Travis Perkins plc

Audited results for the financial year ended 31 December 2017

Solid execution and positioning the business for long-term growth

£m	*Note*	**FY 2017**	FY 2016	*Change*
Revenue		**6,433**	6,217	*3.5%*
Like-for-like revenue growth(1)	*17*	**3.3%**	2.7%	
Adjusted operating profit(1)	*6a*	**380**	409	*(7.1)%*
Adjusted operating profit excluding property(1)		**351**	392	*(10.5)%*
Adjusted profit before taxation(1)	*6c*	**343**	381	*(10.0)%*
Adjusted earnings per share(1)	*11b*	**110.4p**	120.4p	*(8.3)%*
Net debt(1)	*14*	**(342)**	(378)	£36m
Dividend per share (pence)	*12*	**46.0p**	45.0p	*2.2%*
Lease adjusted ROCE(1)	*15b*	**10.1%**	10.9%	*(0.8)ppt*
Operating profit	*6a*	**327**	100	
Profit before taxation		**290**	73	
Basic earnings per share (pence)	*11a*	**93.1p**	5.1p	

(1) Alternative performance measures are used to provide a guide to underlying performance and details of the calculations can be found in the notes listed

Highlights

- Revenue growth of 3.5% in 2017, with like-for-like growth of 3.3%
- Adjusted operating profit of £380m following investments made to improve customer propositions
- Free cash flow generation of £407m, with strong cash conversion of 107%
- Net debt reduced by £36m to £342m
- Full-year total dividend of 46.0p, an increase of 2.2% reflecting strong cash performance
- Encouraging early signs from the Plumbing & Heating transformation plan announced in August 2017. As previously disclosed, an exceptional charge of £40.9m has been recognised in connection with the plan.

John Carter – Chief Executive Officer said:

“2017 was a challenging year for the Group, with continuing uncertainty in our end-markets, and declining consumer confidence throughout the year. The main focus for our businesses has been to recover the significant cost price inflation encountered and on the whole, this has been achieved successfully.

Despite the challenging environment, we have continued to make disciplined investments in our customer proposition for the long term. Both the General Merchanting and Consumer divisions were held back by this investment in a higher cost base which ran ahead of volume growth. The Contracts division delivered another excellent performance, with strong revenue growth generating good operating leverage. Progress in Plumbing & Heating following the announcement of the transformation plan has been swift and very encouraging. The business has been simplified under a single branch network, reducing costs and improving the proposition which has driven higher revenues and a return to profit growth in the second half of the year.

In 2018, we anticipate that the mixed market backdrop will continue. As a result, we will be focusing capital investment behind our key priorities, and slowing investments elsewhere. The Group will focus heavily on maintaining tight control of the cost base and expects 2018 performance to be similar to 2017.

The long-term prospects for our businesses remain favourable, and the investments we have made in recent years give us a strong and sustainable competitive position from which to grow."

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Summary

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

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

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

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

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

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

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

Strategic progress

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

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

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

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

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

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

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

Outlook

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

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

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

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

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

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

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

Technical guidance

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

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

Divisional performance

General Merchanting

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

Financial performance

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

Operational highlights

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

Plumbing & Heating

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

Financial performance

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

Operational highlights

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

Contracts

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

Financial performance

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

Operational highlights

- Keyline achieved strong like-for-like sales growth throughout 2017, demonstrating further market share gains as the business continues to focus on a specialised heavy civils and drainage product range to a specific customer base. The roll out of the low-cost Keyline branch format continued, with the third trial branch opened in Telford.
- BSS sales grew in 2017, driven by both increasing commodity prices on copper and steel, and by outperforming a market that remains challenging, particularly in the public sector. Overheads have been materially reduced in BSS as the administration teams have been centralised, reducing required headcount and saving c.£1.5m per year in costs.
- In a highly competitive market, CCF has focused on passing through significant cost price inflation on specific insulation products. The business is generating good operating leverage as the new branches opened in late 2015 reach maturity. Differentiation, and therefore market outperformance, is driven by the development of a deeper understanding of customer requirements, and in so doing, forming closer customer relationships.
- The Group acquired TF Solutions in April, an air conditioning specialist, which offers a complementary range to the BSS portfolio.
- The branch networks of Keyline, BSS and CCF will not require significant further expansion; they already cover the whole of the UK with a high proportion of sales delivered direct to customers and so 2018 should see further enhancement of returns.

Consumer

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

Financial performance

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

Operational highlights

Wickes

- The store refit programme continued at pace, with 27 additional stores bringing the total refitted to 94 by the end of 2017. With the benefit of an enhanced K&B showroom, better laid out trade areas and better category adjacency the refitted stores show a significant performance improvement over those stores remaining in the old format.
- The programme to open additional stores and refit existing ones has been slowed in 2018 given a challenging UK DIY market.
- A cost efficiency programme is in place for 2018 to tightly control overhead costs with the aim of offsetting operating cost pressure from wages, rates and depreciation.

- The TradePro card was launched in Q3, giving trade customers specific trade deals, including regular discounts on Mondays. Early customer reaction has been positive, with an uplift in trade sales and the attraction of new customers.

Toolstation

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

Property

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

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

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

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

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

Financial Performance

Revenue

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

Volume, price and mix analysis

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

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

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

Quarterly like-for-like revenue analysis

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

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

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

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

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

Operating profit and margin

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

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

Adjusted operating profit reduced by 7.1% to £380m (2016: £409m). Profit growth in Contracts and through property transactions was offset by a decline in profits in General Merchanting and Consumer, along with the expected decline in Plumbing & Heating.

Unallocated costs increased by £17m to £31m, driven by the investments the Group is making in IT capabilities and digital platforms, and the cost of new format experiments.

Adjusted operating margin

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

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

- General Merchanting operating margin fell to 8.7% for the full year, with a reduction to 8.2% in the second half of 2017. Operating costs increased, reflecting the additional costs required to extend the service coverage of the three heavyside range centres and opening of net 17 new branches, in addition to cost inflation from salaries, increases to rent and rates, and rising distribution costs. Gross margins reduced by 50bps in the second half of the year as the new pricing framework was used to reset pricing levels in some specific product categories to increase volume and improve overall price perception. Initial outcomes have been encouraging, with some categories showing demonstrable volume uplift within a couple of months of the pricing review.
- In the Contracts division, gross margin improved as pass through of cost price inflation was successfully achieved with a focus on taking business at acceptable margins.
- Plumbing & Heating margins reduced by 30bps across the whole year, but increased by 10bps in the second half as the improvements from the transformation programme started to take effect. Gross margins reduced, due largely to business mix as much of the volume growth came through the lower margin wholesale business, as well as investment in price across the business through increased promotional activity. This reduction was more than offset in the second half of the year by the savings achieved in operating costs through a significantly simplified organisational structure, and the closure of 46 underperforming branches.
- Margins in Consumer were significantly impacted by the poor sales performance in Wickes in Q4. The additional costs that had been built into the business to service volume growth were not justified, and the reduction in K&B showroom sales negatively impacted the overall mix of business. Toolstation maintained its operating margin despite further significant investment in network expansion, although additional costs are required in 2018 to open a fourth distribution centre to maintain sales growth momentum and support the branch opening programme.

Finance charge

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

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

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

Taxation

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

Earnings per share

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

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

Reconciliation of reported to adjusted earnings

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

Cash flow and balance sheet

Free cash flow

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

(£m)	**2017**	2016
EBITA	**380**	409
Depreciation of PPE and other non-cash movements	**130**	124
Disposal proceeds in excess of property profits	**83**	25
Change in working capital*	**(54)**	13
Maintenance capital expenditure	**(48)**	(50)
Net interest	**(27)**	(22)
Tax paid	**(57)**	(63)
Adjusted free cash flow	**407**	436
One-off tax payment	**-**	(42)
Free cash flow	**407**	386
Underlying cash conversion rate	**107%**	107%

*2017 Change in net working capital figure excludes £22m (2016: £8m) in relation to the development of cloud-based software

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

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

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

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

M&A Activity

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

Capital Investments

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

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

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

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

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

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

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

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

Net debt and funding

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

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

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

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

At the end of 2017, the Group had undrawn committed facilities of £550m (2016: £550m) and deposited cash of £215m (2016: £185m). The Group's credit rating, issued by Standard and Poors, was maintained at BB+ stable following its review in April 2017.

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

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

Details of non-statutory disclosures are shown in note 14.

	Medium Term Guidance	**FY 2017**	FY 2016	
Net debt		**£342m**	£378m	£(36)m
Lease debt		**£1,525m**	£1,506m	£19m
Lease adjusted net debt		**£1,867m**	£1,884m	£(17)m
Lease adjusted gearing*		**42.6%**	45.3%	*(270)bps*
Fixed charge cover	3.5x	**3.1x**	3.3x	(0.2)x
LA net debt : EBITDAR	2.5x	**2.7x**	2.7x	-

Lease adjusted gearing (note 14b) reduced by 2.7ppts in 2017 to 42.6%, primarily due to lease adjusted equity increasing following further investment in the business and a lower lease adjusted debt figure.

The Group's fixed charge cover ratio (note 16c) fell to 3.1x, primarily driven by lower earnings on a stable interest charge with a modestly higher rent charge. The LA net debt/EBITDAR ratio (note 16b) was stable year on year, at 2.7x.

Dividend

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

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

Return on capital measures

Net assets at the end of 2017 were £2,860m (2016: £2,656m), which contributed to capital employed of £3,226m (2016: £3,136m).

Group capital structure at 31 December (£m)	2017	2016
Cash and cash equivalents	(277)	(251)
£250m sterling bond	263	266
£300m sterling bond	300	300
Finance leases	28	35
Liability to pension scheme	34	35
Pension fund deficits	23	103
Finance charges netted off debt	(6)	(7)
Equity attributable to shareholders	2,860	2,656
Total balance sheet capital employed	**3,225**	**3,136**
Property operating leases (8x rentals)	1,525	1,506
Total lease adjusted capital employed	**4,750**	**4,642**

Lease adjusted ROCE (note 15), decreased to 10.1% from 10.9%. The reduction was largely driven by on-going capital investment across the business which is expected to underpin growth in returns over the medium and longer term, in particular the investments in freehold sites. A number of these sites are not yet contributing to earnings, but they will, pending development, as they become operational over the next 12 to 18 months.

Pensions

The Group made £11m (2016: £14m) of additional cash contributions to its defined benefit schemes in 2017.

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

Principal Risks and Uncertainties

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 listed on pages 37 to 43 of the 2016 annual report and accounts remain broadly the same: market conditions, competitive pressures, information technology (including data security) , colleague recruitment, retention and succession, supplier dependency and direct sourcing, defined benefit pension scheme funding, future expansion and funding liquidity, business transformation, performance of the Plumbing and Heating division, Brexit, legislation and corporation tax.

However, some of the risks identified in the 2016 report and accounts risks in respect of business transformation, future expansion and liquidity, and performance improvement in the Plumbing and Heating businesses, have considerable overlap and so they have been combined into one risk - changing customer and competitor landscape. The Directors have also concluded that with so many stakeholders interacting with the Group's operations, health and safety risk should be described separately from other legislative risk. Finally, the resolution of some of the Group's tax disputes with HMRC means that the Board no longer believes that this area represents a principal risk.

Accordingly the 2017 annual report and accounts will report risks under the following captions: the changing customer and competitor landscape, colleague recruitment, retention and succession, supplier dependency and disintermediation, unsafe practices that lead to stakeholders being harmed, the efficient allocation of capital, business transformation projects, market conditions, Brexit, defined benefit pension scheme funding, data security and the changing regulatory framework.

Consolidated income statement

For the year ended 31 December 2017

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

All results relate to continuing operations. Details of exceptional items are given in notes 6 and 10.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

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

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

Consolidated balance sheet

As at 31 December 2017

	2017 £m	2016 £m
ASSETS		
Goodwill	1,539.2	1,528.3
Other intangible assets	387.1	360.8
Property, plant and equipment	932.0	929.5
Interest in associates	20.3	11.5
Investments	9.5	9.1
Other receivables	30.4	8.3
Total non-current assets	2,918.5	2,847.5
Current assets		
Inventories	816.3	768.0
Trade and other receivables	1,130.2	1,059.3
Derivative financial instruments	-	1.7
Cash and cash equivalents	276.8	250.5
Total current assets	2,223.3	2,079.5
Total assets	5,141.8	4,927.0

Consolidated balance sheet (continued)

As at 31 December 2017

	2017 £m	2016 £m
EQUITY AND LIABILITIES		
Capital and reserves		
Issued capital	25.2	25.1
Share premium account	543.4	528.5
Merger reserve	326.5	326.5
Revaluation reserve	15.7	16.8
Own shares	(15.3)	(8.7)
Other reserve	(4.9)	-
Accumulated profits	1,958.0	1,760.1
Equity attributable to owners of the Company	2,848.6	2,648.3
Non-controlling interests	11.7	7.3
Total equity	2,860.3	2,655.6
Non-current liabilities		
Interest bearing loans and borrowings	612.1	621.1
Derivative financial instruments	4.9	-
Retirement benefit obligations	28.3	127.3
Long-term provisions	17.1	21.2
Deferred tax liabilities	61.0	45.8
Total non-current liabilities	723.4	815.4
Current liabilities		
Interest bearing loans and borrowings	6.2	6.9
Derivative financial instruments	1.2	-
Trade and other payables	1,453.6	1,348.3
Current tax liabilities	44.5	43.8
Short-term provisions	52.6	57.0
Total current liabilities	1,558.1	1,456.0
Total liabilities	2,281.5	2,271.4
Total equity and liabilities	5,141.8	4,927.0

Consolidated statement of changes in equity

For the year ended 31 December 2017

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

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2017

	Share capital	Share premium	Merger reserve	Revaluation reserve	Hedging reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 31 December 2016	25.1	528.5	326.5	16.8	-	(8.7)	-	1,760.1	2,648.3	7.3	2,655.6
Profit for the year	-	-	-	-	-	-	-	232.8	232.8	1.2	234.0
Other comprehensive income for the period net of tax	-	-	-	-	-	-	-	73.7	73.7	-	73.7
Total Comprehensive income for the year	-	-	-	-	-	-	-	306.5	306.5	1.2	307.7
Dividends	-	-	-	-	-	-	-	(113.0)	(113.0)	-	(113.0)
Issue of share capital	0.1	14.9	-	-	-		-	-	15.0	-	15.0
Purchase of own shares	-	-	-	-	-	(19.2)	-	-	(19.2)	-	(19.2)
Realisation of revaluation reserve in respect of property disposal	-	-	-	(0.8)	-	-	-	0.8	-	-	-
Depreciation adjustment on revalue asset	-	-	-	(0.3)	-	-	-	0.3	-	-	-
Tax on share based payment	-	-	-	-	-			0.1	0.1	-	0.1
Option on non-controlling interest	-	-	-	-	-	-	(4.9)	-	(4.9)		(4.9)
Arising on acquisition	-	-	-	-	-	-	-	-	-	3.2	3.2
Foreign exchange	-	-	-	-	-	-	-	0.2	0.2	-	0.2
Own shares movement	-	-	-	-	-	12.6		(12.6)	-	-	-
Credit for equity-settled share based payments	-	-	-	-	-	-	-	15.6	15.6	-	15.6
At 31 December 2017	25.2	543.4	326.5	15.7	-	(15.3)	(4.9)	1,958.0	2,848.6	11.7	2,860.3

Consolidated cash flow statement

For the year ended 31 December 2017

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

Notes

1. The Group's principal accounting policies are set out in the 2016 annual report, which is available on the Company's website www.travisperkinsplc.co.uk. All accounting policies have been applied consistently in 2017.

2. The proposed final dividend of 30.50 pence (2016: 29.75 pence) is payable on 11 May 2018. The record date is 6 April 2018.

3. The financial information set out in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 31 December 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered in due course. The auditors have reported on the 31 December 2016 and 31 December 2017 accounts; their reports were unmodified, did not draw attention to any matters by way of emphasis without modifying their reports and did not contain statements under s498 (2) or (3) Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

4. This announcement was approved by the Board of Directors on 27 February 2018.

5. It is intended to post the annual report to shareholders on Wednesday 21 March 2018 and to hold the Annual General Meeting on 27 April 2018. Copies of the annual report prepared in accordance with IFRS will be available from the Company Secretary, Travis Perkins plc, Lodge Way House, Harlestone Road, Northampton NN5 7UG from Wednesday 23 March 2018 or will be available on the Group's website at www.travisperkinsplc.com.

6. Profit

(a) Operating profit

	2017 £m	2016 £m
Revenue	6,433.1	6,217.2
Cost of sales	(4,527.5)	(4,365.4)
Gross profit	1,905.6	1,851.8
Selling and distribution costs	(1,239.7)	(1,403.1)
Administrative expenses	(374.0)	(369.9)
Profit on disposal of properties	29.4	17.0
Other operating income	5.6	5.7
Share of results of associate	-	(1.1)
Operating profit	326.9	100.4
Add back impairment and exceptional items	40.9	292.0
Add back amortisation of intangible assets	12.3	16.6
Adjusted operating profit	380.1	409.0
Profit on disposal of properties	(29.4)	(16.6)
	350.7	392.4

(b) Exceptional items

	2017 £m	2016 £m
Impairment of goodwill, other intangible assets & tangible fixed assets	-	235.4
Branch closure programme	12.0	16.5
Supply chain restructure	19.1	29.6
Central and divisional restructuring costs	9.8	4.3
Write off of amounts previously held in current assets	-	6.2
	40.9	292.0

6. Profit (continued)

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

2017

In August 2017 the Group announced that, following a comprehensive strategic review of the Plumbing & Heading 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 £40.9m has been treated as exceptional. The exceptional items consist of the following:

• £12.0m of property, redundancy and other costs associated with the closure of 46 branches

• £19.1m of costs arising from the separation and rationalisation of the Plumbing & Heating supply chain. The costs comprised property-related costs, redundancy and reorganisation costs and inventory write-downs

•£9.8m of central and divisional costs including people related, consultancy and other restructuring costs.

2016

Due to economic uncertainty and market conditions, the prospects for each business in the Plumbing & Heating division were reassessed and the Group determined that it was appropriate to impair the carrying value of assets in the division. In addition the performance of the Group's small tile business was expected to fall below previous expectations. Accordingly an impairment charge of £235.4m was made in the income statement.

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

6. Profit (continued)

(c) Adjusted profit before and after tax

	2017 £m	2016 £m
Profit before tax	289.7	72.7
Exceptional items (note 6b)	40.9	292.0
Amortisation of acquired intangible assets	12.3	16.6
Adjusted profit before tax	342.9	381.3

	2017 £m	2016 £m
Profit after tax	234.0	14.1
Exceptional items	40.9	292.0
Amortisation of acquired intangible assets	12.3	16.6
Tax on exceptional items	(7.8)	(15.1)
Tax on amortisation of acquired intangible assets	(2.1)	(2.9)
Effect of reduction in corporation tax rate on deferred tax	-	(3.4)
Adjusted profit after tax	277.3	301.3

6. Profit (continued)

(d) Adjusted operating margin

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

7. Business and geographical segments

	2017					
	General Merchanting	Contracts	Consumer	Plumbing & Heating	Unallocated	Consolidated
	£m	£m	£m	£m	£m	£m
Revenue	2,109.5	1,369.0	1,589.1	1,365.5	-	6,433.1
Segment result	200.6	81.3	79.4	(3.5)	(30.9)	326.9
Share of associates	-	-	-	-	(2.2)	(2.2)
Finance income	-	-	-	-	0.7	0.7
Finance costs	-	-	-	-	(35.7)	(35.7)
Profit before taxation	200.6	81.3	79.4	(3.5)	(68.1)	289.7
Taxation	-	-	-	-	(55.7)	(55.7)
Profit for the year	200.6	81.3	79.4	(3.5)	(123.8)	234.0
Segment assets	1,811.0	867.2	1,544.6	592.3	326.7	5,141.8
Segment liabilities	(441.5)	(323.5)	(403.6)	(317.8)	(795.1)	(2,281.5)
Consolidated net assets	1,369.5	543.7	1,141.0	274.5	(468.4)	2,860.3
Capital expenditure	152.9	14.3	57.3	3.6	2.3	230.4
Amortisation of acquired intangible assets	-	6.3	5.0	1.0	-	12.3
Depreciation and amortisation of software	67.5	11.8	26.4	8.8	0.1	114.6

7. Business and geographical segments (continued)

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

During 2016 an impairment loss was recognised in the Consumer and Plumbing & Heating segments in respect of goodwill and other assets totalling £235.4m.

8. Pension schemes

	2017 £m	2016 £m
Gross actuarial deficit at 1 January	(127.3)	(52.2)
Current service costs and administrative expenses charged to the income statement	(9.6)	(8.7)
Net interest expense	(3.1)	(1.7)
Contributions from sponsoring companies	20.9	22.2
Return on plan assets (excluding amounts included in net interest)	80.9	184.3
Actuarial gains arising from changes in demographic assumptions	26.8	4.8
Actuarial losses arising from changes in financial assumptions	(1.1)	(335.6)
Actuarial losses and gains arising from experience adjustments	(6.6)	6.4
Gross actuarial deficit at 31 December	(19.1)	(180.5)
(Increase) / reduction in minimum funding requirement liability	(9.2)	53.2
Gross pension liability at 31 December	(28.3)	(127.3)
Deferred tax asset	5.4	24.1
Net pension liability at 31 December	(22.9)	(103.2)

In 2018 the total amount payable to the pension schemes in excess of the cost of on-going funding will be between £10m and £13.8m.

9. Net finance costs

a. Finance costs and finance income

	2017 £m	2016 £m
Interest on bank loans and overdrafts*	(4.1)	(6.1)
Interest on sterling bonds	(21.0)	(16.1)
Interest on obligations under finance leases	(0.8)	(0.6)
Unwinding of discounts - property provisions	(0.7)	(0.3)
Unwinding of discounts - SPV	(2.4)	(2.4)
Other interest	(0.7)	(1.2)
Other finance costs – pension scheme	(3.1)	(1.7)
Net loss on re-measurement of derivatives at fair value	(2.9)	-
Finance costs	(35.7)	(28.4)
Net gain on re-measurement of derivatives at fair value	-	0.3
Interest receivable	0.7	0.4
Finance income	0.7	0.7
Net finance costs	(35.0)	(27.7)

(b) Fixed charge cover interest

	2017 £m	2016 £m
Interest on bank loans and overdrafts*	(4.1)	(6.1)
Interest on sterling bonds	(21.0)	(16.1)
Interest on obligations under finance leases	(0.8)	(0.6)
Unwinding of discounts – SPV loan	(2.4)	(2.4)
Interest for fixed charge ratio purposes	(28.3)	(25.2)

*Includes £1.5m (2016: £1.4m) of amortised finance charges. In 2016 on additional £0.5m of the arrangement fees on bilateral loans were charged directly to the Income Statement.

10. Tax

	2017			2016		
	Pre-exceptional items	Exceptional items	Total	Pre-exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Current tax:						
UK corporation tax						
- current year	64.9	(7.4)	57.5	74.4	(11.3)	63.1
- prior year	0.4	-	0.4	(3.7)	-	(3.7)
Total current tax	65.3	(7.4)	57.9	70.7	(11.3)	59.4
Deferred tax:						
- current year	(2.1)	(0.4)	(2.5)	2.6	(7.2)	(4.6)
- prior year	0.3	-	0.3	3.8	-	3.8
Total deferred tax	(1.8)	(0.4)	(2.2)	6.4	(7.2)	(0.8)
Total tax charge	63.5	(7.8)	55.7	77.1	(18.5)	58.6

11. Earnings per share

(a) Basic and diluted earnings per share

	2017 £m	2016 £m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	232.8	12.7
	No.	No.
Weighted average number of shares for the purposes of basic earnings per share	250,100,896	249,073,416
Dilutive effect of share options on potential ordinary shares	2,468,248	4,029,146
Weighted average number of ordinary shares for the purposes of diluted earnings per share	252,569,144	253,102,562
Earnings per share	93.1	5.1p
Diluted earnings per share	92.2	5.0p

978,010 share options (2016: 280,952 share options) had an exercise price in excess of the average market value of the shares during the year. As a result, these share options were excluded from the calculation of diluted earnings per share.

11. Earnings per share (continued)

(b) Adjusted earnings per share

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

	2017 £m	2016 £m
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	232.8	12.7
Exceptional items	40.9	292.0
Amortisation of acquired intangible assets	12.3	16.6
Tax on exceptional items	(7.8)	(15.1)
Tax on amortisation of acquired intangible assets	(2.1)	(2.9)
Effect of reduction in corporation tax rate on deferred tax	-	(3.4)
Adjusted earnings	276.1	299.9
Adjusted earnings per share	110.4p	120.4p
Adjusted diluted earnings per share	109.3p	118.5p

12. Dividends

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

	2017 £m	2016 £m
Final dividend for the year ended 31 December 2016 of 29.75p (2015: 29.25p) per ordinary share	74.7	72.5
Interim dividend for the year ended 31 December 2017 of 15.50p (2016: 15.25p) per ordinary share	38.3	38.0
Total dividend recognised during the year	113.0	110.5

The dividends declared for 2017 and for 2016 were as follows:

	2017 Pence	2016 Pence
Interim paid	15.50	15.25
Final proposed	30.50	29.75
Total dividend for the year	46.00	45.00

The proposed final dividend of 30.50p per ordinary share in respect of the year ended 31 December 2017 was approved by the Board on 27 February 2018.

Dividend cover of 2.4x (2016: 2.7x) is calculated by dividing adjusted earnings per share (note 11) of 110.4p (2016: 120.4p) by the total dividend for the year of 46.0p (2016: 45.0p).

13. Free cash flow

	2017 £m	2016 £m
Net debt before at 1 January	(377.5)	(467.4)
Net debt before at 31 December	(341.5)	(377.5)
Decrease in net debt	36.0	89.9
Dividends paid	113.0	110.5
Net cash outflow for expansionary capital expenditure and related items*	201.5	185.8
Net cash outflow for acquisitions	9.7	3.2
Net cash flow for investments	(0.3)	1.1
Amortisation of swap cancellation receipt	(3.4)	(0.7)
Discount unwind on liability to pension scheme	2.4	2.4
Cash impact of exceptional items	20.2	11.6
One off income tax payment	-	42.5
Interest in associates	11.3	4.6
Purchase of own shares	19.2	-
Shares issued	(15.0)	(9.7)
Decrease in fair value of debt and exchange movements	-	(20.0)
Movement in finance charges netted off bank debt	1.5	1.4
Special pension contributions	11.3	13.5
Free cash flow	407.4	436.1

*Expansion capital expenditure includes £22.1m (2016: £8.3m) in relation to the development of cloud-based software classified as a non-current prepayment

14. Net debt and lease adjusted gearing

(a) Net debt

Balances at 31 December comprise:

	2017 £m	2016 £m
Cash and cash equivalents	276.8	250.5
Non-current interest bearing loans and borrowings	(612.1)	(621.1)
Current interest bearing loans and borrowings	(6.2)	(6.9)
Net debt	(341.5)	(377.5)
IAS 17 finance leases	9.5	12.8
Liability to pension scheme	33.7	34.5
Finance charges netted off bank debt	(5.5)	(7.0)
Net debt under covenant calculations	(303.8)	(337.2)

(b) Movement in net debt

	The Group						
	Cash and cash equivalents	Finance leases	Term loan and revolving credit facility and loan notes	Unsecured senior US$ loan notes and sterling bonds	Liability to pension scheme	Exchange and fair value movement on derivatives hedging net debt items	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2016	(83.8)	18.6	106.2	391.0	35.4	(20.0)	447.4
Cash flow	(166.7)	15.9	(110.0)	191.2	(3.3)	-	(72.9)
Exchange movement	-	-	-	(3.6)	-	3.5	(0.1)
Fair value movement	-	-	-	(16.5)	-	16.5	-
Finance charges movement	-	-	0.8	0.6	-	-	1.4
Amortisation of swap cancellation receipt	-	-	-	(0.7)	-	-	(0.7)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	-	2.4
At 1 January 2017	(250.5)	34.5	(3.0)	562.0	34.5	-	377.5
Cash flow	(26.3)	(7.0)	-	-	(3.2)	-	(36.5)
Finance charges movement	-	-	0.8	0.7	-	-	1.5
Amortisation of swap cancellation receipt	-	-	-	(3.4)	-	-	(3.4)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	-	2.4
31 December 2017	(276.8)	27.5	(2.2)	559.3	33.7	-	341.5

14. Net debt and lease adjusted gearing (continued)

(c) Lease adjusted gearing

	2017 £m	2016 £m
Net debt	341.5	377.5
Property operating lease rentals x8	1,524.8	1,506.4
Lease adjusted net debt	1,866.3	1,883.9
Property operating lease rentals x8	1,524.8	1,506.4
Closing net assets	2,860.3	2,655.6
Lease adjusted equity	4,385.1	4,162.0
Gearing	42.6%	45.3%

15. Average capital employed

(a) Return on capital employed is calculated as follows

	2017 £m	2016 £m
Operating profit	326.9	100.4
Amortisation of acquired intangible assets	12.3	16.6
Exceptional items	40.9	292.0
Adjusted operating profit	380.1	409.0
Opening net assets	2,655.6	2,795.8
Net pension deficit	103.2	42.4
Net borrowings	377.5	467.4
Exchange and fair value adjustment	-	(20.0)
Goodwill amortisation and impairment	-	(235.4)
Tax on impairment of goodwill and intangibles	-	3.8
Opening capital employed	3,136.3	3,285.6
Closing net assets	2,860.3	2,655.6
Net pension deficit	22.9	103.2
Net debt	341.5	377.5
Closing capital employed	3,224.7	3,136.3
Average capital employed	3,180.5	3,095.2

15. Return on capital ratios (continued)

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

	2017 £m	2016 £m
Adjusted operating profit	380.1	409.0
50% of property operating lease rentals	95.3	94.1
Lease adjusted operating profit	475.4	503.1
Average capital employed	3,180.5	3,095.2
Property operating lease rentals x8	1,524.8	1,506.4
Lease adjusted capital employed	4,705.3	4,601.6
Lease adjusted return on capital employed	10.1%	10.9%

16. Leverage ratios

(a) Adjusted ratio of net debt to earnings before interest tax and depreciation ("EBITDA")

	2017 £m	2016 £m
Profit before tax	289.7	72.7
Net finance costs	35.0	27.7
Depreciation and amortisation	126.9	121.7
EBITDA	451.6	222.1
Exceptional operating items	40.9	292.0
Adjusted EBITDA under covenant calculations	492.5	514.1
Net debt under covenant calculations	303.8	337.2
Adjusted net debt to EBITDA under covenant calculations	0.62x	0.66x

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

	2017 £m	2016 £m
Adjusted EBITDA under covenant calculations	492.5	514.1
Share of associates' results	2.2	-
Adjusted EBITDA	494.7	514.1
Property operating lease rentals net of rent receivable	190.6	188.3
Adjusted EBITDAR	685.3	702.4
Net debt	341.5	377.5
Property lease rentals (x 8)	1,524.8	1506.4
Lease adjusted net debt	1,866.3	1883.9
Lease adjusted net debt to EBITDAR	2.7x	2.7x

(c) Fixed charge cover:

	2017 £m	2016 £m
Adjusted EBITDAR	685.3	702.4
Property operating lease rentals	190.6	188.3
Interest for fixed charge calculation (note 9)	28.3	25.2
	218.9	213.5
Fixed charge cover	3.1x	3.3x

17. Revenue reconciliation and like-for-like sales

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

	General Merchanting £m	Contracts £m	Consumer £m	Plumbing & Heating £m	Consolidated £m
2016 revenue	2,073	1,267	1,518	1,359	6,217
Like-for-like revenue	24	106	45	28	203
	2,097	1,373	1,563	1,387	6,420
Network expansion	20	1	34	(16)	39
Trading days	(8)	(5)	(8)	(5)	(26)
2017 revenue	2,109	1,369	1,589	1,366	6,433

18. Acquisition of businesses

On 13 October 2017 the Group acquired 75% of the issued share capital of National Shower Spares Limited, a leading online retailer of shower spares, for total cash consideration of £2.7m. On 28 April 2017 the Group acquired 77.5% of the issued share capital of TFS Holdings Limited, an air conditioning and refrigeration distributor, for total cash consideration of £7.8m.

All acquisitions were accounted for using the purchase method of accounting. The net assets acquired totalled £2.8m and £10.9m of goodwill and a non-controlling interest of £3.2m have been recognised. The goodwill represents the benefits from forecast growth and the assembled workforces. A non-current liability of £4.9m has been recognised in respect of put options on the non-controlling interests.

For the period from acquisition the combined revenue and operating profit for the above acquisitions total £12.6m and £1.4m respectively. If the acquisitions had been completed on the first day of the year, group revenue would have been £6,443.5m and Group operating profit would have been £327.8m.

In 2016 the Group acquired 100% of the issued share capital of W. Gaunt Limited and T&T (Sussex) Plant Hire Limited for total consideration of £3.2m, all satisfied by cash. The net assets acquired totalled £1.3m and goodwill of £1.9m was recognised as a result of these transactions.