**TRAVIS PERKINS PLC**

**RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014**

**STRONG PROFIT GROWTH AND GOOD STRATEGIC PROGRESS**

| | **2014** | | 2013 |
|---|---|---|---|
| | **£m** | **%** | £m |
| Revenue | **5,580.7** | **8.4** | 5,148.7 |
| Adjusted[1, 2] operating profit (note 6a) | **384.0** | **10.5** | 347.6 |
| Adjusted profit before taxation (note 6c) | **362.3** | **12.8** | 321.1 |
| Adjusted earnings per share (pence) (note 11b) | **119.0** | **14.9** | 103.6 |
| Profit after taxation | **258.7** | **(2.3)** | 264.7 |
| Basic earnings per share (pence) (note 11a) | **105.9** | **(3.6)** | 109.9 |
| Total dividend declared per share (note 12) | **38.0p** | **22.6** | 31.0p |

**HIGHLIGHTS**

For the year ended 31 December 2014

- Revenue increased by 8.4% to £5.6bn, with like-for-like sales up by 7.3%
- Adjusted earnings per share increased to 119.0p, up 14.9%
- Final dividend of 25.75p giving a full year dividend of 38.0p, up 22.6%
- Gross capital investment increased by £58m to £165m funded from cash flows to drive on-going share gains and sustainable growth
- 54 new sites opened with a further 47 implants added to the network
- Acquisition of Primaflow, a plumbing and heating distribution business for £16m
- Supply chain capabilities enhanced with new Warrington primary distribution centre and second heavy-side range centre
- Lease adjusted return on capital employed improved by 0.4ppt to 10.4%
- Long-term funding secured with £250m bond issued on investment grade terms

John Carter, Chief Executive, commented:

"Whilst it is still relatively early in the recovery of the UK construction industry, the new housing market, new commercial and industrial markets and the repair, maintenance and improvement market ("RMI") have been performing largely as we expected. As we expected the key lead indicators have settled into a still positive, but more moderated and consistent trend. This backdrop allied to our "self-help" growth initiatives should support on-going market share gains, medium-term double digit operating profit growth and continuing growth in return on capital.

We have seen encouraging progress in the majority of our businesses during the first year of implementing the Group's updated strategy. Our key priorities remain on modernising General Merchanting, transforming Wickes and reconfiguring our plumbing and heating businesses to better suit their customers' needs. Structural advantages in sourcing and supply chain allied to superior ranges, availability and value propositions should enable the Group to sustain market outperformance and give us confidence in the Group's prospects for the foreseeable future."



[1] Throughout this Report the term "adjusted" has been used to signify that the effects of exceptional items, amortisation of intangible assets and the associated tax impacts have been excluded from the disclosure being made.

[2] Details of non-GAAP measures can be found in notes 6, 11 and 13 to 17.

## Divisional Performance[3]

| | Revenue Growth | | Adjusted Operating Margin | | Lease Adjusted Return on Capital Employed (Rolling 12 Months) | |
|---|---|---|---|---|---|---|
| | Total | Like-for-like (note 17) | 2014 | Change from 2013 | 2014 | 2013 |
| General Merchanting | 13.7% | 12.9% | 9.8% | (0.9)ppt | 16% | 16% |
| Plumbing and Heating | (0.9)% | (1.9)% | 4.8% | 0.7ppt | 9% | 8% |
| Contracts | 12.1% | 11.8% | 6.7% | (0.4)ppt | 13% | 12% |
| Consumer | 8.8% | 6.7% | 6.0% | 0.7ppt | 7% | 6% |
| Group | 8.4% | 7.3% | 6.9% | 0.1ppt | 10.4% | 10.0% |

**General Merchanting**

- Revenue improved by 13.7% significantly outperforming the market, with all product categories performing strongly
- Adjusted operating profit up 4% to £183m. However, excluding profits from property transactions adjusted EBITA increased by more than 6% to £169 million. Also in 2014 the Travis Perkins business began a modernisation programme which increased operating costs. Had this investment programme not commenced, adjusted operating profits would have increased by more than 10%
- Good progress made in commencing the modernisation programme with new format trials underway, the second range centre operating in Cardiff and a much stronger pipeline of new branch openings

**Plumbing and Heating**

- As expected revenue growth slowed during the year, down 0.9% owing to fewer Energy Company Obligation contracts, a declining boiler market and some branch conversion disruption in the second half
- Adjusted operating margin improved 0.7ppt to 4.8% with a 1.3ppt benefit from property profits and good cost management despite competitive pricing pressure from weak volume demand reducing gross margins by 0.6ppt
- Good progress was made effecting the branch reconfiguration programme. 46 branches were converted from the PTS format to the CPS format and 27 PTS branches were closed with customers transferred to larger PTS and nearby CPS branches



[3] The divisional allocation of the Group's businesses for 2013 has been restated following the divisional restructuring effected on 1 January 2014 (note 6).

**Contracts**

- Revenue growth of 12.1%, with a particularly strong fourth quarter. Share gains in all three businesses
- Adjusted operating margin fell 0.4ppt due to the relative outperformance of CCF and Keyline and the competitive BSS market
- Strong capital management and higher profits, up 6.1% to £72m, resulted in a 1ppt increase in lease adjusted return on capital employed ("LAROCE") to 13%

**Consumer**

- Revenue up 8.8% to £1,283m with consistent like-for-like sales growth throughout the year and a very strong fourth quarter against a strong prior year comparator
- Adjusted operating profit up 22.7% to £77m from £63m in 2013, adjusted operating margin up 0.7% to 6.0% and improved LAROCE to 7%
- Although early in the transformation programme for Wickes, customer feedback to the changes implemented so far has been positive. Improvements to value, branded ranges, promotions, customer service and the introduction of a new website and click and collect capability demonstrate the extent of the work underway

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**SUMMARY** During 2014 good progress has been made in delivering improvements in each of the four areas of value creation identified across the Group: customer innovation, network optimisation, utilising scale advantage and portfolio management.

Improved ranging, own brand development, better availability, greater value through price investment and new formats have improved the Group's customer propositions.

The Group's network has been extended with 54 new trading locations opened during the year together with a further 47 non-spares implants being opened in existing locations. The Plumbing and Heating Division's programme to reconfigure its branches into two more clearly defined operating models commenced during the year and will continue through 2015 and into 2016. A significant step up in the Toolstation new store opening programme meant that 33 new stores were opened during the year.

The Group has made good progress in better using its scale advantage. A new primary light-side distribution centre located near to Warrington opened towards the end of the year, with a second heavy-side range centre opened in Cardiff. Although still at an early stage a number of important technology investments have commenced as the Group seeks to modernise its information technology infrastructure. Further improvements have been made in sourcing where the Group has continued to grow volumes through its international buying teams.

Significant progress has also been made in better managing the Group's portfolio of businesses and improving returns on capital. Divisional management teams have been considerably strengthened and have further developed the strategic plans for their respective divisions. The enhanced discipline brought to portfolio management resulted in the Group determining it could not make an acceptable return from its roofing business, Rinus Roofing, which was subsequently disposed of during the year.

Incentive structures have been better aligned to the more clearly defined plans, particularly in the Consumer Division, and more work is underway to link management performance to compensation in the other Divisions.

In the first year of implementing the updated strategy the Group has successfully outperformed the market and gained share, grown operating profit in line with its target of double digit growth over the medium-term and improved lease adjusted return on capital by 40bps to 10.4%. Significant operating and capital investment programmes have continued to improve customer propositions, optimise the Group's property network and take advantage of its scale.

**FINANCIAL PERFORMANCE** The Group has made good progress towards achieving the medium-term strategic financial targets set out in last year's annual report and towards its aim of running the business on investment grade metrics.

Investment levels have increased, longer term funding has been put in place and six of the Group's seven key financial metrics have improved as a result of increased profits when compared with 2013.

| Measure | Note | 2014 | Change | 2013 | Medium-Term Ambition |
|---|---|---|---|---|---|
| Adjusted earnings per share | 11b | 119.0p | 14.9% | 103.6p | Double digit growth p.a. |
| Lease adjusted ROCE | 15 | 10.4% | 40bps | 10.0% | +200 - 300bps |
| Lease adjusted debt to EBITDAR | 16 | 2.8x | 0.2x | 3.0x | 2.5x |
| Fixed charge cover | 16 | 3.1x | 0.2x | 2.9x | 3.5x |
| Adjusted dividend cover | 12 | 3.1x | 0.2x | 3.3x | 2.50x - 3.25x |
| Net debt | 14 | £358m | £(14)m | £344m | - |
| Free cash flow | 13 | £255m | £15m | £240m | - |

With increasing investment levels the Board had a strong desire to diversify sources of funding to improve the Group's debt maturity profile, to ensure the Group is not overly reliant on any one form of financing and to improve its covenant in negotiations with landlords, the Trustees of the Group's pension schemes and its suppliers.

During 2014 the Group obtained a public debt rating from Standard & Poors. In line with the expectations of the Group's management and its advisors, the Group was assessed as being BB+ stable, one notch below an investment grade rating.

In September 2014, with strong liquidity in the debt capital markets, the Group issued a £250m seven year debut listed sterling denominated bond, on investment grade terms, even though the Group was rated slightly below investment grade. The issue was oversubscribed by more than 3 times. Issuing the bond improves the tenor of the Group's funding and it will enable it to implement its investment plans, whilst allowing $200m of US private placement senior notes to be repaid in January 2016, which are not expected to be replaced.

Group revenue rose by £432m or 8.4% to £5,581m. Like-for-like sales rose by 7.3% with space growth adding a further 1.1ppt to revenue growth. There was no change in the number of trading days in 2014 when compared with the prior year.

Net finance costs, which comprise interest on debt, mark-to-market fair value adjustments and other financing type costs associated with pension schemes, provision discount unwinds, fund raising and tax were £22m (2013: £26m).

Adjusted profit before tax rose by £41m or 12.8% from £321m to £362m. Reported profit before tax was £8m higher than last year at £321m (2013: £313m) because of the impact of exceptional items. In 2014 there was a £23m net, pre-tax exceptional charge to the income statement (2013: £9m of pre-tax exceptional income). The exceptional items in 2014 comprised the release of a £10m onerous lease provision, a £5m loss on the disposal of an investment in an associate company, a £1m gain on fair valuing contingent consideration for an historic acquisition and £29m of costs relating to the reconfiguration of businesses in the Plumbing and Heating Division.

| **Exceptional Costs and Cash Flows** | 2014 Cash Impact | 2014 EBITA Impact | 2015 Incremental Cash Impact | 2015 EBITA Impact |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Wickes store closure | - | 10 | (3) | - |
| Plumbing and heating network reconfiguration | (4) | (29) | (3) | - |
| Other | - | 1 | - | - |
| Rinus Roofing disposal | 3 | (5) | - | - |
| Total | (1) | (23) | (6) | - |

The statutory tax charge for the year was £63m (2013: £48m). 2014 was the first year in the last five that the Government did not enact a change to the standard rate of corporation tax, which in previous years had resulted in a significant reduction in the Group's tax charge (2013: £20m).

The underlying tax charge, excluding the tax deduction for exceptional items was £68m (2013: £68m), which represents an effective rate of 19.7% (2013: 22.4%). This is slightly below the standard rate of corporation tax of 21.5% (2013: 23.25%) applicable to profits in the United Kingdom. The difference is mainly due to the value of non-taxable property profits exceeding the value of expenses not deductible for tax purposes and a reduction in prior year tax charges following the implementation of FRS 102, a new UK Accounting Standard that impacted the Group's subsidiary companies.

Profit after taxation fell by 2.3% to £259m (2013: £265m) due to the impact of exceptional items, which resulted in basic earnings per share falling by 3.6% to 105.9 pence (2013: 109.9 pence). There is no significant difference between basic and diluted basic earnings per share.

Adjusted profit after tax was £291m (2013: £249m) which resulted in adjusted earnings per share increasing by 14.9% to 119.0 pence (2013: 103.6 pence). The increase reflects the improvement in trading profit, lower financing costs and the previously enacted reduction in the standard rate of corporation tax. There is no significant difference between adjusted basic and adjusted diluted earnings per share.

Net assets at the end of 2014 were £2,678m (2013: £2,515m), which contributed to capital employed of £3,207m (2013: £3,009m) (note 15).

Increased adjusted pre-tax profits in 2014 have resulted in the Group's adjusted (for exceptional items and amortisation) return on capital for the year being 0.6% higher than 2013 at 12.4%, (2013: 11.8%). After adjusting for property leases at a rate of 8 times the annual lease charge, the lease adjusted return on lease adjusted capital employed was 10.4% (2013: 10.0%).

Property transactions continued to be an important source of profit for the Group in 2014. The development and then disposal of the freehold of the Group's Warrington primary distribution centre site together with the final element of the St. Pancras branch development profit were the main contributors to the Group's £26m of property related gains (2013: £17m), which have been included within divisional profits.

In 2014 the Group has been implementing its strategy of investing in strategically important freeholds by spending £35m to acquire 19 sites. At the year end, the balance sheet carrying value of the freehold and long-leasehold estate was £350m (2013: £309m).

Adjusted free cash flow for the period was £255m (2013: £240m) (note 13). Net debt has risen slightly to £358m (2013: £344m) despite as planned, the Group increasing the dividend payment to investors, commencing its investment programme in branch and store expansion, distribution centre, restructuring and extension and in IT development and completing a bolt on acquisition. Overall gross capital expenditure, before acquisitions and disposals, increased by £58m to £165m (2013: £107m).

**DIVIDEND** The strong performance of the Group in 2014 combined with the Board's confidence that the Group's self-help strategy and underlying market indicators will result in continued strong future earnings growth, has enabled the Board to propose a 22.6% increase in the full year dividend.

A final dividend of 25.75 pence, payable on 1 June 2015 to shareholders on the register on 1 May 2015, will give a full year dividend of 38 pence (2013: 31 pence) which is covered 3.1 times by adjusted earnings per share. The proposed dividend brings cover to within the Board's target range of 2.5x to 3.25x in the medium-term.

**MARKETS** The UK has a long history of significantly under-investing in its housing stock. According to a recent survey by the Office for National Statistics, there are approximately 28 million homes in the UK and only 60% of these are maintained to a satisfactory standard. A trend towards smaller family units results in around 230,000 new households being formed each year. The combination of under-investment in existing dwellings and new household formation provides a reasonable expectation of sustainable medium to long-term growth in both the new build housing and the repair, maintenance and improvement ("RMI") markets.

Whilst it is still relatively early in the recovery of the housing market, the key market indicators monitored by the Group have steadied during the course of the year and are now at levels that the Group believes are consistent with those needed to support sustained medium-term growth in RMI spend, new housing construction and new commercial and industrial development.

An improving economic outlook with lower inflation, rising employment, low and steady interest rates and rising real wage increases for the first time in many years has resulted in consumer confidence increasing to its highest point since 2008. As a result the key lead indicators for housing transactions and mortgage approvals remain relatively strong, although growth rates have moderated during 2014.

Government actions and returning confidence led to a rapid increase in housing transactions in late 2013 and early 2014. Following these initial increases, secondary housing transactions have been broadly consistent at around 100,000 transactions per month which has formed the basis for the Group's long-term planning.

**BUSINESS PERFORMANCE** The markets for three of the Group's four Divisions have followed an improving growth trend, which began in 2013. Only the plumbing and heating market has struggled to grow in the face of a reduction in government initiatives and generally weak demand. The Group has taken advantage of lower demand in the market to commence the restructuring of its two principal plumbing and heating businesses, CPS and PTS to better align them to the needs of their customers.

With sales outperformance being a key element of the Group's strategy, it was encouraging that for much of 2014 the merchanting businesses have outperformed the Builders Merchants

Federation ("BMF") and the Construction Products Association ("CPA") growth benchmarks, whilst the new Wickes management team has significantly increased Wickes market share.

| **Revenue** | General Merchanting % | Plumbing & Heating % | Contracts % | Consumer % | Total % |
|---|---|---|---|---|---|
| Volume | 10.3 | (1.6) | 10.3 | 9.8 | 7.0 |
| Price / mix | 2.6 | (0.3) | 1.5 | (3.1) | 0.3 |
| Like-for-like per day | 12.9 | (1.9) | 11.8 | 6.7 | 7.3 |
| Expansion / disposals | 0.8 | 1.0 | 0.3 | 2.1 | 1.1 |
| Total revenue change | 13.7 | (0.9) | 12.1 | 8.8 | 8.4 |

| **Like-for-Like Revenue** | General Merchanting % | Plumbing & Heating % | Contracts % | Consumer % | Total % |
|---|---|---|---|---|---|
| Quarter to 31 March | 16.6 | 13.2 | 12.8 | 6.9 | 12.7 |
| Quarter to 30 June | 13.3 | 1.2 | 9.7 | 6.8 | 8.1 |
| Quarter to 30 September | 10.9 | (5.1) | 9.6 | 6.4 | 5.7 |
| Quarter to 31 December | 11.6 | (13.3) | 15.8 | 6.7 | 3.5 |
| First half | 14.6 | 7.4 | 11.1 | 6.8 | 10.2 |
| Second half | 11.3 | (9.7) | 12.4 | 6.4 | 4.6 |
| Full year | 12.9 | (1.9) | 11.8 | 6.7 | 7.3 |

Total revenue grew by 8.4% driven by strong like-for-like ("LFL") sales of 7.3% and further network expansion across the Group.

Better weather when compared to the same period in 2013, combined with improved market conditions meant that the Group started the year strongly with first quarter like-for-like sales up 12.7%. Whilst the rate of like-for-like sales growth moderated as the year progressed due to much stronger comparators, General Merchanting, Contracts and the Consumer Division all finished the year well.

Despite a strong start to 2014, the plumbing and heating market weakened as the year progressed. Boiler sales suffered an industry-wide slow down owing to mild weather and the impact of government inducement schemes which pulled forward boiler installations into 2013 and early 2014. As a result the market became increasingly competitive with more aggressive pricing and significant discounting of boiler prices during the latter part of the year.

The Consumer Division saw a strong sales volume increase during 2014, driven partly by an improved kitchen and bathroom performance in Wickes. However, the impact of higher volumes on like-for-like sales was tempered as Wickes continued to invest in lowering prices and strong promotions on key product lines to further enhance its value leading position in the DIY market.

The Group has continued its programme of new branch openings, utilising existing space more effectively and rationalising underperforming sites, particularly in Plumbing and Heating where the Building the Best transformation programme gathered pace. Network expansion and intensification added £60m to revenue which represented 1.1% of group sales.

In November 2014 the Group purchased Primaflow, a plumbing and heating distribution business that complements the Group's existing F&P operations.

**Adjusted operating margin**

Gross margins fell by 0.2ppt for the Group largely owing to the weaker volumes in the Plumbing and Heating Division and to the stance adopted to grow volumes alongside a sales mix shift in the Contracts Division. Implementing the Group's strategy has led to an increase in investment in self-help initiatives, but despite this investment the ratio of overheads to sales fell by 0.2ppt in 2014.

Overall Group adjusted operating profit increased by 10.5% to £384m (2013: £348m), which resulted in adjusted operating margins growing by 0.1ppt to 6.9% (2013: 6.8%) after the inclusion of property profits across both years.

| | General Merchanting % | Plumbing & Heating % | Contracts % | Consumer % | Unallocated % | Total % |
|---|---|---|---|---|---|---|
| 2013 adjusted operating margin | 10.7 | 4.1 | 7.1 | 5.3 | (0.3) | 6.8 |
| Gross margin | (0.2) | (0.6) | (0.7) | (0.3) | - | (0.2) |
| Operating costs | (0.4) | 0.5 | 0.3 | 1.0 | 0.1 | 0.2 |
| 2014 adjusted operating margin before property profits | 10.1 | 4.0 | 6.7 | 6.0 | (0.2) | 6.8 |
| Property profits | (0.3) | 0.8 | - | - | - | 0.1 |
| 2014 adjusted operating margin | 9.8 | 4.8 | 6.7 | 6.0 | (0.2) | 6.9 |

Property profits increased by £9m during the year to £26m (2013: £17m) following the disposal of the freehold for the Warrington distribution centre, which added 0.1% to operating margin.

**General Merchanting**

| **Performance** | 2014 | 2013 | Change |
|---|---|---|---|
| Revenue | £1,873m | £1,648m | 13.7% |
| LFL growth | | | 12.9% |
| Adjusted operating profit | £183m | £176m | 4.0% |
| Adjusted operating margin | 9.8% | 10.7% | (0.9)ppt |
| Network expansion (No. owned branches) | 772 | 728[4] | 44 |
| Lease adjusted ROCE | 16% | 16% | - |

[4] Excludes Rinus Roofing branches

The improved market conditions experienced in the second half of 2013 continued into 2014. New housing activity, sustained growth in the RMI sector coupled with improved sentiment from the Group’s trade customers led to strong market growth. The General Merchanting division experienced modest sales price inflation, predominantly, but not exclusively in heavy-side products, where supply fell short of demand and a positive sales mix effect from growth in heavy-side and timber sales.

Divisional sales grew by 13.7%, 12.9% on a like-for-like basis. In May 2014 twelve Keyline branches were transferred into the Division and rebranded as Travis Perkins and two large Travis Perkins branches were rebranded Keyline. The branches added approximately 0.8ppt to Travis Perkins revenue and reduced Contracts revenue by approximately 1.4ppts. There was no material impact on like-for-like revenue as these branches were excluded from comparative calculations.

From a category perspective, good growth was seen in heavy-side and timber products, with moderate sales price deflation in light-side products, particularly plumbing & heating, reducing growth.

Gross margin reduced slightly in the second half due to product mix and additional promotional activity, but throughout the year margins benefitted from strong price management and rational markets in the face of supply constraints.

Adjusted operating margins fell by 0.9ppt from 10.7% in 2013 to 9.8% and 0.6ppt after adjusting for property profits. Divisional operating costs increased during the year due to a combination of the comprehensive modernisation programme being established, volume increases, investment in customer service and delivery service enhancements. New format trials were undertaken, upgrades were made to IT software and hardware and additional tool-hire and Benchmarx implants were established· The second half saw an increase in the level of investment, when compared to the first half as the modernisation programme gained momentum.

Property profits for the Division were lower in 2014 as the impact of the St Pancras redevelopment reduced, which resulted in a 0.3ppt fall in adjusted operating margin.

Operating the branches of the Division in a safe manner is of paramount importance. During 2014 improved reporting allowed the earlier identification of potential issues which, when coupled with branch-led initiatives, has strengthened the Division’s safety position; further improvements will be sought in 2015.

In December 2014, Travis Perkins successfully opened its second range centre (“RC”) in Cardiff and by the end of 2014 the RC was supplying heavy-side product to more than 30 branches. Work is underway to open a third RC at East Tilbury during 2015. The Warrington RC is now serving 135 branches. RCs enable Travis Perkins to provide customers with an extended range catalogue and to offer better availability to all the brands they serve.

The property pipeline required to deliver new branches has been re-established during 2014 and is now well placed to deliver between five and fifteen new branches per year into the medium-term. Existing space intensification continued in 2014, with two Benchmarx kitchen showrooms opening in Travis Perkins branches, along with 10 more branches able to offer tool-hire services.

Work continues with the Travis Perkins modernisation programme:

- Format, range and space initiatives are now being trialled in three branches, with a fuller pilot programme to commence in 2015

- Extending the Travis Perkins multi-channel offer remains a priority with IT infrastructure under development and the range centre development both being an integral part of enabling fulfilment
- Modernising the pricing architecture in Travis Perkins, through better systems and analytics, is already seeing improved decision making in branches and will continue in 2015

The Benchmarx business had a record year in 2014, with sales growth of 28.2%, 14.7% on a like-for-like basis. Early in the year 27 kitchen showrooms within Travis Perkins were rebranded as Benchmarx showrooms resulting in increased sales, whilst a further two implants and five brownfield branches were opened during the year taking the total number of sites to 119.

The Benchmarx strategy is well defined with three branch formats: standalone branches, implants in Travis Perkins branches, which carry stock to fulfil orders, and showrooms which enable customers to view product and then order kitchens for delivery. Improvements in sourcing in 2014 and a significant review and rationalisation of the range mean the business is well placed for growth in 2015.

**Plumbing and Heating**

| **Performance** | 2014 | 2013 | Change |
|---|---:|---:|---:|
| Revenue | £1,353m | £1,366m | (0.9)% |
| LFL growth | | | (1.9)% |
| Adjusted operating profit | £65m | £56m | 15.4% |
| Adjusted operating margin | 4.8% | 4.1% | 0.7ppt |
| Network expansion (No. owned branches) | 505 | 526 | (21) |
| Lease adjusted ROCE | 9% | 8% | 1.0ppt |

In March 2014 the business announced its Building the Best plans to transform the Plumbing and Heating Division by clarifying the plumbing and heating format strategy, more specifically aligning the PTS business to support large contract customers with CPS supporting the small to medium sized plumbing and heating engineers and bathroom installers. The network reconfiguration will bring a clearer segmentation of customer propositions with around 180 branch conversions planned over two years. The effect will be to re-allocate capital to CPS, which offers better returns and significantly improve divisional LAROCE. Furthermore, the PTS network is being designed to better satisfy demand from larger customers with fewer stocking points, better account management and more efficient deliveries reducing the level of capital employed.

During the year 46 branches have been converted from the PTS format to the CPS format. This has enabled more CPS customers to access the new bathroom showroom concept and a broader range of product. In addition 27 PTS branches have been closed with customers transferred to larger PTS and nearby CPS branches.

Revenue in the Division declined by 0.9% as a result of a number of one-off Energy Company Obligation scheme contracts ending in the first half of the year as well as a weaker market for boiler sales. In addition, as expected, sales in the second half of the year were impacted by the disruption of branches being physically converted to the CPS format and the closure of PTS

branches, which were not considered to be viable under the new PTS operating model. This disruption will continue through 2015.

Gross margins declined 0.6ppt when compared with last year a result of a highly competitive market whilst operating costs were well controlled with the ratio of cost to sales improving by 0.5ppt in the year. This operating cost improvement has been delivered despite the business continuing to invest in new bathroom showroom facilities and spares implants across the network.

The business has recognised an exceptional charge of £29m relating to the reconfiguration of the plumbing and heating network across PTS and CPS. This includes onerous lease costs, dilapidations expenditure, abnormal stock-write offs associated with branch closures and the costs of running the transformation programme. These costs include items such as lease rental costs which would have been incurred through to 2020.

Operating profit grew from £56m in 2013 to £65m in 2014. If the impacts of property profits and ECO contracts are excluded from both the 2013 and 2014 results then underlying profits increased from £46m in 2013 to £48m in 2014. As a result the underlying operating margin increased from 3.4% to 3.5% and the reported operating margin improved from 4.1% to 4.8%.

During the year, the business undertook a number of initiatives to drive productivity improvements across the branch network, for example reviewing warehouse layouts and processes. In addition property profits of £11m arose following the sale of the freehold for the Warrington primary distribution hub.

Lease adjusted return on capital employed has improved to 9%, a year-on-year increase of 1.0ppt as initiatives to reduce working capital have gathered pace.

The Division continued to expand the CPS network outside the core Building the Best change programme. Through 2014 four new CPS sites were opened in key markets and bathroom showrooms were rolled out to an additional 34 sites. Spares implants were rolled out to 44 new PTS and CPS sites in the year, enhancing the customer offer and improving sales densities.

In November 2014 the business acquired Primaflow for £16m which had an annual turnover of £37m. Primaflow will sit alongside the Connections business within F&P, distributing small parts largely to independent plumbers merchants. This investment will support the growth of the F&P business through category expansion as well as producing commercial and supply chain synergies.

**Contracts**

| **Performance** | 2014 | 2013 | Change |
|---|---:|---:|---:|
| Revenue | £1,072m | £956m | 12.1% |
| LFL growth | | | 11.8% |
| Adjusted operating profit | £72m | £68m | 6.1% |
| Adjusted operating margin | 6.7% | 7.1% | (0.4)ppt |
| Network expansion (No. owned branches) | 171 | 182 | (11) |
| Lease adjusted ROCE | 13% | 12% | 1.0ppt |

Good progress was made in the Contracts division in 2014, which was created just over 15 months ago to provide a better service to large contract customers and realise synergy benefits. Double digit revenue growth led to market share gains in all three businesses, with investments commenced to deliver the strategic plans laid out in late 2013.

Revenue growth of 12.1% with a like-for-like sales increase of 11.8% benefitted from good volume growth throughout the year and a particularly encouraging final quarter given the very strong prior year pricing comparatives. Positive sales price and mix variances were slightly more muted than expected at the outset of the year with commodity price deflation in the BSS plumbing and heating categories being offset by inflation in heavy building materials in Keyline.

The gross margin decline in the Division was predominantly due to competitive price discounting in BSS and more limited pass through as well as a mix shift to the lower margin Keyline and CCF businesses. Despite the competitive market conditions BSS grew both market share and gross profits in the year.

Overheads were well controlled across all three businesses. Notwithstanding, investments have been made to support the Division's long-term vision and strategic plan including in skilled, technically strong colleagues to drive an enhanced service proposition. Further investments were made in rolling out nine more tool-hire businesses within existing BSS branches, in the industrial sales team capability, in the range and distribution of Sektor partitions in CCF and in the rail and utility team capabilities in Keyline.

Keyline continued to improve its range conformity and clarity throughout its branch network in 2014. As part of this work it was decided to rebrand 12 branches as Travis Perkins fascias. These branches were smaller than required to stock the comprehensive civil materials range which Keyline customers have come to expect and so were better suited to meet the needs of Travis Perkins' customers. Two larger Travis Perkins branches were rebranded Keyline in locations where Keyline was historically under-represented. Product ranges were extended and specialists recruited in the rail, utilities, highways and geo-technics customer segments and categories. Encouragingly strong growth was achieved in all parts of the business. In addition, further investments were made in the tool-hire category with 12 branches now offering the full range of tool-hire assets.

BSS faced a more challenging market in 2014, but continued to make market share gains, with particular focus on growth in the industrial market sector delivering double digit growth through the deployment of 'centres of excellence' across the branch network. The BSS Hire IT offer is now available on a national basis through 27 branches. It is supported by a central warehouse distribution service, which ensures that hire assets are available when and where customers need them.

CCF has had a very strong year as it focused on expanding its interiors range. All categories have shown positive growth, particularly insulation and internal partitions. Following an exciting launch at the end of 2013, sales of CCF's own brand 'Sektor' partitions products have grown strongly during the year and were well received by customers. Further investment is planned in 2015. The business' on-line presence through Insulation Giant has been enhanced with an expansion of product range and improvements to the on-line customer experience. CCF added one new branch in 2014 taking the total network to 32. In addition three branches were relocated to larger, more efficient premises giving a total space increase of 6.6%, which contributed 4.8% to CCF sales. Network development provides a material opportunity to improve national coverage and reduce the cost to serve. Plans are well advanced to extend CCF's network further in 2015.

Operating margins in the Division fell from 7.1% to 6.7% in the year in part owing to the competitive BSS market and in part owing to higher growth in lower margin CCF and Keyline business. Despite the fall in margins EBITA grew by 6.1% and lease adjusted return on capital employed increased from 12% to 13%.

Following the year-end, on 4 February 2015, the Division completed the small acquisition of Rudridge. This should add around £50m to revenue from four well located branches in the South East.

**Consumer**

| **Performance** | **2014** | **2013** | **Change** |
| --- | --- | --- | --- |
| Revenue | £1,283m | £1,180m | 8.8% |
| LFL growth | | | 6.7% |
| Adjusted operating profit | £77m | £63m | 22.7% |
| Adjusted operating margin | 6.0% | 5.3% | 0.7ppt |
| Network expansion (No. owned branches) | 527 | 489 | 38 |
| Lease adjusted ROCE | 7% | 6% | 1.0ppt |

The Division showed strong revenue growth throughout 2014. Like-for-like sales growth was consistently over 6% throughout the year. The first quarter benefitted from milder weather than in 2013, coupled with strong winds which assisted fencing and roofing sales. The fourth quarter saw the strongest underlying sales growth with like-for-like sales up over 6% and two-year growth of over 15%.

Total revenue growth of 8.8% and like-for-like sales of 6.7% demonstrates the improvements made in the Wickes offer through the year and the attractiveness of the Toolstation proposition. Continued price investment in Wickes, to keep prices generally lower than its competitors, helped the business gain significant market share and re-establish a stronger price perception amongst customers. Toolstation continued to invest to maintain its 'lowest price in the market' positioning.

Despite these significant investments for customers gross margin declined by only 0.3ppt owing to the continued work to re-source and rationalise range. However, the growth in volumes and strong cost control resulted in operating margins improving from 5.3% to 6.0% and EBITA growing by nearly 23%.

New stores contributed 2.1ppt to sales during the year with four new Wickes stores opened alongside 33 new Toolstation shops. At the end of 2014 Toolstation operated from 184 shops and Wickes from 232 stores.

The transformation plans for Wickes started to gain momentum during 2014 with improvements in price, branded ranges, promotions, customer service and Wickes online offer through the introduction of a new website and click and collect. Further improvements and investments are planned in 2015 alongside an acceleration in the store opening programme.

To date the incremental returns from these investments have been strong and are contributing towards management's medium-term target of improving lease adjusted returns by 200-300bps for the Division as a whole.

Wickes plans to continue the expansion of its network by between 5 and 10 new stores per year and Toolstation is planning to open more than 30 shops again in 2015 (2014: 33).

With clear improvement and expansion plans in place for 2015, a strong performance in 2014 and positive market indicators, management are encouraged with the improved outlook for the Division.

**GOING CONCERN** After reviewing the Group's forecasts and risk assessments and making other enquiries, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue 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
- Committed facilities available to the Group and any covenants thereon
- Group's robust policy towards liquidity and cash flow management
- Group management's ability to successfully manage the principal risks and uncertainties during periods of uncertain economic outlook and challenging macro-economic conditions

**OUTLOOK** Good progress has been made implementing the Group's updated strategy, although there remains much still to do. Whilst it is early in the recovery of the construction industry, the new housing market, new commercial and industrial markets and the repair, maintenance and improvement markets have been performing largely as the Group expected.

The key lead indicators monitored by management show that the drivers of activity have settled into a more sustainable and consistent trend. Mortgage approval rates and subsequent housing transactions began to moderate in 2014 and this is not expected to significantly reverse in 2015. The upcoming general election may also create some short-term volatility. However, consumer sentiment has improved, employment is rising, mortgage rates are at an historical low and we have begun to see wage price inflation above consumer price inflation.

However, the Group's growth plans are not just predicated on resurgent markets, but on active investment programmes to drive sustainable competitive advantage and long term improvements to shareholder returns. Through investing in customer propositions, optimising the branch network, accelerating the scale advantage the Group enjoys and disciplined portfolio management the group remains confident it can continue to outperform the markets it operates in over the year ahead and the medium-term.

**Cautionary Statement**

This announcement contains "forward-looking statements" with respect to Travis Perkins' financial condition, results of operations and business and details of plans and objectives in respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "seeks", "intends", "plans", "potential", "reasonably possible", "targets", "goal" or "estimates", and words of similar meaning. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual

results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the Principle Risks and Uncertainties disclosed in the Group's Annual Report, changes in the economies and markets in which the Group operates; changes in the legislative, regulatory and competition frameworks in which the Group operates; changes in the capital markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates. All forward-looking statements, made in this announcement or made subsequently, which are attributable to Travis Perkins or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, Travis Perkins does not intend to update these forward-looking statements and does not undertake any obligation to do so. Nothing in this document should be regarded as a profits forecast.

Without prejudice to the above:

(a) neither Travis Perkins plc nor any other member of the Group, nor persons acting on their behalf shall otherwise have any liability whatsoever for loss howsoever arising, directly or indirectly, from use of the information contained within this announcement; and

(b) neither Travis Perkins plc nor any other member of the Group, nor persons acting on their behalf makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained within this announcement.

This announcement is current as of 2 March 2015, the date on which it is given. This announcement has not been and will not be updated to reflect any changes since that date.

Past performance of the shares of Travis Perkins plc cannot be relied upon as a guide to the future performance of the shares of Travis Perkins plc.

# Consolidated income statement

For the year ended 31 December 2014

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Pre-exceptional items | Exceptional items | Total | Pre-exceptional items | Exceptional items | Total |
| | £m | £m | £m | £m | £m | £m |
| Revenue | 5,580.7 | - | 5,580.7 | 5,148.7 | - | 5,148.7 |
| Operating profit before amortisation (note 6a) | 384.0 | (23.3) | 360.7 | 347.6 | - | 347.6 |
| Amortisation of intangible assets | (17.6) | - | (17.6) | (17.9) | - | (17.9) |
| Operating profit | 366.4 | (23.3) | 343.1 | 329.7 | - | 329.7 |
| Exceptional investment income (note 6b) | - | - | - | - | 9.4 | 9.4 |
| Finance income (note 9) | 5.6 | - | 5.6 | 3.7 | - | 3.7 |
| Finance costs (note 9) | (27.3) | - | (27.3) | (30.2) | - | (30.2) |
| Profit before tax | 344.7 | (23.3) | 321.4 | 303.2 | 9.4 | 312.6 |
| Tax (note 10) | (68.0) | 5.3 | (62.7) | (68.0) | 20.1 | (47.9) |
| Profit for the year | 276.7 | (18.0) | 258.7 | 235.2 | 29.5 | 264.7 |
| Attributable to: | | | | | | |
| Owners of the Company | 276.5 | (18.0) | 258.5 | 235.1 | 29.5 | 264.6 |
| Non-controlling interests | 0.2 | - | 0.2 | 0.1 | - | 0.1 |
| | 276.7 | (18.0) | 258.7 | 235.2 | 29.5 | 264.7 |
| Earnings per ordinary share (note 11a) | | | | | | |
| Basic | | | 105.9p | | | 109.9p |
| Diluted | | | 102.8p | | | 105.7p |
| Total dividend declared per ordinary share (note 12) | | | 38.0p | | | 31.0p |

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 2014

| | 2014 | 2013 |
|---|---|---|
| | £m | £m |
| Profit for the year | 258.7 | 264.7 |
| Items that will not be reclassified subsequently to profit and loss: | | |
| Actuarial (losses) / gains on defined benefit pension schemes | (48.4) | 34.0 |
| Deferred tax rate change on actuarial movement | - | (11.5) |
| Income tax relating to items not reclassified | 9.5 | (7.0) |
| | (38.9) | 15.5 |
| Items that may be reclassified subsequently to profit and loss: | | |
| *Cash flow hedges:* | | |
| Losses arising during the year | (0.1) | (5.0) |
| Reclassification adjustments for losses included in profit | 0.3 | 6.1 |
| Movement on cash flow hedge cancellation payment | - | 0.8 |
| Income tax relating to items that may be reclassified | - | (0.3) |
| | 0.2 | 1.6 |
| Other comprehensive (loss) / income for the year | (38.7) | 17.1 |
| Total comprehensive income for the year | 220.0 | 281.8 |

# Consolidated balance sheet

As at 31 December 2014

| | 2014 | 2013 |
|---|---|---|
| | £m | £m |
| ASSETS | | |
| Non-current assets | | |
| Goodwill | 1,816.8 | 1,813.9 |
| Other intangible assets | 406.8 | 409.8 |
| Property plant and equipment | 689.3 | 609.9 |
| Derivative financial instruments | 18.7 | 9.3 |
| Investment property | 0.4 | 0.4 |
| Interest in associates | 1.7 | 7.3 |
| Available-for-sale investments | 3.2 | 2.7 |
| Total non-current assets | 2,936.9 | 2,853.3 |
| Current assets | | |
| Inventories | 742.7 | 687.7 |
| Trade and other receivables | 931.8 | 822.9 |
| Derivative financial instruments | 2.5 | - |
| Cash and cash equivalents | 108.3 | 79.8 |
| Total current assets | 1,785.3 | 1,590.4 |
| Total assets | 4,722.2 | 4,443.7 |

# Consolidated balance sheet (continued)

As at 31 December 2014

| | 2014 | 2013 |
|---|---|---|
| | £m | £m |
| EQUITY AND LIABILITIES | | |
| Capital and reserves | | |
| Issued capital | 24.9 | 24.7 |
| Share premium account | 510.5 | 498.0 |
| Merger reserve | 326.5 | 326.5 |
| Revaluation reserve | 18.1 | 18.4 |
| Hedging reserve | 0.2 | - |
| Own shares | (28.5) | (40.6) |
| Other reserves | (1.5) | (1.7) |
| Accumulated profits | 1,827.5 | 1,689.9 |
| Total equity | 2,677.7 | 2,515.2 |
| Non-current liabilities | | |
| Interest bearing loans and borrowings | 440.0 | 421.6 |
| Derivative financial instruments | 0.5 | 4.5 |
| Retirement benefit obligation (note 8) | 97.5 | 71.4 |
| Long term provisions | 7.8 | 20.7 |
| Long term other payables | - | 1.9 |
| Deferred tax liabilities | 66.7 | 61.3 |
| Total non-current liabilities | 612.5 | 581.4 |
| Current liabilities | | |
| Interest bearing loans and borrowings | 43.5 | 5.8 |
| Trade and other payables | 1,255.2 | 1,218.1 |
| Derivative financial instruments | - | 1.8 |
| Tax liabilities | 71.6 | 73.2 |
| Short-term provisions | 61.7 | 48.2 |
| Total current liabilities | 1,432.0 | 1,347.1 |
| Total liabilities | 2,044.5 | 1,928.5 |
| Total equity and liabilities | 4,722.2 | 4,443.7 |

# Consolidated statement of changes in equity

For the year ended 31 December 2014

| | The Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital | Share premium account | Merger reserve | Revaluation reserve | Hedging reserve | Own shares | Other | Accumulated profits | Total equity |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2013 | 24.5 | 487.2 | 326.5 | 20.1 | (1.6) | (62.4) | - | 1,461.3 | 2,255.6 |
| Profit for the year | - | - | - | - | - | - | 0.1 | 264.6 | 264.7 |
| Other comprehensive income for the period net of tax | - | - | - | - | 1.6 | - | - | 15.5 | 17.1 |
| Total comprehensive income for the year | - | - | - | - | 1.6 | - | 0.1 | 280.1 | 281.8 |
| Dividends | - | - | - | - | - | - | - | (65.1) | (65.1) |
| Issue of share capital | 0.2 | 10.8 | - | - | - | 21.8 | - | (18.9) | 13.9 |
| Realisation of revaluation reserve in respect of property disposals | - | - | - | (2.8) | - | - | - | 2.8 | - |
| Difference between depreciation of assets on a historical basis and on a revaluation basis | - | - | - | (0.2) | - | - | - | 0.2 | - |
| Deferred tax rate change | - | - | - | 1.3 | - | - | - | - | 1.3 |
| Tax on share based payments | - | - | - | - | - | - | - | 15.7 | 15.7 |
| Foreign exchange | - | - | - | - | - | - | - | 0.1 | 0.1 |
| Fair value of put option | - | - | - | - | - | - | (1.8) | - | (1.8) |
| Credit for equity-settled share based payments | - | - | - | - | - | - | - | 13.7 | 13.7 |
| At 31 December 2013 | 24.7 | 498.0 | 326.5 | 18.4 | - | (40.6) | (1.7) | 1,689.9 | 2,515.2 |
| Profit for the year | - | - | - | - | - | - | 0.2 | 258.5 | 258.7 |
| Other comprehensive income for the period net of tax | - | - | - | - | 0.2 | - | - | (38.9) | (38.7) |
| Total comprehensive income for the year | - | - | - | - | 0.2 | - | 0.2 | 219.6 | 220.0 |
| Dividends | - | - | - | - | - | - | - | (81.1) | (81.1) |
| Issue of share capital | 0.2 | 12.5 | - | - | - | 12.1 | - | (10.5) | 14.3 |
| Realisation of revaluation reserve in respect of property disposals | - | - | - | (0.2) | - | - | - | 0.2 | - |
| Difference between depreciation of assets on a historical basis and on a revaluation basis | - | - | - | (0.1) | - | - | - | 0.1 | - |
| Tax on share based payments | - | - | - | - | - | - | - | (0.5) | (0.5) |
| Foreign exchange | - | - | - | - | - | - | - | (0.1) | (0.1) |
| Credit for equity-settled share based payments | - | - | - | - | - | - | - | 9.9 | 9.9 |
| At 31 December 2014 | 24.9 | 510.5 | 326.5 | 18.1 | 0.2 | (28.5) | (1.5) | 1,827.5 | 2,677.7 |

# Consolidated cash flow statement

For the year ended 31 December 2014

| | 2014 | 2013 |
|---|---|---|
| | £m | £m |
| Operating profit before exceptional items and amortisation | 384.0 | 347.6 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 74.9 | 71.3 |
| Amortisation of internally generated intangibles | 0.7 | - |
| Other non cash movements | 9.9 | 13.7 |
| Losses of associate | 3.3 | 2.5 |
| Gain on disposal of property, plant and equipment | (26.8) | (18.1) |
| Operating cash flows before movements in working capital | 446.0 | 417.0 |
| Increase in inventories | (48.5) | (48.5) |
| Increase in receivables | (107.7) | (83.6) |
| Increase in payables | 48.9 | 61.5 |
| Payments on exceptional items | (3.8) | (4.6) |
| Pension payments in excess of the charge to profits | (24.7) | (22.6) |
| Cash generated from operations | 310.2 | 319.2 |
| Interest paid | (15.2) | (21.0) |
| Income taxes paid | (49.9) | (59.2) |
| Net cash from operating activities | 245.1 | 239.0 |
| Cash flows from investing activities | | |
| Interest received | 0.2 | 0.5 |
| Proceeds on disposal of property, plant, equipment and investments | 30.8 | 16.9 |
| Development of computer software | (14.0) | - |
| Purchases of property, plant and equipment | (150.9) | (107.2) |
| Interest in associate | (2.1) | (2.9) |
| Acquisition of businesses net of cash acquired | (15.7) | (9.3) |
| Net cash used in investing activities | (151.7) | (102.0) |
| Financing activities | | |
| Net proceeds from the issue and sale of share capital | 14.3 | 13.9 |
| Net movement in finance lease liabilities | (2.5) | (2.1) |
| Bond issue costs | (2.6) | - |
| Increase in sterling bond | 250.0 | - |
| Decrease in loans and liabilities to pension scheme | (243.0) | (143.0) |
| Dividends paid | (81.1) | (65.1) |
| Net cash from financing activities | (64.9) | (196.3) |
| Net increase / (decrease) in cash and cash equivalents | 28.5 | (59.3) |
| Cash and cash equivalents at beginning of year | 79.8 | 139.1 |
| Cash and cash equivalents at end of year | 108.3 | 79.8 |

# Notes

**1.** The Group's principal accounting policies are set out in the 2013 annual report, which is available on the Company's website www.travisperkinsplc.com. All other accounting policies have been applied consistently in 2014.

**2.** The proposed final dividend of 25.75 pence (2013: 21.0 pence) is payable on 1 June 2015. The record date is 1 May 2015.

**3.** The financial information set out in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 31 December 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered in due course. The auditors have reported on those accounts; their reports were unmodified, did not draw attention to any matters by way of emphasis without modifying their report and did not contain statements under s498 (2) or (3) Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

**4.** This announcement was approved by the Board of Directors on 2 March 2015.

**5.** It is intended to post the annual report to shareholders on Friday 24 April 2015 and to hold the Annual General Meeting on 28 May 2014. 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 Monday 27 April 2015 or will be available on the Group's website at www.travisperkinsplc.com.

**6. Profit**

*(a) Operating profit*

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Revenue | 5,580.7 | 5,148.7 |
| Cost of sales | (3,930.2) | (3,616.6) |
| Gross profit | 1,650.5 | 1,532.1 |
| Selling and distribution costs | (1,015.5) | (941.5) |
| Administrative expenses | (320.6) | (280.7) |
| Profit on disposal of properties | 26.3 | 17.4 |
| Other operating income | 5.7 | 4.9 |
| Share of results of associate | (3.3) | (2.5) |
| Operating profit | 343.1 | 329.7 |
| Add back exceptional items | 23.3 | - |
| Add back amortisation of intangible assets | 17.6 | 17.9 |
| Adjusted operating profit | 384.0 | 347.6 |

## 6. Profit (continued)

*(b) Exceptional items*

| | 2014 £m | 2013 £m |
|---|---|---|
| Reconfiguration of the Plumbing and Heating business | 29.5 | - |
| Onerous lease provision release | (10.0) | - |
| Loss on disposal of investment in Rinus Roofing Limited | 4.6 | - |
| Fair value adjustment to contingent consideration | (0.8) | 9.4 |
| | 23.3 | 9.4 |

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.

2014

The programme to reconfigure the Plumbing and Heating business resulted in the Group incurring £29.5m of exceptional operating charges.

£10.0m of surplus exceptional onerous lease provision was credited back to operating profit following the surrender of the lease on a property.

The Group disposed of its investment in Rinus Roofing Limited for £2.8m and recorded a loss of £4.6m as loans previously advanced to that company and the Group's equity investment were not fully recovered.

In accordance with IAS 39 the contingent consideration payable in respect of the acquisition of Solfex was reassessed with the discounted amount previously recognised being reduced by £0.8m.

2013

The contingent consideration payable in respect of the Toolstation acquisition was reassessed which resulted in the discounted amount previously recognised of £47.0m being reduced to £37.6m. The difference of £9.4m was credited to the income statement as exceptional investment income.

*(c) Adjusted profit before and after tax*

| | 2014 £m | 2013 £m |
|---|---|---|
| Profit before tax | 321.4 | 312.6 |
| Exceptional items (note 6b) | 23.3 | (9.4) |
| Amortisation of intangible assets | 17.6 | 17.9 |
| Adjusted profit before tax | 362.3 | 321.1 |
| Profit after tax | 258.7 | 264.7 |
| Exceptional items | 23.3 | (9.4) |
| Amortisation of intangible assets | 17.6 | 17.9 |
| Tax on exceptional items and amortisation | (8.8) | (3.6) |
| Income effect of reduction in corporation tax rate on deferred tax | - | (20.1) |
| Adjusted profit after tax | 290.8 | 249.5 |

## 6. Profit (continued)

### *(d) Adjusted operating margin*

| | General Merchanting | | Plumbing & Heating | | Contracts | | Consumer | | Unallocated | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 £m | 2013 £m | 2014 £m | 2013 £m | 2014 £m | 2013 £m | 2014 £m | 2013 £m | 2014 £m | 2013 £m | 2014 £m | 2013 £m |
| Revenue | 1,872.7 | 1,647.7 | 1,353.3 | 1,365.5 | 1,071.3 | 955.7 | 1,283.4 | 1,179.8 | - | - | 5,580.7 | 5,148.7 |
| Segment result | 183.4 | 176.4 | 29.4 | 49.5 | 65.9 | 61.4 | 82.4 | 67.5 | (18.0) | (15.7) | 343.1 | 339.1 |
| Amortisation of intangible assets | - | - | 7.0 | 6.9 | 5.7 | 6.1 | 4.9 | 4.9 | - | - | 17.6 | 17.9 |
| Exceptional items | - | - | 28.7 | - | - | - | (10.0) | (9.4) | 4.6 | - | 23.3 | (9.4) |
| Adjusted segment result | 183.4 | 176.4 | 65.1 | 56.4 | 71.6 | 67.5 | 77.3 | 63.0 | (13.4) | (15.7) | 384.0 | 347.6 |
| Adjusted operating margin | 9.8% | 10.7% | 4.8% | 4.1% | 6.7% | 7.1% | 6.0% | 5.3% | - | - | 6.9% | 6.8% |

## 7. Business and geographical segments

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | General Merchanting £m | Plumbing & Heating £m | Contracts £m | Consumer £m | Unallocated £m | Consolidated £m |
| Revenue | 1,872.7 | 1,353.3 | 1,071.3 | 1,283.4 | - | 5,580.7 |
| Segment result | 183.4 | 29.4 | 65.9 | 82.4 | (18.0) | 343.1 |
| Exceptional investment income | - | - | - | - | - | - |
| Finance income | - | - | - | - | 5.6 | 5.6 |
| Finance costs | - | - | - | - | (27.3) | (27.3) |
| Profit before taxation | 183.4 | 29.4 | 65.9 | 82.4 | (39.7) | 321.4 |
| Taxation | - | - | - | - | (62.7) | (47.9) |
| Profit for the year | 183.4 | 29.4 | 65.9 | 82.4 | (102.4) | 258.7 |
| Segment assets | 1,453.4 | 961.5 | 735.5 | 1,436.2 | 135.6 | 4,722.2 |
| Segment liabilities | (420.2) | (265.2) | (280.7) | (334.7) | (743.7) | (2,044.5) |
| Consolidated net assets | 1,033.2 | 696.3 | 454.8 | 1,101.5 | (608.1) | 2,677.7 |
| Capital expenditure | 110.1 | 13.6 | 13.9 | 20.1 | - | 157.7 |
| Amortisation | - | 7.0 | 5.7 | 4.9 | - | 17.6 |
| Depreciation | 44.6 | 5.9 | 8.8 | 15.6 | - | 74.9 |

## 7. Business and geographical segments (continued)

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | General Merchanting £m | Plumbing & Heating £m | Contracts £m | Consumer £m | Unallocated £m | Consolidated £m |
| Revenue | 1,647.7 | 1,365.5 | 955.7 | 1,179.8 | - | 5,148.7 |
| Segment result | 176.4 | 49.5 | 61.4 | 58.1 | (15.7) | 329.7 |
| Exceptional investment income | - | - | - | 9.4 | - | 9.4 |
| Finance income | - | - | - | - | 3.7 | 3.7 |
| Finance costs | - | - | - | - | (30.2) | (30.2) |
| Profit before taxation | 176.4 | 49.5 | 61.4 | 67.5 | (42.2) | 312.6 |
| Taxation | - | - | - | - | (47.9) | (47.9) |
| Profit for the year | 176.4 | 49.5 | 61.4 | 67.5 | (90.1) | 264.7 |
| Segment assets | 1,332.2 | 911.9 | 692.9 | 1,406.5 | 100.2 | 4,443.7 |
| Segment liabilities | (421.5) | (235.6) | (229.8) | (380.7) | (660.9) | (1,928.5) |
| Consolidated net assets | 910.7 | 676.3 | 463.1 | 1,025.8 | (560.7) | 2,515.2 |
| Capital expenditure | 84.1 | 5.9 | 8.8 | 12.7 | - | 111.5 |
| Amortisation | - | 6.9 | 6.1 | 4.9 | - | 17.9 |
| Depreciation | 36.3 | 7.1 | 10.5 | 17.4 | - | 71.3 |

All four Divisions sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom and consequently no geographical information is presented. Segment profit represents the profit earned by each segment without allocation of certain central costs, share of losses of associates, finance income and costs and income tax expense. Intersegment sales are eliminated. During 2014 and 2013, there were no impairment losses or reversals of impairment losses recognised in profit or loss or in equity in any of the reportable segments. On 1 January 2014, the Groups Divisions were restructured. As a result the segmental information for 2013 was restated in line with the new Divisional structure.

## 8. Pension schemes

| | 2014 £m | 2013 £m |
|---|---|---|
| Gross actuarial deficit at 1 January | 0.3 | (57.5) |
| Service costs charged to the income statement | (10.7) | (11.1) |
| Net interest expense | (2.4) | (2.1) |
| Contributions from sponsoring companies | 35.4 | 33.7 |
| Return on plan assets (excluding amounts included in net interest) | 70.2 | 68.0 |
| Actuarial losses arising from changes in financial assumptions | (175.3) | (30.7) |
| Actuarial gains and losses arising from experience adjustments | 1.7 | - |
| Gross actuarial (deficit) / surplus at 31 December | (80.8) | 0.3 |
| Restriction in asset recognised | - | (41.1) |
| Additional liability recognised in respect of minimum funding requirements | (16.7) | (30.6) |
| Gross pension liability at 31 December | (97.5) | (71.4) |
| Deferred tax asset | 19.2 | 14.0 |
| Net pension liability at 31 December | (78.3) | (57.4) |

In 2015 the total amount payable to the pension schemes in excess of the cost of on-going funding will be £25m.

## 9. Net finance costs

| | 2014 £m | 2013 £m |
|---|---|---|
| Interest on bank loans and overdrafts* | (14.4) | (19.4) |
| Interest on sterling bond | (2.1) | - |
| Interest on obligations under finance leases | (1.2) | (1.3) |
| Unwinding of discounts - property provisions | (1.3) | (1.5) |
| Unwinding of discounts - SPV | (2.5) | (2.5) |
| Amortisation of cancellation payment for swaps accounted for as cash flow hedges | - | (0.8) |
| Other interest | (3.4) | (1.8) |
| Other finance costs – pension scheme | (2.4) | (2.1) |
| Net loss on re-measurement of derivatives at fair value | - | (0.8) |
| Finance costs | (27.3) | (30.2) |
| Amortisation of cancellation receipt for swap accounted for as fair value hedge | 1.0 | 1.0 |
| Net gain on re-measurement of derivatives at fair value | 4.1 | 1.9 |
| Interest receivable | 0.5 | 0.8 |
| Finance income | 5.6 | 3.7 |
| Net finance costs | (21.7) | (26.5) |

*Includes £1.7m (2013: £1.5m) of amortised finance charges. The unwinding of discounts arises principally from the property provisions created in 2008 and the liability to the pension scheme associated with the SPV.

| | 2014 £m | 2013 £m |
|---|---|---|
| Interest on bank loans and overdrafts | (14.4) | (19.4) |
| Interest on sterling bond | (2.1) | - |
| Amortised bank finance charges | 1.7 | 1.5 |
| Other interest | (3.4) | (1.8) |
| Interest receivable | 0.5 | 0.8 |
| Interest for covenant purposes | (17.7) | (18.9) |
| Adjusted interest cover for covenant purposes | 21.6x | 18.3x |

Adjusted interest cover is calculated by dividing, adjusted operating profit of £384.0m (2013: £347.6m) less £1.3m (2013: £1.0m) of specifically excluded IFRS adjustments, by the interest for covenant purposes.

| | 2014 £m | 2013 £m |
|---|---|---|
| Interest on bank loans and overdrafts | (14.4) | (19.4) |
| Interest on sterling bond | (2.1) | - |
| Interest on obligations under finance leases | (1.2) | (1.3) |
| Unwinding of discounts - SPV | (2.5) | (2.5) |
| Loan note interest (included in other interest) | (0.6) | (0.2) |
| Interest for fixed charge ratio purposes | (20.8) | (23.4) |

## 10. Tax

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | 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 | 70.2 | (5.3) | 64.9 | 68.9 | - | 68.9 |
| - prior year | (11.1) | - | (11.1) | (1.0) | - | (1.0) |
| Total current tax | 59.1 | (5.3) | 53.8 | 67.9 | - | 67.9 |
| Deferred tax | | | | | | |
| - current year | 1.9 | - | 1.9 | 1.1 | (20.1) | (19.0) |
| - prior year | 7.0 | - | 7.0 | (1.0) | - | (1.0) |
| Total deferred tax | 8.9 | - | 8.9 | 0.1 | (20.1) | (20.0) |
| Total tax charge | 68.0 | (5.3) | 62.7 | 68.0 | (20.1) | 47.9 |

The tax rate for the year of 21.5% is a blended rate of 23% up to 1 April 2014 and 21% thereafter.

## 11. Earnings per share

(a) Basic and diluted earnings per share

| Earnings | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company | 258.5 | 264.6 |
| **Number of shares** | **No.** | **No.** |
| Weighted average number of shares for the purposes of basic earnings per share | 244,146,721 | 240,829,833 |
| Dilutive effect of share options on potential ordinary shares | 7,295,091 | 9,428,138 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 251,441,812 | 250,257,971 |
| Earnings per share | 105.9p | 109.9p |
| Diluted earnings per share | 102.8p | 105.7p |

47,940 (2013: 16,833) share options had an exercise price in excess of the average market value of the shares during the year. As a result, these share options were excluded from the calculation of diluted earnings per share.

## 11. Earnings per share (continued)

(b) Adjusted earnings per share

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company | 258.5 | 264.6 |
| Exceptional items | 23.3 | (9.4) |
| Amortisation of intangible assets | 17.6 | 17.9 |
| Tax on amortisation of intangible assets | (3.5) | (3.6) |
| Tax on exceptional items | (5.3) | - |
| Effect of reduction in corporation tax rate on deferred tax | - | (20.1) |
| Adjusted earnings | 290.6 | 249.4 |
| Adjusted earnings per share | 119.0p | 103.6p |
| Adjusted diluted earnings per share | 115.6p | 99.7p |

## 12. Dividends

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Final dividend for the year ended 31 December 2013 of 21.0p (2012: 17.0p) per ordinary share | 51.2 | 40.9 |
| Interim dividend for the year ended 31 December 2014 of 12.25p (2013: 10.0p) per ordinary share | 29.9 | 24.2 |
| Total dividend recognised during the year | 81.1 | 65.1 |

The dividends declared for 2014 and for 2013 were as follows:

| | 2014 Pence | 2013 Pence |
|---|---|---|
| Interim paid | 12.25 | 10.0 |
| Final proposed | 25.75 | 21.0 |
| Total dividend for the year | 38.0 | 31.0 |

The proposed final dividend of 25.75p per ordinary share in respect of the year ended 31 December 2014 was approved by the Board on 2 March 2015.

Dividend cover of 3.1x (2013: 3.3x) is calculated by dividing adjusted earnings per share (note 11b) of 119.0p (2013: 103.6p) by the total dividend for the year of 38.0p (2013: 31.0p).

## 13. Free cash flow

| | 2014 £m | 2013 £m |
|---|---|---|
| Net debt at 1 January | (347.6) | (452.2) |
| Net debt at 31 December | (375.2) | (347.6) |
| (Increase) / decrease in net debt | (27.6) | 104.6 |
| Dividends paid | 81.1 | 65.1 |
| Net cash outflow for expansion capital expenditure | 115.0 | 63.2 |
| Net cash outflow for acquisitions | 15.7 | 9.3 |
| Amortisation of swap cancellation receipt | (1.0) | (1.0) |
| Discount unwind on liability to pension scheme | 2.5 | 2.5 |
| Cash impact of exceptional items | 3.8 | 4.6 |
| Issue of Toolstation loan notes | 37.6 | - |
| Interest in associate | 2.1 | 2.9 |
| Shares issued and sale of own shares | (14.3) | (13.9) |
| Increase / (decrease) in fair value of debt and exchange movements | 13.4 | (15.8) |
| Movement in finance charges netted off bank debt | 1.7 | (4.5) |
| Special pension contributions | 24.7 | 22.6 |
| Free cash flow | 254.7 | 239.6 |

## 14. Net debt

Balances at 31 December comprise:

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash equivalents | 108.3 | 79.8 |
| Non-current interest bearing loans | (440.0) | (421.6) |
| Current interest bearing loans | (43.5) | (5.8) |
| Exchange and fair value adjustments | 17.1 | 3.7 |
| Net debt | (358.1) | (343.9) |

## 14, Net debt (continued)

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash and cash equivalents | Finance leases | Term loan and revolving credit facility and loan notes | Unsecured senior US$ loan notes and Sterling Bond | Liability to pension scheme | Fair value and exchange on hedged net debt items | Total |
| | £m | £m | £m | £m | £m | £m | £m |
| At 1 January 2013 | (139.1) | 25.9 | 267.4 | 261.1 | 36.9 | (19.5) | 432.7 |
| Cash flow | 59.3 | (2.1) | (24.5) | (115.6) | (2.9) | - | (85.8) |
| Exchange movement | - | - | - | (1.7) | - | 1.7 | - |
| Fair value movement | - | - | - | (14.1) | - | 14.1 | - |
| Finance charges amortised | - | - | (4.5) | - | - | - | (4.5) |
| Amortisation of swap cancellation receipt | - | - | - | (1.0) | - | - | (1.0) |
| Discount unwind on liability to pension scheme | - | - | - | - | 2.5 | - | 2.5 |
| At 1 January 2014 | (79.8) | 23.8 | 238.4 | 128.7 | 36.5 | (3.7) | 343.9 |
| Cash flow | (28.5) | (2.5) | (240.0) | 247.4 | (3.0) | - | (26.6) |
| Exchange movement | - | - | - | 4.2 | - | (4.2) | - |
| Fair value movement | - | - | - | 9.2 | - | (9.2) | - |
| Finance charges movement | - | - | 1.6 | 0.1 | - | - | 1.7 |
| Issue of loan notes | - | - | 37.6 | - | - | - | 37.6 |
| Amortisation of swap cancellation receipt | - | - | - | (1.0) | - | - | (1.0) |
| Discount unwind on liability to pension scheme | - | - | - | - | 2.5 | - | 2.5 |
| 31 December 2014 | (108.3) | 21.3 | 37.6 | 388.6 | 36.0 | (17.1) | 358.1 |

| | 2014 | 2013 |
|---|---|---|
| | £m | £m |
| Net debt under IFRS | (375.2) | (347.6) |
| IAS 17 finance leases | 16.0 | 17.5 |
| Unamortised swap cancellation receipt | 0.9 | 1.9 |
| Liability to pension scheme | 36.0 | 36.5 |
| Fair value adjustment to debt | 17.1 | 3.7 |
| Finance charges netted off bank debt | (5.7) | (4.8) |
| Net debt under covenant calculations | (310.9) | (292.8) |

## 15. Return on capital ratios

(a) Return on capital employed is calculated as follows

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Operating profit | 343.1 | 329.7 |
| Amortisation of intangible assets | 17.6 | 17.9 |
| Exceptional items | 23.3 | - |
| Adjusted operating profit | 384.0 | 347.6 |
| Opening net assets | 2,515.2 | 2,255.6 |
| Net pension deficit | 57.4 | 97.0 |
| Goodwill written off | 92.7 | 92.7 |
| Net borrowings | 347.6 | 452.2 |
| Exchange and fair value adjustment | (3.7) | (19.5) |
| Opening capital employed | 3,009.2 | 2,878.0 |
| Closing net assets | 2,677.7 | 2,515.2 |
| Net pension deficit | 78.3 | 57.4 |
| Goodwill written off | 92.7 | 92.7 |
| Net borrowings | 375.2 | 347.6 |
| Exchange and fair value adjustment | (17.1) | (3.7) |
| Closing capital employed | 3,206.8 | 3,009.2 |
| Average capital employed | 3,108.0 | 2,943.6 |
| Adjusted pre-tax return on capital | 12.4% | 11.8% |

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

| | 2014 | 2013 |
|---|---|---|
| Adjusted operating profit | 384.0 | 347.6 |
| 50% of property operating lease rentals | 91.8 | 92.2 |
| Lease adjusted operating profit | 475.8 | 439.8 |
| Average capital employed | 3,108.0 | 2,943.6 |
| Property operating lease rentals x8 | 1,468.8 | 1,474.4 |
| Lease adjusted capital employed | 4,576.8 | 4,418.0 |
| Lease adjusted return on capital employed | 10.4% | 10.0% |

## 16. Leverage ratios

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Profit before tax | 321.4 | 312.6 |
| Net finance costs | 21.7 | 26.5 |
| Depreciation and amortisation | 93.2 | 89.2 |
| EBITDA under IFRS | 436.3 | 428.3 |
| Exceptional operating items | 23.3 | - |
| Exceptional investment income | - | (9.4) |
| Adjusted EBITDA | 459.6 | 418.9 |
| IFRS adjustments not included in covenant calculations | (2.4) | (2.6) |
| Adjusted EBITDA under covenant calculations | 457.2 | 416.3 |
| Net debt under covenant calculations | 310.9 | 292.8 |
| Adjusted net debt to EBITDA | 0.68x | 0.70x |

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

| | 2014 £m | 2013 £m |
|---|---|---|
| Adjusted EBITDA | 459.6 | 418.9 |
| Property operating lease rentals | 183.6 | 184.3 |
| Adjusted EBITDAR | 643.2 | 603.2 |
| Reported net debt before fair value adjustments | 375.2 | 347.6 |
| Exchange and fair value adjustments | (17.1) | (3.7) |
| Operating lease rentals (x 8) | 1,468.8 | 1,474.4 |
| Lease adjusted net debt | 1,826.9 | 1,822.0 |
| Lease adjusted net debt to EBITDAR | 2.8x | 3.0x |

(c) Fixed charge cover is derived as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Adjusted EBITDAR | 643.2 | 603.2 |
| Property operating lease rentals | 183.6 | 184.3 |
| Interest for fixed charge calculation (note 9) | 20.8 | 23.4 |
| Lease adjusted net debt | 204.4 | 207.7 |
| Fixed charge cover | 3.1x | 2.9x |

## 17. Like-for-like sales

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

## 18. Acquisition of businesses

On the 21 November 2014, the Group acquired 100% of the issued share capital of Primaflow Limited ("Primaflow") for a total consideration of £15.8m. Primaflow is a leading supplier of plumbing fixtures and fittings. The total revenue and operating profit for Primaflow, for the period from acquisition, were £3.4m and £0.2m respectively. If the acquisition had been completed on the first day of the year group revenues would have been £5,615m and group operating profit before amortisation would have been £386.6m.

Goodwill recognised consists of the benefits from forecast growth and the assembled workforce. None of the goodwill recognised is expected to be deductible for income tax purposes. Acquisition costs charged in administration expenses for the period to 31 December 2014 amounted to £0.1m. The fair value of the acquired receivables totalled £8.3m and all acquired receivables are expected to be collected in full.

On 30th September 2014 a further payment of £0.8m was made to acquire an additional 25% of the share capital of Plumbnation Limited. The total holding in Plumbnation Limited is now 76% with options in place to acquire the remaining 24%.