Where available, the fair values are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). Unlisted investments (e.g. private equity) are included at values provided by the fund

manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs such as yield curves.

The liability-driven investments, which comprise fixed interest and index-linked gilts, futures, interest and inflation rate swaps, repurchase agreements and liquidity funds, are all daily priced and traded.

a. Major actuarial assumptions:

The Directors have agreed with the BSS Schemes' Trustees to make contributions of £10.0m in 2019, £8.8m in 2020 and £4.1m in 2021 with the aim of eliminating the deficit in the BSS Schemes by September 2021. In addition the Company has agreed to make contributions of £0.8m per annum to the TP DB schemes until 30 September 2022 with the aim of eliminating the deficit in these schemes by that date. The Group has also agreed to make monthly contributions to cover the ongoing management and administrative expenses of the BSS Schemes and the TP DB Schemes.

	At 31 December 2018	At 31 December 2017
Rate of increase in pensionable salaries	n/a	2.50%
Rate of increase of pensions in payment post 2006	2.10%	2.20%
Rate of increase of pensions in payment 1997 - 2006	3.10%	3.15%
Discount rate	2.90%	2.55%
Inflation assumption - RPI	3.25%	3.25%
Inflation assumption - CPI	2.25%	2.25%

The yield curve used in setting the discount rate, which includes bonds with an average AA rating and excludes bonds which are sub-sovereign or issued by universities to reflect the credit risk of the defined benefit schemes.

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 at age 65 for mortality tables used to determine pension liabilities at 31 December 2018:

Current member age	Sex	Life expectancy
45	Male	23.3
45	Female	26.2
65	Male	21.9
65	Female	24.6

16. Pension arrangements (continued)

b. Amounts recognised in income

£m	2018			2017		
	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
Current service costs	(4.4)	(2.1)	(6.5)	(7.0)	(2.6)	(9.6)
Past service costs – GMP equalisation	(7.5)	(2.1)	(9.6)	-	-	-
Past service costs – curtailment gains	3.1	1.6	4.7	-	-	-
Net interest income / (expense)	1.2	(0.8)	0.4	(1.5)	(1.6)	(3.1)
Total pension charge	(7.6)	(3.4)	(11.0)	(8.5)	(4.2)	(12.7)

Guaranteed Minimum Payments ("GMP") are a special tranche of pension for contracted-out service prior to 6 April 1997, intended to replace a sacrificed part of the state pension. On 26 October 2018 the High Court issued a ruling on GMP equalisation clarifying that pension scheme trustees are under a duty to equalise for GMPs between members of different sexes and setting out a number of different lawful methods for equalisation.

The Group has recognised a past service cost for the impact of this ruling, which has been calculated by qualified actuaries assuming that the Schemes are able to limit back-payments to a maximum of 28 years and using Method C2. The past service cost of £9.6m represents 0.7% of the accounting liability. If the impact of this ruling had been calculated using one of the other potentially suitable methods the past service cost would still have represented 0.7% of the accounting liability. Future changes in this estimate will be recognised as an actuarial gain or loss.

The £4.7m pension curtailment gain, recognised as a result of the closure of the Travis Perkins Pensions and Dependents' Benefit Scheme and the BSS Defined Benefit Scheme to future accrual, is stated net of £0.5m of associated administrative expenses.

The curtailment gain and the charge for GMP equalisation have been recognised as adjusting items and are discussed further in note 3 and on page 31.

c. Amounts included in the balance sheet

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:

£m	2018			2017		
	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
Fair value of plan assets	1,103.8	322.8	1,426.6	1,128.9	324.3	1,453.2
Present value of defined benefit obligations	(1,021.5)	(323.9)	(1,345.4)	(1,122.3)	(350.0)	(1,472.3)
Gross actuarial surplus / (deficit)	82.3	(1.1)	81.2	6.6	(25.7)	(19.1)
Additional liability recognised for minimum funding requirements	-	-	-	-	(9.2)	(9.2)
Gross pension asset / (liability) at 31 December	82.3	(1.1)	81.2	6.6	(34.9)	(28.3)
Deferred tax asset / (liability) (note 14)			(15.4)			5.4
Net pension liability at 31 December			65.8			(22.9)

The deferred tax liability of £15.4m has been recognised at the standard rate of corporation tax and not the 35% rate applicable for refunds from pension schemes, as this rate best reflects the rate at which the liability will unwind.

16. Pension arrangements (continued)

c. Amounts included in the balance sheet (continued)

£m	2018			2017		
	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
At 1 January actuarial (deficit) / asset	6.6	(25.7)	(19.1)	(61.7)	(65.6)	(127.3)
Additional liability recognised for minimum funding requirements	-	(9.2)	(9.2)	-	-	-
	6.6	(34.9)	(28.3)	(61.7)	(65.6)	(127.3)
Current service costs and administration expenses charged to the income statement	(4.4)	(2.1)	(6.5)	(7.0)	(2.6)	(9.6)
Past service costs	(4.4)	(0.5)	(4.9)	-	-	-
Net interest income / (expense)	1.2	(0.8)	0.4	(1.5)	(1.6)	(3.1)
Contributions from sponsoring companies	5.1	13.4	18.5	7.0	13.9	20.9
Return on plan assets (excluding amounts included in net interest)	(15.7)	(10.1)	(25.8)	56.7	24.2	80.9
Actuarial gain / (loss) arising from changes in demographic assumptions	3.3	(7.3)	(4.0)	20.2	6.6	26.8
Actuarial gain / (loss) arising from changes in financial assumptions	74.5	25.0	99.5	(2.2)	1.1	(1.1)
Actuarial gain / (loss) arising from experience adjustments	16.1	7.0	23.1	(4.9)	(1.7)	(6.6)
Reduction / (increase) in minimum funding requirement liability	-	9.2	9.2	-	(9.2)	(9.2)
Gross pension asset / (liability) at 31 December	82.3	(1.1)	81.2	6.6	(34.9)	(28.3)

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:

£m	At 31 December 2018		At 31 December 2017	
	TP Schemes	BSS Schemes	TP Schemes	BSS Schemes
Level 1:				
Cash	2.0	1.3	1.3	2.5
Level 2:				
Equities	104.4	36.6	123.5	39.5
Secured finance	109.0	28.8	106.7	28.2
Corporate bonds	319.6	98.8	336.3	99.3
Diversified growth fund	108.7	31.5	115.1	39.6
Liability driven investments	712.9	267.0	620.3	184.2
Repurchase agreements	(388.3)	(169.6)	(288.3)	(88.9)
Property	98.9	28.4	73.1	19.9
Level 3:				
SPV asset	36.6	-	15.3	-
Other	-	-	25.6	-
	1,103.8	322.8	1,128.9	324.3

16. Pension arrangements (continued)

e. Actual return on scheme assets

	2018		2017	
	£m	%	£m	%
TP Schemes	13.8	1.2	84.8	7.9
BSS Schemes	(1.5)	(0.5)	31.8	10.9

f. Movements in the fair value of scheme assets

	2018			2017		
£m	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
At 1 January	1,128.9	324.3	1,453.2	1,076.9	291.5	1,368.4
Interest on scheme assets	29.5	8.6	38.1	28.1	7.6	35.7
Return on scheme assets not including interest	(15.7)	(10.1)	(25.8)	56.7	24.2	80.9
Foreign exchange	-	0.2	0.2	-	0.4	0.4
Administration expenses	(1.5)	(0.7)	(2.2)	(0.8)	(0.1)	(0.9)
Contributions from sponsoring companies	5.1	13.4	18.5	7.0	13.9	20.9
Contributions from members	0.2	0.1	0.3	0.2	0.1	0.3
Benefits paid	(42.7)	(13.0)	(55.7)	(39.2)	(13.3)	(52.5)
At 31 December	1,103.8	322.8	1,426.6	1,128.9	324.3	1,453.2

g. Movements in the present value of defined benefit obligations

	2018			2017		
£m	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
At 1 January	(1,122.3)	(350.0)	(1,472.3)	(1,138.6)	(357.1)	(1,495.7)
Service cost	(3.4)	(1.5)	(4.9)	(6.2)	(2.5)	(8.7)
Past service costs	(3.9)	(0.5)	(4.4)	-	-	-
Interest cost	(28.3)	(8.7)	(37.0)	(29.6)	(9.2)	(38.8)
Foreign exchange	-	(0.1)	(0.1)	-	(0.4)	(0.4)
Contributions from members	(0.2)	(0.1)	(0.3)	(0.2)	(0.1)	(0.3)
Experience adjustments	16.1	7.0	23.1	(4.9)	(1.7)	(6.6)
Actuarial gain / (loss) arising from changes in demographic assumptions	3.3	(7.3)	(4.0)	20.2	6.6	26.8
Actuarial gain / (loss) arising from changes in financial assumptions	74.5	24.3	98.8	(2.2)	1.1	(1.1)
Benefits paid	42.7	13.0	55.7	39.2	13.3	52.5
At 31 December	(1,021.5)	(323.9)	(1,345.4)	(1,122.3)	(350.0)	(1,472.3)

16. Pension arrangements (continued)

h. Amounts recognised in the statement of other comprehensive income

£m	2018			2017		
	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
Return on scheme assets (excluding amounts included in net interest)	(15.7)	(10.1)	(25.8)	56.7	24.2	80.9
Actuarial gain / (loss) arising from changes in demographic assumptions	3.3	(7.3)	(4.0)	20.2	6.6	26.8
Actuarial gain / (loss) arising from changes in financial assumptions	74.5	25.0	99.5	(2.2)	1.1	(1.1)
Actuarial gain / (loss) arising from experience adjustments	16.1	7.0	23.1	(4.9)	(1.7)	(6.6)
Reduction / (increase) in minimum funding requirement liability	-	9.2	9.2	-	(9.2)	(9.2)
Remeasurement of net defined pension liability	78.2	23.8	102.0	69.8	21.0	90.8

i. Maturity profile of obligations

The maturity profile and weighted average duration of the defined benefit obligations for the schemes are as follows:

	2018			2017	
	TP Schemes	BSS Schemes		TP Schemes	BSS Schemes
2018 - 2027	18.0%	18.5%	2017 - 2026	17.0%	16.6%
2028 - 2037	25.8%	25.5%	2027 - 2036	24.5%	25.1%
2038 - 2047	25.0%	24.5%	2037 - 2046	24.6%	25.4%
2048 - 2057	19.0%	18.9%	2047 - 2056	19.6%	19.8%
2058 - 2067	9.7%	9.7%	2057 - 2066	10.7%	10.4%
2068 - 2077	2.3%	2.6%	2067 - 2076	3.1%	2.6%
2078 - 2087	0.2%	0.3%	2077 - 2086	0.4%	0.2%
Weighted average duration	18.5 years	18.7 years	Weighted average duration	19.8 years	19.8 years

j. Sensitivities

The estimated effects of changing the key assumptions (discount rate, inflation and life expectancy) on the IAS 19 - Employee Benefits (revised 2011) balance sheet position as at 31 December 2018 is given below.

£m		TP Schemes	BSS Schemes
Assumption			
Discount rate	Increase of 0.1%	18	6
	Decrease of 0.1%	(19)	(6)
Inflation	Increase of 0.1%	(12)	(5)
	Decrease of 0.1%	8	3
Longevity	Increase of 1 year	(32)	(10)
	Decrease of 1 year	28	9

16. Pension arrangements (continued)

k. Defined contribution schemes

The Group operates two defined contribution schemes for all qualifying employees. The pension cost, which represents contributions payable by the Group, amounted to £17.0m (2017: £17.3m).

l. Pension scheme contributions for year

The total charge to the income statement disclosed in note 4 of £23.5m (2017: £26.9m) comprises defined benefit scheme current service costs of £6.5m (2017: £9.6m) and £17.0m (2017: £17.3m) of contributions payable to the defined contribution schemes.

m. Reassessment of right to refund

The Group previously assessed that it had no unconditional right to receive any surplus in a winding up of the BSS DB Scheme and accordingly the pension obligation recognised in the financial statements was the higher of the IAS 19 obligation and the net present value of future minimum funding payments to which the Group was unconditionally committed, discounted using the IAS 19 discount rate.

In 2018 further legal advice was received on the applicability of IFRIC 14 to this scheme and, based on an analysis of the operation of law in the event of a winding up of the scheme on the resulting trust, the Directors concluded that the Group has an unconditional right to receive any surplus in a winding up of the scheme following a gradual settlement which has triggered a reassessment of the IAS 19 obligation.

The additional minimum funding requirement liability recognised compared to the IAS 19 obligation at 31 December 2017 was £9.2m and this had arisen through a cumulative charge of £9.2m in the statement of other comprehensive income. It had no impact on the income statement for the year ended 31 December 2017. In accordance with the requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, as the impact on the 2017 financial statements was considered immaterial the comparative period has not been restated and the impact of this change has been recognised in 2018.

The impact of this reassessed judgement is a remeasurement credit of the net defined benefit pension liability of £9.2m in the statement of other comprehensive income in 2018 and a consequential reduction in the obligation recognised.

Key estimate over 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. The sensitivity of the balance sheet position to changes in key assumptions is disclosed in note 16(j).

17. Share capital and reserves

Accounting policy

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.

a. Share capital

	The Group and the Company Issued and fully paid	
	No.	£m
Ordinary shares of 10p		
At 1 January 2017	250,804,680	25.1
Allotted under share option schemes	1,190,028	0.1
At 1 January 2018	251,994,708	25.2
Allotted under share option schemes	149,215	-
At 31 December 2018	252,143,923	25.2

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

17. Share capital and reserves (continued)

b. Own Shares

No.	The Group and the Company	
	2018	2017
At 1 January	1,216,331	729,680
Acquired	3,503,378	1,295,639
Reissued	(915,878)	(808,988)
At 31 December	3,803,831	1,216,331

None of the own shares have been allocated to grants of executive options. The own shares are stated at cost and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes. All rights attaching to own shares are suspended until the shares are reissued.

Details of all movements in reserves for both the Group and Company are shown in their respective Statement of Changes in Equity.

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.

c. Reserves

A description of the nature and purpose of each reserve is given below:

- The merger reserve represents the premium on equity instruments issued as consideration for the acquisition of BSS
- The revaluation reserve represents the revaluation surplus that arose from property revaluations in 1999 and prior years
- The own shares reserve represents the cost of shares purchased in the market and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes
- The other reserve represents anticipated gross outflow on the potential exercise of the put options held over the non-controlled shareholdings in TF Solutions and National Shower Spares

18. Earnings per share

a. Basic and diluted earnings per share

£m	2018	2017
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	(85.6)	232.8
Weighted average number of shares for the purposes of basic earnings per share	248,681,183	250,100,896
Dilutive effect of share options on potential ordinary shares	345,820	2,468,248
Weighted average number of ordinary shares for the purposes of diluted earnings per share	249,027,003	252,569,144
(Loss) / earnings per share	(34.4)p	93.1p
Diluted (loss) / earnings per share	(34.4)p	92.2p

5,284,836 share options (2017: 978,010 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.

18. Earnings per share (continued)

b. Adjusted earnings per share

Adjusted earnings per share is calculated by excluding the effect of adjusting items and amortisation of acquired intangible assets from earnings.

£m	2018	2017
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	(85.6)	232.8
Adjusting items	386.7	40.9
Amortisation of acquired intangible assets	9.5	12.3
Tax on adjusting items	(24.2)	(7.8)
Tax on amortisation of acquired intangible assets	(1.6)	(2.1)
Adjusted earnings	284.8	276.1
Adjusted earnings per share	114.5p	110.4p
Adjusted diluted earnings per share	114.4p	109.3p

19. Dividends

Accounting policy

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.

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

£m	2018	2017
Final dividend for the year ended 31 December 2017 of 30.50p (2016: 29.75p) per ordinary share	75.6	74.7
Interim dividend for the year ended 31 December 2018 of 15.50p (2017: 15.50p) per ordinary share	38.5	38.3
Total dividend recognised during the year	114.1	113.0

The Directors are recommending a final dividend of 31.5p in respect of the year ended 31 December 2018. The anticipated cash payment in respect of the proposed final dividend is £79.4m (2017: £76.9m).

There are no income tax consequences in respect of the dividends declared, but not recognised in the financial statements.

The dividends for 2018 and for 2017 were as follows:

Pence	2018	2017
Interim paid	15.5	15.5
Final proposed	31.5	30.5
Total dividend for the year	47.0	46.0

Distributable reserves

The distributable reserves of the Company approximate to the accumulated profits of £693.4m (2017: £740.5m). When required the Company can receive dividends from its subsidiaries to further increase distributable reserves. In 2018 the Company received £385.8m of dividends from its subsidiaries (2017: £323.7m). A corporate restructuring exercise was undertaken in 2018 to maximise the Company's ability to receive dividends from its subsidiaries.

20. Borrowings

Accounting policy

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.

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 34 to 41. At 31 December 2018 all borrowings were denominated in Sterling (2017: Sterling).

a. Summary

£m	The Group		The Company	
	2018	2017	2018	2017
Liability to pension scheme (note 21a)	32.8	33.7	-	-
Sterling bonds	559.2	562.6	559.2	562.6
Finance leases (note 20d)	21.0	27.5	-	-
Finance charges netted off borrowings	(4.0)	(5.5)	(4.0)	(5.5)
	609.0	618.3	555.2	557.1
Current liabilities	3.8	6.2	-	-
Non-current liabilities	605.2	612.1	555.2	557.1
	609.0	618.3	555.2	557.1

b. Analysis of other borrowings

£m	The Group	
	2018	2017 *restated
Borrowings repayable:		
On demand or within one year	3.8	6.2
More than one year, but not more than five years	572.8	279.3
More than five years	36.4	338.3
Gross borrowings	613.0	623.8
Unamortised fees	(4.0)	(5.5)
	609.0	618.3

£m	The Company	
	2018	2017 *restated
Borrowings repayable:		
More than one year, but not more than five years	559.2	262.6
Gross borrowings repayable in more than five years	-	300.0
Unamortised fees	(4.0)	(5.5)
	555.2	557.1

*Restated to correct the ageing classification of borrowing.

20. Borrowings (continued)

c. Facilities

At 31 December 2018, the following facilities were available:

£m	The Group		The Company	
	2018	2017	2018	2017
Drawn facilities:				
£250m Sterling bond	259.2	262.6	259.2	262.6
£300m Sterling bond	300.0	300.0	300.0	300.0
	559.2	562.6	559.2	562.6
Undrawn facilities:				
5 year committed revolving credit facility	550.0	550.0	550.0	550.0
Bank overdrafts	30.0	30.0	30.0	30.0
	580.0	580.0	580.0	580.0

The Group's £550m banking agreement with a syndicate of banks was replaced in January 2019 with a new £400m agreement that runs until January 2024. The disclosures in note 20(c) do not include finance leases, loan notes, or the effect of finance charges netted off bank debt.

d. Obligations under finance leases

£m	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	2018	2017
Amounts payable under finance leases:				
Within one year	4.4	7.0	3.8	6.2
In the second to fifth years inclusive	14.9	18.4	13.6	16.7
After five years	6.7	7.8	3.6	4.6
	26.0	33.2	21.0	27.5
Less: future finance charges	(5.0)	(5.7)	-	-
Present value of lease obligations	21.0	27.5	21.0	27.5
Less: Amount due for settlement within one year (shown under current liabilities)			(3.8)	(6.2)
Amount due for settlement after one year			17.2	21.3

The average loan term for properties held under finance leases is 48 years (2017: 49 years). 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.

20. Borrowings (continued)

e. Interest

The weighted average interest rates received on assets and paid on liabilities were as follows:

%	2018	2017
Assets:		
Short-term deposits	0.7	0.3
Liabilities:		
£250m Sterling bond	3.0	3.0
£300m Sterling bond	4.5	4.5
Bank loans and overdrafts	1.8	1.1

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date. All assets and liabilities reprice within six months.

	The Group and the Company			
	2018		2017	
	Effective interest rate	£m	Effective interest rate	£m
Assets:				
Short-term deposits	0.7%	190.0	0.5%	215.0
Liabilities:				
£250m Sterling bond	4.4%	259.2	4.4%	262.6
£300m Sterling bond	4.5%	300.0	4.5%	300.0
		559.2		562.6

f. Fair values

For both the Group and the Company the fair values of financial assets and liabilities have been determined based on the market prices 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 26.

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 and Keyline Builders Merchants Limited are guarantors of the following facilities advanced to Travis Perkins plc:

- £250m Sterling bond
- £300m Sterling bond
- £550m revolving credit facility
- Currency derivatives (note 26)

The Group companies have entered into other guarantee and counter-indemnity arrangements in respect of guarantees issued in favour of Group companies by several banks amounting to approximately £25m (2017: £22m).

In January 2019 the Group renegotiated its revolving credit facility and as a result there was a change in the guarantors of the above facilities. The new guarantors are: Travis Perkins Trading Company Limited, Wickes Building Supplies Limited, Travis Perkins (Properties) Limited, Keyline Builders Merchants Limited, Toolstation Limited, The BSS Group Limited and City Plumbing Supplies Holdings Limited.

21. Net debt

Accounting policy

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.

a. Movement in net debt

	The Group					Total
	Cash and cash equivalents	Finance leases	Term loan and revolving credit facility and loan notes	Unsecured senior US\$ notes and Sterling bonds	Liability to pension scheme	
£m						
At 1 January 2017	(250.5)	34.5	(3.0)	562.0	34.5	377.5
Cash flow	(26.3)	(7.0)	-	-	(3.2)	(36.5)
Finance charges movement	-	-	0.8	0.7	-	1.5
Amortisation of swap cancellation receipt	-	-	-	(3.4)	-	(3.4)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	2.4
At 1 January 2018	(276.8)	27.5	(2.2)	559.3	33.7	341.5
Cash flow	21.4	(6.5)	-	-	3.3	18.2
Finance charges movement	-	-	0.8	0.7	-	1.5
Amortisation of swap cancellation receipt	-	-	-	(3.4)	-	(3.4)
Discount unwind on liability to pension scheme	-	-	-	-	(4.2)	(4.2)
31 December 2018	(255.4)	21.0	(1.4)	556.6	32.8	353.6

b. Balances at 31 December

£m	The Group	
	2018	2017
Cash and cash equivalents	255.4	276.8
Non-current interest bearing loans and borrowings	(605.2)	(612.1)
Current interest bearing loans and borrowings	(3.8)	(6.2)
Net debt	(353.6)	(341.5)
Finance leases arising from the implementation of IAS 17 - Leases	8.0	9.5
Liability to pension scheme	32.8	33.7
Finance charges netted off borrowings	(4.0)	(5.5)
Net debt under covenant calculations	(316.8)	(303.8)

22. Free cash flow

£m	The Group	
	2018	2017
Net debt before exchange and fair value adjustments at 1 January	(341.5)	(377.5)
Net debt before exchange and fair value adjustments at 31 December	(353.6)	(341.5)
Increase in net debt before exchange and fair value adjustments	(12.1)	36.0
Dividends paid	116.1	113.0
Net cash outflow for expansion capital expenditure and related items*	134.9	201.5
Net cash outflow for acquisitions	3.0	9.7
Net cashflow for investments	-	(0.3)
Disposal of business	(9.0)	-
Amortisation of swap cancellation receipt	(3.4)	(3.4)
Discount unwind on liability to pension scheme	2.3	2.4
Cash impact of adjusting items	40.6	20.2
Interest in associates	17.6	11.3
Purchase of shares	43.4	19.2
Shares issued	(2.0)	(15.0)
Movement in finance charges netted off bank debt	1.5	1.5
Special pension contributions	7.2	11.3
Free cash flow	340.1	407.4

*Expansion capital expenditure includes £nil (2017: £22.1m) in relation to the development of cloud-based software classified as a non-current prepayment (note 12).

Net debt is reconciled to the financial statements in note 21(b).

23. Lease-adjusted gearing

£m	The Group	
	2018	2017
Net debt	353.6	341.5
Property operating lease rentals x8	1,479.2	1,524.8
Lease-adjusted net debt	1,832.8	1,866.3
Property operating lease rentals x8	1,479.2	1,524.8
Closing net assets	2,717.7	2,860.3
Lease-adjusted equity	4,196.9	4,385.1
Gearing	43.7%	42.6%

The impact of the adoption of IFRS 16 - Leases on 1 January 2019 on the Group is discussed in note 39(a).

24. Leverage ratios

a. Net debt to adjusted EBITDA

The adjusted ratio of net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA"):

£m	The Group	
	2018	2017
(Loss) / profit before tax	(49.4)	289.7
Net finance costs	23.7	35.0
Depreciation and amortisation	126.0	126.9
EBITDA	100.3	451.6
Adjusting operating items	386.7	40.9
Adjusted EBITDA under covenant calculations	487.0	492.5
Net debt under covenant calculations (note 21b)	316.8	303.8
Adjusted net debt to EBITDA under covenant calculations	0.65x	0.62x

b. Lease adjusted net debt to adjusted EBITDAR

The adjusted ratio of lease adjusted net debt to earnings before interest, tax, depreciation, amortisation and operating lease rentals ("EBITDAR"):

£m	The Group	
	2018	2017
Adjusted EBITDA under covenant calculations	487.0	492.5
Share of associates' results	4.0	2.2
Property operating lease rentals net of rent receivable	184.9	190.6
Adjusted EBITDAR	675.9	685.3
Net debt	353.6	341.5
Property lease rentals x8	1,479.2	1,524.8
Lease adjusted net debt	1,832.8	1,866.3
Lease adjusted net debt to adjusted EBITDAR	2.7x	2.7x

c. Fixed charge cover

£m	The Group	
	2018	2017
Adjusted EBITDAR	675.9	685.3
Property operating lease rentals net of rent receivable	184.9	190.6
Interest for fixed charge cover calculation (note 6b)	26.2	28.3
	211.1	218.9
Fixed charge cover net of rent receivable	3.2x	3.1x

25. Return on capital ratios

Group return on capital employed is calculated as follows:

£m	2018	2017 *restated
Operating profit	(21.7)	326.9
Amortisation of acquired intangible assets	9.5	12.3
Adjusting items	386.7	40.9
Adjusted operating profit	374.5	380.1
Opening net assets	2,860.3	2,655.6
Net pension deficit	22.9	103.2
Net debt before exchange and fair value adjustments	341.5	377.5
Exchange and fair value adjustment	-	-
Goodwill amortisation and impairment	(252.1)	(252.1)
Tax on impairment of goodwill and intangibles	-	-
Opening capital employed	2,972.6	2,884.2
Closing net assets	2,717.7	2,860.3
Net pension (surplus) / deficit	(65.8)	22.9
Net debt	353.6	341.5
Goodwill amortisation and impairment	-	(252.1)
Closing capital employed	3,005.5	2,972.6
Average capital employed	2,989.0	2,928.4

Group lease adjusted return on capital employed is calculated as follows:

£m	2018	2017 *restated
Adjusted operating profit	374.5	380.1
50% of property operating lease rentals	92.5	95.3
Lease adjusted operating profit	467.0	475.4
Average capital employed	2,989.0	2,928.4
Property operating lease rentals x8	1,479.2	1,524.8
Lease adjusted capital employed	4,468.2	4,453.2
Lease adjusted return on capital employed	10.5%	10.7%

*Goodwill amortisation and impairment restated to include 2018 impairment for comparability purposes.

The anticipated impact of implementation of IFRS 16 on return on capital ratios is disclosed in note 39(a).

26. Financial instruments

Accounting policy**Investments and other financial assets****Classification:**

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income "FVOCI", or through profit or loss "FVTPL"); and
- those to be measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTPL or at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement:

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in finance income or finance costs, together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the income statement.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in finance income or finance costs in the income statement as applicable. Impairment losses (and the reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Put options on non-controlling interests

Put options on non-controlling interests are initially recognised directly in equity at the present value of the redemption liability. Subsequent movements in fair value are recognised directly in equity.

Impairment:

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9 - Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Derivative financial instruments and hedge accounting

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

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

Foreign currency forward contracts are marked-to-market at the balance sheet date, with any gains or losses being taken through the income statement.

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.

26. Financial instruments (continued)

a. Impact of adoption of IFRS 9 - Financial instruments

As at 1 January 2018 (the date of initial application of IFRS 9 - Financial Instruments) the Group's management assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 - Financial Instruments categories. The main effects resulting from this reclassification are as follows:

	Note	Original classification	New classification under IFRS 9 - Financial Instruments
Financial Assets:			
Derivative financial instruments	a	Designated as FVTPL	Mandatorily at FVTPL
Cash and cash equivalents		Available-for-sale	Amortised cost
Trade and other receivables	b	Loans and receivables	Amortised cost
Available-for-sale investments	c	Available-for-sale	Designated instrument by instrument as either FVOCI or FVTPL
Financial Liabilities:			
Derivative financial instruments	a	Designated as FVTPL	Mandatorily at FVTPL

- a Under IAS 39 - Financial Instruments: Recognition and Measurement, these foreign currency forward contracts were designated as fair value through profit and loss (FVTPL) because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9 - Financial Instruments.
- b Trade and other receivables that were classified as loans and receivables under IAS 39 - Financial Instruments: Recognition and Measurement are now classified at amortised cost as the business model is to hold the financial asset to collect contractual cash flows which represent solely the payment of principal and interest. An increase of £2.4m in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9 - Financial Instruments.
- c These equity securities represent investments that the Group intends to hold for the long-term for strategic purposes. As permitted by IFRS 9 - Financial Instruments, the Group has designated these investments on an instrument by instrument basis as either fair value through other comprehensive income ("FVTOCI") or FVTPL.

b. The carrying value of categories of financial instruments

£m	The Group		The Company	
	2018	2017	2018	2017
Financial assets:				
Mandatorily at FVTPL	0.6	-	0.6	-
Loans and receivables (including cash and cash equivalents) at amortised cost	1,422.3	1,326.0	195.3	230.3
Designated instrument-by-instrument as either FVTPL or FVOCI	2.2	4.7	1.0	1.0
	1,425.1	1,330.7	196.9	231.3
Financial liabilities:				
Mandatorily at FVTPL	-	1.2	-	1.2
Borrowings (note 20a)	609.0	618.3	555.2	557.1
Put options on non-controlling interests	5.6	4.9	5.6	4.9
Trade and other payables at amortised cost (note 15)	1,343.1	1,241.9	-	20.4
	1,957.7	1,866.3	560.8	583.6

Loans and receivables exclude prepayments of £134.6m (2017: £116.2m). Trade and other payables exclude taxation and social security and accruals and deferred income totalling £290.7m (2017: £220.4m). 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.

26. Financial instruments (continued)

c. Fair value of financial instruments

Financial assets and financial liabilities designated as FVTPL comprise foreign currency forward contracts and are measured using quoted forward exchange rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There were no transfers between levels during the year.

£m	The Group		The Company	
	2018	2017	2018	2017
Included in liabilities:				
Level 2				
Foreign currency forward contracts at fair value through profit and loss		1.2		1.2
Level 3				
Deferred consideration at fair value through equity	5.6	4.9	5.6	4.9
	5.6	6.1	5.6	6.1

d. Interest risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts and forward interest rate contracts when appropriate. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles. At 31 December 2018 no interest rate risks were hedged (2017: none).

e. Currency forward contracts

The Group acquires goods for sale from overseas, which when not denominated in Sterling are paid for principally in US dollars. The Group has entered into forward foreign exchange contracts (all of which are less than one year in duration) to buy US dollars to hedge the exchange rate 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\$41.1m (2017: US\$75.8m). The fair value of these derivatives was £0.6m asset (2017: £1.2m liability). These contracts are not designated cash flow hedges and accordingly the fair value movement has been reflected in the income statement.

f. 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 2018 the Group had no floating rate liabilities. There was £190m on short-term deposit at 31 December 2018.

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 2018 would have increased / decreased by £1.9m (2017: increased / decreased by £2.2m) due to the short-term deposits
- Net equity would have increased / decreased by £1.5m (2017: increased / decreased by £1.8m)

26. Financial instruments (continued)

g. 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.

£m	2018				Total
	0-1 year	1-2 years	2-5 years	5+ years	
Total gross settled - foreign exchange forward contracts	(31.5)	-	-	-	(31.5)
Net settled	-	-	-	-	-
Put options on non-controlling interests	-	(5.6)	-	-	(5.6)
Total derivative financial instruments	(31.5)	(5.6)	-	-	(37.1)
Net settled:					
Borrowings	-	-	(559.2)	(32.8)	(592.0)
Trade and other payables at amortised cost (note 26b)	(1,343.1)	-	-	-	(1,343.1)
Finance leases (note 20d)	(4.4)	(4.3)	(10.6)	(6.7)	(26.0)
Total financial instruments	(1,379.0)	(9.9)	(569.8)	(39.5)	(1,998.2)

£m	2017				Total
	0-1 year	1-2 years	2-5 years	5+ years	
Total gross settled - foreign exchange forward contracts	(57.1)	-	-	-	(57.1)
Net settled					
Put options on non-controlling interests	-	(4.9)	-	-	(4.9)
Total derivative financial instruments	(57.1)	(4.9)	-	-	(62.0)
Net settled:					
Borrowings	-	-	-	(596.3)	(596.3)
Trade and other payables at amortised cost (note 26b)	(1,241.9)	-	-	-	(1,241.9)
Finance leases (note 20d)	(7.0)	(4.4)	(14.0)	(7.8)	(33.2)
Total financial instruments	(1,306.0)	(9.3)	(14.0)	(604.1)	(1,933.4)

27. Impairment

Accounting policy

Impairment of tangible and intangible assets

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

Where the carrying value exceeds the recoverable amount a provision for the impairment loss is established with a charge being made to the income statement. When the reasons for a write down no longer exist the write down is

reversed in the income statement up to the net book value that the relevant asset would have had if it had not been written down and if it had been depreciated.

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

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.

Measuring recoverable amounts

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 except for Wickes and Tile Giant as 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 below. The key variables applied to the value in use calculations were:

- Cash flow forecasts, which were derived from the most recent board approved corporate plans updated for changes in current trading conditions.
- The sales market volume assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based on historic performance (excluding future investment and enhancements) and the current outlook for both the UK economy and the UK building materials industry. This is viewed as the key operating assumption because the state of the building materials market determines the Directors' approach to margin and cost maintenance.
- A pre-tax discount rate is calculated by reference to the weighted average cost of capital ("WACC") of the Group. For 2018 the pre-tax discount rate ranged between 8.5% and 9.3% (2017: 8.3% to 8.6%), which is not significantly different for any individual CGU or CGU grouping.

- Cash flows beyond the corporate plan period (2022 and beyond) have been determined using a growth rate of 1.5% (2017: 2.0%). This represents the forecast 2022 GDP growth in the Office for Budget Responsibility's October 2018 Economic and Fiscal Outlook report.

Impairment

As disclosed in 2018 interim financial statements, the Group has recognised an impairment charge in respect of Wickes goodwill of £246.3m due to Wickes underperforming its forecasts. The Directors have revisited the value-in-use calculation for this CGU as at 31 December 2018 and concluded that no further impairment was needed.

An impairment charge of £5.8m was also recognised in relation to Tile Giant goodwill.

Cash generating unit	£m
Wickes	246.3
Tile Giant	5.8
Total	252.1

27. Impairment (continued)

The key variables applied to the value-in-use calculations for Wickes were:

- Cash flow forecasts are risk-adjusted and were derived from the most recent board approved corporate plan, updated for changes in current trading conditions.
- The sales market volume assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based on historical performance (excluding future investment and enhancements) and the current outlook for both the UK economy and the UK DIY market. This is a key operating assumption because the state of the DIY market determines the Directors' approach to margin and cost maintenance.

The performance of kitchen and bathroom sales and forecast cost savings are key drivers of operational cash flows.

- A pre-tax discount rate is calculated by reference to the weighted average cost of capital ("WACC") of the Group calculated with reference to market information and equals 8.65% (2017: 8.58%).
- Cash flows beyond the corporate plan period (2022 and beyond) have been determined using a growth rate of 1.5% (2017: 2.0%). This represents the forecast 2022 GDP growth in the Office for Budget Responsibility's October 2018 Economic and Fiscal Outlook report.

Sensitivity of results to changes in assumptions

Whilst the Directors believe the assumptions are realistic, it is possible that a materially different impairment would have been identified in the impairment review undertaken as at 30 June 2018 if any of the above key assumptions were changed significantly in Wickes value-in-use calculations. The impact on the impairment charge recognised of a change in each assumption, all other assumptions remaining the same, is shown in the table below.

CGU grouping	Terminal value		Discount rate		Long-term growth rate	
	Reduction	Impact	Increase	Impact	Reduction	Impact
Wickes	5%	£30m	1%	£119m	0.5%	£54m

The Directors further conducted a sensitivity analysis on the value-in-use calculation used at 31 December 2018 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 fixed assets equalling their recoverable amounts. These are shown in the following table.

CGU grouping	Headroom	Like-for-like market volume		Discount rate		Long-term growth rate	
		Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
Wickes	£16m	1.5	1.4	8.65%	8.81%	1.50%	1.35%

The impairment review calculations are based upon anticipated discounted future cash flows. For all other material 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.

Key estimates over assumptions used in value-in-use calculations

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

The pre-tax discount rate is derived from the Group's weighted average cost of capital ("WACC") calculated by the Group's advisors. The WACC is based upon the risk free rate for twenty-year UK gilts, adjusted for the UK market risk premium, which reflects the increased risk of investing in UK equities and the relative volatilities of the equity of the Group compared to the market as a whole. The Directors have applied risk-based adjustments to cash flows to reflect their view of the relative risk of the Group's operations.

Key judgement over cash generating unit

In the Directors' judgement individual assets do not generate cash flows that are largely independent of those from other assets. Consequently each branch or distribution network in the Group is a cash generating unit ("CGU") for the purposes of impairment testing of property, plant and equipment. Goodwill and other intangibles impairment testing is carried out at brand level as described in note 8. Different judgements on the definition of the Group's CGUs and the levels at which impairment testing should be performed could result in material differences in the conclusions of the Group's impairment testing.

28. Operating lease arrangements

Accounting policy

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

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

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

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

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

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 15 - 25 years in duration, although some have lessee-only break clauses of between 5 and 10 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

£m	2018	2017
Minimum lease payments under equipment operating leases recognised in income for the year	35.7	34.7
Minimum lease payments under property operating leases recognised in income for the year	194.5	196.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable 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 does not include the effect of possible lease renewals:

£m	2018	2017
Within one year	204.0	200.8
In the second to fifth years inclusive	684.1	668.2
After five years	909.6	963.1
	1,797.7	1,832.1

28. Operating lease arrangements (continued)

b. The Group as lessor

The Group leases a number of ex-trading properties and surplus units in trade parks owned by Group to third parties. Property rental income earned during the year in respect of these properties was £5.6m (2016: £5.7m).

At the balance sheet date, the Group had contracts with lessees for the following future minimum lease payments:

£m	2018	2017
Within one year	6.1	5.6
In the second to fifth years inclusive	16.0	14.6
After five years	14.0	14.1
	36.1	34.3

29. Capital commitments

	The Group		The Company	
£m	2018	2017	2018	2017
Contracted for but not provided in the accounts	20.7	46.4	-	-

30. Investments

a. Interest in associates

The reconciliation of interests in associates is given below:

	The Group	
£m	2018	2017
At 1 January	20.3	11.5
Additions to investments	21.0	11.3
Disposal of investments	(0.6)	-
Impairment of investments	(2.5)	-
Dividends received	-	(0.3)
Share of losses	(4.0)	(2.2)
At 31 December	34.2	20.3

Travis Perkins plc holds a 34% investment in The Mosaic Tile Company Limited, a 49% investment in Toriga Limited and a 47.5% investment in Toolstation Europe Limited. The interest in associates includes £44.9m (2017: £27.0m) of loans. 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 and liabilities are as follows:

	The Group	
£m	2018	2017
Current assets	25.6	20.6
Current liabilities	(14.6)	(10.9)
Non-current assets	6.1	3.8
Non-current liabilities	-	(1.3)
Net assets	17.1	12.2
Group share of net assets	7.8	6.0
Goodwill	26.4	14.3
Carrying amount of investment in associates	34.2	20.3

30. Investments (continued)

The Group's share of associates' income and expenses are as follows:

£m	The Group	
	2018	2017
Income	53.9	40.5
Expense	(63.6)	(45.1)
Net expense of equity accounted investments	(9.7)	(4.6)
Group share of revenue	22.2	19.9
Group share of net expense	(26.2)	(22.1)

The Group owns 47.5% of the ordinary share capital of Toolstation Europe and has an option to acquire a majority equity stake in 2020. The Directors have considered whether the Group has a current ability to direct the relevant activities of Toolstation Europe and as a result has control per the definition of IFRS 10 – Consolidated Financial Statements. As the option is not currently exercisable and as the Group's loans do not confer substantive rights, the Directors concluded that it does not control Toolstation Europe. The Group has significant influence and accordingly the Group has continued to equity account for its investment in Toolstation Europe.

b. Investment in subsidiaries

£m	The Company	
	2018	2017
Cost		
At 1 January	3,875.2	3,855.8
Additions	19.7	19.4
At 31 December	3,894.9	3,875.2
Provision for impairment	(336.6)	(60.9)
Net book value at 31 December	3,558.3	3,814.3

During 2017 the Company acquired control of 75% of the issued share capital of National Shower Spares Limited and 77.5% of the issued share capital of TFS Holdings Limited, see note 31 for further details.

In 2018 the Group recognised an impairment charge in respect of Wickes and its tile businesses (note 27). The associated impairment was recognised on the Company's investments.

A full listing of all related undertakings is provided in note 33.

c. Investments

£m	The Group		The Company	
	2018	2017	2018	2017
Equity securities designated as FVTPL				
Investments in property entities	1.2	3.7	-	-
Shares held in invested entities	1.0	1.0	1.0	1.0
Loans receivable at amortised cost:				
Loans to property entities	0.8	1.3	-	-
Loans to invested entities	3.6	3.5	3.6	3.5
	6.6	9.5	4.6	4.5

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%.

31. Acquisition of businesses

Accounting policy

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 – Business Combinations 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.

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

On 28 September 2018 the Group acquired 100% of the issued share capital of E. East & Son Limited for total consideration of £3.0m, all satisfied by cash. The net assets acquired totalled £0.9m and goodwill of £2.1m was recognised as a result of these transactions.

On 13 October 2017 the Group acquired control of 75% of the issued share capital of National Shower Spares Limited, a leading online retailer of shower spares, for total cash consideration of £2.7m. On 28 April 2017 the Group acquired 77.5% of the issued share capital of TFS Holdings Limited, an air conditioning and refrigeration distributor, for total cash consideration of £7.8m. All acquisitions were accounted for using the purchase method of accounting. The net assets acquired totalled £2.8m and £10.9m of goodwill and a non-controlling interest of £3.2m have been

recognised. The goodwill represents the benefits from forecast growth and the assembled workforces. A non-current liability of £4.9m has been recognised in respect of put options on the non-controlling interests. For the period from acquisition the combined revenue and operating profit for the above acquisitions total £12.6m and £1.4m respectively. If the acquisitions had been completed on the first day of 2017, Group revenue would have been £6,443.5m and Group operating profit for 2017 would have been £327.8m.

On 2 January 2019 the Group acquired the remaining 25% of the issued share capital of National Shower Spares Limited for total cash consideration of £1.3m. This is a non-adjusting post balance sheet event.

32. Sale of business

On 30 September 2018 the Group sold the trade and assets of Birchwood Price Tools business for the total cash consideration of £9.0m, generating a loss on disposal of £10.3m, which has been disclosed as an adjusting item. Total net assets sold consist of £12.5m of working capital, £0.6m of other debtors and other creditors and £0.3m of fixed assets. As a result of the above disposal £5.9m of Group's intangible fixed assets were derecognised.

The disposal is not a discontinued operation under IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations as the sale of Birchwood Price Tools does not represent either a separate major line of the Group or a geographical area of operations.

33. 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	TP Property Company Limited
CCF Limited	Travis Perkins (Properties) Limited
City Plumbing Supplies Holdings Limited	Travis Perkins (PSL2015) Limited
Connections (AML) Limited	Travis Perkins Acquisitions Company Limited
E.East & Son Limited ¹³	Travis Perkins Finance Company Limited
Hunter Estates Limited	Travis Perkins Financing Company No.2 Limited
IJM Enterprises Limited	Travis Perkins Leasing Company Limited
Keyline Builders Merchants Limited ¹	Travis Perkins P&H Holdings Limited
Primaflow Limited	Travis Perkins P&H Partner Limited
PTS Group Limited	Travis Perkins Plumbing & Heating LLP
Rudridge Limited	Travis Perkins Trading Company Limited
Solfex Limited	Wickes Building Supplies Limited
The Cobtree Scottish Limited Partnership ¹	Wickes Developments Limited
Tile Giant Limited	Wickes Properties Limited

Dormant & non-trading subsidiary companies (100% ownership and UK registered)

A. Warren & Sons Limited	City Plumbing Supplies (Salisbury) Limited
A.M. Supplies (Pumps And Controls) Limited	City Plumbing Supplies (Scotland) Limited
Actionbridge Limited	City Plumbing Supplies Limited
Ahed Limited	Cobtree Nominees Limited
Angelery Limited	Commercial Ceiling Factors (Midlands) Limited
B. & G. (Heating & Plumbing) Limited	Commercial Ceiling Factors Limited
Baird Lindsay Limited ¹	Contract Supplies (North East) Limited
Basic Partition Systems Limited	Coppas Controls (Uk) Limited
Basildon Heating Services Limited	County Hire Services (Wollaton) Limited
Blandford Builders & Decorators Merchants Limited	County Landscape Products Limited
Blyth & Taylor (Hants) Limited	Curran Sawmills Limited - The ⁵
BMSS Limited	D.W. Archer Limited
Bondco 909 Limited	Direct Building Supplies Truro Limited
Bonham Lilley Timber Limited	Direct Heating Spares Limited
Border Building Supplies Limited	Domestic Heating Supplies (Warrington) Limited
Boston (2011) Limited	Downpatrick Timber Slate and Coal Company Limited ⁵
Boxbrook Holdings Limited	Dyfed Building and Plastic Supplies Limited
Brasscapri Limited	E Fletcher (Timber) Limited
Brassware Sales Limited	E. Salisbury Limited
British Steam Specialties (International) Limited(The)	Edward Henthorne and Company Limited
British Steam Specialties Limited(The)	Edward Jones (Crowthorne) Limited
Broombys Limited	Edwards & Company (Longfield) Limited
Bss (UK) Limited	Elecnation Limited
BSS GPS Trustee 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	Gammon & Smith Limited
C.H.Crees and Son Limited	Garratt Timber Supplies Limited
Carmichael Browne Associates Limited	Gestion Toolstation inc. ¹²
Central England Supplies Ltd	Gisowatt Uk Limited
Chandler Forest Products Limited	Graylin Limited
Chinnor Plumbing Supplies Limited	Greenwell Building Supplies Limited
Christie & Vesey Limited	Grundy & Pilling Limited
City Plumbing Supplies (Poole) Limited	

33. Related undertakings (continued)

Dormant & non-trading subsidiary companies (100% ownership and UK registered) continued

Hardleys Timber & Building Supplies Ltd.	Price & Brown (Heating) Limited
Harris of Stinchley Limited	Price Tool Sales Limited
Harrison Trenery Limited	Primaflow (Birmingham) Limited
Harvey Building Supplies (Scotland) Limited	Property Newco Two Limited
Heatek Labone Cadel Limited	R A Thomas (Joinery) Limited
HT (1995) Limited	Renpye Limited
HTG (1996) Limited	S & M Bathrooms Limited
Hunter Limited	S & M Builders Merchant (Batley) Limited
IJM Holdings Limited	Sandell Perkins + Newmans Limited
Index Timber & Building Supplies Limited ¹	Seales McLean Limited
Instox Limited	Ses Southern Limited
Ivco Process Valves Limited	Sharpe & Fisher (1989) Limited
J & B. Labone Limited	Sharpe & Fisher (Building Supplies) Limited
J T Stanton & Co., Limited	Sharpe & Fisher (Properties) Limited
J.H. Walker & Co. (York) Limited	Sharpe & Fisher Limited
James Ladd & Sons (Property) Limited	Shires Timber Co. Ltd
James Ladd & Sons Limited	Simmons of Stoke-On-Trent Limited
Jayhard Holdings Limited	SLBM Systems Limited
Jayhard Ltd	Smiths Building Supplies Limited
John Clements (Builders Merchants) Limited	Spendlove C. Jebb ⁷
John Dove & Co.Limited	Spendlove C. Jebb Holdings Limited
John H. Turner & Lisney Limited	Stearns (Shipton Green) Limited
Joseph Spark & Son Limited	T & T (Sussex) Plant Hire Limited
K X Company Limited	T Butt & Son Limited
KA Venture Limited	T J Willets (Timber) Limited
Kelmar (Plumbing & Heating Supplies) Limited	Tavistock Building Supplies Limited
Keyline (CML) Limited	Taylor Building Supplies Ltd
Kisling Limited	Terant Supplies Limited
Lord Street Building Supplies (Leigh) Limited	THE BSS GROUP LIMITED
M & H (North East) Limited	The Yard Building Supplies Limited
M G Bailey (Building Materials) Limited	Tile Beta Limited
Malden Timber (West) Limited	Tile Delta Limited
Manor Building & Plumbing Supplies Limited	Tile Giant Holdings Limited
Manor Copper Supplies Limited	Tile HQ Limited
May & Hassell (Cumbria) Limited	Tile It All (UK) Limited
May & Hassell (North West) Limited	Tile Magic Holdings Limited
May & Hassell (Scotland) Limited ¹	Tile Magic Limited
May & Hassell Limited	TP Directors Ltd
Mayalls Limited	TP General Partner (Scotland) Limited ¹
MD (1995) Group Limited ¹	TP Shelfco No.2 Limited
MD (1995) Limited	TP Shelfco No.3 Limited
MD (Park Street) Limited	TPG Management Services Limited
MD-DOR3 Limited	Travis & Arnold Limited
MD-DOR4 Limited	Travis Perkins Bridge Properties LLP
Monteith Building Services Limited ¹	Travis Perkins Capital Partner Limited
NAGS Building Supplies Limited	Travis Perkins Financing Company No.3 Limited
Nailhole Limited	Travis Perkins Installation Services Limited
Neptronik Controls Ltd	Travis Perkins Marketing Company Limited
Newcastle Tile Centre Limited	Travis Perkins Merchant Holdings Limited
Norman Mackenzie (Building Supplies) Limited ¹	Travis Perkins Quest Trustees Limited
O J Williams (Merchants) Limited	Tricom Group Limited
P.C.P. Harris (Builders Merchants) Limited	Tricom Supplies Limited
P.C.P. Harris (Holdings) Limited	UGS Limited
P.T.S. Plumbing Trade Supplies Limited	UGS South East Limited
Passmore Drywall & Insulation Limited	Vaner Holdings Limited
Peck & Goodwin Limited	W. Gaunt Limited
Peckham Timber and Builders Merchants Limited	W.A. Hawke & Son Limited
Plasterers & Builders Merchants Limited	W.H. Newson & Sons Limited
Plumbing Parts Limited	W.H. Newson Holding Limited

33. Related undertakings (continued)

Dormant & non-trading subsidiary companies (100% ownership and UK registered) continued

W.S. Shuttleworth (Maidenhead) Limited	Wickes Retail Sourcing Limited
W.S. Shuttleworth (Slough) Limited	William Bird Holdings Limited
W.S. Shuttleworth (Timber) Limited	William Bloore & Son Limited
Water Street Home Improvements Limited	Zenith Plumbpoint Limited
Whittaker & Co. (Builders Merchants) Limited	
Wickes Group Trustees Limited	
Wickes Holdings Limited	
Wickes Limited	

Other subsidiary companies

Company Name	Registered	% Ownership	Status
BSS (Ireland) Limited ³	Ireland	100	Active
City Investments Limited ⁴	Jersey	100	Active
Travis Perkins Sourcing (Shanghai) Ltd ¹¹	China	100	Active
TFS Holdings Limited	United Kingdom	78	Active
Tools & Fastener Solutions Limited	United Kingdom	78	Active
National Shower Spares Limited ¹	United Kingdom	75	Active
The Underfloor Heating Store Limited	United Kingdom	55	Active
Travis Perkins Hong Kong Limited ¹⁰	Hong Kong	50	Active

Investments

Company Name	Registered	% Ownership	Status
Bombala Limited ²	United Kingdom	49	Active
Toriga Energy Limited	United Kingdom	49	Active
Toriga Limited	United Kingdom	49	Active
Toolexpert Benelux BV ⁸	Netherlands	48	Active
Toolstation Europe BV ⁸	Netherlands	48	Active
Toolstation Europe Limited ⁹	United Kingdom	48	Active
The Mosaic Tile Company Limited ²	United Kingdom	34	Active
Independent Construction Technologies Limited ⁶	United Kingdom	15	Active
P H Properties Limited ⁶	United Kingdom	15	Active
Staircraft Group Limited ⁶	United Kingdom	15	Active
Staircraft Integrated Solutions Limited ⁶	United Kingdom	15	Active

Registered offices (not Lodge Way House)

- 1 Suite S3, 8 Strathkelvin Place, Kirkintilloch, Scotland, G66 1XT, United Kingdom
- 2 Project House, Armley Road, Leeds, England and Wales, LS12 2DR, United Kingdom
- 3 White Heather Industrial Estate, South Circular Road, Dublin, 8, Ireland
- 4 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
- 5 Tughans, Marlborough House, 30 Victoria Street, Belfast, BT1 3GS, United Kingdom
- 6 Staircraft Building, Dunns Close, Nuneaton, Warwickshire, CV11 4NF, United Kingdom
- 7 107-127 Grosvenor Road, Belfast, BT12 4GT, United Kingdom
- 8 Touwbaan 40, 2352CZ Leiderdorp, Netherlands
- 9 16-18 Whiteladies Road, Clifton, Bristol, BS8 2LG, United Kingdom
- 10 Suite 2401, 24/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong
- 11 Building No.17, No. 800 Changde Road, JingAn District, Shanghai 200040
- 12 5303 boul. Saint-Laurent, Montréal Québec H2T1S5, Canada
- 13 43-45 Chiltern Avenue, Woodside Road, Amersham, Bucks, HP6 5AF

34. Staff costs

a. Average number of persons employed

The average full-time equivalent monthly number of persons employed (including Executive Directors):

No.	The Group		The Company	
	2018	2017	2018	2017
Sales and distribution	25,687	25,979	-	-
Administration	1,614	1,774	63	64
	27,301	27,753	63	64

b. Aggregate remuneration

£m	The Group		The Company	
	2018	2017	2018	2017
Staff costs — wages and salaries	759.6	772.9	7.1	7.9
Staff costs — social security costs	62.6	64.5	1.0	1.1
Staff costs — other pension costs (note 16m)	23.5	26.9	0.1	0.1
Share-based payments (note 35)	19.6	15.6	6.5	6.6
	865.3	879.9	14.7	15.7

35. Share-based payments

Accounting policy

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

a. Fair value of options

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:

	2018			2017		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Share price at grant date (pence)	1,272.0	1,089.0	1,295.0	1,487	1,434	1,487
Option exercise price (pence)	-	909.0	1,300.0	1,488	1,185	-
Volatility (%)	29.2%	30.2%	29.3%	29.2%	28.4%	31.0%
Option life (years)	2.2	3.3	2.2	3.0	3.3	2.9
Risk-free interest rate (%)	1.2%	1.2%	1.2%	0.1%	0.1%	0.2%
Expected dividends as a dividend yield (%)	3.3%	3.8%	3.2%	2.9%	3.1%	2.9%

35. Share-based payments (continued)

a. Fair value of options (continued)

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.

b. Income statement charge and shares granted

A description of the share schemes operated by the Group is contained in the remuneration report on pages 72 to 89. The estimated fair values of the shares under option granted under the Group's share schemes in 2018 are as follows:

Share scheme	Grant date	Fair value for the Group £m	Fair value for the Company £m
SAYE	26 November 2018	7.2	0.1
Co-investment plan	29 March 2018	6.2	2.6
Performance share plan	13 March 2018 24 August 2017	10.6	3.7
Deferred share bonus plan	13 March 2018	1.9	1.1
Wickes and Toolstation long-term incentive plans	13 March 2018	0.2	-

The Group charged £19.7m (2017: £15.7m) and the Company charged £6.9m (2017: £6.9m) to the income statement in respect of equity-settled share-based payment transactions.

c. Share options for the Group

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

	The Group		
	2018	2017	
In thousands of options	Weighted average exercise price (p)	Number of options	Number of nil price options
Outstanding at the beginning of the year	1,486	5,580	3,330
Forfeited during the year	1,467	(3,011)	(574)
Exercised during the year	1,274	(179)	(746)
Granted during the year	918	3,831	1,498
Outstanding at the end of the year	1,152	6,221	3,508
Exercisable at the end of the year	1,809	322	191

Share options were exercised on a regular basis throughout the year. The weighted average share price for options exercised during the year was 1,281 pence (2017: 1,539 pence).

35. Share-based payments (continued)

c. Share options for the Group (continued)

Details of the options outstanding at 31 December 2018 are as follows:

2018		2017		The Group	
Executive options	SAYE options	Executive options	SAYE options	Nil price options	Nil price options
Range of exercise prices (pence)	473-1,958	818-1,616	-	201-1,958	657-1,616
Weighted average exercise price (pence)	-	-	-	-	-
Weighted average exercise price (pence)	1,512	1,136	-	1,670	1,296
Number of shares (thousands)	262	5958	3654	292	5,288
Weighted average expected remaining life (years)	1.1	2.6	1.3	1.1	2.4
Weighted average contractual remaining life (years)	8.02	3.04	6.93	7.98	2.83
					8.01

d. Impact of vesting and exercise

If all 0.3m outstanding executive options vest and then are exercised on the date of vesting, or in the case of SAYE all 5.7m shares are acquired on the first possible day 6.0m of shares will be issued for a consideration of £66.8m in the years below:

2019		2020		2021		2022		2023	
No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
m	£m	m	£m	m	£m	m	£m	m	£m
Options	0.1	1.0	0.1	1.3	0.1	1.1	-	-	-
SAYE	0.7	11.2	1.1	15.2	3.0	28.3	0.2	2.2	0.7
									6.5

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.

e. Share options for the Company

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

2018		2017		The Company	
Weighted average exercise price (p)	Number of options	Weighted average exercise price (p)	Number of options	Weighted average exercise price (p)	Number of options
In thousands of options					
Outstanding at the beginning of the year	1,412	64	1,337	1,543	60
Forfeited during the year	1,436	(19)	(109)	1,541	(17)
Exercised during the year	-	-	(268)	1,240	(12)
Transferred from other Group companies	-	-	-	1,591	2
Granted during the year	951	31	565	1,297	31
Outstanding at the end of the year	1,158	76	1,525	1,412	64
Exercisable at the end of the year	1,533	3	1	1,613	5
					102

35. Share-based payments (continued)

e. Share options for the Company (continued)

Details of the options outstanding at 31 December 2018 is as follows:

	The Company					
	2018			2017		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	1,300-1,958	909-1,616	-	433-2,018	818-1,616	-
Weighted average exercise price (pence)	1,477	1,058	-	1,251	1,103	-
Number of shares (thousands)	14	46	1,448	22	41	1,330
Weighted average expected remaining life (years)	1.3	2.5	1.4	1.3	2.5	1.3
Weighted average contractual remaining life (years)	8.3	3.5	8.4	11.1	3.0	11.2

36. Key management personnel

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.

£m	2018	2017
Short-term employee benefits	15.8	14.2
Post-employment benefits	0.4	0.4
Share-based payments	8.4	10.9
	24.6	25.5

37. Related party transactions

The Group has a related party relationship with its subsidiaries, its Directors and with its pension schemes (note 16). 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 78 to 85.

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 £23.3m (2017: £20.5m)
- Receiving annual dividends totalling £385.8m (2017: £323.7m)

Details of balances outstanding with subsidiary companies are shown in note 12 and in the Balance Sheet on pages 107 and 111.

Other than the payment of remuneration there have been no related party transactions with Directors.

The Group advanced a total of £21.0m (2017: £11.3m) to all the Group's associate companies in 2018. Operating transactions with the associates during the year were not significant.

38. New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and as a result the Group has applied the following standards:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- Annual Improvements to IFRS 2014–2016 cycle
- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Amendments to clarify the classification and measurement of share-based payment transactions
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The below explains the impact of the adoption of IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers on the Group's financial statements. The new standards, other than described below, did not have a material impact on the Group and have been adopted without restating comparative information.

a. IFRS 9 – Financial Instruments

The reclassifications and the adjustments arising from the new impairment rules are not reflected in a restated balance sheet as at 31 December 2017, but are recognised in the closing balance sheet as at 31 December 2018 or, for the change to the Group's financial asset impairment model necessitated by IFRS 9 – Financial Instruments, have been recognised in the opening Balance Sheet at 1 January 2018.

IFRS 9 – Financial Instruments replaces the provisions of IAS 39 – Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 – Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 26. In accordance with the transitional provisions in IFRS 9 – Financial Instruments, comparative figures have not been restated.

38. New and amended standards adopted by the Group (continued)

a. IFRS 9 – Financial Instruments (continued)

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9 – Financial Instruments), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 – Financial Instruments categories. The main effects resulting from this reclassification are as follows:

£m	Note	Original classification	New classification under IFRS 9 - Financial Instruments	Old carrying amount	New carrying amount under IFRS 9	Difference
Financial Assets:						
Derivative financial instruments	a	Designated as FVTPL	Mandatorily at FVTPL	-	-	-
Cash and cash equivalents		Available-for-sale	Amortised cost	276.8	276.8	-
Trade and other receivables	b	Loans and receivables	Amortised cost	1,049.2	1,046.8	(2.4)
Available-for-sale investments	c	Available - for-sale	Designated instrument by instrument as either FVOCI or FVTPL	4.7	4.7	-
Financial Liabilities:						
Derivative financial instruments	a	Designated as FVTPL	Mandatorily at FVTPL	(1.2)	(1.2)	-

a Under IAS 39 – Financial Instruments: Recognition and Measurement, these foreign currency forward contracts were designated as fair value through profit and loss (FVTPL) because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9 – Financial Instruments.

b Trade and other receivables that were classified as loans and receivables under IAS 39 – Financial Instruments: Recognition and Measurement are now classified at amortised cost as the business model is to hold the financial asset to collect contractual cash flows which represent solely the payment of principal and interest. An increase of £2.4m in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9 – Financial Instruments.

c These equity securities represent investments that the Group intends to hold for the long-term for strategic purposes. As permitted by IFRS 9 – Financial Instruments, the Group has designated these investments on a instrument by instrument basis as either fair value through other comprehensive income ("FVTOCI") or FVTPL.

Impairment of financial assets

Trade receivables are subject to the new expected credit loss model in IFRS 9 – Financial Instruments and therefore the Group has revised its impairment methodology, as explained in the note 12.

b. IFRS 15 – Revenue from Contracts with Customers

Impact of adoption

The Group has adopted IFRS 15 – Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and the reclassification of amounts recognised in the financial statements, as explained in note 12. None of the adjustments impacted the Group's retained earnings and this standard does not have a significant impact on the Group. The new accounting policy is included in note 1.

Provisions for customer returns were previously presented on a net basis, as part of accruals and deferred income. Following adoption of IFRS 15 – Revenue from Contracts with Customers they are now shown on a gross basis and liabilities for the full amount expected to be refunded to customers (£7.7m as at 1 January 2018) are included in trade and other payables. Subsequently assets for the value of goods expected to be returned are included in trade and other receivables (£1.3m as at 1 January 2018).

39. Impact of standards issued but not yet applied by the entity

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. Of those standards that are not yet effective, IFRS 16 – Leases is expected to have a material impact on the Group's financial statements in the period of initial application.

a. IFRS 16 – Leases

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

The impact of adopting the standard on 1 January 2019 may change from current estimates because:

- the Group's lease portfolio is frequently changing
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application

IFRS 16 – Leases introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are elective recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard: lessors continue to classify leases as finance or operating leases.

IFRS 16 – Leases replaces existing leases guidance including IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

i. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of properties, vehicles and tool hire assets. The nature of the expenses recognised in respect of these leases will change because the Group will recognise a depreciation charge for right-of-use assets and an interest expense on lease liabilities.

Previously the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous as described in note 13 and will instead recognise an impairment of the right-of-use asset.

No significant impact is expected for the Group's finance leases.

ii. Leases in which the Group is a lessor

No significant impact is expected for leases in which the Group is a lessor.

iii. Transition

The Group plans to apply IFRS 16 – Leases initially on 1 January 2019 using the "modified retrospective" approach as described in paragraph C5(b) of the standard. Therefore the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. On transition the Group's intention is to measure the right-of-use on a retrospective basis for circa 300 of the Group's most material property leases and measure the right-of-use of the remaining leases on a fully prospective basis.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 – Leases to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 – Leases. The Group will elect to apply the practical expedient available for short-term leases and leases of low-value items and recognise the lease payments associated with these leases as an expense on a straight-line basis without recognising a right-of-use asset or a lease liability.

iv. Impact of the new standard

Given the complexity of the Standard and the number of leases held by the Group, the implementation project is not fully completed at the date of these financial statements. However, based on the information and modelling currently available, the Group has estimated the potential impact that initial application of IFRS 16 – Leases will have on key financial metrics including its return on capital employed. This modelling has assumed:

- IFRS 16 – Leases has been effective from 1 January 2018
- The transition options set out in this note
- Incremental borrowing rates calculated on the basis of market conditions on 1 January 2018

The modelling has not taken into account any interactions between IFRS 16 – Leases and the Group's existing onerous lease provisions nor has it considered the impact of the new standard on rent reviews.

Using lease data from 1 January 2018 rolled forward to the year end, the expected impact on the balance sheet position is the recognition of a right of use asset of circa £1.2bn and an additional lease liability of circa £1.35bn, with an expected tolerance of circa plus or minus £50m on these amounts.

Profits on the disposal of properties recognised as a result of sale and leaseback transactions will be lower under the new measurement rules of IFRS 16 – Leases.

This modelling indicates that the Group's return on capital employed would have been broadly in line with the currently disclosed lease adjusted return on capital employed.

39. Impact of standards issued but not yet applied by the entity (continued)

a. IFRS 16 – Leases (continued)

Impact on return on capital employed

£m	Current basis (note 25)	Indicative IFRS 16 – Leases basis
Adjusted operating profit	375	430
50% of property operating lease rentals	92	-
Lease-adjusted operating profit	467	430
Average capital employed	2,989	4,189
Property operating lease rentals x8	1,479	-
Lease-adjusted capital employed	4,468	4,189
Lease-adjusted return on capital employed	10.5%	10.3%

Impact on income statement

£m	Current basis	Remove rent	Add depreciation and interest	Indicative IFRS 16 – Leases basis
Revenue	6,741	-	-	6,741
Gross profit	1,917	-	-	1,917
Adjusted operating profit	375	210	(155)	430
Share of associates' results	(4)	-	-	(4)
Interest	(24)	-	(60)	(84)
Adjusted profit before tax	347	210	(215)	342

b. Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 – Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 – Insurance Contracts.

Travis Perkins^{plc}

Travis Perkins plc
Lodge Way House, Harlestone Road,
Northampton, NN5 7UG
01604 752424
www.travisperkinsplc.com

The papers used in this document are
FSC[®] mixed sources certified.

The stock is derived from well managed
forests and controlled sources.

They are manufactured at mills which
carry ISO 14001 certification.

Designed by Design Print & Digital,
part of Travis Perkins plc.

JB2232352 03/19