Grafton Group plc

2019

Grafton Group plc
Annual Report and Accounts 2019

Building progress together

Grafton Group plc is an international distributor of building materials to trade customers and has leading positions in its markets in the UK, Ireland and the Netherlands. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in the UK.

The Group's origins are in Ireland where it is headquartered, managed and controlled. It has been a publicly quoted company since 1965 and its Units (shares) are quoted on the London Stock Exchange where it is a constituent of the FTSE 250 Index and the FTSE All-Share Index.

In this report

Our Values

Our core values underpin the way we conduct our business and how we interact with all of our stakeholders.

More information in Our Story on page 4

Our Strategy

Our strategy is to be a leading international distributor of building materials and related activities and to continue the growth and development of the Group.

More information in Our Strategy on page 20

Operations

The Group operates in the Merchanting market in Ireland, the UK and the Netherlands, in the DIY Retailing market in Ireland and in the Manufacturing market in the UK.

More information in Sectoral and Strategic Review on page 24

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2019 Highlights

Strong operating performance and delivery of a number of strategic objectives

Financial highlights – continuing operations (pre IFRS 16) (i)

Revenue
£2.67bn
+3%

19 £2.67bn
18 £2.60bn

Adjusted operating profit* (ii)
£194.3m
+4%

19 £194.3m
18 £187.6m

*after central activities of £11.6 million in 2019 (2018: £14.6 million), including property profit

Adjusted operating profit margin* (ii)
7.0%
–

19 7.0%
18 7.0%

*before property profit

Cash generation from operations
£219.1m
+5%

19 £219.1m
18 £209.2m

Dividend
19.0p
+6%

19 19.0p
18 18.0p

Net cash/(debt)
£7.8m
+£60.9m

19 £7.8m
18 (£53.1m)

Return on capital employed
14.4%
(30bps)

19 14.4%
18 14.7%

Adjusted earnings per share – Basic (ii)
66.0p
+4%

19 66.0p
18 63.7p

Free cash conversion
89.0%
+6%

19 89.0%
18 84.0%

(i) The Plumbase business and Belgium Merchanting are classified as discontinued operations. The revenue and operating profit of both businesses are excluded from continuing operations. The operating result is reflected in the (loss)/profit after tax from discontinued operations. The prior year comparatives have been updated to be consistent with the current year presentation.
(ii) The term "Adjusted" means before exceptional items and amortisation of intangible assets arising on acquisitions in both years.

Statutory highlights [iii]

Statutory operating profit

£197.8m

19	£197.8m
18	£180.5m

Statutory operating profit margin

7.4%

19	7.4%
18	6.9%

Statutory earnings per share – Basic

60.5p

19	60.5p
18	60.9p

Net debt

£533.8m

19	£533.8m
18	£53.1m

Return on capital employed

12.7%

19	12.7%
18	14.7%

(iii) 2019 represents post IFRS 16 balances. IFRS 16 had no impact on prior year comparators.

Organic Growth in Merchanting and Retailing

Strong organic growth in the Merchanting and the Retailing businesses in Ireland.

Acquisition Strategy

Strong growth in profitability in the Netherlands business and increase in scale with Polvo acquisition.

Focus on Growth Opportunities

Reshaped our portfolio with successful disposal of Plumbase and the Belgian Merchanting business.

Our story so far

For more than one hundred years, a passion for progress has been the driving force behind the success of our business. From that very first yard in Dublin, supplying cement and plaster for local builders, to a multinational portfolio – it's a journey built on dedication and innovation.

Today the Grafton Group of businesses includes many market leading brands. We have strong regional and national market positions in the segments in which we operate, and our ambitious strategy continues to deliver strong value for shareholders and investors.

Our desire to progress remains as powerful today as it always has been.

First and foremost, we focus on making every possible kind of progress in delivering brilliant service for our customers. Without them we have no business, it's as simple as that. So we work tirelessly to make sure that they know without doubt that we have what they need when they need it.

Our customers know that they can trust us to deliver completely reliable products, support and advice, so they can make the progress they need to, on all kinds of jobs and in all kinds of ways. Getting this right depends on the people that deliver our customer service every day. Which is why, alongside our customers, the progress of our colleagues is vital.

Grafton is a place where everyone genuinely has the chance to contribute, to take ownership of what they do, develop their own skills and abilities, and build a career to be proud of. The pride we take in seeing our own colleagues progress knows no bounds.

In part this is because of the knock-on effect that progress has. Behind every customer helped, and every career advanced, there is a commensurate contribution to the community that they – and we – are a part of. Integrating sustainability into our business processes is critical to achieving our strategic priorities because when our customers and our colleagues thrive, so does our business.

This is how our commitment to progress becomes a virtuous circle. As people progress, and our business does in turn, success should be returned to shareholders in the form of growth and added value.

Our passion for progress reflects the scale of our ambitions. It's only the start of our second century – an opportunity to build something truly remarkable. Let's see where progress takes us next.

Grafton Group plc
building progress together

Our Values

Ambitious

As individuals, teams, businesses, and as a whole Group, we're always ambitious for success. By striving to always do things better tomorrow than we did today we can be the first choice for our customers, for investors and for people who want a brilliant place to work.

Ultimately we want to be leaders in what we do. We want to be number one.

Value our People

Our teams are our greatest asset, and across the Group we will always support, protect and develop them. We are a company where people are recognised, remembered, and respected. People feel proud to work here, and valued for what they do.

Every one of us has the opportunity to grow our skills and career.

Trustworthy and Responsible

We all know the difference between right and wrong. The Group leadership team sets the right example with a transparent, ethical approach, and our colleagues back us up all the way – they earn the trust of customers, colleagues and communities and shareholders alike, by doing the right thing. Our sustainability strategy demonstrates our commitment to conducting our business in a socially responsible and ethical way.

Our honesty is matched by our reliable products, support and advice.

Be Brilliant for our Customers

It's as simple as that. Doing a brilliant job for them is what makes us what we are. We build a loyal customer base by building strong relationships, listening to their needs, getting them what they want, exceeding their expectations, making the interaction easy and sending them home happy.

And they know they can rely on us to do this time after time after time.

Entrepreneurial and Empowering

The best ideas in our business come from the people that see our customers every day – and it's new ideas that help us to innovate and stay ahead of the competition. Everyone has a part to play, in improving performance, seizing opportunities and adding value.

We trust everyone to take ownership, and encourage everyone to express themselves.

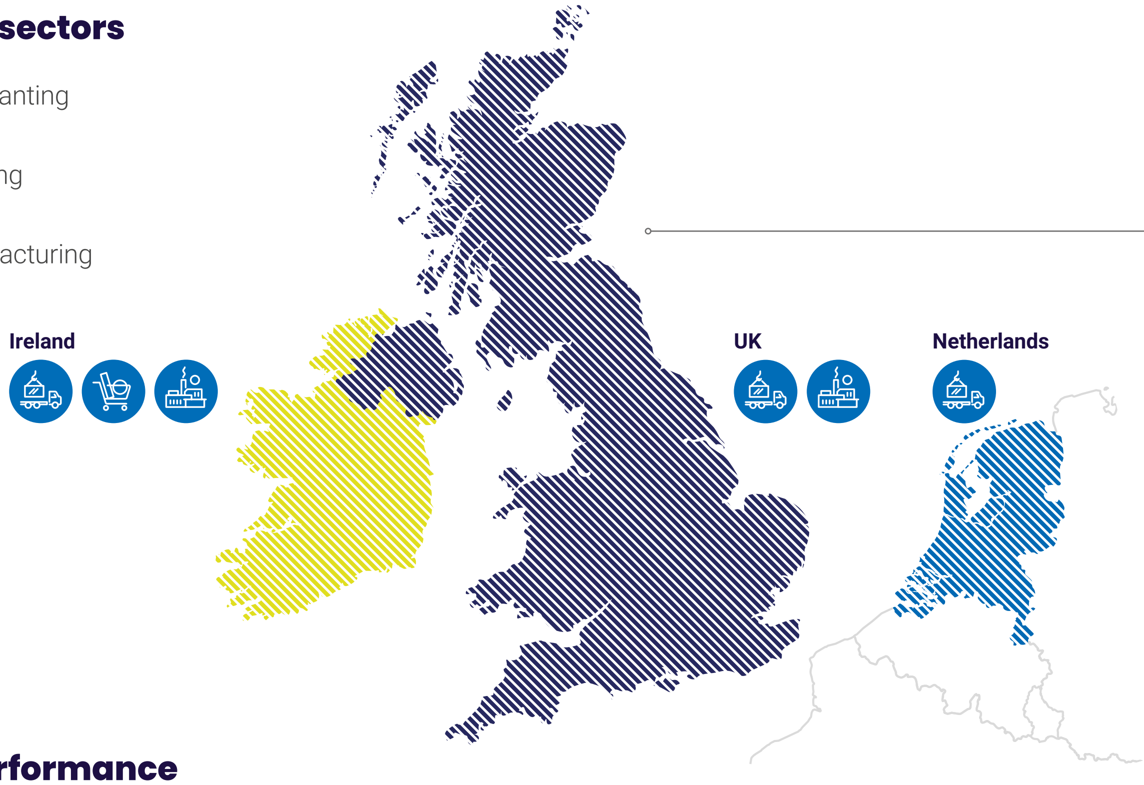
Grafton trades from c.550 branches with c.11,700 colleagues

Business sectors

Merchanting

Retailing

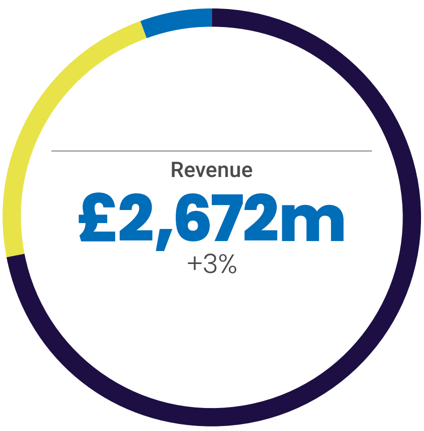
Manufacturing

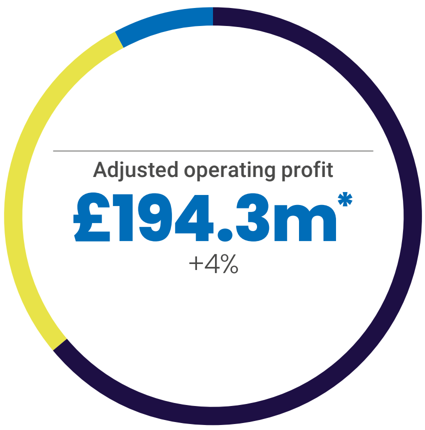


Group performance

In 2019, the Group reported revenue from continuing operations of £2.67 billion (2018: £2.60 billion), adjusted profit before tax of £188.8 million (2018: £181.4 million) and adjusted Earnings Per Share ("EPS") of 66.0p (2018: 63.7p). The statutory reported adjusted profit before tax was £179.6 million and the adjusted earnings per share was 62.8p.

UK 66.8%
Ireland 25.3%
Netherlands 7.9%





UK 58.1%
Ireland 32.0%
Netherlands 9.9%

* after central activities of £11.6 million in 2019 (2018: £14.6 million), including property profit

UK

Number of branches
353

Revenue
£1,785.5
66.8%

Adjusted operating profit* (Pre-IFRS 16)
£115.7m
58.1%
Reported: £122.8m

Adjusted operating profit margin (Pre-IFRS 16)
6.5%
Reported: 6.9%

Market positions
3rd
Builders merchanting
1st
Mortar manufacturing

Our top brands

Selco Builders Warehouse, Buildbase, MacBlair, Leyland SDM, CPI EuroMix

* Pre property profit

Ireland

Number of branches
85

Revenue
£675.0m
25.3%

Adjusted operating profit* (Pre-IFRS 16)
£63.7m
32.0%
Reported: £66.7m

Adjusted operating profit margin (Pre-IFRS 16)
9.4%
Reported: 9.9%

Market positions
1st
Builders & plumbers merchanting
1st
DIY Retailing

Our top brands

Chadwicks Group, Woodie's

Netherlands

Number of branches
113

Revenue
£211.8m
7.9%

Adjusted operating profit* (Pre-IFRS 16)
£19.6m
9.9%
Reported: £19.9m

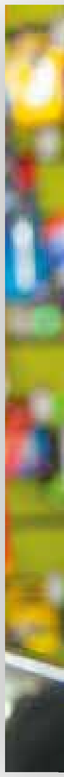
Adjusted operating profit margin (Pre-IFRS 16)
9.3%
Reported: 9.4%

Market positions
1st
Ironmongery, tools and fixings segment of Merchanting market

Our top brands

Isero, Polvo Bouw en Industrie

Our Top Brands



Merchanting

The Merchanting segment distributes building materials from 505 branches in the UK, Ireland, and the Netherlands.

Merchanting revenue

£2.4bn

+2.6%
(2018: £2.3bn)

Selco

Trading from 67 branches, including 39 in London. Selco is a trade and business only builders' merchants that operates a retail style self-select format. Its unique products and service model is primarily focused on customers engaged in small residential RMI projects.

selcobw.com

Buildbase

Buildbase is the UK's third largest builders' merchants trading from more than 160 branches with a strong presence in the South East, Midlands and North of England.

buildbase.co.uk

Leyland SDM

Leyland SDM is one of the most recognisable and trusted decorating and DIY brands in Central London where it distributes paint, tools, ironmongery and accessories from 23 branches.

leylandsdm.co.uk

MacBlair

MacBlair is the leading builders' merchant in Northern Ireland where it trades from 17 branches. The business supplies the trade, DIY and self-build markets with building materials, timber, doors and floors, plumbing and heating, bathrooms and landscaping products.

macblair.com

Chadwicks Group

Chadwicks Group operates from 49 branches in the Republic of Ireland where it is the number one builders merchanting, plumbers merchanting and steel stockholding business.

chadwicks.ie

Isero

Isero is the leading specialist distributor of tools, ironmongery and fixings in the Netherlands. Isero trades from 62 branches and offers a comprehensive range of quality products to trade professionals supported by an exceptional level of customer service.

isero.nl

Polvo

Polvo is the third largest distributor of ironmongery, tools, fixings and related products in the Netherlands. Polvo trades from 51 branches located in the Southern, Western and Eastern regions where Isero is under represented.

polvo.nl

Manufacturing

The Manufacturing segment operates the market leading dry mortar business in Great Britain from ten plants.

Manufacturing revenue

£79.4m

+0.7%

(2018: £78.8m)

(up 0.8% in constant currency)

CPI Mortars

CPI Mortars is the market leader in dry mortar manufacturing in the UK, operating from 10 strategically located factories that provide almost national coverage.

cpieuromix.com

Retailing

The Group is the largest DIY retailer in Ireland trading from 35 branches and online.

Retailing revenue

£205.5m

+3.7%

(2018: £198.2m)

(up 4.7% in constant currency)

Woodie's

Woodie's is Ireland's market leading DIY, Home and Garden retailer with 35 stores nationwide and online offering an extensive range of DIY products, paints, lighting, homestyle, housewares, bathroom products and kitchens. Woodie's is also a leading retailer of seasonal categories including gardening and Christmas ranges.

woodies.ie

Why invest in Grafton?

Leading market positions

- Leading market positions and strong portfolio of brands
- Scale and breadth of operations create a competitive advantage in local markets
- Geographically diverse businesses

Sustainability

- Commitment to responsible and ethical business and strong corporate governance

Acquisition capability

- Proven track record of acquisitions and integration
- High calibre management teams with skills and experience in acquiring and integrating businesses

Federated Structure

- Decentralised organisational structure
- Autonomous local management teams supported by a tight control environment at Group level

Strong financial base

- Maximising long term returns for shareholders
- Strong cash flow from operations
- Investment grade credit rating
- Strong balance sheet

Group Revenue

£2.7bn

+3%

19 Reported*	£2.7bn
19**	£2.7bn
18**	£2.6bn
17	£2.7bn
16	£2.5bn
15	£2.2bn

Group Adjusted Operating Profit, including property profit

£194.3m

+4%

19 Reported*	£204.8m
19**	£194.3m
18**	£187.6m
17	£163.7m
16	£142.0m
15	£127.3m

Group Adjusted EPS

66.0p

+4%

19 Reported*	62.8p
19**	66.0p
18**	63.7p
17	54.9p
16	47.7p
15	41.2p

* represents the Group statutory reported amount (post IFRS 16).

** from continuing operations (pre IFRS 16). 2018 has been restated to conform to current year presentation.

People

- Strong, capable, highly motivated and experienced management teams
- Loyal and engaged colleagues
- Competitive pay and rewards

Excellence in service

- Customer focused approach
- Superior quality of product offering backed up by a strong service culture

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Strategic Report


BASE

Chairman's Statement

Dear Shareholder,
I am pleased to report that Grafton made further progress in 2019 with the Group's continuing operations delivering growth in operating profit and earnings per share against the backdrop of weaker trading conditions in our main market in the UK.

It was also an important year on the development front as we continued to implement a clear and focused strategy increasing the scale of our operations in the Netherlands with the acquisition of Polvo. We also reshaped our portfolio of businesses with the successful disposal of Plumbase and the Belgian merchanting business.

Results
Revenue in the continuing operations was up by three per cent to £2.67 billion (2018: £2.60 billion) and adjusted operating profit increased by four per cent to £194.3 million (2018: £187.6 million). Adjusted earnings per share in continuing operations also increased by four per cent to 66.0p (2018: 63.7p).

Dividend
A second interim dividend of 12.5p (2018: 12.0p) will be paid to give total dividends for the year of 19.0p representing an increase of 5.6 per cent on dividends of 18.0p paid for 2018. This increase is in line with the Board's progressive dividend policy and reflects both the Group's strong cashflow from operations for the year and its pre-IFRS 16 net cash position at the year end. Dividend cover was 3.5 times (2018: 3.5 times).

Cash Flow and Balance Sheet
Pre-IFRS 16 cash flow from operations was £219.1 million (2018: £209.2 million) and shareholders' equity increased by £66.1 million to £1.36 billion. Free cash flow is allocated to drive organic growth in established businesses operating in markets that have development opportunities and growing by acquisition in existing and new geographic markets, in line with our development strategy, while also maintaining a progressive dividend policy.

Strategy
Good progress was made during the year implementing the Group's strategy. The acquisition of Polvo in July 2019 represented a unique opportunity to acquire a leading business in our sector that complemented our established Isero business.

Organic development activity in the UK merchanting market continued with the opening of a new Selco branch in Kingston upon Thames that increased the branch estate to 67 with further expansion taking place in the current year. The Leyland SDM paint distribution business in London opened two new branches and we continue to search for opportunities to grow the branch network in the city.

Strong revenue and operating profit growth in the Irish merchanting and DIY businesses was generated organically in the established branch networks.

We made a decision to divest Plumbase and the Belgian merchanting business following a strategic review. This was in line with our strategy of orientating the overall Group towards businesses with good long-term prospects that generate higher operating margins and returns.

The Board's strategy for the future growth and development of the UK business is based on strengthening existing market positions through organic growth and strategic development opportunities. We continue to see opportunities for selective expansion of the Selco footprint and, in view of the weaker RMI market in recent years, the business also has a structural growth opportunity to increase revenue and profitability in the 31 branches that were opened between 2016 and 2018.

We see further opportunities to build on our scale in Ireland and to grow revenue organically and by acquisition. The focus in the Netherlands merchanting market will also be on growing organically and through further acquisitions.

The creation of a more balanced portfolio of businesses internationally by establishing a presence in new geographic markets continues to be a high strategic priority for the Board. The Group's excellent cash generation from operations, good liquidity and strong balance sheet provide resources to fund strategic growth opportunities.

"A shared passion for progress is at the heart of everything we do, that's why our purpose is building progress together."

Board Composition and Evaluation
Grafton has a strong Board of Directors that drives performance and growth of the business. The membership of the Board is broadly based and reflects a diverse range of backgrounds, education, cultures, experience, expertise and perspectives. An internal evaluation of the Board, its Committees and individual Directors was conducted during the year and I am pleased to report that the results demonstrate that the Board and its Committees continue to operate effectively and to a high standard of governance.

Dr. Rosheen McGuckian was appointed as a Non-Executive Director with effect from 1 January 2020. The Board will benefit greatly from Rosheen's extensive business knowledge, experience and track record in Executive and Non-Executive Director roles in Ireland and we look forward to working with her over the coming years.

In December 2019, Frank van Zanten indicated that he would retire as Non-Executive Director at the conclusion of the forthcoming Annual General Meeting having served on the Board since 2013. Frank has made a strong and greatly valued contribution throughout his time on the Board. On behalf of the Board, I would like to thank Frank sincerely for his time and commitment to Grafton and wish him every success in the future.

Culture, Colleagues and Purpose
Our corporate culture defines who we are and how we do business. Grafton's culture is built on the principle of entrepreneurial local management teams operating to high ethical and professional standards within a strong centralised Group management, reporting and governance framework.

In line with provisions of the 2018 Corporate Governance Code on workforce engagement, a Colleague Forum has been established with meetings held to date providing directors with valuable insight into the views and interests of colleagues across the Group.

Our commitment to our culture and values helps to differentiate us from our competitors. Our colleagues, under the leadership of Gavin Slark, Group CEO, play a key role in the development of a strong and healthy culture. I would like to take this opportunity, on behalf of the Board, to thank all of our colleagues for their hard work and commitment during the year, which is acknowledged and sincerely appreciated.

We have developed a purpose statement of "building progress together" that reflects our commitment to all our stakeholders and a strategic approach that delivers strong value for our shareholders.

Colleagues in Ireland meeting with Vincent Crowley, Non-Executive Director, as part of the Group Colleague Forum.

Sustainability Strategy
The Group is mindful of its corporate and social responsibilities and good progress was made during the year on the development of a Group sustainability strategy. The objective of this strategy is to build a sustainable future for everyone. This strategy is aligned with the UN Sustainable Development Goals and it identifies five key areas of focus and activity for the Group and its businesses being Customers and Products; People; Resources; Communities; and Ethics. Further work will be carried out during 2020 to implement this strategy. In addition, several of our businesses have implemented wellness initiatives to support our colleagues in their work and personal lives.

Annual General Meeting
In line with the Group's policy, all Directors with the exception of Frank van Zanten will retire and seek election/re-election at the 2020 AGM. Each Director continues to perform effectively and has demonstrated a strong commitment to the role and I strongly recommend that each of the Directors going forward be elected/re-elected at the Annual General Meeting.

Outlook
The Board's expectations for 2020 are positive and we are optimistic about the growth potential of Grafton. We are well placed to continue to implement our development strategy supported by cash generative businesses and a strong balance sheet.

Michael Roney
Chairman
9 March 2020

Chief Executive Officer's Review

Grafton is pleased to report on a year of further growth and delivery of a number of strategic objectives to improve the quality and sustainability of the Group's earnings and create long term value for shareholders.

Gavin Slark
Chief Executive Officer

Group Results
The Merchanting and Retailing businesses in Ireland delivered a very good performance increasing operating profit by 9.3 per cent in constant currency. Operating profit advanced strongly in the Netherlands merchanting business with constant currency growth of 24.3 per cent. The Group was not immune to weakness in the UK economy in what was the most challenging year for the merchanting market since the global financial crisis and operating profit in continuing operations was marginally down on the prior year.

Merchanting
Volumes in the UK merchanting business were affected by weakening demand as the year progressed. Households deferred discretionary spending on home improvement projects due to a decline in sentiment and increased uncertainty about the outlook for the economy and housing market. The overall UK merchanting business reported a small increase in average daily like-for-like revenue. The Selco business was resilient but it was impacted by the weaker trading conditions. Lower average daily like-for-like revenue and pressure on gross margins in a very competitive market contributed to a decline in profitability in Buildbase.

Revenue in the Group's market leading merchanting business in Ireland has increased substantially over the past five years and this trend continued in 2019 albeit at a slower pace in the second half as households responded more cautiously to a weaker international outlook. Revenue growth was driven by higher volumes in the residential RMI market and a continuation of the gradual recovery in house building.

The Netherlands business experienced a softening of the strong growth trends of recent years particularly in the second half of the year as the economy and construction sector slowed. The business consolidated its leadership position in the ironmongery, tools and fixings segment of the merchanting market with the acquisition of the 51 branch Polvo business in July. Strong growth in operating profit in a weaker market was attributed to positive gross margin trends, integration benefits from acquisitions made in prior years and a second half contribution from the Polvo acquisition.

"2019 saw growth in revenue, profitability and earnings per share alongside continuing progress in evolving and re-shaping our business to enhance our value proposition to our customers and drive sustainable growth for our shareholders. Strong organic growth in our Merchanting and Retailing operations in Ireland and in the profitability of our Netherlands operations helped offset a challenging year in the UK due to political and economic uncertainty."

Retailing
Woodie's market leading DIY, Home and Garden business in Ireland achieved a standout performance as it continued to make strong revenue gains from the business transformation initiatives of recent years including a significant investment in the store network, the introduction of higher quality product ranges and delivery of excellent customer service.

Manufacturing
CPI EuroMix, the market leading mortar manufacturing business in Great Britain, reported a small decline in operating profit compared to the exceptional growth and outperformance reported for 2018 in a market where long term demand is underpinned by a shortage of housing.

Discontinued Operations
We continued to actively manage our portfolio of businesses with the successful disposal of Plumbase and the Belgian Merchanting business in October. These disposals were in line with our strategy of focusing investment into businesses with good long-term growth prospects that generate high returns.

We conducted a strategic review of our operations in Belgium in the context of its future growth prospects that led to a decision to sell the business. The impact on the income statement of the disposal is an exceptional charge of £29.4 million that is included in the result from discontinued operations.

Property Profit
The Group realised a profit of £6.9 million (2018: £4.9 million) and cash proceeds of £15.6 million from the disposal of surplus properties in Ireland and the UK.

Cash Flow
The Group continued to be very cash generative with pre-IFRS 16 cashflow from operations of £219.1 million (2018: £209.2 million). The Group had pre-IFRS 16 net cash of £7.8 million on the balance sheet at the year-end having started the year with net debt of £53.1 million.

Outlook
We expect the UK housing market to benefit from reduced uncertainty, healthy labour market conditions and low interest rates. We remain cautious however at this stage about the speed of any recovery in the RMI market which may take time to gain traction.

The outlook for the Irish economy continues to be favourable with some moderation in growth anticipated from the high levels of recent years. Growth in domestic demand is expected to be driven by gains in employment and incomes which should be positive for our merchanting and DIY businesses. Growth in house building is likely to be constrained by affordability relative to incomes and availability of mortgage finance.

Growth in the Netherlands economy is forecast to continue to moderate due to weaker exports while domestic demand is expected to be supported by tax cuts and growth in real wages. Despite a shortage of homes and an increase in household formations, house building is expected to reduce due to more onerous environmental requirements and a decline in the issue of building permits last year. The acquisition of Polvo provides an opportunity to realise integration benefits in the enlarged business.

Average daily like-for-like Group revenue decreased by 0.4 per cent in the period from 1 January to 23 February. This comprises a decline of 1.5 per cent in UK Merchanting, growth of 2.0 per cent in Irish Merchanting, growth of 1.3 per cent in Netherlands merchanting, a decline of 0.3 per cent in Retailing and growth of 6.7 per cent in Manufacturing.

Our overall expectations are positive for our portfolio of strong cash generative businesses and we are confident of continued progress in 2020. We will continue to pursue our focused and disciplined growth strategy.

Our Purpose – building progress together
A shared passion for progress is at the heart of everything we do at Grafton. From our constant focus on innovating for our customers, to our deep commitment to developing our people; from the entrepreneurial spirit that powers our growth to the strategic approach that delivers strong value for our shareholders; progress in all its forms makes us what we are. This energetic, ambitious outlook is who we are as a Group, and it guides how we build our wider relationships.

That's why our purpose is "building progress together".

Gavin Slark
Chief Executive Officer
9 March 2020

Creating value for our stakeholders

Inputs

The continued success of the Group is based on:

- Strong relationships with our customers.
- The contribution and commitment of our colleagues.
- An efficient network of trusted suppliers.
- A strong financial base to fund ongoing development and acquisition activity.
- Recognising our responsibility as a member of the communities where our branches are located.

Business Activities

We add value by building on our strengths and leading market positions

Key Strengths

- Leading market positions and brands in each of the countries in which the Group operates.
- Sound financial metrics based on excellent cash generation, a strong balance sheet and the financial resources to fund ongoing development activity.
- A geographically diversified network of c.550 branches with opportunities for further growth through acquisition and organic development.
- A portfolio of highly cash generative and profitable businesses.
- A customer service orientated culture and the scale and breadth of operations to create a competitive advantage in local markets.
- Strong, capable, highly motivated and experienced management teams.
- Skills and experience in acquiring and integrating businesses.

Our Core Values

Trustworthy and Responsible

Be Brilliant for our Customers

The Group's purpose is "building progress together". The success of the business is based on the quality of the products it distributes and the quality of the service it provides to its customers. The Group aims to build on its leading market positions in the UK, Ireland and the Netherlands and to grow internationally in merchanting and related markets.

Operating segments

Merchanting
89%
of Group Revenue (2018: 90%)

Retailing
8%
of Group Revenue (2018: 8%)

Manufacturing
3%
of Group Revenue (2018: 2%)

Outputs

Growing our business internationally

Revenue
£2.67bn
from continuing operations

Adjusted Group Operating Profit, including property profit
£194.3m
from continuing operations (pre IFRS 16)

People & Locations
c.11,700
colleagues in c.550 branches and support offices

Emissions
(3.2%)
in CO_2e Emissions per £'m of revenue from continuing operations

Giving back
>£700,000
raised for charities

Outcomes

Building progress together

Shareholders
Increasing profitability and earnings.

Customers
Being brilliant for our customers.

Colleagues
Retaining a loyal, engaged and well trained workforce.

Suppliers
Building relationships to grow our businesses.

Communities
Engaging with local communities.

Value our People

Entrepreneurial and Empowering

Ambitious

Our Strategy

Strategy

Our overall strategy is to be a leading international distributor of building materials and related activities. This strategy is supported by our five pillars.

Excellence in service

- Being the first choice supplier to our customers.
- Refining and developing the range of products and services offered.
- Developing an innovative and efficient multi-specialist and multi-channel business.
- Increasing our e-commerce capabilities.

Strong financial base

- Maximising long term returns for shareholders supported by three financial pillars:
  - Revenue growth in new and existing markets;
  - Operating profit margin growth;
  - Optimising capital turn and return on capital employed; and
- Generating strong cash flow from operations and maintaining a strong balance sheet are key financial metrics.

Progress in 2019

Excellence in service

- During the year the Irish merchanting businesses, with the exception of three large destination branches, were aligned as Chadwicks with refreshed and updated branding. The rebrand is part of a programme of investment in branch upgrades and IT systems to provide customers with an enhanced and consistent user experience.
- Branch upgrades were carried out across a number of the Group's businesses including Woodie's, Selco and Leyland SDM.
- A new Selco delivery hub opened in Edmonton during the year provides an enhanced experience for customers by centralising deliveries for six branches in North East London.
- Selco also introduced a "Click & Deliver" service for bulky products complementing the existing Click & Collect service.
- Isero relocated to a new distribution centre during the year, doubling capacity and strengthening its supply chain and logistics functions.

Strong financial base

- Group revenue from continuing operations increased by 3 per cent to £2.7 billion and by 2.9 per cent in constant currency.
- Operating profit in continuing operations increased by 4 per cent to £194.3m.
- The adjusted operating profit margin increased by 10 basis points to 7.3 per cent and was unchanged at 7.0 per cent excluding property profit.
- Capital turn was maintained at 2.0 times (pre-IFRS 16).
- The dividend for the year increased by 6 per cent in line with the Group's progressive dividend policy.

Targets for 2020

Excellence in service

- Group businesses will continue to pursue opportunities to enhance our customers' experience.

Strong financial base

- The Group will continue to prioritise like-for-like revenue growth in its markets, to exercise tight control over costs and to invest in areas of its business that provide good long term growth prospects.

Link to Risk

Excellence in service

- Competition
- Colleagues
- IT Systems and Infrastructure
- Cyber Security & Data Protection
- Supplier Management and Rebates
- Internal Controls & Fraud
- Sustainability
- Pandemic Risk – COVID-19 Virus

Strong financial base

- Macro-Economic Conditions
- Competition
- Acquisition and Integration of New Businesses
- Supplier Management and Rebates
- Internal Controls & Fraud
- Sustainability
- Pandemic Risk – COVID-19 Virus

Organic growth and acquisitions

- Deploying mature acquisition and integration skills to complete transactions and realise synergies.
- Increasing market coverage where the Group is currently under-represented.
- Moving into new territories where opportunities exist to:
  - Achieve good returns on capital invested;
  - Achieve leading market positions in national and regional markets; and
  - Add value to familiar business models operating in unconsolidated markets.

- The Group continued its expansion in the Netherlands with the acquisition of the 51-branch Polvo business, one of the top three businesses in the specialist ironmongery, tools, ventilation systems, fixings and related products market in the Netherlands.
- The acquisition of a single branch business brought the total number of branches in the Netherlands to 113 at the year end.
- New Leyland SDM branches were opened during the year in Maida Vale and Streatham
- A new Selco branch opened in Kingston-Upon-Thames in November which brought the Selco estate to 67 branches including 39 in London.

- Growth by acquisition in new and existing geographic markets continues to be a high strategic priority.
- Grafton will continue to pursue its organic growth strategy in its established businesses.

- Macro-Economic Conditions
- Competition
- Acquisition and Integration of New Businesses

A supportive organisational structure and management

- Group Management and the Board developing and implementing the overall strategy of the Group.
- Utilising the Group Corporate Office in Dublin to support the Group's international operations.
- Operating a decentralised organisational structure that confers significant autonomy on local management teams within a tight Group accounting, risk management and control environment.
- Employing high calibre management teams with an appropriate mix of operational and management experience and expertise.

- The Group ran a number of training and development programmes for colleagues during the year including the Group's Next Generation Leadership Programme in Coventry University.
- A number of business units updated their recruitment, learning and development programmes.
- The Group-wide online ethics and regulatory training modules were updated during the year and relaunched on a new e-learning management system.

- The Group will continue to focus on the development of colleagues and management teams and to equip colleagues with key leadership skills.

- Colleagues
- IT Systems and Infrastructure
- Cyber Security & Data Protection
- Health & Safety
- Acquisition and Integration of New Business
- Internal Controls & Fraud
- Sustainability
- Pandemic Risk – COVID-19 Virus

Ethics and Integrity

- Conducting business to a high standard of integrity for the benefit of all stakeholders and in a responsible way.
- This includes a commitment to achieving the highest practical standards of health and safety for colleagues, customers and visitors to Group locations.

- The Group continued to roll out the online learning management system to facilitate the completion of on-line ethics and regulatory training modules.
- Online systems were introduced to record and manage any conflicts of interest and to manage the approval of gifts and hospitality.
- Additional training was provided to colleagues on protecting personal data and complying with GDPR.
- A programme of fraud risk assessments was introduced at significant business units including the Group Head Office.
- Group CO_2e emissions per £'m of revenue from continuing operations fell by 3.2 per cent.
- The number of lost time injuries per 100,000 hours worked saw a further reduction during the year to 1.01.

- We will maintain high ethical standards for the benefit of all stakeholders.
- We will continue to focus on health and safety as a key priority.

- Colleagues
- Health & Safety
- Sustainability
- Internal Controls & Fraud
- Pandemic Risk – COVID-19 Virus

Key Performance Indicators

The Key Performance Indicators ("KPIs") below are used to track performance and increase value for shareholders.

Certain KPIs are used as financial measures to incentivise executives. For 2019 these were Adjusted Operating Profit and Return on Capital Employed which are identified below with the symbol R

Risk Management

More information page 46

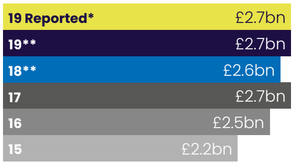
Supplementary Financial Information

More information page 188-197

Revenue

£2.7bn

Group revenue for the year is a measure of overall growth.



While total revenue decreased by 1.0%, revenue in continuing operations increased by 3.0 per cent to £2.7 billion, an increase of 2.9 per cent in constant currency.

Strategic links

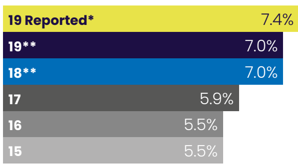
Risks

- Macro-Economic Conditions
- Competition

Adjusted Operating Profit Margin before property profit

7.0%

Adjusted Operating Profit before profit on disposal of Group properties as a percentage of revenue provides a good measure of performance.



The term "adjusted" means before amortisation of intangible assets arising on acquisitions. The adjusted pre-property operating margin remained flat at 7.0 per cent from continuing operations. Under IFRS16, this was 7.4 per cent.

Strategic links

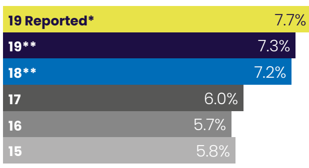
Risks

- Macro-Economic Conditions
- Competition

Adjusted Operating Profit Margin

7.3%

Adjusted Operating Profit as a percentage of revenue.



The adjusted operating profit margin is up 10bps to 7.3 per cent from continuing operations. Under IFRS16, the adjusted operating profit margin increased to 7.7 per cent.

Strategic links

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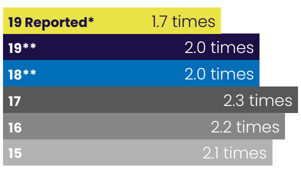
Risks

- Macro-Economic Conditions
- Competition

Capital Turn

2.0x

Revenue divided by average capital employed where capital employed is the sum of total equity and net debt at each period end.



This remained flat at 2.0 times from continuing operations. The reported capital turn, post-IFRS16, was 1.7 times.

Strategic links

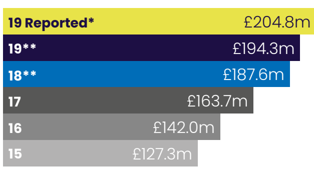
Risks

- Macro-Economic Conditions
- Competition

Adjusted Operating Profit R

£194.3m

Profit before intangible asset amortisation on acquisitions, exceptional items, net finance expense and income tax expense.



Adjusted operating profit from continuing operations, including property profit, increased by 4 per cent to £194.3m. Under IFRS16, this was £204.8m.

Strategic links

Risks

- Macro-Economic Conditions
- Competition

* represents the Group statutory reported amount (post-IFRS 16).

** from continuing operations (pre-IFRS 16). 2018 has been restated to conform to current year presentation.

Strategic links

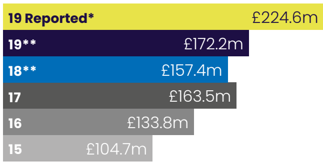
- Excellence in service
- Strong financial base
- Organic growth and acquisitions
- A supportive organisational structure and management
- Ethics and Integrity

More information page 20-21

Free Cash Flow

£172.2m

Cash generated from operations less interest, tax and replacement capital expenditure net of disposal proceeds. Free cash flow provides a good measure of the cash generating capacity of the Group's businesses.



Free cash flow increased by 9 per cent to £172.2m from continuing operations. The post-IFRS 16 reported amount was £224.6m.

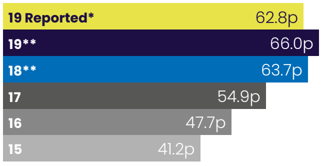
Strategic links

Risks
- Macro-Economic Conditions
- Competition

Adjusted Earnings Per Share

66.0p

A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares.



Adjusted earnings per share from continuing operations was up 4 per cent on prior year. The reported earnings per share was 62.8p.

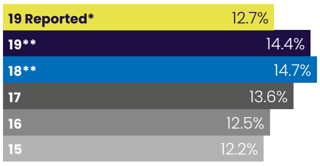
Strategic links

Risks
- Macro-Economic Conditions
- Competition

Return on Capital Employed ("ROCE") R

14.4%

A measure of the Group's profitability and the efficiency of its capital employed. Adjusted operating profit is divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.



Return on Capital Employed reduced by 30 basis points to 14.4 per cent. The decline reflects a weaker performance in the UK merchanting business and increased investment in the Netherlands business.

Strategic links

Risks
- Macro-Economic Conditions
- Competition

Lost Time Injury Frequency Rate ("LTIFR")

1.01

A measure of the number of lost time injuries per 100,000 hours worked.

The number of lost time injuries per 100,000 hours worked reduced by 0.03 per cent to 1.01.

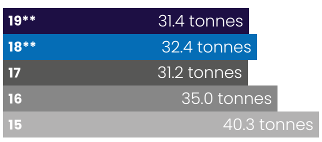
Strategic links

Risks
- Health and Safety
- Sustainability

Group CO_2e Emissions

31.4tns

The total tonnes of CO_2e emitted by Group activities per £'m of revenue.



Group CO_2e emissions per £m of revenue from continuing operations decreased by 3.2 per cent

Strategic links

Risks
- Sustainability

* represents the Group statutory reported amount (post-IFRS 16).
** from continuing operations (pre-IFRS 16). 2018 has been restated to conform to current year presentation.

Merchanting Segment

The Merchanting businesses in the UK, Ireland and the Netherlands contributed 89 per cent of Group revenue (2018: 90 per cent). Overall average daily like-for-like revenue was up by 1.5 per cent with relatively small growth in the UK and Netherlands merchanting markets and good growth in Ireland.

Merchanting Segment

		Pre IFRS 16		
	2019 £'m	2019 £'m	*Restated 2018 £'m	**Change
Revenue	**2,387.4**	2,387.4	2,326.1	+2.6%
Adjusted operating profit before property profit	**168.1**	160.5	161.3	(0.5%)
Adjusted operating profit margin before property profit	**7.0%**	6.7%	6.9%	(20bps)
Adjusted operating profit	**175.0**	167.4	166.1	+0.8%
Adjusted operating profit margin	**7.3%**	7.0%	7.1%	(10bps)

* Excludes Plumbase and the Belgium Merchanting business.
** Change represents the movement pre IFRS 16.

UK Merchanting

The UK Merchanting segment trades from 343 branches, principally under the Selco and Buildbase brands in the South East, Midlands and North of England, and under the MacBlair brand in Northern Ireland.

	2019 £'m	Pre IFRS 16 2019 £'m	Pre IFRS 16 Restated 2018 £m	**Change
Revenue	**1,710.8**	1,710.8	1,729.5	(1.1%)
Adjusted operating profit pre property profit	**105.1**	98.0	104.0	(5.7%)
Adjusted operating profit margin pre property profit	**6.1%**	5.7%	6.0%	(30bps)
Adjusted operating profit	**108.0**	100.9	108.6	(7.1%)
Adjusted operating profit margin	**6.3%**	5.9%	6.3%	(40bps)

* Excludes Plumbase business.
** Change represents the movement pre IFRS 16.

Market Positions

Builders Merchanting
No.3

Key brands

Selco Builders Warehouse, Buildbase, MacBlair, Leyland SDM

Proportion of Group Revenue
64.0%

Proportion of Group Adjusted Operating Profit
51.9%

The UK economy continued to slow through the year as weakness became more broadly based and consumer confidence dropped to its lowest level for five years. Growth in house prices was subdued with softer demand in London and the South East. Activity in the UK RMI market which is heavily linked to GDP growth, consumer confidence and transactions in the secondary housing market also weakened.

Against this backdrop, the UK merchanting business reported reasonable growth in average daily like-for-like revenue in the first half and this trend continued into July. In line with the weakness in the wider economy and the RMI market, trading weakened slightly in August and the deterioration in trading intensified in September and October before stabilising towards the end of the year. Overall average daily like-for-like revenue for the year increased by 0.5 per cent (£8.3 million) with materials price inflation of circa 2.0 per cent more than offsetting a circa 1.5 per cent decline in volumes.

New branches which were principally Selco generated revenue growth of 0.8 per cent (£14.5 million) and the Leyland SDM acquisition contributed incremental revenue growth of 0.3 per cent (£6.1 million). The disposal of two small non-core businesses and branch consolidations reduced revenue by 2.7 per cent (£47.5 million).

The combined effect of relatively flat revenue in the like-for-like business, gross margin pressure in a very competitive market and cost increases in the ordinary course of business led to a decline in the adjusted operating profit margin before property profit of 30 basis points to 5.7 per cent. Lower property profit contributed to a further 10 basis points decline in the margin for adjusted operating profit including property profit.

Selco Builders Warehouse reported marginal growth in both average daily like-for-like and total revenue. The year started favourably with a good level of growth in the first quarter. Growth eased in the second quarter and was marginally down in the third quarter. The decline intensified at the start of the fourth quarter but trading ended the year on a firmer note. The decline in housing transactions and house prices contributed to weakness in the housing RMI market in London which accounted for 71 per cent of revenue.

Selco's annual revenue was in excess of £0.5 billion and its unique retail style, easy-to-use, self-select, modern warehouse model proved resilient in a weaker market reflecting the benefits of its diversified customer base of generalist and specialist trades people who are primarily focused on projects in the residential RMI market.

Strategy in action

The key elements of the Group's UK Merchanting strategy are:

- Focusing on the RMI segment which has attractive market dynamics including greater through-the-cycle resilience;
- Focusing on three financial pillars of revenue growth, improving the operating profit margin and increasing capital turn by utilising spare capacity and creating greater efficiency in the existing branch network;
- Continuing to extract efficiencies and synergies from current market leading positions;
- Developing existing brands in areas of the market where they currently do not have a presence or are under-represented;
- Selectively participating in consolidation of attractive segments of the merchanting market as a preferred buyer; and
- Expanding selectively in complementary product markets.

Organic development of the Selco branch network continued in 2019 with a new branch opened in Kingston-Upon-Thames and upgrades to five long-established branches.

A new Selco delivery-hub in Edmonton successfully centralised deliveries for six branches in North East London, increased the utilisation rate of delivery vehicles and freed up capacity in these branches to provide an enhanced experience for customers. A new distribution centre in Oxford will generate savings from purchasing products in greater volume and increase branch capacity.

New Leyland SDM branches in Maida Vale and Streatham increased the branch network while branches in Camden, London Bridge and Shoreditch were upgraded.

The back-office modules of the new ERP system were successfully implemented in Buildbase and the first branches have gone live with rollout to the entire estate scheduled to occur on a phased basis over the next 12 to 18 months.

Sectoral and Strategic Review (continued)
UK Merchanting (continued)

Operating profit was marginally lower due to the weaker volumes, investing in more competitive pricing in core heavyside products and completion of a number of strategic and productivity focused initiatives while keeping tight control of the cost base. The large and very profitable branch in Cricklewood was successfully relocated at the end of its lease in December 2018.

A new branch was opened in Kingston-Upon-Thames at the end of November increasing the estate to 67 including 39 branches in London. Development plans for the current year will see Selco open new branches in Orpington and Salford, relocate the Bristol branch and expand capacity in the Chessington branch. Five of the long-established branches in the estate were upgraded as part of a rolling investment programme that will continue in the current year.

We continue to see opportunities for selective expansion of the Selco footprint and, in view of the weaker RMI market in recent years, the business also has a structural growth opportunity to increase revenue and profitability in the 31 branches that were opened between 2016 and 2018.

The new delivery-hub that opened in April in Edmonton successfully centralised deliveries for six branches in North East London, increased the utilisation rate of delivery vehicles and freed up capacity in these branches to provide an enhanced experience for customers. Since the year end, a new distribution centre was opened in Oxford in conjunction with an experienced logistics partner who will provide warehousing and branch fulfilment services for 6,000 lightside products. This will enable Selco to generate savings from purchasing products in greater volume, increase branch capacity and improve productivity.

The new “Click ‘N’ Deliver” service introduced in April for bulky building materials was well received by customers and complements the existing Click & Collect service.

Leyland SDM, the largest specialist decorators’ merchant in London that trades from a unique portfolio of high street locations in the city, performed strongly despite flat market conditions. The business was acquired in February 2018 and made an incremental contribution to operating profit in 2019. Procurement gains made a significant contribution to the result for the year and the operating profit margin was well ahead of the pre-acquisition level. The Camden, London Bridge and Shoreditch branches were upgraded and the first new branches under Grafton ownership were opened in Maida Vale and Streatham and we continue our search for opportunities to grow the branch network in London.

Buildbase had an encouraging start to the year with strong growth in average daily like-for-like revenue in the first quarter. Trading conditions started to weaken in the second quarter and the rate of decline on the prior year intensified through to the year end. Subdued economic growth and political uncertainty contributed to weak consumer sentiment leading households to hold off on spending on RMI projects. Lower volumes and more competitive pricing resulted in a reduction in operating profit. The business moved to address its cost base and is now better positioned to take advantage of evolving market conditions.

The back-office modules of the new ERP system were successfully implemented and the first branches have gone live with rollout to the entire estate scheduled to occur on a phased basis over the next 12 to 18 months.

Civils & Lintels, a distributor of heavyside building materials, increased revenue and profitability from supporting its groundworks and civils sub-contractor customer base who operate in the new housing market. It also made gains in the distribution of steel and concrete lintels where it has a market leadership position. The new Leeds branch that opened in 2018 performed strongly growing market share in the North of England.

In Scotland, the Buildbase branches were carved out and together with PDM, the market leader in the Civils market, now trade as PDM Buildbase Scotland. This streamlined business has seen a marked improvement in performance and provides a strong foundation for future growth in the region.

MacBlair, the Northern Ireland merchanting business, reported modest growth in revenue with a strong performance in the provincial branches more than offsetting weakness in the Belfast area branches. Modest revenue growth, targeted product mix improvements, procurement gains and tight cost control combined to deliver an excellent set of results for the year most notably a record operating profit margin.

TG Lynes, a leading distributor of commercial pipes and fittings in London, made further gains despite encountering tougher trading conditions than experienced in recent years. Revenue growth was mainly sustained by existing projects as uncertainty about the outlook for the economy delayed investment decisions. An increase in revenue and operating profit marked the fifth consecutive year of growth since the business was acquired by Grafton in early 2015.


HIREBASE
PLANT & TOOL HIRE
HIREBASE
PLANT & TOOL HIRE

Irish Merchanting

The merchanting business in Ireland continued to grow and extend its competitive advantage.

		Pre IFRS 16			
	2019 £'m	2019 £'m	2018 £'m	*Change	*Constant Currency Change
Revenue	**464.8**	464.8	441.1	+5.4%	+6.2%
Operating profit pre property profit	**43.1**	42.8	41.3	+3.7%	+4.8%
Operating profit margin pre property profit	**9.3%**	9.2%	9.4%	(20bps)	–
Operating profit	**47.1**	46.9	41.5	+12.9%	+12.9%
Operating profit margin	**10.1%**	10.1%	9.4%	+70bps	–

* Change represents the movement pre IFRS 16.

Market Positions

Builders Merchanting
No.1

Plumbers Merchanting
No.1

Steel Stock Holding
No.1

Proportion of Group Revenue
17.4%

Proportion of Group Adjusted Operating Profit
24.1%

Key brands

CHADWICKS GROUP

The focus on organic growth and using the branch estate to leverage the structural growth opportunity that has been a feature of the market in recent years saw like-for-like revenue grow by 6.2 per cent in constant currency.

The business performed very strongly in the first half with average daily like-for-like revenue growth of 8.3 per cent. While volumes recovered in the seasonally important month of November, international uncertainty saw a softening of trading and sentiment in the second half with like-for-like revenue growth of 4.2 per cent.

Revenue growth in 2019 benefitted from an increase in the supply of new housing with completions up 18 per cent to an estimated 21,200 units. Chadwicks branch network benefitted from strong growth in housing supply in the Midlands, the West and the Dublin commuter belt counties which alone account for a quarter of national housing building output.

The construction of single homes and scheme houses grew by 13 per cent and accounted for over 80 per cent of units completed. This segment of the new build market generates greater demand through the merchanting market than apartment building which increased at a faster rate from a low base.

The completion of new houses continued to run well behind annual demand which is estimated at 35,000 units. On the basis of recent trends, it will take at least three years for annual supply and demand to be aligned and much longer for pent-up demand to be satisfied following a decade of under supply. The rate of growth in house prices softened to around one per cent nationally due to constrained affordability relative to incomes combined with tight regulatory oversight of mortgage lending.

Residential RMI, an end-use market that contributes more than half of revenue, continued to grow despite a small decline in housing transactions. This reflected weakness in Dublin that was concentrated at the top end of the market while growth continued in the remainder of the country. Activity in the non-residential end-use market was focused on supporting a range of infrastructure and leisure projects.

In September 2019, the business announced that all merchanting brands in Ireland except for three large destination branches would be aligned as Chadwicks with refreshed and updated branding. The Chadwicks brand has been in existence for more than a century in Ireland where it enjoys strong recognition and is synonymous with the merchanting of high-quality products, great service and product knowledge.

The rebranding is part of a programme of investment that will modernise and upgrade the branch network over a period of three years. Twelve branches were upgraded and rebranded during the year. A key first step in the rebranding was the successful migration in the first half of the entire

Strategy in action

The Group's Irish Merchanting strategy is focused on:

- Strengthening its market leadership position;
- Utilising spare capacity in the branch network, to increase revenue, operating margin and return on capital employed;
- Developing a complementary presence in adjacent product categories; and
- In-filling geographic coverage through greenfield development and acquisitions.

During 2019 the Irish merchanting business consolidated all merchanting brands except for three large destination branches under the Chadwicks Group brand with a refreshed and updated logo.

The business successfully migrated the entire branch network onto a single trading system, providing customers with the flexibility to trade with all branches using a single account.

Twelve branches were upgraded and rebranded as part of an investment and modernisation programme intended to provide a stronger platform to drive organic growth and increase the scale and competitive advantage of the business.

branch network onto a single trading system from four discrete systems. This has provided customers with the flexibility to trade with all branches using a single account. This investment and modernisation programme is intended to provide a stronger platform to drive organic growth and increase the scale and competitive advantage of the business.

There was a small contraction in the gross margin due to competitive market conditions for delivered, higher volume transactions in the new build segment of the market. Growth in overheads was partly driven by the full year impact of the recruitment of 50 colleagues in 2018 and a further 29 in 2019 that included deepening the management resource available to lead the business during its next phase of growth and development.

Netherlands Merchanting

2019 was a transformative year for the Netherlands business, a market that Grafton entered in 2015.

		Pre IFRS 16			
	2019 £'m	2019 £'m	2018 £'m	*Change	*Constant Currency Change
Revenue	**211.8**	211.8	155.5	+36.2%	+37.3%
Adjusted operating profit	**19.9**	19.6	16.0	+23.0%	+24.3%
Adjusted operating profit margin	**9.4%**	9.3%	10.3%	(100bps)	–

* Change represents the movement pre-IFRS 16 adjustments.

Market Positions

Builders Merchanting (Ironmongery, tools and fixings)

No.1

Key brands

ISERO

POLVO BOUW EN INDUSTRIE

Proportion of Group Revenue

7.9%

Proportion of Group Adjusted Operating Profit

10.1%

The acquisition of the 51 branch Polvo business was completed in July and in August Isero relocated to a new distribution centre that doubled capacity and strengthened its supply chain and logistics functions. Rollout of the Isero ERP system to the 14 branch Amsterdam based Gunters en Meuser commenced and is on track to be completed in the first quarter of 2020. These developments are in line with our strategy to generate long term value in a market leading business where we see further integration benefits from our increased scale and other growth opportunities.

The backdrop to trading was positive as the Netherlands economy performed relatively well although it grew at a lower but stable pace compared to 2018 driven mainly by increased domestic spending. Housing transactions were unchanged having declined in 2018 and the rate of growth in average prices slowed to six per cent in a tight market with the number of houses for sale at an historically low level. Affordability improved due to lower fixed rate mortgages, higher incomes in a strong labour market and tax reductions. The supply of new houses however continued to lag strong demand due to the limited supply of land available for development and a shortage of skilled labour.

Average daily like-for-like revenue increased by 0.6 per cent in the established Isero business. Trading was uneven during the year with strong growth in the first half and an overall decline in the second half that incorporated more stable conditions in November and December when performance was in line with the prior year.

The impact of softer trading conditions in Isero, following three years of strong growth, was largely offset by procurement gains and integration benefits. Operating profit in the Isero business, excluding the Polvo acquisition, was very marginally ahead of 2018.

Polvo contributed revenue of £52.5 million and operating profit of £3.8 million, an operating margin of 7.2 per cent, in the six-month period under Grafton ownership. Polvo was successfully transitioned to the same buying Group as Isero at the year end to facilitate harmonisation of procurement terms. The Polvo branch locations are geographically complementary to the Isero branch network and the acquisition consolidates the Group's leadership position in this attractive segment of the Netherlands merchanting market.

Kooning, a single branch business located near Schiphol Airport that was acquired in November, strengthens our position in the complementary workwear and personal protective equipment market. The two single branch businesses acquired last year performed in line with expectations. Revenue growth in the branches that were opened last year in the cities of Almere and Dordrecht

Strategy in action

The Group's strategy in the Netherlands Merchanting market is focused on:

- Generating long term value in a market leading business where we see further integration benefits from our increased scale and other growth opportunities.
- In-filling geographic coverage of the ironmongery, tools and fixings market through organic development and acquisitions;
- Identifying opportunities to invest in other attractive segments of the merchanting market; and
- Using Group scale and expertise to enhance product ranges in existing branch network.

The acquisition of Polvo in July and a number of single branch businesses later in the year brought the total number of branches in the Netherlands to 113 at the year end.

Isero relocated to a new distribution centre that doubled capacity and strengthened its supply chain and logistics functions.

Rollout of the Isero ERP system to the Gunters en Meuser branches commenced and is on track to be completed in the first quarter of 2020.

provided the business with an increased presence in these two important markets.

Five regional businesses that already traded as part of an integrated branch network were rebranded as Isero, the umbrella brand for these family brands, under a new logo, brand promise and corporate identity which creates a more unified business and identity for colleagues, customers and other stakeholders.

Grafton ended the year trading from 113 branches in the Netherlands compared to 62 at the end of 2018.

The Group is the largest DIY, Home & Garden retailer in Ireland trading from 35 stores nationally under the Woodie's brand.

Retailing Segment

		Pre IFRS 16			
	2019 £'m	2019 £'m	2018 £'m	*Change	*Constant Currency Change
Revenue	**205.5**	205.5	198.2	+3.7%	+4.7%
Operating profit	**22.6**	19.9	16.8	+18.8%	+20.5%
Operating profit margin	**11.0%**	9.7%	8.5%	+120bps	–

* Change represents the movement pre IFRS 16.

Retailing Segment

Retailing

2019 was the fourth consecutive year of strong growth in revenue and profitability for the Woodie's DIY, Home and Garden business in Ireland. The business gained significant momentum over this period supported by investment in the branch network and the introduction of new product ranges.

Market Positions

DIY Retailing Ireland

No.1

Key brand

Woodie's
We're all **Homemakers**

Proportion of Group Revenue

7.7%

Proportion of Group Adjusted Operating Profit

10.3%

A multi-year programme of investment in colleagues helped to deliver great service and an improved shopping experience for customers. Woodie's is the clear market leader in its sector and it continued to improve its position over the year relative to competitors.

Revenue growth across the thirty-five-branch estate increased from 2.9 per cent in the first half to 6.4 per cent in the second half. The first half performance compared to growth of 13.4 per cent in the prior year driven by exceptional demand for seasonal products.

The economic backdrop was generally positive despite some softening of consumer sentiment as the year progressed. A rise in disposable income was sustained by wage growth that became more broadly based across most sectors and regions of the Irish economy.

The number of customer transactions increased by 1.5 per cent to over 8.4 million while an improvement in product ranges contributed to growth of 3.2 per cent in average transaction values.

Good revenue growth was achieved from market share gains in the garden products category and from the launch of a new lighting and textile ranges. The business continued to develop a strong presence in the kitchens market and ended the year with a strong performance in its Christmas category driven by range innovation.

On-line revenue grew by 51 per cent and contributed 1.5 per cent of total revenue, up from 1.1 per cent as more customers availed of the flexibility and choice in how they shop with Click & Collect a popular and convenient option for their changing needs.

Woodie's new format was rolled out in a further three stores increasing the number of stores upgraded to thirty. The upgraded stores contributed almost ninety per cent of annual revenue and a major redevelopment of the Sallynoggin store in South Dublin, which trades from a freehold property, is scheduled for the current year.

Woodie's improved its position in the Great Place to Work engagement survey for the fourth consecutive year making it one of Ireland's best workplaces benchmarked against major domestic and international businesses operating in Ireland. Woodie's also made a positive difference to the community raising €374,000 for four children's charities from running its "Heroes" campaign in stores across the country.

Earlier this month, Woodie's commenced transitioning to an upgrade of its established ERP system. This development is proceeding as planned and when completed in March

Strategy in action

The Group's Retailing Strategy is based on:

- Maintaining Woodie's clear market leadership position and strong brand recognition;
- Focusing on core strengths in the DIY, Home and Garden categories; and
- Utilising spare capacity in the branch network to increase revenue, operating margin and return on capital employed.

The Woodie's new format was rolled out in a further three stores increasing the number of stores upgraded to thirty. The upgraded stores contributed almost ninety per cent of annual revenue and a major redevelopment of the Sallynoggin store in South Dublin, which trades from a freehold property, is scheduled for the current year.

Woodie's have commenced transitioning to an upgrade of its established ERP system. This development when completed in March 2020 will deliver the latest retail technology at the point of sale and an updated platform for the supply chain and financial management of the business.

2020 will deliver the latest retail technology at the point of sale and an updated platform for the supply chain and financial management of the business.

Woodie's operates in a highly competitive market and maintained its gross margin in line with the prior year while investing in competitive prices and offering value for money to its customers. Overheads were very tightly controlled while continuing to drive growth of the business. Operating profit increased by 18.8 per cent to £19.9 million (2018: £16.8 million) and the operating profit margin increased by 120 basis points building on growth of 230 basis points in 2018 and 150 basis points in 2017.

Manufacturing Segment

CPI EuroMix is the market leader in the dry mortar market in Great Britain where it operates from nine plants in England and one in Scotland.

Manufacturing Segment

		Pre IFRS 16			
	2019 £'m	2019 £'m	2018 £'m	*Change	*Constant Currency Change
Revenue	**79.4**	79.4	78.8	+0.7%	+0.8%
Operating profit	**18.6**	18.6	19.2	(3.4%)	(3.3%)
Operating profit margin	**23.4%**	23.4%	24.4%	(100bps)	–

* Change represents the movement pre IFRS 16.

Manufacturing

CPI EuroMix, the market leading mortar manufacturing business that operates nationally from ten plants in Great Britain, continued to benefit from its industry leading reputation for product quality and service in the dry mortar market.

Market Positions

Mortar Manufacturing UK

No.1

Key brand

CPI

Proportion of Group Revenue

3.0%

Proportion of Group Adjusted operating profit

9.6%

Mortar volumes supplied to the new housing market increased marginally while a small contraction in other segments of the market, from record levels of output in the prior year, was partly driven by the completion of a number of non-recurring projects.

Despite an increasingly uncertain backdrop for the housing market as the year progressed, overall demand was resilient although there were some regional variations in output. The fundamentals of the housing market continued to be attractive due to a prolonged period of under supply. Strong underlying demand is supported by an aspiration for home ownership, a competitive mortgage market, a low interest rate environment and the Help to Buy scheme.

Raw materials price increases were recovered in a competitive market and the gross margin was maintained. The decline in volumes and a modest increase in operating costs contributed to a small decline in operating profit.

High levels of service were supported by maintaining the number of silos placed on customers sites at last year's record levels. A number of planned plant refurbishment projects were delivered on schedule while maintaining overall plant output at normal levels. The plants remain well invested and it is planned to modernise and upgrade the ERP system over the course of the next two years.

Strategy in action

The Manufacturing strategy is based on:

- Maintaining our clear market leadership position in the UK mortar market; and
- Leveraging scale and expertise in the UK mortar market to expand into related products and markets.

High levels of service were supported by maintaining the number of silos placed on customers sites at last year's record levels. A number of planned plant refurbishment projects were delivered on schedule while maintaining overall plant output at normal levels.

Discontinued Operations – Belgium Merchanting & Plumbase Business

		Pre IFRS 16		
	2019 £'m	2019 £'m	2018 £'m	*Change
Revenue	**251.8**	251.8	349.6	(28.0%)
Operating profit pre exceptional items	**6.5**	5.4	6.9	(23.0%)
Operating profit margin	**2.6%**	2.1%	2.0%	+10bps

* Change represents the movement pre IFRS.

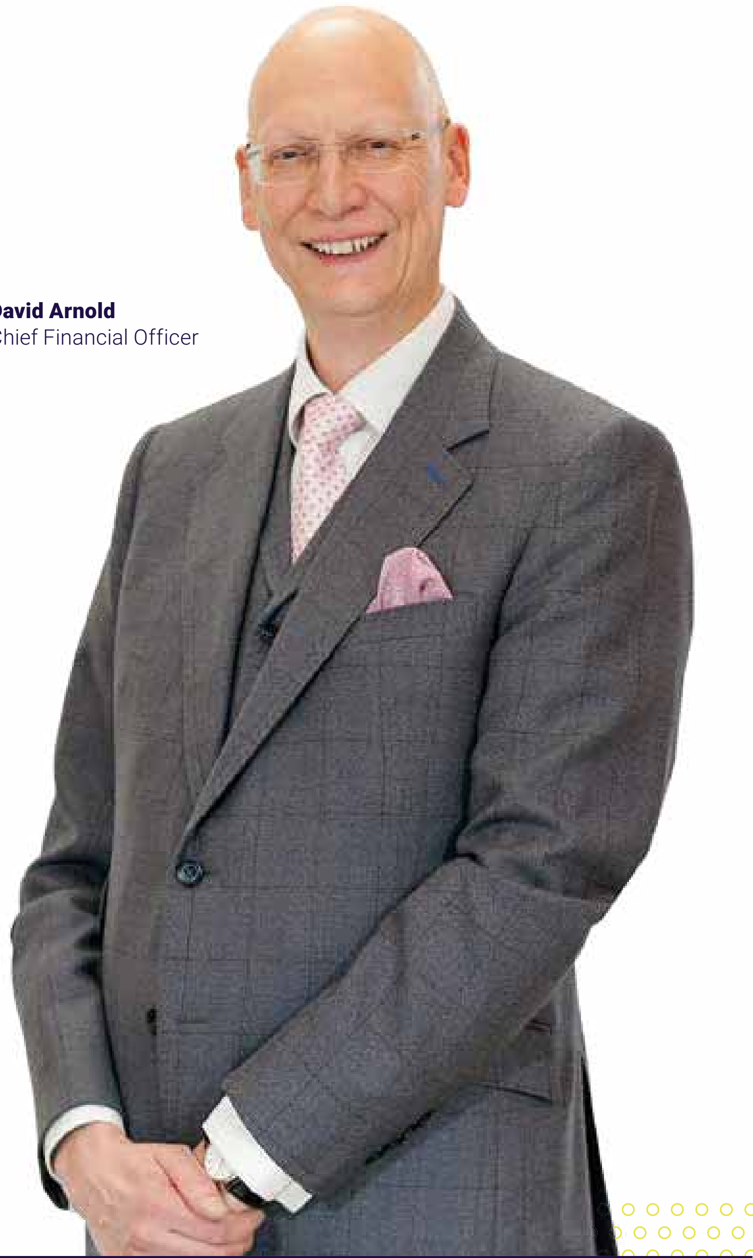
On 1 October 2019 the Group completed the disposal of Plumbase, the specialist UK plumbing and heating business, to Plumbing and Heating Investments Limited ("PHIL"), a UK company engaged in the distribution of plumbing and heating products, for an enterprise value of £66.75 million. After allowing for adjustments for debt-like items and working capital, the net cash proceeds and receivables due were £62.5 million. The sale of Plumbase to PHIL secures future opportunities for Plumbase, its employees and other stakeholders as part of an enlarged specialist plumbing and heating business. This transaction represented a very positive outcome for Grafton and enables it to continue to focus its capital and resources on growth opportunities.

Plumbase generated operating profit of £6.0 million on revenue of £258.0 million for the year ended 31 December 2018.

On 7 October 2019, the Group completed the sale of its Belgium merchanting business for an enterprise value of £11.0 million to an affiliate of Aurelius Equity Opportunities SE & Co. KGaA, a private equity firm listed in Germany. Freehold properties with a book value of £8.8 million were retained by Grafton as part of the transaction and are expected to be sold in due course. The overall business was valued at circa £28.0 million including £4.5 million realised from the disposal of the St. Vith branch in October 2018.

The Belgian merchanting business generated operating profit of £0.8 million in 2018 on revenue of £91.6 million.

The Group achieved a good set of results for the year supported by excellent cash generation.



David Arnold
Chief Financial Officer

Pre-IFRS 16 cash flow from operations was £219.1 million (2018: £209.2 million) and the Group ended the year with pre-IFRS 16 net cash on the balance sheet of £7.8 million having started the year with net debt of £53.1 million.

Revenue

Group revenue from continuing operations increased by 2.7 per cent to £2.67 billion (2018: £2.60 billion) and by 2.9 per cent in constant currency. Volume and price growth of 1.9 per cent in the like-for-like business increased revenue by £46.4 million. Acquisitions and new branches contributed revenue of £76.6 million and revenue was reduced by £47.5 million from the disposal of two small non-core UK businesses in 2018 and by branch consolidations. A currency translation loss due to sterling weakness against the euro reduced revenue by £6.3 million.

Adjusted Operating Profit

Adjusted operating profit of £194.3 million (2018: £187.6 million) increased by 3.6 per cent due to increased profitability in the merchanting businesses in Ireland and the Netherlands and in the retailing business in Ireland. Property profit was also higher and operating profit before property profit increased by 2.6 per cent to £187.4 million (2018: £182.7 million). The adjusted operating profit margin increased by 10 basis points to 7.3 per cent and was unchanged at 7.0 per cent excluding property profit.

Property

The disposal of surplus properties generated cash proceeds of £15.6 million (2018: £9.1 million) and a profit of £6.9 million (2018: £4.9 million). The proceeds were deployed to generate higher returns elsewhere in the business.

Net Finance Income and Expense

The pre-IFRS 16 net finance expense increased by £1.1 million to £6.0 million (2018: £4.9 million). This primarily related to a £1.2 million increase in interest payable on borrowings to £7.1 million (2018: £5.9 million). The increase was due to the issue of unsecured senior notes with ten and twelve year maturities in the US Private Placement market in September 2018 at an attractively priced annual coupon of 2.5 per cent.

The proceeds of loan notes raised in the US Private Placement in 2018 were used to refinance bank debt which attracted a lower interest rate based on short term money market rates for the euro plus a bank margin. These notes extended the maturity profile of the Group's debt and provided certainty over the cost of debt for ten and twelve year notes.

The net finance expenses included a foreign exchange translation gain of £1.2 million which compares to a loss of £0.2 million last year.

Taxation

The income tax expense of £28.7 million (2018: £29.6 million) is equivalent to an effective tax rate of 16.6 per cent on profit from continuing operations (2018: 17.0 per cent). This is a blended rate of corporation tax on profits in the various jurisdictions where the Group operates and is slightly lower than the rate of 17.7 per cent guided at the time of our Interim Results due to higher than anticipated reliefs and allowances in the UK.

The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax which is currently 19 per cent. Legislation was passed in 2016 to reduce this rate by two percent to 17 per cent with effect from 1 April 2020. This reduction is now expected to be put on hold and the 2016 legislation amended to maintain the rate at its current level of 19 per cent. As a consequence, the corporation tax rate for 2020 will increase to circa 19.5 per cent to reflect a once-off increase in the deferred tax liability if the legislation is amended as anticipated.

Capital Expenditure and Investment in Intangible Assets

Gross capital expenditure was £50.4 million (2018: £66.7 million) and there was also a spend of £2.1 million (2018: £6.9 million) on computer software that is classed as intangible assets. Proceeds of £17.4 million (2018: £10.9 million) were received on disposal of fixed assets and the investment on capital expenditure and intangible assets net of disposal proceeds was £35.1 million (2018: £62.7 million).

The total spend on development capital expenditure was £23.1 million (2018: £34.1 million) of which almost half was incurred by Selco on new stores, upgrading the existing Selco estate and the opening of a new delivery-hub in London. Development projects in the Netherlands included the opening of the Isero distribution centre in Waddinxveen, branch upgrades and a new branch in Almere. The Group also opened two new Leyland SDM stores and upgraded Chadwicks and Woodie's stores in Ireland.

Asset replacement capital expenditure of £27.3 million (2018: £32.7 million) compares to the pre-IFRS 16 depreciation charge for the year of £44.2 million and related principally to replacement of the distribution fleet that supports delivered revenue, replacement of equipment, forklifts, plant and tools for hire by customers and other assets required to operate the Group's branch network.

An investment of £2.1 million (2018: £6.9 million) was made on the new IT platform in Buildbase and on other software development projects.

Pensions

The IAS 19 deficit on defined benefit pension schemes was £21.2 million at 31 December 2019, an increase of £1.0 million from £20.2 million at 31 December 2018. The return on scheme assets of £230.7 million, at 1 January 2019, was 15.0 per cent or £34.7 million. These gains were mainly offset by an actuarial loss on scheme liabilities due to changes in financial assumptions. There was a significant drop in the discount rates used to discount scheme liabilities in line with declines in corporate bond rates. The rate used to discount UK liabilities fell by 80 basis points to 2.10 per cent and the rate used to discount Irish liabilities fell by 75 basis points to 1.05 per cent.

Net Debt

The Group started the year with net debt of £53.1 million and ended the year with pre-IFRS 16 net cash of £7.8 million. The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 39.9 times (Year ended 31 December 2018: 46.6 times). The Group's policy is to maintain its current investment grade credit rating while investing in organic developments and acquisition opportunities that are expected to generate attractive returns and maintain a progressive dividend policy.

Financing

The Group had bilateral loan facilities of £476.7 million with six relationship banks at 31 December 2019. The amount drawn on these facilities was £205.3 million. The Group had debt obligations of £136.1 million from the issue of unsecured senior notes in the US Private Placement market.

The average maturity of the committed bank facilities and unsecured senior notes at 31 December 2019 was 4.6 years.

The Group's key financing objective continues to be to ensure that it has the necessary liquidity and resources to support the short, medium and long term funding requirements of the business. At 31 December 2019 the Group had undrawn bank facilities of £271.4 million (31 December 2018: £356.8 million) and cash balances and deposits of £348.8 million (31 December 2018: £223.0 million). These resources together with strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, routine capital expenditure and development activity including acquisitions.

The Group's gross debt is drawn in euros and provides a hedge against exchange rate risk on euro assets in the businesses in Ireland and the Netherlands.

Financial Review (continued)

IFRS 16 Leases
On 1 January 2019, the Group implemented IFRS 16 Leases, which replaces IAS 17 Leases. The new standard brings most leases on to the balance sheet for lessees and eliminates the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated in a similar way to a non-financial asset and is depreciated. The lease liability is initially measured at the present value of the stream of lease payments over the lease term, discounted at the incremental borrowing rate.

IFRS 16 has changed the measurement of many aspects of the Group's accounts including operating profit, earnings per share, net debt and return on capital employed.

All leases except for leases with a duration of less than one year and low value assets are recognised on the balance sheet as lease liabilities. The corresponding right-of-use asset is an amount equal to the lease liability on transition, adjusted for any prepaid or accrued lease payments and any onerous lease provision.

The Group implemented IFRS 16 from 1 January 2019 by applying the modified retrospective approach meaning that the comparative figures in the financial statements for the year ended 31 December 2019 are not restated to show the impact of IFRS 16.

The operating leases that are recorded on the balance sheet for the first time principally relate to merchanting and DIY branch properties, office buildings, cars and distribution vehicles. The Group decided to reduce the complexity of implementation by availing of a number of practical expedients on transition on 1 January 2019.

On initial application of IFRS 16, the Group recognised assets and liabilities for leases previously classified as operating leases under IAS 17. This resulted in the recognition of right-of-use assets of £561.7 million and lease liabilities of £574.9 million. Further details of the impact of the initial application of IFRS 16 on 1 January 2019 are disclosed in note 36.

The adoption of IFRS 16 reduced profit before tax by £9.1 million and profit after tax by £7.6 million for continuing operations. It should be noted that the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years. The overall effect on profit before tax is expected to be neutral after approximately four to five years, then becoming positive moving towards the end of the leases.

The right-of-use asset in the balance sheet at 31 December 2019 was £522.2 million and lease liabilities were £543.4 million.

IFRS 16 does not change overall cashflows or the economic effect of the leases to which the Group is a party. Similarly, there is no effect on Grafton's existing banking covenants as a result of the implementation of IFRS 16.

Shareholders' Equity
The Group's balance sheet strengthened with shareholders' equity up by £66.1 million. Profit after tax increased shareholders' equity by £119.2 million. Shareholders equity was reduced by the payment of dividends in the amount of £44.0 million and the buy-back of 664,961 shares to offset the dilutive effect of share awards at a cost of £6.1 million. Other movements decreased shareholders' equity by a net £3.0 million.

Return on Capital Employed
Return on Capital Employed reduced by 30 basis points to 14.4 per cent (2018: 14.7 per cent). The decline reflects a weaker performance in the UK merchanting business and increased investment in the Netherlands business.

Principal Risks and Uncertainties
The primary risks and uncertainties affecting the Group are set out on pages 48 to 53 of this report.

David Arnold
Chief Financial Officer
9 March 2020


ISERO

Risk Management

The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has established a risk management process to ensure effective and timely identification, reporting and management of risk events that could materially impact upon the achievement of Grafton's strategic objectives and financial targets. The risk management process is closely aligned with the overall strategic development of the Group which is influenced by economic growth, organic growth through implants, new formats and greenfield expansion and acquisition related growth. Strategic projects are risk-assessed in conjunction with extensive commercial, financial and legal due diligence.

The Group's Risk Management Framework, as described in further detail on page 47, is designed to facilitate the development, maintenance, operation and review of risk management processes that fulfil the Board's corporate governance obligations and support the Group's strategic objectives. The Board is responsible for establishing and maintaining risk management processes and for evaluating their effectiveness. The Audit and Risk Committee oversees the effectiveness of the risk management procedures in place and the steps being taken to mitigate the Group's risks.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the UK Corporate Governance Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, has been in place throughout the accounting period and up to the date the financial statements were approved. These risks are reviewed by the Audit and Risk Committee and by the Board, who will also consider any emerging risks for inclusion on the Corporate Risk Register. Executive management is responsible for implementing strategy and for the continued development of the Group's businesses within the parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to closely controlled reporting of financial performance. Group and local business management are responsible for the identification and evaluation of significant risks and for implementation of appropriate internal controls to manage such risks. Group management reports to the Board on key risks and internal control issues including how these risks are managed.

The procedures in place to identify emerging risks across the Group are as follows:
- Each Business Unit is required to maintain its own Business Risk Register ("BRR") and review it on a regular (at least quarterly) basis.
- Any changes to BRRs, including any new risks or risks that have increased in severity, are communicated to Group and are reported and discussed at quarterly Group Risk Committee ("GRC") meetings.
- The GRC reviews the Corporate Risk Register (CRR) at each meeting and updates it, as appropriate, including adding new or emerging risks.
- At one GRC meeting each year, the Committee conducts a specific "Horizon Scanning" exercise to identify any new or emerging risks. This is done by considering risks in relation to the Group's objectives and core values. This exercise typically results in either new risks being added to the CRR or existing risks being enhanced, reduced in severity or removed from the register. Any identified emerging risks which are not considered significant enough to be added to the CRR are retained on a "watch list" and continue to be monitored.
- Updates to the CRR are reported to the Audit and Risk Committee.
- Each January the Audit and Risk Committee performs a review of the CRR, which includes a consideration of any emerging risks.

Internal Control System
The key features of the Group's system of internal control and risk management include:
- Review, discussion and approval of the Group's strategy by the Board;
- Defined structures and authority limits for the operational and financial management of the Group and its businesses;
- A comprehensive system of reporting on trading, on operational issues and on financial performance incorporating monthly results, cash flows, working capital management, return on capital employed and other relevant measures of performance;
- Written reports from the CEO and the CFO that form part of the papers considered by the Board at every board meeting;
- Review and approval by the Board of annual budgets incorporating operating performance and cash flows;
- Board approval of major capital expenditure proposals and significant acquisition proposals. Capital expenditure proposals below Board level are delegated to a Management Committee comprising the CEO, CFO and Group Financial Controller/Company Secretary; and
- Review by senior management and the Audit and Risk Committee of Internal Audit Report findings, recommendations and follow up actions.

The preparation and issue of financial reports, including the Group's annual and interim results, is managed by the Group Finance team based in the Group Head Office in Dublin. The Group's financial reporting process is controlled by reference to the Group Financial Accounting Policies and Procedures Manual, which sets out the general accounting principles, requirements and internal controls applicable to all Group businesses.

Group Risk Committee
The GRC is responsible for the oversight of risk management in the Group. The membership of the GRC reflects a range the Group's executive functions, skills, expertise, experience and business activities.

The GRC is chaired by the Group CFO and reports to the Audit and Risk Committee. The Committee meets four times per year and is responsible for maintaining and monitoring the CRR, which records the Group's material risks and the actions and controls in place and required to manage each to an acceptable level of risk consistent with the Group's risk appetite. As part of its remit the GRC will perform "deep dive" reviews of specific risk areas and scan for emerging risks which may impact the Group. The results of these reviews are shared with Business Units. The GRC prepares an annual report describing its activities, identifying areas for improvement and changes to the risk profile of the Group, which is presented to the Audit and Risk Committee. Business Unit management is responsible for identification and day to day management of key business risks and is required to maintain a business risk register which is reported on a quarterly basis to the GRC.

The GRC initiates Group-wide actions to manage risks. GRC initiatives and actions during 2019 included:

- Forming and steering a project team to develop a Sustainability Strategy for the Group and associated goals and targets for business units.
- Overseeing the update and issue of Group Policies including the SpeakUp, Employee Purchasing and Anti-Bribery and Corruption policies.
- Monitoring the actions being taken by the Group to address the risk of a no-deal Brexit towards the March, April, and October deadlines.
- Monitoring actions taken by businesses to develop their digital strategies.
- Developing a plan to perform fraud risk assessments across key business units and Group Finance. These have commenced in 2019 and will continue into 2020.
- Supporting actions to develop awareness of mental wellbeing across the Group.
- Working to identify ways to improve employee communications, project management capabilities and digital skills across the Group.
- Developing online risk management and awareness training modules for GRC members and other colleagues.

Internal Audit
The Group Internal Audit function focuses on areas of greatest risk to the Group, by developing and executing an annual programme of audit work which is based on covering the key risks to the Group and Business Units as set out in their risk registers. It monitors compliance and considers the effectiveness of internal controls throughout the Group. Where appropriate this involves co-ordinating work with audit teams based in the businesses who perform compliance reviews of branch level procedures, health and safety and transport.

The Audit and Risk Committee approves the annual Internal Audit Plan, reviews Internal Audit Reports and meets with the Group Internal Audit and Business Risk Director in order to satisfy itself of the adequacy of the Group's risk management and internal control systems. In addition, the Audit and Risk Committee reviews Management Letter points raised by the External Auditor and meets with the External Auditor to discuss the nature of the points raised. The Chairman of the Audit and Risk Committee reports to the Board on all significant matters considered by the Committee.

In line with best practice, the Group's Risk Management and Internal Audit procedures are subject to a review of their effectiveness by an independent third party on a periodic basis. An effectiveness review was carried out in 2017 by KPMG, which found that both Internal Audit and Risk Management procedures in the Group were fit for purpose, whilst setting out a number of recommendations for further development of each function. Actions to address these recommendations were completed in 2018 and maintained in 2019. The next review of the effectiveness of Risk Management and Internal Audit is scheduled to take place in 2021.

The Risk Management Framework diagram below illustrates the key responsibilities within the Group's Risk Management structure.

In the Board's view, the ongoing information it receives is sufficient to enable it to review the effectiveness of the Group's system of internal control. The Directors confirm that they have reviewed the effectiveness of internal controls. In particular, during the year the Board has considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

Risk Management Framework

The Board of Directors

- Maintaining risk management and internal control systems
- Determining and reviewing risk appetite, and establishing risk management strategies
- Monitoring principal risks

Audit and Risk Committee

- Monitoring and reviewing the effectiveness of the Group's risk management and internal control systems
- Receiving reports from management on its review of risk management and internal controls
- Reviewing principal risks as documented on the Corporate Risk Register and monitoring emerging risks
- Approving the internal audit plan and reviewing reports from Group Internal Audit
- Receiving reports on internal control from the External Auditors

Group Risk Committee

- Maintaining the Corporate Risk Register and reviewing emerging risks
- Determining and maintaining risk management policies and procedures
- Reviewing business unit risk registers and sharing risk management practices between businesses
- Initiating Group-wide risk management actions

Internal Audit

- Establishing and delivering a risk based annual Internal Audit plan
- Reviewing internal controls as part of the Internal Audit plan and reporting the results to Management and the Board
- Reporting to the Audit and Risk Committee, including on the completion of internal control actions

Business Units, Functions and Colleagues

- Sharing responsibility for effective management of risk
- Maintaining risk registers and monitoring the management of risk at business unit and functional levels
- Identifying and reporting emerging risks
- Implementing actions to address Internal Audit control findings

Risk Management (continued)
Key Risks

The Audit and Risk Committee and the Board have carried out a robust assessment of the principal risks facing the Group. It is not practical to document every risk that could affect the Group in this report. The risks identified below are those that could have a material adverse effect on the Group's business model, future performance, solvency or liquidity. The actions taken to mitigate the risks cannot provide assurance that other risks will not materialise and adversely affect the operating results and financial position of the Group.

These principal risks are incorporated into the modelling activity performed to assess the ability of the Group to continue in operation and meet its liabilities as they fall due for the purposes of the Viability Statement on page 74.

Macro-Economic Conditions in the UK, Ireland and the Netherlands including the impact of Brexit

Risk movement

- = +

Link to Strategy

Strong Financial Base

Organic Growth and Acquisitions

Risk Description

Trading in the Group's businesses is influenced by macro-economic conditions in the UK, Ireland, and the Netherlands. The Group's markets are cyclical in nature and a proportion of revenue is dependent on the willingness of households to incur discretionary expenditure on home improvement projects. Investments of this nature closely correlate with general economic conditions. A deterioration in economic conditions in the UK, Ireland, or the Netherlands could result in lower demand in the Group's businesses.

The Group's customers are mainly professional tradespeople engaged in residential, commercial and industrial maintenance and new-build projects. These markets are affected by trends in improvements, remodelling and maintenance and construction. Demand in these markets is also influenced by economic factors including interest rates, the availability of credit, inflation, changes in property values, demographic trends, tax policy, employment levels and gross domestic product. Any negative movement in one or more of these factors could adversely affect demand in the Group's business.

The result of the UK referendum to leave the European Union ("EU") has created significant uncertainty about the near term outlook and prospects for the UK economy. Due to this uncertainty it is not possible to assess with confidence the likely impact on the UK economy of the UK leaving the EU or the extent to which any possible fall in investment and a potentially softer housing market could impact employment and household spending. This uncertainty could negatively impact the UK economy, reduce demand in the Group's markets, impact the Group's workforce and adversely affect the financial performance of the Group.

In addition, the potential disruption to the Group's supply chain which could result from Brexit could have a short-term impact on the ability of businesses in both the UK and Ireland to meet their customers' product requirements and could consequently lead to a reduction in revenue and profit.

Mitigation

The Group has taken significant action in previous years in response to the downturn in its markets to increase the operating efficiency of its business which leaves it well positioned to benefit from the continuing recovery. Exposure to the more resilient and less cyclical Repair, Maintenance and Improvement ("RMI") market has increased through ongoing expansion of the network of Selco stores particularly in the Greater London Area.

The merchanting branches in Ireland were refocused on the residential RMI market during the downturn but are equally well positioned to respond to an increase in the new house build markets. Branch showrooms have been upgraded and the product portfolio expanded to meet the needs of customers engaged in residential RMI projects which currently account for a higher proportion of revenue.

The mitigation strategy also incorporates proactive cost control in response to changes in market conditions. An assessment of macro-economic, construction and residential market conditions informs the allocation of capital resources to new projects.

With specific regard to the risks relating to Brexit, the Group has performed a robust risk assessment and established a set of actions to address the key risks identified. These include working with suppliers to provide for continuity of supply of key products and where practical building up stock level of certain lines; evaluating the impact of changes to tariffs and customs arrangements to the Group; making appropriate provision for any data flows between the UK and EU; and actions to assist EU nationals working in the UK businesses in obtaining settled status.

Colleagues

Risk movement

- = +

Link to Strategy

- Excellence in service
- Organisational Structure and Management
- Ethics and Integrity

Risk Description

The Group has in the region of 11,700 colleagues engaged in the operations and management of its portfolio of businesses. Employees are fundamental to the long term success and development of the business. Attracting and retaining employees with the relevant skills and experience and investing in training and development is essential to sustaining the existing operations and providing a platform for the longer term development of the Group.

The Group is dependent on the successful recruitment, development and retention of talented executives to run the overall Group and its businesses.

In addition, the Group's ability to continue to identify and develop opportunities is influenced by management's knowledge of and expertise in its markets.

Mitigation

The Group and its businesses are committed to high standards of employment practice and are recognised as good employers in the UK, Ireland, and the Netherlands. Remuneration and benefits are designed to be competitive with other companies in the sectors that the Group operates in and with market practice.

Significant resources and time are devoted to training and development. Employee turnover is closely monitored and processes are in place to provide career development opportunities and actively manage succession planning. The Group made a number of appointments in recent years in planning for the succession of key executives and to support its longer term development enabling a number of Business Unit CEO and senior management roles to be filled internally during 2019. Succession plans are in place for all Executive and key management roles.

Annual engagement surveys are carried out which cover over 95 per cent of Group colleagues, which allow colleagues to provide feedback to management. Action plans to address key issues arising from the surveys are developed and monitored. In 2020 it is planned for surveys to cover 100 per cent of colleagues. The Group has established local and national colleague forums in all countries.

Pandemic Risk – COVID-19 Virus

Risk movement

- = + NEW

Link to Strategy

- Excellence in service
- Strong Financial Base
- Organisational structure
- Ethics and Integrity

Risk Description

The Group is exposed to the impact of the recent outbreak of the COVID-19 virus epidemic in the countries where it operates and also in countries where some of its suppliers are based.

The Group has recognised a risk to the supply of products which are sourced directly or indirectly from China which constitute approximately eight per cent of its total revenue.

In addition, there is a risk of interruption to operations due to an absence of a significant number of colleagues for a period due to contracting the virus or due to measures taken to contain an outbreak at any Group location. The Group recognises the wider risk of a fall in revenue and profitability due to lower general economic activity in the countries where it operates in the event of a serious outbreak of the virus.

Mitigation

The Group and its business procurement teams are monitoring stock and order levels of inventory sourced either directly from Chinese manufacturers or indirectly via distributors and as at the end of February there was on average three to four months availability of impacted products. The procurement teams will continue to communicate with suppliers and monitor production levels as events develop. They will also look to alternative sources of supply to overcome any interruptions to the supply chain. The Group is following Government guidance in each of it countries where it operates concerning travel restrictions on colleagues and self-isolation guidance for any colleagues returning from impacted areas.

Communications have been sent to all colleagues advising them on the steps they should take to maintain good hygiene in the workplace and in the event that they show symptoms of the virus. Each of the Group's businesses are stepping up their business continuity planning in anticipation of wider outbreaks of the virus and Government guidance on expected levels of absence. This includes contingency planning for the closure of Group locations if necessary, individuals working from home where possible and desirable and review of sick leave policies. The Group will continue to monitor guidance from Governments and will communicate with colleagues on a regular basis as appropriate.

Risk Management (continued)
Key Risks (continued)

Competition in Merchanting, DIY and Mortar Markets

Risk movement

-	=	+

Link to Strategy

- Strong Financial Base
- Excellence in Service
- Organic Growth and Acquisitions

Risk Description

Grafton faces volume and price competition in its markets. The Group competes with builders' merchants and retailers of varying sizes, and faces competition from existing general and specialist merchants including the national builders' merchanting chains in the UK together with retailers, regional merchants and independents. The Group also faces the risk of new entrants to its markets, for example, by way of competition from new competitors with low cost business models or new technologies.

Actions taken by the Group's competitors, as well as actions taken by the Group to maintain its own competitiveness and reputation for value for money, may exert pressure on product pricing, margins and profitability. Some of the Group's competitors may have access to greater financial resources, greater purchasing economies and a lower cost base, any of which may confer a competitive advantage that could adversely impact the Group's revenues, profits and margins.

The group remains alert to threats from new business models in its markets and invests in businesses such as Selco and the Netherlands business in response to changing customer needs and trends.

Mitigation

The Group's businesses monitor gross margins and, where possible, develop appropriate tactical and trading responses to changes in the competitive and pricing environment. Mitigation of this risk is achieved through ensuring a value proposition for customers through the review of customer pricing metrics, monitoring pricing developments in the market place and the active management of pricing.

The Group has established and continues to develop online sales capability to respond to changing customer requirements. This includes activities to further develop the digital capabilities of colleagues. Promotional and marketing activity is also a feature of revenue and margin management. Procurement strategies are focused on reducing costs through supplier consolidation and sourcing, when appropriate, through overseas markets.

The Group maintains an open dialogue with suppliers in order to mitigate the impact on customers and Group profitability from commodity related cost pressures. The Group's businesses conduct surveys and review feedback from customers in order to improve the quality of the overall product and service proposition and to ensure that customer expectations are met.

Information Technology Systems and Infrastructure

Risk movement

-	=	+

Link to Strategy

- Excellence in service
- Organisational Structure and Management

Risk Description

The Group's businesses are dependent on IT systems and supporting infrastructure to trade. Either the failure of key systems or the inability to compete through not having up to date trading platforms could have a serious impact on the business and could potentially result in the loss of revenue and reduced profitability.

The rate and scale of IT change is increasing as the Group undertakes a programme to replace a number of legacy systems. These changes have the potential to disrupt operations.

Mitigation

Back-up facilities and Business Continuity Plans are in place and tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access.

The replacement and updating of systems and technologies is supported by a full strategy and business case analysis and planning and risk analysis for each project. Implementation is supported by subject matter experts and colleagues from a cross section of functions to ensure that projects are managed to deliver technical, functional and business solutions within an appropriate cost and timeframe.

System changes are subject to rigorous testing and confirmation that they meet defined business acceptance criteria prior to full implementation. Systems are in place for the testing of critical IT infrastructure and ERP applications.

IT controls are tested by internal audit and findings are reported to the Audit and Risk Committee. Regular progress reports are made to the Board and planning and implementation is subject to review by Group Internal Audit, with lessons learnt from those reviews shared with colleagues working on other projects.

Cyber Security and Data Protection

Risk movement

- = +

Link to Strategy

- Excellence in service
- Organisational Structure and Management

Risk Description
Increased levels of cybercrime represent a threat to the Group's businesses and may lead to business disruption or loss of data. The Group is exposed to the risk of external parties gaining access to Group systems to deliberately disrupt business, including the risk of a material loss of revenue, steal information or commit fraud.

Theft of data relating to employees, business partners or customers may result in a regulatory breach and could impact the reputation of the Group.

Mitigation
The Group has a number of IT security controls in place including gateway firewalls, intrusion prevention systems and virus scanning. The Group has a suite of information security policies, which are communicated to colleagues, through mandatory on-line training and regular security awareness campaigns. Regular IT audits are carried out in the Group's businesses. The Group has put in place a Security Incident Management Plan and a Cyber Insurance Policy to provide additional cover against cyber risk.

A Group-wide programme to oversee the implementation of GDPR was completed in 2018 and compliance activity has now been embedded into business processes, with leads established in each business unit to co-ordinate ongoing activities. The Group has an Information Security Steering Committee to monitor and oversee the delivery of the Information Security and Data Protection Programmes.

Disaster recovery systems and data centres have been implemented to ensure business critical systems are recoverable in the event of a major disaster.

Health and Safety

Risk movement

- = +

Link to Strategy

- Organisational Structure and Management
- Ethics and Integrity

Risk Description
The nature of the Group's operations exposes colleagues and third parties to health and safety risks.

The prevention of injury or loss of life to colleagues, customers and third parties is an absolute priority for the Board and executive management. Health and safety risks in branch locations concern the manual handling of products, slips, trips and falls and incidents involving fork lift trucks and delivery vehicles. Outside of the branch locations the main health and safety risks relate to vehicles engaged in transferring building materials from branch locations to customers' sites.

Mitigation
Health and safety forms part of the agenda at all Board meetings and statistics covering accident frequency rates, lost time, management of risks and the cost of accidents and incidents are reviewed by the Board on a regular basis. The individual businesses invest significant resources in health and safety management, training and awareness, and actively work to minimise health and safety risks. Accidents are monitored and corrective action taken when appropriate to reduce or eliminate the risk of recurrence. The Group Director of Safety, Health, Environment and Quality, who reports to the Group CEO, sets standards for the businesses and co-ordinates actions and initiatives to continuously improve the management of health and safety risks across the Group.

Risk Management (continued)
Key Risks (continued)

Acquisition and Integration of New Businesses

Risk movement

-	=	+

Link to Strategy

- Strong Financial Base
- Organic Growth and Acquisitions
- Organisational Structure and Management

Risk Description
Growth through acquisition has historically been a key element in the Group's development strategy. The Group may not be able to continue to grow if it is unable to identify attractive targets, execute full and proper due diligence, raise funds on acceptable terms, complete acquisition transactions, integrate the operations of the acquired businesses and realise the anticipated levels of profitability, cash flows and return on invested capital.

Mitigation
Acquisitions are made in the context of the Group's overall strategy. The Group has a long established, experienced and skilled acquisition capability that has significant relevant experience in all aspects of acquisition transactions and in managing post acquisition integration. This process is underpinned by strategic and financial acquisition criteria and the close monitoring of performance post acquisition including one and three year post acquisition reviews by Group Internal Audit, and the sharing of any lessons learnt identified by those reviews.

Supplier Management and Rebates

Risk movement

-	=	+

Link to Strategy

- Strong Financial Base
- Excellence in Service

Risk Description
Product availability is a key factor for all Group businesses, therefore the Group is exposed to the risk of failure to supply by one of its key suppliers. In addition, the total value of income the Group receives from its suppliers in the form of volume rebates and other amounts, including product and marketing support, represents a material percentage of its operating profit. There is a risk that the Group does not collect all supplier rebates receivable or that rebates are accounted for incorrectly.

Mitigation
The Group seeks to maintain good relations with key suppliers and, to proactively manage instances of supplier shortages and allocations. The risk of over-reliance on single suppliers is mitigated by dual sourcing or identifying alternative suppliers for key products.

The Group seeks to put in place written agreements with all key suppliers detailing the terms and conditions of rebate arrangements. Finance and procurement teams work closely to validate amounts due from suppliers based on these agreements and quantities purchased. Rebates receivable are regularly reviewed and Business Units engage in dialogue with suppliers regarding collection. A proportion of rebate agreements provide for repayment of rebates at regular intervals throughout the year thereby reducing the amount receivable by the Group at the year end. In view of its materiality rebates receivable are reviewed annually after the year end by Group Internal Audit.

Internal Controls and Fraud

Risk movement

- = +

Link to Strategy

- Strong Financial Base
- Excellence in Service
- Organisational Structure and Management
- Ethics and Integrity

Risk Description

The Group is exposed to the risk of failure in financial or operational controls in individual Business Units, including the failure to prevent or detect fraud. A breakdown in controls of this nature could lead to a financial loss for the Group.

Mitigation

The Group has established a framework of controls incorporating a "three lines of defence" model to protect against significant control deficiencies and the risk of fraud. This includes documented policies and procedures for key financial and operational processes, ongoing monitoring of management accounts both at Group and Business Unit level, monthly sign-off of Business Unit accounts by local finance directors and an annual compliance statement. Business Units also complete a six monthly self-assessment of key financial controls which is subject to validation by Group Internal Audit. Branch procedures are subject to regular review and audit by Business Unit internal audit and loss prevention teams. A programme to perform fraud risk assessments across key business units and Group Finance commenced in 2019 and will continue into 2020.

Sustainability

Risk movement

- = + NEW

Link to Strategy

- Excellence in service
- Strong Financial Base
- Organisational structure
- Ethics and Integrity

Risk Description

The Group recognises its responsibility to minimise the impact its operations have on the environment and to promote sustainable and ethical business practices amongst its customers, suppliers and colleagues. The Group is also committed to being an inclusive employer and promoting diversity in its workforce.

Mitigation

The Group engages in numerous charitable and community activities across its business units. Environmental regulations are complied with and reported on as required. Opportunities to reduce, recycle, and reuse are promoted within the Group where possible.

The Group has a Code of Business Conduct and Ethics which is supported by policies including for Equality, Diversity and Inclusion, Anti-Bribery and Corruption, Modern Slavery, and Timber Sourcing, which are reinforced through mandatory training for colleagues.

During the year, Business Units within the Group completed numerous inclusion and wellbeing initiatives, with each having set targets for a number of objectives to fulfil by 2020.

During 2019 a Sustainability Strategy for the Group has been developed with associated goals and targets covering five focus areas: customers and products; people; resources; communities; and ethics. This strategy will be rolled out in 2020 with each business unit setting targets, which will be monitored and reported on, to align with the overall Group goals.

Sustainability

Grafton is committed to conducting its business in a sustainable and socially responsible manner. This is demonstrated in the way we engage with our colleagues, customers, shareholders, suppliers and with the communities in which we operate.

We believe that taking a responsible approach to how we conduct our business is critical to achieving our strategic priorities and our approach to sustainability aligns with the Group's purpose of "building progress together".

Sustainability

The European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017 requires that we identify and report on those non-financial areas that are material to our business performance, including environmental matters, social and employee matters, diversity, respect for human rights and bribery and corruption.

This Sustainability Report, and other sections of the Annual Report, addresses the requirements of that legislation as detailed in the Report of the Directors on page 101.

Building a Sustainable Future

Grafton's Sustainability Strategy

The overall objective of our sustainability strategy is to build a sustainable future, for everyone. Our strategy supports the UN Sustainable Development Goals:

Focus areas of our Sustainability Strategy

Customer and Product
Providing our customers with ethical, sustainable, and high quality products.

People
Creating the culture for everyone to thrive and be safe inside and outside our businesses.

Resources
Reducing, reusing and recycling across our operations.

Community
Making a positive contribution to the communities and customers we serve.

Ethics
Ensuring every part of our business operates with integrity.

During the year the Group formed a working group tasked with progressing our sustainability agenda, comprising colleagues from a range of functions including governance, human resources, procurement, risk, health and safety and environmental.

An internal review was carried out consisting of interviews with senior internal stakeholders and a sustainability survey which was completed by colleagues across the Group. An external review compared our current sustainability work to that of our peers and the expectations of industry bodies. Data from this review was consolidated to determine materiality and prioritise a set of five focus areas which are set out opposite.

The strategy highlights our commitments across these key areas, helping us to focus our resources and attention on the issues that matter most to our business and stakeholders. We have set targets to achieve our commitments in each of these focus areas. Our strategy is aligned to the UN Sustainable Development Goals and supports our overall purpose of "building progress together".

We will continue to implement this strategy during 2020.

Sustainability (continued)

Customer and Product

Sustainable Products
The Group recognises the increasing importance of supplying renewable and sustainable products. Product ranges designed to provide sustainable building solutions have been introduced in a number of businesses including solar thermal and solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems. Woodie's offers a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. The merchanting branches sell condensing boilers which reduce demand for fossil fuels, energy-saving insulation materials and controlled ventilation systems.

Supply Chain Integrity
The Group's Code of Business Conduct and Ethics provides that we will not purchase from suppliers that procure products for us from countries that are subject to trade sanctions, or if the supplier or its sources are listed in connection with a trade sanctions programme or other list of proscribed individuals or entities relevant to the countries in which the Group operates. Grafton requires all its suppliers to comply with its anti-slavery policy as published on the Group website www.graftonplc.com.

We continue to work to embed our responsible business objectives into our sourcing and supplier activities. During 2019 we took further steps to enhance the due diligence process for prospective and existing suppliers. The Group uses an external due diligence screening solution to assist with prioritising, monitoring and mitigating the risks associated with supplier relationships. Non-EU suppliers are screened annually against relevant sanctions lists, watch lists, lists of Politically Exposed Persons or adverse media reports.

CPI Mortars maintained its Construction Products Certification ("CPC") BES 6001 accreditation for product and supply chain sustainability and ethics.

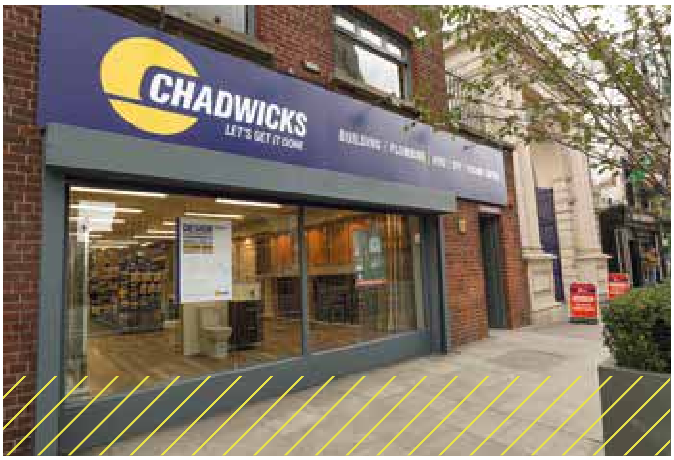
Customer Service
In line with our core value of Being Brilliant for our Customers, customer service is a key priority for the Group. Customer satisfaction surveys in place in a number of businesses provide insight into customer experiences and help to identify areas for improvement. 'Mystery shopper' initiatives have also proved valuable as a snapshot of service provided in branches.

During 2019, Group businesses implemented a number of initiatives aimed at improving our customers' experience:

- Leyland SDM introduced longer opening hours across its branch network and all branches are now open 7 days a week.
- Selco's Click & Collect service allows customers to purchase products online and collect them in-branch at no charge in 30 trading minutes. A free delivery service is available for bulky items.
- Both the Irish merchanting business and the Isero business in the Netherlands completed rebranding exercises during 2019, consolidating and strengthening their brand identity and providing a more consistent customer experience.
- The CPI Mortars mobile app provides customers with a convenient process for ordering product and booking silo repairs and servicing.

New Stores, Branch Upgrades and Refurbishment

- Woodie's made further progress on its store refurbishment project with seven stores completed in 2019, creating a safer and more pleasant shopping environment for our customers and colleagues.
- Selco increased its coverage with the opening of a new store in Kingston-Upon-Thames in November 2019 and also invested in the upgrade of four stores during the year.
- New Leyland stores were opened in Maida Vale and Streatham during the year, while upgrade works were completed in three existing branches.
- Chadwicks launched a new Fixing Centre with the aim of providing trade customers with a wide range of setting chemicals, concrete anchors, nuts, bolts, nails and fixings in a one-stop-shop format concept located next to the newly refurbished branch on Thomas Street in Central Dublin.



People

Health and Safety

Our committment for health and safety is to send our colleagues, customers and everyone we work with home safely at the end of each day. We believe there is nothing we do that is so urgent we cannot do it safely and this belief is central to our leadership of the health and safety agenda across all Group businesses. Safety leadership is most effective when it is integrated into routine business leadership behaviours, and we continue to develop this approach by integrating safety support teams directly into each Group business.

The Group Health and Safety Policy, which is available on the Group website, sets out the key responsibilities for health and safety management and establishes the framework for each business to develop its own effective systems, policies and procedures. Local business management is responsible for driving the safety and health agenda alongside their other business priorities. All colleagues are encouraged to raise any concerns about safety and to make suggestions to improve safety performance. Health and safety expertise and support is now established within all Group businesses with each business Health & Safety Manager reporting directly to the local CEO or Managing Director.

Our priority action areas remain traffic management, product storage and handling in branch locations; and the safe, efficient delivery of products to customers' sites.

Each business is committed to engaging its teams in these priority areas and to demonstrating their determination to reduce injuries to our colleagues, customers and third parties. During 2019, significant progress was made by all businesses in these priority areas.

Group Lost Time Injury Frequency Rate

Lost time injuries per 100,000 hours worked		% reduction
2019	1.01	2.9%
2018	1.04	

Group Lost Days Severity Rate

Days lost per 2,000 hours worked		% reduction
2019	0.28	36.4%
2018	0.44	

Many businesses engaged with their local communities to raise awareness of safety. The MacBlair 'Be Seen' initiative involved providing local schools with hi-vis clothing and CPI mortars visited a number of local schools to demonstrate vehicle safety, blind spots and hazards.

During the year Selco installed defibrillators in all branches to enable a quick response in the event that a customer or colleague suffers a cardiac arrest.

Group businesses continue to focus on forklift truck and vehicle movements and their potential interaction with pedestrians in yards and warehouses. Vehicle marshal training and the day to day management of vehicle movements, particularly reversing vehicles, has significantly improved across all businesses during 2019.

Selco has continued to apply Eric's hierarchy (Eliminate, Reduce, Isolate, Control) to the assessment of inbound store deliveries. The introduction of a Selco delivery hub in Edmonton has allowed for the reduction of external delivery vehicles from six branches and Selco now delivers directly to these customers from the hub. This has significantly reduced vehicle movements and stock levels in the branches, which in turn reduces health and safety risk.

Safe driving in commercial vehicles and company cars was also a major focus area in 2019 with several businesses launching a Driver Academy to reward exceptional commercial driver behaviours during the year and to promote and develop existing colleagues into professional driver roles. Company car drivers also trialled different types of vehicle telemetry to analyse driving behaviours and encourage a safer more economical driving style.

People (continued)

Colleagues

The success of our business is closely aligned with our corporate culture and with the contribution and commitment of each of our colleagues. We recognise the fundamental importance of colleague engagement and talent management to the future growth of the Group.

Equality, Diversity and Inclusion

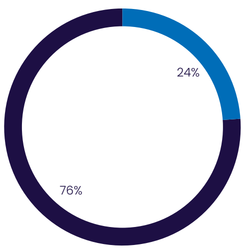
As part of our ongoing strategy to improve diversity, we launched a diversity action team with representatives from each of the Group's businesses. We also commenced an exercise to more accurately capture data to improve insights into our diversity and help us towards achieving our diversity goals.

- A workshop on gender diversity was held with senior women from across the Group, facilitated by #YesSheCan. Gavin Slark, Group CEO attended a portion of the day to hear the perspective of female colleagues working in a male dominated environment.
- For International Women's Day 2019 Chadwicks ran a 'Women in our Business' campaign to celebrate the contribution of women across their business.
- Buildbase held its second 'Women in Buildbase' conference, bringing together senior women from across all departments to discuss how best to attract and retain more female colleagues.

Monitoring the pay between men and women is an important step to ensuring that all colleagues are fairly rewarded for their work and their contribution to our business. Gender Pay data has been published on the websites of UK businesses that are within the scope of the UK Gender Pay Gap reporting regulations and demonstrates a year on year increase in gender pay in the relevant businesses.

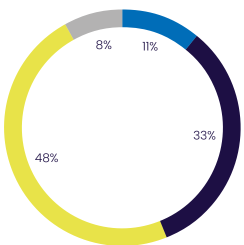
Gender breakdown

Female
Male



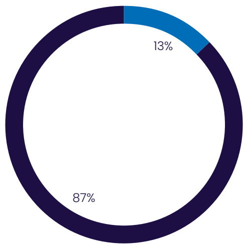
Age breakdown

Under 25
25-39
40-60
Over 60



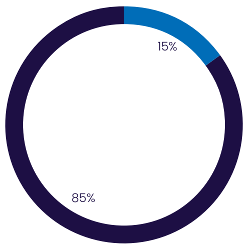
Gender breakdown Senior Management

Female
Male



Flexible work patterns

Part-time
Full-time



Chadwicks Group work closely with EmployAbility Ireland, an organisation that provides recruitment and employment support services for people with a health condition, injury, illness or disability. Through EmployAbility, the business has gained the benefit of hiring colleagues to roles that suit their abilities.

Training and Development

Training and development is a key part of our continued investment in our colleagues and is fundamental to our ability to attract, retain and develop top talent. Colleagues are provided with opportunities to maximise their experience, expertise and skills both for their own career development and for the success of the Group.

2019 saw the introduction of a new Learning Management System across all businesses which provides online learning modules and online classroom facilities to all colleagues.

Some examples of training and development initiatives undertaken by Group businesses during 2019:

PDM Buildbase introduced an awards process starting with the announcement of Daniel Hill, pictured right, as their Young Achiever for 2019.

The Group welcomed the second cohort of its 'Next Generation Leadership' programme which aims to identify and develop a diverse group of high-potential colleagues and equipping them with the skills and knowledge necessary to develop as future leaders.

Chadwicks continued to run its Management Development Programme and Sales Academy. In May 2019 they held the first graduation from the Builders' Merchants Sales Traineeship scheme, a programme accredited by Quality and Qualifications Ireland (QQI).

Selco launched their Rising Stars Management Development Programme which creates opportunities for colleagues to create career paths that align with Selco's strategic goals.

250 Woodies colleagues graduated in 2019 from the QQI-certified Seeds to Success programme. Woodie's also became one of the first companies in Ireland to launch an apprenticeship in retail with nine colleagues taking part in the two-year programme in association with Retail Skillsnet Ireland.

The Isero business in the Netherlands continued its in-house academy to train apprentice customer service representatives.

Over 120 Buildbase colleagues took part in the Building for Your Future training programme which offers accredited courses in business relevant areas such as sales, project management and leadership.

The Timber Group launched their Seeds to Success programme to develop their Assistant Branch Managers through a series of training workshops covering IT, Marketing, Sales, HR, Health and Safety and Transport, and providing key skills required for future management roles.

Benefits and Reward

We are committed to high standards of employment practice across our businesses and we aim to reward colleagues fairly by reference to skills, performance, peers and market conditions. We provide incentives to employees through remuneration policies that promote commitment and reward achievement.

UK Colleagues have access to "Reward Gateway", an online communications and benefits platform. Colleagues in Ireland have access to Wrkit, a similar platform that provides colleague discounts across a number of retail outlets. Colleagues in Ireland also receive a Colleague Discount Card which provides generous reductions in Group businesses.

Woodie's introduced Flexi Wage app in 2019 which offers colleagues the benefit of selecting from monthly, fortnightly or weekly salary instalments. The Group operates a Save as You Earn Scheme that enables eligible UK colleagues to share in the success of the overall Group. The Irish merchanting business also operates a Revenue-approved profit-sharing scheme.

Colleague Engagement

The majority of Group businesses took part in colleague engagement surveys during the year. The results of all surveys across the Group demonstrated ongoing improvements in both participation rates and employee engagement scores. Selco, Buildbase and NDI took part in the UK Best Companies Survey resulting in a 'One to Watch' accreditation, while Woodie's was again recognised as a 'Great Place to Work' for 2019.

During 2019 Woodie's launched Workvivo, a communications tool which allows for sharing of company updates. 98 per cent of colleagues have downloaded the app and over 20,000 comments were posted in the first year. A Group IT project is under way to assess the potential to roll out a similar tool across other businesses in the Group.

Country colleague forums were launched during 2019 to provide an opportunity for colleagues to communicate with the Board via meetings with nominated Non Executive Directors.

Colleague recognition programmes are run across a number of our businesses. In 2019 the Irish Merchanting business enhanced their loyalty programme by adding new long service pin badges and a new 5-year award to their existing programme where 10, 20, 30 and 40 years' service is rewarded with gift vouchers. Woodie's also offer long service pins for 5, 10 and 20 years' service. In the UK, Selco introduced a loyalty programme with a retrospective rollout in 2019 seeing over 1,000 colleagues receiving awards for service with the company.

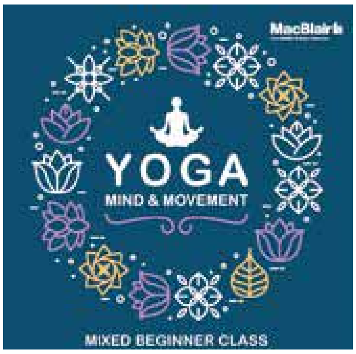
Leyland held their first ever Colleague Awards in November 2019 while Woodie's held their second "Woscars" colleague award ceremony in October 2019.

People (continued)

Colleague Wellness
Colleague wellbeing has become a key focus area across the Group's businesses with the roll out of a wide range of initiatives based around the 5Ms – Move, Mind, Money, Munch and Monitor, offering support to colleagues to be healthier and more content both at work and at home.

Initiatives across the Group's businesses included onsite health checks, step challenges and fresh fruit deliveries.

CPI, TG Lynes and Plumbase Industrial worked with Mates in Mind, the mental health awareness charity, to provide training to colleagues and to support Mental Health Awareness Week.



MacBlair introduced a range of initiatives including onsite yoga at head office, mental health awareness training sessions and mobile mammograms. Briefings were also provided on healthy eating and on testicular and breast cancer awareness.

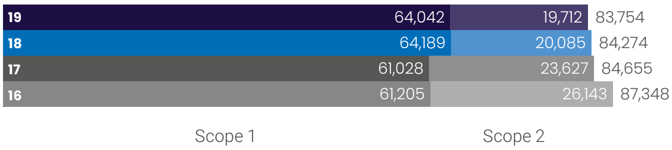
Colleagues in the UK and Ireland have access to Employee Assistance Programmes which provide 24/7 access to a confidential helpline service to help and support on a wide range of issues such as work, relationships, family matters, financial and legal matters and health.

To respond to the changing business environment and in recognition of the changing ways colleagues live and work, we encourage our colleagues to embrace flexible working where appropriate to business needs.

Resources

We recognise the increasingly significant role that effective management of the environment has to play in our business and we acknowledge our responsibilities in this field.

Group CO_2 Emissions (Tonnes of CO_{2e})



Scope 1 refers to direct emissions from assets we control, such as vehicles. Scope 2 refers to indirect emissions associated with the production of electricity.

CO_2e emissions per £'m of revenue reduced from 32.4 tonnes in 2018 to 31.4 tonnes in 2019, based on continuing operations.

Tonnes of CO_{2e} per £'m of revenue

We have continued to invest in LED lighting across our businesses. Selco undertook an ambitious LED lighting refit programme during the year to refit the entire branch network with LED lighting, resulting in significant reductions in emissions. More than half of the branches were refitted during 2019 with the remainder to be completed in 2020. Frontline Bathrooms have also carried out an LED lighting upgrade resulting in energy savings of 46 per cent.

40 per cent of the Group's branches are accredited to the ISO 14001 environmental management standard. This accreditation is seen as vital in helping to focus on environmental risk management initiatives.

Buildbase have formed an environmental working group to focus on reduction of their carbon footprint through energy campaigns, improved awareness raising amongst colleagues and improvements to lighting.

Fleet & Logistics
Ongoing renewal of the Group's fleet has also contributed to reducing the Group's carbon footprint. In 2019, the Group invested in 123 commercial vehicles that comply with the latest and most stringent Euro 6 low emission standard.

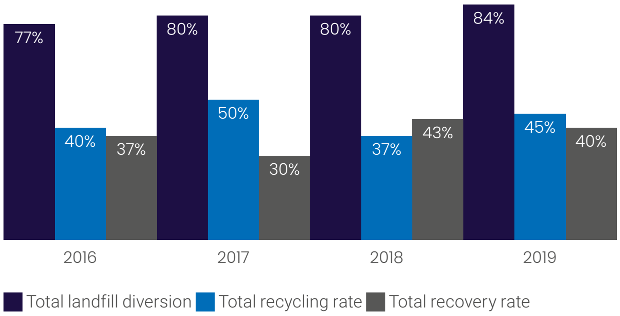
Plug-in hybrid vehicles have been introduced for company cars and it is expected that the number of hybrid vehicles will increase over the coming years. Half of company cars ordered in 2019 were plug-in hybrid and standard hybrid cars.

Pollution and Waste
Grafton strives to reduce the quantity of waste sent to landfill by implementing recycling measures across its businesses.

The Group landfill diversion rate (a measure of the amount of waste that is diverted away from landfills) saw a further increase in 2019 to 84 per cent primarily as a result of ongoing work with Biffa to recover and recycle more of the waste generated by Group businesses in the UK.

Significant improvements were seen in landfill diversion rates in a number of businesses. Landfill diversion at Buildbase increased by 10 per cent while Selco saw a six per cent increase.

Waste data by year



Timber Sourcing
The Group has implemented a Timber Sourcing Policy which sets out our commitment to the sourcing of sustainable timber products and to meeting international certification standards. Under this Policy, Grafton businesses that source timber products must produce an annual summary specifying either the certification (FSC and/or PEFC) or the chain of custody of the timber products sourced.

A number of Grafton Group businesses have FSC and/or PEFC certification in place which is specific to individual timber categories or timber types.

The Timber Group are active members of the Timber Trade Federation (TTF) and their compliance includes FORS Silver, FSC and PEFC Chain of Custody, ISO 9001 & 14001.

Community and Charity

Grafton is proud to support a range of community and charity initiatives both in Group Office locations and through the branch network. In 2019, colleagues took part in a range of fundraising and volunteering activity raising a total of over £700,000.

Colleagues in the Group Corporate Office in Dublin raised funds for Down Syndrome Ireland through a variety of fundraising events while Group Office colleagues in the UK took part in a 10km Fun Run for the Mental Health Association. UK Group Office colleagues also took part in a volunteering day at Headway, a local charity that provides services for people with brain injuries.

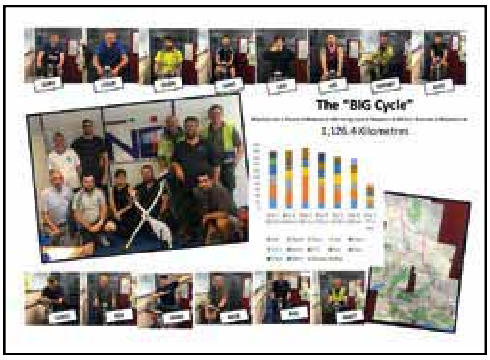
Woodie's raised €374,000 during 2019 through in-store fundraising for their annual Woodie's Heroes campaign and bringing the total raised by the campaign to €1.5 million since 2015.

Selco continued its ongoing support for Macmillan Cancer Support with a total of £733,000 donated to Macmillan since the partnership began in 2012.

Colleagues in Buildbase raised £125,000 for Cancer Research UK by running, cycling and taking part in adventure as part of the Buildbase Toughest Challenge campaign.

TG Lynes and Plumbase Industrial were awarded a Gold Tier Supporter status for Phoenix Heroes, an organisation that supports veterans and their families.

In November 2019, a number of Group businesses joined forces to raise money for Movember, a charity focused on men's health and suicide prevention.



NDI Maidstone took part in a 'Big Cycle' challenge covering 1,126km to raise money for Mind, a charity that offers support and raises awareness of mental health.

During October 2019, Leyland SDM transformed its Shoreditch store into a pink landmark to show their support and raise funds for Breast Cancer Now.

Over the 2019 May Bank Holiday, 22 Chadwicks Group colleagues took part in Ireland's 4 Peaks Challenge in a bid to raise funds for four worthy charities; CMRF Crumlin Children's Hospital, Pieta House, Focus Ireland and Cystic Fibrosis Ireland. The team travelled across the country to climb the highest mountain in each province over four days. The team not only defeated the peaks but also raised over €68,000.

Colleagues from the Group Corporate Office also spent a day volunteering at Hugh's House in Dublin, a facility that provides accommodation for families of children who are long-term patients of local maternity hospitals.

Ethics

Ethical Business Behaviour
The Group Code of Business Conduct and Ethics sets the standard of behaviour which all our colleagues, contractors, agents and businesses are expected to follow to ensure that our agreed principles of ethical behaviour are embedded across all of the Group's business activities.

All colleagues are required to complete a Business Conduct and Ethics training course, while a Regulatory Compliance course is mandatory for all Support Office and management level colleagues, with a requirement to repeat this course every two years.

The Group's SpeakUp policy sets out the duty of colleagues to report any concern they may have about suspected wrongdoing. All reports are logged by a third party and passed to Group Internal Audit for investigation, with the outcome of investigations reported to the Audit and Risk Committee. While Group policy encourages colleagues to raise any concerns with their manager in the first instance, this service provides an alternative reporting route if required.

Our commitment to ethical business and good corporate governance was further strengthened during 2019 through a number of initiatives, including:

- Further progress on procedures to confirm supplier compliance with regulatory requirements including the UK Modern Slavery Act 2015;
- Implementation of processes to ensure compliance with the 2018 UK Corporate Governance Code including the establishment of a Colleague Forum to facilitate effective feedback to the Board of Directors;
- Commencement of a programme of fraud risks assessments at significant business units, including the Group Head office, to identify any additional anti-fraud controls which may be required;
- Development of online systems for recording and management of any conflicts of interest declared by colleagues, and the approval of gifts and hospitality received or offered; and
- Further roll-out the Group's learning management system to facilitate the completion of on-line ethics and regulatory training modules.

Human Rights and Modern Slavery
We are committed to conducting all our activities in a way that values and respects human rights and the Group has established stringent HR policies and controls to ensure that the rights of all colleagues are fully respected. The Group adheres to the ETI Base Code, the internationally recognised code of labour practice. The Group's Modern Slavery Policy Statement in respect of the year ended 31 December 2019 is available on the Group website www.graftonplc.com and describes the Group's policy on forced or involuntary labour and the safeguards in place to mitigate against the risk of modern slavery in its businesses or supply chains.

Anti-Bribery and Corruption
The Group Anti-Bribery and Corruption Policy sets out the Group's zero tolerance approach to all forms of bribery and corruption, and the standards expected of all colleagues. It requires that a declaration of independence be signed annually by senior management and other individuals who are considered to be exposed to higher risk of conflicts of interest, including colleagues who have responsibility for contract negotiations with customers and suppliers.

Privacy and Data Protection
We have continued to improve and invest in our information technology to mitigate increasing cyber threats and data loss, theft or corruption. A programme to oversee the implementation of GDPR was completed in 2018 and compliance activity has now been embedded into business processes.

During 2019, the Group rolled out additional training to data owners and users on their role and responsibilities for protecting personal data and complying with GDPR. The Group has also established an Information Security Steering Committee to monitor and oversee the delivery of the Information Security and Data Protection Programmes.

"The Group-wide online ethics and regulatory training modules were updated during the year and re-launched with a new learning management system."

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Corporate Governance

Board of Directors and Secretary

Michael J. Roney (USA), MBA

Non-Executive Chairman

Michael Roney was appointed to the Board as Non-Executive Director, Deputy Chairman and Chairman Designate on 1 May 2016 and assumed the role of Non-Executive Chairman on 1 January 2017.

Career

Mr. Roney was Chief Executive of Bunzl plc from 2005 until his retirement in April 2016. Prior to joining Bunzl he was Chief Executive Officer of Goodyear Dunlop Tires Europe, having previously been President of Goodyear's Eastern European, African and Middle Eastern businesses. He was formerly Non-Executive Director of Johnson Matthey Plc.

Current external appointments

Non-Executive Chairman of Next plc, the FTSE 100 listed UK retailer; Non-Executive Director of Brown-Forman Corporation, the US based spirits business.

Board Length of Service as at 9 March 2020

3.9 years

Committee Membership

Nomination Committee (Chair)

Gavin Slark (UK)

Chief Executive Officer

Gavin Slark joined the Group and the Board as Chief Executive Designate on 1 April 2011 and was appointed Chief Executive Officer on 1 July 2011.

Career

Mr. Slark was previously Group Chief Executive of BSS Group plc, a leading UK distributor of plumbing, heating, pipeline and mechanical services and products.

Current external appointments

Non-Executive Director of Galliford Try Holdings plc, a UK housebuilding and construction group.

Board Length of Service as at 9 March 2020

8.9 years

Committee Membership

Finance Committee (Chair)

David Arnold (UK), BSc, FCMA, FCT

Chief Financial Officer

David Arnold joined the Group as Group Chief Financial Officer on 9 September 2013.

Career

Mr. Arnold was Group Finance Director of Enterprise plc, the UK Maintenance and Support Services business, from 2010 to 2013 and was Finance Director of Redrow plc, the house builder, from 2003 to 2010. He previously held senior financial positions with Six Continents plc, the hotels group and Tarmac plc, the building materials company.

Current external appointments

None.

Board Length of Service as at 9 March 2020

6.5 years

Committee Membership

Finance Committee

Paul Hampden Smith (UK), FCA

Senior Independent Director

Paul Hampden Smith was appointed to the Board on 27 August 2015 and was appointed Senior Independent Director on 9 May 2017.

Career

Mr. Hampden Smith was Group Finance Director of Travis Perkins plc from 1996 until his retirement in February 2013. He joined the Travis Perkins Group in 1988 and has 25 years' senior level management experience in the UK merchanting industry. He was previously Non-Executive Director of Pendragon plc, Redrow plc, DX Services plc and Clipper Logistics plc.

Current external appointments

Appointed Non-Executive Chairman of Bellway plc on 12 December 2018 having been appointed Non-Executive Director in 2013.

Board Length of Service as at 9 March 2020

4.5 years

Committee Membership

Audit and Risk Committee (Chair)
Nomination Committee
Remuneration Committee

Charles Rinn MBA, FCCA

Group Financial Controller & Secretary

Committee Membership

Finance Committee

Frank van Zanten (NL), MBA

Non-Executive Director

Frank van Zanten was appointed to the Board on 13 May 2013.

Susan Murray (UK)

Non-Executive Director

Susan Murray was appointed to the Board on 14 October 2016.

Vincent Crowley (IRL), BA, FCA

Non-Executive Director

Vincent Crowley was appointed to the Board on 14 October 2016.

Dr. Rosheen McGuckian (IRL), BSc, MA, PhD

Non-Executive Director

Rosheen McGuckian was appointed to the Board on 1 January 2020.

	Frank van Zanten	Susan Murray	Vincent Crowley	Dr. Rosheen McGuckian
Career	Mr. van Zanten is Chief Executive of Bunzl plc, the FTSE 100 UK international distribution and outsourcing Group with operations across the Americas, Europe and Australasia. Prior to his appointment as CEO he was Managing Director of Bunzl's Continental Europe business area. He was previously Chief Executive of PontMeyer N.V., the Dutch Builders Merchants.	Mrs. Murray is a former Chief Executive of Littlewoods Stores Limited and former Worldwide President and Chief Executive of The Pierre Smirnoff Company, part of Diageo plc. She is a former Chairman of Farrow & Ball and a former Non-Executive Director of Compass Group plc, 2 Sisters Food Group, Pernod Ricard S.A., Imperial Brands plc, EI Group plc, Aberdeen Asset Management plc, SSL International plc and Wm Morrison Supermarkets plc.	In the course of a 24 year career with Independent News & Media PLC, a leading Irish newspaper and media business, Mr. Crowley held a number of leadership positions including Chief Executive Officer and Chief Operating Officer and member of the Board. Prior to joining Independent News & Media PLC, he held senior roles in KPMG and Arthur Andersen.	Dr. McGuckian is Chief Executive Officer of NTR plc, an unquoted Irish company that acquires, constructs and manages sustainable infrastructure assets. Immediately prior to joining NTR, Dr. McGuckian was CEO of GE Money Ireland, the consumer finance division of General Electric. Dr. McGuckian previously served as Non-Executive Director of Green REIT plc, the Social Innovation Fund of Ireland and the Irish Aviation Authority.
Current external appointments	Chief Executive of Bunzl plc.	Non-Executive Director of Mitchells & Butlers plc, a leading operator of restaurants and pubs; Non-Executive Director of Hays plc, a provider of recruitment and human resource services; and Non-Executive Director of William Grant & Sons, a privately owned distiller and distributor of premium spirits.	Non-Executive Director of C&C Group plc, an international manufacturer and distributor of branded drinks; Executive Chairman of Altas Investments plc, an Irish company that holds investments in infrastructure and related businesses.	Chief Executive Officer of NTR plc; Non-Executive Director of the Strategic Banking Corporation of Ireland.
Board Length of Service as at 9 March 2020	6.8 years	3.4 years	3.4 years	0.2 years
Committee Membership	Nomination Committee Remuneration Committee	Remuneration Committee (Chair) Audit and Risk Committee Nomination Committee	Audit and Risk Committee Nomination Committee	

Directors' Report on Corporate Governance

Governance Framework

Chairman				
Board of Directors				Chief Executive Officer
Audit and Risk Committee	Nomination Committee	Remuneration Committee	Finance Committee	Senior Executive Team
Read Committee Report on pages 75 to 78	Read Committee Report on pages 79 to 80	Read Committee Report on pages 81 to 97	See more on page 69	

What the Board did in 2019

The following table provides a summary of the significant matters considered by the Board during the year.

January
- Group CEO Review
- Updates on strategy including the proposed acquisition of Polvo in the Netherlands
- Trading and financial performance review
- Health & Safety
- Key findings of Independent Board evaluation
- Update on the status of the Group GDPR Compliance Programme
- Updated Treasury Policy & Risk Management Strategy

February
- Group CEO Review
- Strategy and acquisitions update
- Trading and financial performance review
- Health & Safety
- 2018 Final Results Announcement
- 2018 Annual Report, Notice of AGM and noted interim dividend proposal
- Guarantee of the liabilities of certain Group subsidiaries
- Discussion on Succession Planning
- Approval of updated Modern Slavery Statement
- Discussion on the proposed arrangements for workforce engagement under the 2018 code

May
- Group CEO Review
- Strategy and acquisitions update
- Trading and financial performance review
- Health & Safety
- Trading Update
- AGM

June
- Group CEO Review
- Strategy and acquisitions update
- Trading and financial performance review
- Health & Safety
- Update on the disposal of Plumbase and the Belgian merchanting business
- Update on AX implementation

June (Strategy)
- Review of acquisition and growth opportunities in new geographic markets, trends in the merchanting market, on-line trading and changes in the competitive landscape
- Current portfolio composition and possible acquisition opportunities
- Digital strategy update
- Discussion on Sustainability strategy

August
- Group CEO Review
- Strategy and acquisitions update
- Trading and financial performance review
- Health & Safety
- Received an update from CEO on corporate developments
- Received a report from the Audit and Risk Committee Chair on the External Auditor's and the Committee's review of the Interim Results for 2019
- Approved the Interim Results for 2019 and noted the interim dividend proposal
- Approved a proposal for a grant of options under the UK SAYE scheme
- Update on post-Brexit new settlement system for Irish securities

October
- Group CEO Review
- Strategy and acquisitions update
- Trading and financial performance review
- Health & Safety
- Approval of the appointment of Rosheen McGuckian as a Non-Executive Director

December
- Group CEO Review
- Strategy and acquisitions update
- Trading and financial performance review
- Health & Safety
- Presentations from a number of Business Unit management teams including a review of 2019 and plans for 2020
- Group Budget for 2020
- Discussion on gender diversity
- Review of key risks

Compliance with the 2018 UK Corporate Governance Code

Grafton Group plc ("the Company") is incorporated in Ireland and is subject to Irish company law. Its Units (shares) are listed on the London Stock Exchange and the Group is subject to the 2018 UK Corporate Governance Code ("the Code") which sets out the key principles and specific provisions which establish standards of good governance practice in relation to leadership, effectiveness, accountability, remuneration and relations with shareholders. This report describes how the Company has applied principles of the Code during the year.

The Board considers that the Company has, throughout the accounting period, complied with the provisions of the Code. Below is a summary of how the Company has complied with each individual principle and provision of the Code.

1. Board Leadership and Company Purpose

Board Leadership

The Board is responsible for the oversight and success of the Group's business. The Board's responsibilities include:

- Ensuring that appropriate management, development and succession plans are in place;
- Reviewing the environmental and health and safety performance of the Group;
- Approving the appointment of Directors and the Company Secretary;
- Approving policies relating to Directors' remuneration and severance; and
- Ensuring that satisfactory dialogue takes place with shareholders.

Board Meetings

The Board met on nine occasions during 2019, and the attendance of individual directors at each meeting is set out in the table on page 72. The Board also receives updates on developments from management between meetings as appropriate. The Board takes the major decisions as set out in the schedule of matters reserved to it for decision, while allowing management sufficient scope to run the business within a tight reporting framework. The Group has arranged insurance cover up to a specified limit in respect of legal actions against directors and officers.

Board Committees

The Board is assisted by Committees that focus on specific responsibilities as delegated by the Board. The Terms of Reference of the Audit and Risk Committee, Remuneration Committee and Nomination Committee are on the Group's website at www.graftonplc.com. Membership and length of service of Board Committees is shown within each of the Committee reports. Ms. Susan Lannigan, Deputy Company Secretary, is Secretary to the Audit and Risk Committee. Ms. Paula Harvey, Group HR Director, is Secretary to the Remuneration Committee. Mr. Charles Rinn is Secretary to the Nomination Committee.

The Finance Committee is chaired by Mr. Gavin Slark, CEO and also comprises Mr. David Arnold, CFO and Mr. Charles Rinn, Group Financial Controller and Secretary. The Committee considers the financing requirements of the Group, considers amendments to the terms of existing bank facilities, approval of leases for assets other than property up to a specified level and litigation matters.

The Board is briefed on key discussions and decisions by each Committee Chairman at the Board meeting following the relevant committee meeting and minutes of committee meetings are circulated to the Board.

The Disclosure Committee is a management Committee comprising Mr. Gavin Slark, Group CEO and Mr. David Arnold, Group CFO. The Committee holds meetings formally and informally as required to ensure the accuracy and timeliness of compliance with the EU Market Abuse Regulation.

Company Purpose, Values and Strategy

Further detail on the Group's purpose of "building progress together", along with information on our core values and strategy is available on pages 4 to 5 and 20 to 21.

Objectives and Controls

The Group's strategic objectives are set out on pages 20 to 21 and a summary of performance against the Group's KPIs is at pages 22 to 23. The Board also receives regular updates across a broad range of internal KPIs and performance metrics.

The Group has a clear risk management framework in place as described on page 47 to identify and manage the key risks to the Group's business.

Engagement

How the Board Engages with its Stakeholders

Colleagues	The Group has established a Colleague Forum structure to ensure that the views of our colleagues can be heard and considered by the Board. Each business has established a Forum with Country Forums drawn from representatives of each of the businesses in that country. Non-Executive Directors attend meetings of Country Forums and provide feedback to the Board.
Shareholders	Through our AGM, ongoing investor relations activity and shareholder consultation process, we ensure that the views of our shareholders are considered and factored into Board decision making.
Suppliers	Our businesses work to maintain an efficient dialogue with suppliers to build strong, long term relationships.
Customers	We value the loyalty and engagement of our customers. Our businesses conduct surveys and review feedback from customers in order to drive improvements in the quality of our service proposition, our product offering and to ensure that customer expectations are met.
Communities	As part of our sustainability strategy we aim to make a positive contribution to our local communities through charity fundraising and community involvement.

Workforce concerns
The Board has established structures to provide for effective engagement by the Board with the wider workforce. These include the rollout of confidential colleague feedback surveys to almost all businesses with results presented annually to the Board, and the establishment of Employee Forums with meetings attended by Non-Executive Directors. These Forums provide the opportunity for Non-Executive Directors to meet colleagues from across the Group and enable their views to be considered at Board level.

Business Model and Risks
The Group's Business model is set out on pages 18 to 19. The Risk Management Report on pages 46 to 53 contains an overview of the principal and emerging risks facing the Group and a description of how they are managed.

Assessing and Monitoring Culture
The Board recognises the importance of communication and engagement with the wider workforce as a means of assessing and monitoring culture. During the year the Board met with senior management from across the Group on a number of occasions, and the Board periodically visits branches and meets with management and colleagues in order to help Directors gain a deeper understanding of the Group's operations, markets, performance and development. These contacts also provide an opportunity to get to know management below board level and to listen to their views.

As described above, Colleague Forums have been established to provide opportunities for Directors to meet colleagues from across the Group and enable their views on culture to be heard at Board level.

The Board, via the Audit and Risk Committee, receives and considers whistleblowing reports received on matters raised through 'speak-up', the independent Group wide confidential reporting service, and through reports and observations from Internal Audit reporting. Colleague engagement is also monitored through engagement survey results.

Shareholder Engagement
The Company recognises the importance of regular dialogue and communication with shareholders. Meetings are held with existing and prospective institutional shareholders principally after the release of half-yearly and annual results. The Group also issued trading updates in January, May, July and October of 2019.

Presentations to analysts were held in London on 28 February 2019 and 30 August 2019 following the announcement of the Final Results for 2018 and the Interim results for 2019 respectively. The presentations by the CEO and the CFO were broadcast live on www.graftonplc.com/webcast and are available to view or download at www.graftonplc.com.

Significant or noteworthy acquisitions are announced to the market. The Company's website www.graftonplc.com provides the full text of all announcements including the half-yearly and annual results and investor presentations. As noted above, the Group also issues regular trading updates on the performance of the overall group and individual business segments.

While the Chairman takes overall responsibility for ensuring that the views of shareholders are communicated to the Board as a whole, contact with major shareholders is maintained through the CEO and the CFO. The Chairman and the Senior Independent Director are available to meet with shareholders if they have concerns which have not been resolved through the normal channels of CEO or CFO or where such contacts are not appropriate. The Board receives feedback from investors following meetings with management following the announcement of the Final Results and the Interim Results and also receives analysts' reports on the Group. The Chairman attends the presentation of the interim and annual results and is available to meet with major shareholders.

All shareholders are invited to attend the AGM which provides an opportunity for shareholders to put questions to the Chairman, the Chairman of each of the Board Committees and Executive Directors and to meet informally with Directors before and after the meeting. The Company Secretary communicates with shareholders on corporate governance matters, particularly in the lead up to the AGM.

The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 20 working days before the meeting. The AGM is normally attended by all Directors. Resolutions are voted on by either a show of hands of those shareholders attending in person or by proxy, or, if validly requested, by way of a poll. In a poll, the votes of shareholders present and voting at the meeting are added to the proxy votes received in advance and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings ("EGMs"). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice. In view of the Group's international shareholder base, it is the Board's policy to give 21 days' notice of EGMs unless the Directors believe that a period of 14 days is merited by the business of the meeting and the circumstances surrounding the business of the meeting.

A quorum for a general meeting of the Company is constituted by four or more shareholders present in person and entitled to vote. The passing of resolutions at a meeting of the Company, other than special resolutions, requires a simple majority. A special resolution requires a majority of at least 75 per cent of the votes cast to be passed.

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies the record date for the general meeting, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the notice of general meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the Notice convening the meeting. A shareholder, or a group of shareholders, holding at least five per cent of the issued share capital of the Company, has the right to requisition a general meeting. A shareholder, or a group of shareholders, holding at least three per cent of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion on the agenda of a general meeting, subject to any contrary provision in Irish company law.

The 2020 AGM will be held at 10.30 am on Wednesday, 29 April in the IMI Conference Centre, Sandyford Road, Dublin 16.

Votes against Proposed Resolutions
There were no significant votes against proposed resolutions at the 2019 AGM.

Stakeholder Views
The Code provides that the Board should understand the views of the company's key stakeholders other than shareholders and describe how their interests and the matters set out in section 172 of the UK Companies Act 2006 ("s.172") have been considered in Board discussions and decision-making.

While s.172 is a provision of UK company law, the Board acknowledges that as a premium listed issuer on the FTSE 250, it is important to address the spirit intended by these provisions. An overview of how the Group engages with all of its stakeholders is set out at page 69.

As set out above, Employee Forums have been established to provide the opportunity for colleagues' views to be heard by the Board.

Whistleblowing
All colleagues have access to a confidential 'speak-up' reporting service which provides an effective channel to raise concerns to an independent third party. The Board, via the Audit and Risk Committee, receives regular reports detailing all notifications and subsequent action taken.

Conflicts of Interest
The Board confirms that a system for the declaration of conflicts of interests is in place.

Unresolved Concerns
No unresolved concerns about the operation of the Board or the management of the Group were raised by any director during the year.

2. Division of Responsibilities

Chairman
The responsibilities of the Chairman, as set out on page 72, are set out in writing and agreed by the Board.

Board Balance and Division of Responsibilities
The Board believes that it has an appropriate balance of Executive and Non-Executive Director representation and it is Board policy that no individual or small group of individuals can dominate its decision-making.

A statement of how the Board operates, including a schedule of the decisions reserved for the Board and those delegated to management, are set out in writing and agreed by the Board. The schedule of matters specifically reserved for Board decision covers:

- Strategic decisions;
- Risk management and internal controls;
- Acquisitions and capital expenditure above agreed thresholds;
- Interim and final dividends and share purchases;
- Changes to the capital structure;
- Tax and treasury management;
- Approval of half-yearly and annual financial statements; and
- Budgets and matters currently or prospectively affecting the Group and its performance.

Non-Executive Directors
The Board is satisfied that Non-Executive Directors have sufficient time to effectively discharge their responsibilities.

Effective and Efficient Functioning of the Board
Directors have full and timely access to all relevant information in an appropriate form. Reports and papers are circulated to Directors in sufficient time to enable them to prepare for Board and Committee meetings. All Directors receive monthly management accounts and reports covering the Group's performance, development proposals and other matters to enable them to review and oversee the performance of the Group on an ongoing basis. Each year the Board devotes one of its meetings to strategy and one to the following year's budget. The strategy meeting covers the macro-economic, political and social systems, construction market, housing market, business sectors, competitive landscape and challenges and opportunities in existing and prospective countries of operation for the Group. It also covers distinctive segments of the merchanting market, competitive landscape and possible acquisition opportunities.

All Directors have access to independent professional advice at the Group's expense where necessary to enable them to discharge their responsibilities as Directors.

Independence of the Chairman
The Chairman was independent on appointment in January 2016.

Independence of Non-Executive Directors
The five Non-Executive Directors, Mr. Paul Hampden Smith, Mr. Frank van Zanten, Mr. Vincent Crowley, Mrs. Susan Murray and Dr. Rosheen McGuckian are considered by the Board to be independent in character and free from any business or other relationship which could materially interfere with the exercise of independent judgement. The Board has determined that each of the Non-Executive Directors fulfilled this requirement and is independent. In reaching that conclusion, the Board considered the principles relating to independence contained in the Code.

Board Independence
At least half of the Board, excluding the Chair, are Non-Executive Directors whom the Board considers to be independent.

Senior Independent Director
Mr. Paul Hampden Smith is the Senior Independent Director and is available to act as a sounding board for the Chairman, and as an intermediary for the other Directors, if necessary. He is also available to shareholders who may have concerns that cannot be addressed through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer. The role of the Senior Independent Director is clearly set out in a document approved by the Board.

Performance of Executive Directors
Non-Executive Directors constructively challenge management proposals and review the performance of the Group. During the year, the Chairman and Non-Executives met with and without the executive Directors present.

Roles and Responsibilities
There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The responsibilities of each role are clearly documented in schedules approved by the Board.

Directors' Report on Corporate Governance (continued)

Roles and Responsibilities

Chairman	Chief Executive Officer	Senior Independent Director
• Demonstrating ethical leadership and promoting the highest standards of integrity and probity • Demonstrating objective judgment and promoting a culture of openness and debate • Setting clear expectations concerning the Group's culture, values and behaviours • Setting the agenda and culture in the boardroom • Facilitating constructive Board relations • Ensuring that members of the Board receive a timely flow of accurate, high quality and clear information • Ensuring that there is timely and appropriate communication to shareholders	• Being accountable to the Board for all authority delegated to executive management • Taking overall responsibility for the management of the business • Proposing and delivering the Group's strategy • Implementing and delivering the annual business plan • Effective leadership, coordination and performance management of the executive team • Ensuring the identification, enhancement and development of the executive leadership talent pool • Monitoring closely the operating and financial results of the Group against plans and budgets	• Being available to shareholders who have concerns that cannot be addressed through the Chairman, the Chief Executive Officer or the Chief Financial Officer • Acting as a sounding board for the Chairman • Acting as an intermediary for the other Directors when necessary • Working with the Chairman and other directors and/or shareholders to resolve significant issues • When called upon, seeking to meet a sufficient range of major shareholders in order to develop a balanced understanding of their views

The number of Board Meetings and Committee Meetings held during the year and attended by each Director was as follows:

	Board		Audit and Risk Committee		Finance Committee		Remuneration Committee		Nomination Committee	
Number of Meetings	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended
M. Roney	9	9	–	–	–	–	–	–	4	4
G. Slark	9	9	–	–	1	1	–	–	–	–
D. Arnold	9	9	–	–	1	1	–	–	–	–
P. Hampden Smith	9	9	4	4	–	–	5	5	4	4
F. van Zanten	9	9	–	–	–	–	5	5	4	4
S. Murray	9	9	4	4	–	–	5	5	4	4
V. Crowley	9	9	4	4	–	–	–	–	4	4

External Commitments

The Board is satisfied that the external commitments of the Chairman and the non-executive directors do not conflict in any way with their duties and Commitments to the Company. Executive directors do not hold more than one non-executive role in a FTSE 100 company or other significant appointment.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Mr. Charles Rinn, who advises the Board on governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board provide that the appointment or removal of the Company Secretary is a matter for the full Board.

3. Composition, succession and evaluation

Board Appointments Procedure and Succession Planning

The Board's general policy is to keep the overall composition and balance of the Board under review and to manage the orderly succession of Non-Executive Directors without compromising the effectiveness and continuity of the Board and its Committees. The Board and the Nomination Committee will continue to manage the orderly succession of Non-Executive Directors who were appointed between 2015 and 2017. A description of the work of the Nomination Committee and the procedure of appointment of new directors is set out on pages 79 to 80.

Dr. Rosheen McGuckian was appointed to the Board as a Non-Executive Director with effect from 1 January 2020 following a thorough search process, details of which are set out in the Nomination Committee Report on page 80.

The Board considers senior management succession planning on a regular basis with a view to developing, over the coming years, a strong succession pipeline for key positions up to and including Executive Director level.

Board Membership

It is the Group's policy that the Board comprises a majority of Non-Executive Directors. At 31 December 2019, the Board was made up of seven members comprising the Non-Executive Chairman, two Executive Directors and four independent Non-Executive Directors. As noted above, Dr. Rosheen McGuckian was appointed to the Board as a Non-Executive Director with effect from 1 January 2020. As announced on 23 December 2019, Mr. Frank van Zanten has indicated that he will retire from the Board at the conclusion of the Annual General Meeting on 29 April 2020.

The Board considers that its size and structure is appropriate to the scale, complexity and geographic spread of its operations and that the number of Non-Executive Directors is considered sufficient to enable the Board and its Committees to operate effectively without excessive reliance on any individual Non-Executive Director. The Board believes that Executive and Non-Executive Directors between them have the necessary skills, knowledge and international business experience, gained from a diverse range of industries and backgrounds, required to manage the Group. The skills, expertise and experience of the Board is used to review strategy, allocate capital, monitor financial performance and consider executive management's response to market developments and operational matters.

The terms and conditions of appointment of Non-Executive Directors, which include the time commitment expected from each Director, are available for inspection by any person at the Company's registered office during normal business hours and prior to the AGM.

The overall composition and balance of the Board is kept under review as outlined in the Chairman's Report and in the programme of work undertaken by the Nomination Committee in its report on pages 79 to 80.

Board Evaluation

A formal review of the performance of the Board, Board Committees and individual Directors is undertaken each year, including an external evaluation every three years. The process is designed to ensure that the effectiveness of the Board is maintained and improved.

An internal evaluation was conducted during the year, an external evaluation having been carried out in 2018 by Trusted Advisors Partnership ("TAP"). The 2019 evaluation involved each Director and the Company Secretary independently completing a questionnaire that covered a range of issues including the effectiveness of the Board and its Committees, strategy and development, internal controls and risk management, monitoring financial and operating performance and shareholder value creation. The overall results of the evaluation were very positive and concluded that the Board and its Committees are operating effectively and to a high standard of governance and in compliance with best practice. Recommendations made by the report will be addressed during the course of 2020.

The Non-Executive Directors met without the Chairman present to appraise his performance. The evaluation of individual directors and the Company Secretary involved a meeting between each of them and the Chairman.

The Board confirms that each of the Non-Executive and Executive Directors continues to perform effectively and demonstrate a strong commitment to the role.

Nomination Committee

The Board plans for succession with the assistance of the Nomination Committee. The Board believes that it is necessary to have appropriate Executive Director and Non-Executive Director representation to provide Board balance and also to provide the Board with the breadth of experience required by the increasing scale, geographic spread and complexity of the Group's operations.

The Nomination Committee takes account of the skills, knowledge and experience, including international business experience, required by the Board. It also considers Board diversity, including gender and nationality in considering suitable candidates to serve as Non-Executive Directors as part of the ongoing process of Board renewal. The Committee also considers the need for an appropriately sized Board that can function effectively.

Director Re-election

In accordance with the provisions of the Code, the Board has decided that all Directors should retire at the 2020 Annual General Meeting ("AGM") and offer themselves for re-election, with the exception of Mr. Frank van Zanten who will retire from the Board at the conclusion of the 2020 AGM.

The Board undertakes a formal annual evaluation of the performance of its Directors and is satisfied that all Directors who are proposed for re-election continue to discharge their obligations as Directors and contribute effectively to the work of the Board and its Committees. Further details on the Board evaluation are set out below.

Chair Tenure

Mr. Michael Roney was appointed as Chairman Designate on 1 May 2016 and assumed the role of Non-Executive Chairman on 1 January 2017.

Directors' Report on Corporate Governance (continued)

Recruitment Agencies
The Board and the Nomination Committee generally use the services of external agencies to assist with the identification and appointment of Non-Executive Directors. During the year the Board engaged Heidrick & Struggles to assist with the search for a new Non-Executive Director, culminating in the appointment of Dr. Rosheen McGuckian on 1 January 2020.

Board Evaluation
As described above, an evaluation of the performance of the Board, its Committees, the Chair and the individual directors is carried out each year and an externally facilitated evaluation is carried out every three years.

Board Evaluation Actions
Action was taken during the year to address points raised during the 2018 external Board evaluation. These included changes to the structure and content of board meeting packs, changes to the composition of the Board and increased focus on succession planning, diversity and sustainability.

Work of the Nomination Committee
A description of the activity of the Committee during the year is available in the Nomination Committee Report on pages 79 to 80.

4. Audit, Risk and internal Control

Independence of Internal and External Audit
The key duties of the Audit and Risk Committee include monitoring the integrity of the Group's financial statements and of the external audit process, and overseeing the independence and effectiveness of the Internal Audit function and the external auditor.

Fair, Balanced and Understandable
The assessment of the company's position and prospects as fair balanced and understandable is set out in the Statement of Directors' Responsibilities on page 104.

Risk and Internal Control
The Board confirms that there is a process for identifying, evaluating and managing the key risks faced by the Group. A description of the risk management process and of how the Board identifies the principal and emerging risks facing the Group is set out on pages 46 to 53.

Audit and Risk Committee
The Board has established an Audit and Risk Committee which is comprised of three independent non-executive directors. The Committee as a whole has competence relevant to the sector in which the Group operates.

Role and Responsibilities of the Audit and Risk Committee
A description of the role and responsibilities of the Committee is available in the Committee Report on pages 75 to 78. The Terms of Reference of the Committee are available on the Group's website www.graftonplc.com.

Work of the Audit and Risk Committee
A description of the activity of the Committee during the year is available in the Committee Report on pages 75 to 78.

Effectiveness of Risk Management and Internal Controls
A description of how the Audit and Risk Committee monitors the effectiveness of the Group's system of risk management and internal control is set out on page 76.

Going Concern Assessment
The Directors, having made appropriate enquiries, believe that the Company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the financial statements and, for this reason, they continue to adopt the going concern basis in preparing the financial statements.

Viability Statement
The Directors have assessed the viability of the Group over a three-year period to December 2022, taking account of the Group's current position and prospects, the Group's strategy and principal risks and how they are managed as documented on pages 48 to 53. Based on this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022.

In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in reasonable and severe scenarios, and the effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks that would realistically be open to them in the circumstances. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. The Directors have also considered the Group's response to the 2008 global financial crisis which was very effective.

The Directors have determined that the three-year period to December 2022 is an appropriate period over which to provide its viability statement. The Group prepares five year plans as part of its annual budgeting process however, given the inherent uncertainties, the outer two years are more difficult to forecast. These two years are used mainly for scenario planning with the Board placing greater reliance on the initial three year period. In making their assessment, the Directors have taken account of the Group's net debt to equity position of thirty nine per cent at the end of 2019 (and a net cash position of £7.8 million on a pre IFRS 16 basis), its strong financial position, headroom and duration of loan facilities currently in place, its key potential mitigating actions of reducing the Group's cost base, capital expenditure, dividend payments and the Group's ability to generate positive cash inflows in a scenario of falling revenue as working capital invested in the business is reduced. These mitigating actions were tested during the downturn in the Group's businesses from 2008 to 2012 which highlighted the resilience of its business model to a very severe and protracted economic downturn by historic standards.

5. Remuneration
The Board has adopted remuneration policies that are considered sufficient to attract, retain and motivate Directors of the quality required to manage the company successfully whilst ensuring that the performance related elements of pay are both stretching and rigorously applied. The Board has established a Remuneration Committee comprising three independent Non-Executive Directors. Details of the Committee's key responsibilities and a description of its work during 2019 are contained in the Report of the Remuneration Committee on Directors' Remuneration on pages 81 to 83.

Audit and Risk Committee Report

Dear Shareholder,
As Chairman of Grafton's Audit and Risk Committee, I am pleased to present the report of the Committee for the year ended 31 December 2019.

Paul Hampden Smith
Chairman of the Audit and Risk Committee
9 March 2020

Membership	**Length of Service***
P. Hampden Smith (Chairman)	4.5 years
V. Crowley	3.1 years
S. Murray	2.2 years

*as at 9 March 2020

This report describes how the Committee has fulfilled its responsibilities during the year under its Terms of Reference and under the relevant requirements of the Code.

The Committee is satisfied that its role and authority include those matters envisaged by the Code that should fall within its remit and that the Board has delegated authority to the Committee to address those tasks for which it has responsibility.

All members of the Committee are determined by the Board to be independent Non-Executive Directors in accordance with provision 10 of the Code. In accordance with the requirements of provision 24 of the Code, I am designated as the Committee member with recent and relevant financial experience. The biographical details on pages 66 and 67 demonstrate that all members of the Committee have a wide range of financial, treasury, taxation, commercial and business experience relevant to the sector in which the Group operates.

Key Duties

- Monitoring the integrity of the Group's financial statements and announcements relating to the Group's performance;
- Where requested by the Board, advising on whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Monitoring the effectiveness of the external audit process, conducting the tender process and making recommendations to the Board in relation to the appointment, reappointment and removal of the External Auditor;
- Overseeing the relationship between the Group and the External Auditor including approving the remuneration, terms of engagement and scope of audit;
- Reviewing the effectiveness of the Group's internal financial controls;
- Monitoring and reviewing the scope, resourcing, findings and effectiveness of the Group's Internal Audit function;
- Overseeing the effectiveness of the Group's internal control and risk management systems in place and the steps taken to mitigate the Group's risks; and
- Reporting to the Board on how the Committee has discharged its responsibilities.

The full terms of reference of the Committee can be found on the Group's website www.graftonplc.com.

Audit and Risk Committee Report (continued)

Meetings
The Committee met four times during the year and attendance by each Committee member is set out in the table on page 72.

Meetings are attended by the members of the Committee and others who attend by invitation, being principally the CEO, the CFO, the Group Financial Controller and Company Secretary and the Group Internal Audit and Business Risk Director. Other members of executive management may be invited to attend to provide insight or expertise in relation to specific matters. The PwC Group Engagement Leader and other representatives of the External Auditor are also invited to attend certain Committee meetings. The Committee also met privately with the External Auditor without executive management present. Ms. Susan Lannigan, Deputy Company Secretary, is Secretary to the Committee.

The Chairman of the Committee reports to the Board on a regular basis on the work of the Audit and Risk Committee and on its findings and recommendations.

Key Areas of Activity During 2019
A summary of the key activities of the Committee during the year is set out below:

Financial Reporting	The Committee reviewed the draft financial statements and draft half-yearly results before recommending their approval to the Board. As part of this review, the Committee considered significant accounting policies, estimates and significant judgements. The Committee reviewed the Half Year and Final Results announcements. The Committee also reviewed the Report of PwC following their audit and the significant management letter points on internal controls in the Group's individual businesses prepared by PwC as part of the audit process. The significant issues in relation to the financial statements considered by the Committee and how these were addressed are set out on page 78.
Risk Management and Internal Control	The Board has delegated responsibility to the Committee for monitoring the effectiveness of the Group's system of risk management and internal control, which is set out in further detail in the Risk Management Report on pages 46 to 53. The Committee reviewed the Group's Risk Management Process and the procedures established for identifying, evaluating and managing key risks, which included a review of the status of risk management performance against the objectives set for the year.
Internal Audit	The Group Internal Audit and Business Risk Director reports to the Chief Financial Officer and also has direct access to the Audit and Risk Committee. The Committee met with the Group Internal Audit and Business Risk Director on four occasions during the year where he presented internal audit report findings and recommendations and updated the Committee on the actions taken to implement recommendations. The Committee also met with the Group Internal Audit and Business Risk Director without executive management present. The scope, authority and responsibility of the Internal Audit function are set out in the Internal Audit Charter which has been approved by the Committee. During the year the Committee also considered and approved the programme of work to be undertaken by the Group's Internal Audit function in 2020 and the results of an internal feedback survey from the Committee and Business Unit Management relating to the effectiveness of the Internal Audit function, the results of which were very positive.
External Auditor	The Committee reviewed the External Auditor's plan for the 2019 audit of the Group and approved the remuneration and terms of engagement of the External Auditor. The Committee also considered the quality and effectiveness of the external audit process and the independence and objectivity of the Auditor. In order to ensure the independence of the External Auditor, the Committee received confirmation from the Auditors that they are independent of the Group under the requirements of the Irish Auditing and Accounting Supervisory Authority's Ethical Standards for Auditors (Ireland). The Auditors also confirmed that they were not aware of any relationships between the firm and the Group or between the firm and persons in financial reporting oversight roles in the Group that may affect its independence. The Committee considered and was satisfied that the relationships between the Auditor and the Group including those relating to the provision of non-audit services did not impair the Auditor's judgement or independence.

Non-Audit Services	The External Auditor is not prohibited from undertaking non-audit services that do not conflict with auditor independence, provided the provision of the services does not impair the Auditor's objectivity or conflict with their role as Auditor and subject to having the required skills and competence to provide the services. The Auditor is precluded from providing non-audit services that could compromise its independence or judgement. The Committee has approved a policy on the provision by the External Auditor of non-audit services. Under this policy the External Auditor will not be engaged for any non-audit services without the approval of the Audit & Risk Committee. The External Auditor is precluded from providing certain services under Regulation (EU) No 537/2014, or from providing any non-audit services that have the potential to compromise its independence or judgement. With the exception of fees incurred in acquired businesses, fees for non-audit services in any financial year are targeted not to represent more than 20 per cent of the audit fee. The Committee monitors and reviews the nature of non-audit services provided by the Auditors. No non-audit services were provided by PwC in 2019 or 2018. The Committee has undertaken a review of non-audit services provided during 2019 and is satisfied that these services, which were very limited in nature, were efficiently provided by the External Auditor with the benefit of their knowledge of the business and did not prejudice their independence and objectivity.
Whistleblowing and Fraud	The Group Anti-Fraud and Theft Policy sets out the Group's approach to all forms of fraud and theft, the responsibilities of Business Unit management in relation to prevention and detection procedures and controls, the appropriate reporting channels and the possible actions which may be taken by the Group in response to suspected fraud or theft. Instances of fraud or theft over a specified threshold are reported to and monitored by the Committee. The Committee periodically considers reports received on matters raised through 'speak-up', the independent Group wide confidential reporting which allows colleagues to report, anonymously if they wish, any concerns they may have regarding certain practices or conduct in their businesses including possible instances of fraud and theft. All concerns raised through this channel and the outcomes of investigations are reported to the Committee.
Anti-Bribery and Corruption	The Group's Code of Business Conduct and Ethics sets out the ethical standards to which all Group employees are expected to adhere. It sets out the core standards and procedures to be observed and provides practical guidance on dealing with bribery risk. An annual declaration of independence is signed by senior management and other individuals who are considered to be exposed to higher risk of conflicts of interest, including employees who have responsibility for contract negotiations with customers and suppliers.

Estimates and Judgements
The Committee reviewed in detail the following areas of significant judgement, complexity and estimation in connection with the Financial Statements for 2019. The Committee considered a report from the external auditors on the audit work undertaken and conclusions reached as set out in their audit report on pages 105 to 111. The Committee also had an in-depth discussion on these matters with the External Auditor.

Goodwill	The Committee considered the goodwill impairment analysis provided by management and agreed with the conclusion reached that no impairment charge should be recognised in the year. In arriving at its decision, the Committee considered the impairment review conducted by management which involved comparing the recoverable amount and carrying amount of the CGUs. The review by management involved discounting the forecasted cash flows of each CGU based on the Group's pre-tax weighted average cost of capital adjusted to reflect issues associated with each CGU and carrying out sensitivity analysis on the key assumptions used in the calculations including cash flow forecasts (revenue growth, margin), terminal growth rate and pre-tax discount rate. The Committee noted the significant overall level of headroom in the value in use model prepared by management and considered the impact on the headroom of sensitivity analysis on the key assumptions used in the model. The Committee also compared the year-end market capitalisation of the Group to its net asset position and noted that it was materially higher than the net asset value.
Completeness and Accuracy of Rebate Income and Receivables	Supplier rebates represent a significant source of income in the merchanting industry and is an area of risk due to the number, complexity and materiality of rebate arrangements. The Committee reviewed the basis used by management for calculating rebate income for the year and rebates receivable at the year end and was satisfied that the accounting treatment adopted was appropriate and that rebates receivable at the year-end were recoverable. In reaching its conclusion, the Committee reviewed information and reports prepared by the internal audit function which completed year-end reviews across a sample of significant Business Units with the primary objective of providing independent assurance on the accuracy of rebate receivable balances at year-end. These reviews included re-performing calculations on a sample of rebate income for 2019 with reference to agreements with individual suppliers and reports of purchases made from suppliers. The Committee also considered the value of rebates received after the year end relating to 2019.
Valuation of Inventory	The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow moving inventory. In arriving at its conclusion that the level of inventory provisioning was appropriate, the Committee received half year and full year updates from management on stock ageing and provisioning at Business Unit level. The Committee reviewed the basis for calculating the valuation of rebate attributable to inventory and was satisfied that inventory was appropriately valued and that a prudent approach for inventory provisioning was adopted.

As Chairman of the Committee, I engaged with the Group CFO, the Group Internal Audit and Business Risk Director and the PwC Group Engagement Leader in preparation for Committee meetings. I also attend the Annual General Meeting and am available to respond to any questions that shareholders may have concerning the activities of the Committee.

Paul Hampden Smith
Chairman of the Audit and Risk Committee
9 March 2020

Nomination Committee Report

Dear Shareholder,
I am pleased to present the report of the Nomination Committee for the year ended 31 December 2019.

Michael Roney
Chair of the Nomination Committee
9 March 2020

Membership	Length of Service*
M. Roney (Chairman)	3.8 years
P. Hampden Smith	4.5 years
F. van Zanten	4.7 years
S. Murray	3.0 years
V. Crowley	3.0 years

*as at 9 March 2020

Key Duties of Committee

- Evaluating the balance of skills, knowledge, experience and diversity of the Board and Committees and making recommendations to the Board with regard to any changes;
- Considering succession planning for Directors and other senior executives taking into account the skills, experience and expertise needed for the future growth and development of the business;
- Regularly reviewing the structure, size, composition and length of service on the Board and assessing the skills, knowledge and experience required of the Board and its Committees;
- Identifying, and nominating for the approval of the Board, candidates for appointment as Directors and ensuring that there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board;
- Considering the re-appointment of any Non-Executive Director at the conclusion of their specified term of office and making recommendations to the Board;
- Ensuring diversity policy is linked to Group strategy; and
- Reviewing the gender balance of those in senior management positions and their direct reports.

The full terms of reference of the Committee can be found on the Group's website www.graftonplc.com.

Activities of the Committee During 2019

Evaluation of the Board & Committees

The Committee considered the structure, size and composition of the Board and its Committees and also considered the balance of skills, experience and knowledge on the Board and concluded that they were appropriate for the scale and complexity of the Group. As a result of this evaluation and taking into account feedback from shareholders on the diversity of the Board, it was decided to instigate a search for a new Non-Executive Director which resulted in the appointment of Dr. Rosheen McGuckian to the Board on 1 January 2020. Further details in relation to Dr. McGuckian's appointment are set out below.

To ensure that the independence of the Non-Executive Directors is maintained, the Committee keeps the tenure of the Board as a whole under review. The tenure of the Non-Executive Directors on the Board at 31 December 2019 was as follows:

Length of service	Number of Directors
Between 3-4 years	3
Between 4-5 years	1
Between 6-7 years	1

The Committee reviewed the time required to fulfil the roles of Chair, Senior Independent Director and Non-Executive Director and was satisfied that all members of the Board continue to devote appropriate time to their duties and to be effective in their roles.

Nomination Committee Report (continued)

Director Re-election/Re-appointment
Mr. Frank van Zanten indicated that he will retire from the Board at the conclusion of the Annual General Meeting on 29 April 2020. Mr. van Zanten joined the Board as a Non-Executive Director in 2013 and since then has made a strong contribution to the Board and the interests of shareholders.

The Committee agreed that a recommendation would be made to shareholders to approve the election/re-election of all directors with the exception of Mr. van Zanten at the 2020 AGM having considered their performance, ability and continued contribution to the Board.

Board Effectiveness
The Board conducts an annual evaluation of its own performance and that of its Committees and individual Directors to ensure that they continue to be effective and that each of the Directors demonstrates commitment to his/her role and has sufficient time to meet his/ her commitment to the Group.

The 2019 evaluation of the performance and effectiveness of the Board and its Committees was assessed by way of an internal questionnaire, an externally facilitated Board evaluation having been carried out by TAP (Trusted Advisors Partnership) in 2018.

The assessment of the effectiveness and commitment of individual directors was also based on meetings between each of the Non-Executive Directors and the Chairman. The Chairman also met with the and the Group Chief Executive Officer and the Chief Financial Officer.

As a result of these assessments, it was concluded that both the Board and its Committees continued to provide effective leadership and exert the required levels of governance and control and that the performance of each director continued to be effective.

Nomination Process
There is a formal, rigorous and transparent procedure used by the Committee to nominate suitable candidates for appointment to the Board. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board. Specialist independent recruitment agencies, that have no other connection with the company, are used to identify candidates matching the requirements for each role. The Committee makes recommendations to the Board concerning the appointment of Executive and Non-Executive Directors, having considered the blend of skills, experience, and diversity deemed appropriate for the particular role and reflecting the international nature of the Group and the opportunities and challenges it is expected to face in the future.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any Non-Executive Directors at the conclusion of their specified term and the re-election of all Directors who are the subject of annual rotation. Appointments to the Board are for a three-year period, subject to shareholder approval and annual re-election, after consideration of the annual performance evaluation. The terms and conditions of appointment of Non-Executive Directors are set out in formal letters of appointment.

Appointment of Dr. Rosheen McGuckian
A search was carried out during 2019 for a new Non-Executive Director supported by Heidrick & Struggles, an external search firm. An extensive list of candidates were considered for the role, with a number of high calibre candidates being shortlisted. Interviews were conducted by the Chairman and Senior Independent Director and Dr. McGuckian was identified as the best candidate for the role given her extensive business knowledge, experience and track record in Executive and Non-Executive Director roles. Following a recommendation by the Committee, the Board approved her appointment to the Board with effect from 1 January 2020.

Succession Planning
Each year the Committee considers the leadership needs of the Group and succession planning for senior management roles including the Chief Executive Officer and Chief Financial Officer.

Directors are committed to ensuring that the Board is sufficiently diverse and appropriately balanced. In the context of normal refreshment, the Board's objective is to increase female representation on the Board to one third. On the recommendation of the Committee, the Board has agreed that gender will continue to be given very careful attention in shortlisting candidates for appointment to the Board in the future.

Diversity and Inclusivity
The Group recognises the benefits of diversity and its objective of achieving greater diversity at Board, senior management and across the wider workforce is supported by a Group Equality, Diversity and Inclusion Policy. The Board keeps this policy under review to ensure that it is effective in achieving diversity in its broadest sense having regard to experience, age, gender, religious beliefs, sexual orientation, race, ethnicity, disability, nationality, background and culture.

While the Board will always seek to appoint the most talented and skilled candidates on merit against objective criteria, greater diversity is actively considered when making Board appointments. The composition of the Board has evolved considerably over recent years and the Committee has taken an active role in improving the diversity and gender balance on the Board. Diversity was one of a number of factors considered when shortlisting candidates as part of the process of Board refreshment and renewal carried out during the year.

The Group has a track record of appointing females to leadership positions and is committed to increasing representation of females in senior leadership positions across the Group. The Group has introduced initiatives to provide career development opportunities for female colleagues including participation in management development programmes, mentoring and coaching. A Senior Women's Action Team was established during the year to consider practical initiatives to support and improve diversity and inclusion across the Group's businesses. The Group CEO addressed the inaugural meeting of the team.

The Board and Management continues to focus on evolving and implementing strategies for recruiting and developing colleagues in ways that promote diversity and inclusion.

The Year Ahead
Grafton has a strong Board with a range of experience that has driven its success and has the capacity to support its future growth and development. The Committee believes that all Directors have the right blend of skills and experience to advance the interests of shareholders and to build on the Group's track record of profitable growth. In the year ahead, succession planning will continue to be a priority to ensure that the Group can retain, attract and develop the best people available at Board and senior management level to implement its strategy and grow profitability.

Michael Roney
Chair of the Nomination Committee
9 March 2020

Report of the Remuneration Committee on Directors' Remuneration

Dear Shareholder,
I am pleased to present my report as Chairman of the Remuneration Committee.

Susan Murray
Chairman of the Remuneration Committee
9 March 2020

Membership	**Length of Service***
S. Murray (Chairman)	3.1 years
F. Van Zanten	4.2 years
P. Hampden Smith	4.2 years

*All lengths of service are as at 9 March 2020

Although not required under the Irish Companies Act 2014, the Committee has continued to prepare the Remuneration Report in accordance with the UK regulations governing the disclosure and approval of remuneration of the Directors.

The Committee was appreciative of the high level of shareholder approval for the 2018 Annual Report on Remuneration which was supported by 99.4 per cent of shares lodged by proxy ahead of the 2019 AGM. 2019 was the third and final year operating the current Remuneration Policy which was approved by Shareholders at the 2017 AGM and which will be updated at the forthcoming AGM in 2020.

Our Approach to Remuneration
The Committee's overall remuneration philosophy has not changed over the year and remains to ensure that Executive Directors are incentivised to successfully implement the Board's strategy and that remuneration is aligned with the interests of shareholders and other stakeholders over the longer term. The Committee seeks to achieve this by:

- Rewarding Executive Directors fairly and competitively for the delivery of strong performance;
- Taking into account the need to attract, retain and motivate executives of high calibre and to ensure that Executive Directors are provided with an appropriate mix of short term and long term incentives;
- Taking a range of factors into account including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individual directors concerned and remuneration practices elsewhere in the Group; and
- Setting bonus targets that are stretching and Long Term Incentive Plan (LTIP) metrics that are challenging with full vesting of awards requiring exceptional performance.

Performance Outcome for 2019
The Group performed satisfactorily during 2019, despite softer trading in the UK merchanting business in a weaker economy and RMI market, with revenue from continuing operations up by 2.7 per cent to £2.67 billion. Group adjusted operating profit from continuing operations was £194.3 million, 3.6 per cent ahead of the prior year. Adjusted earnings per share from continuing operations of 66.0 pence was up 3.6 per cent from 63.7 pence. Total dividend for the year increased by 6 per cent. 2019 was a year of significant strategic progress with the acquisition of Polvo in the Netherlands in July and the disposal of Plumbase and the Belgian merchanting business in October. The Group's performance in 2019 is reflected in the Executive Directors' short and longer term remuneration, as detailed below.

Remuneration for 2019
The Committee agreed in December 2018 to award an increase in basic salary of 1.50 per cent for 2019 to the Chief Executive Officer and the Chief Financial Officer. This was slightly lower than the anticipated rate of increase for the general workforce.

The annual bonus for 2019 was based on two financial performance targets being operating profit (70 per cent) and return on capital employed (30 per cent). Reflecting the financial performance for the year, a bonus of 22.31 per cent of basic salary, out of a potential bonus opportunity of 120 per cent of basic salary, was awarded to the Chief Executive Officer. The bonus award to the Chief Financial Officer was 18.59 per cent of basic salary out of a potential bonus opportunity of 100 per cent of basic salary.

Report of the Remuneration Committee on Directors' Remuneration (continued)

Remuneration for 2019 (continued)
The performance conditions for LTIP awards granted in April and May 2017, that covered the performance period of the three years ending on 31 December 2019, were based on growth in Adjusted Earnings Per Share ("EPS") and Total Shareholder Return ("TSR"). Half of the awards to the Chief Executive Officer and Chief Financial Officer were based on the relative TSR performance versus a comparator group consisting of the members of the London Stock Exchange's FTSE 250 Index excluding investment trusts. As the Group's TSR was ranked between the median and upper quintile, 89.97 per cent of this half of the award will vest.

The other half of the LTIP award was based on the Group's adjusted EPS for the financial year ended 31 December 2019 being in the range of 59.0 pence to 66.0 pence. Adjusted Earnings Per Share for continuing operations for 2019 was 66.0 pence. In line with the rules of the scheme, the Committee used its discretion to include the operating profit after tax of Plumbase and the Belgian merchanting business up to the date of disposal in October 2019 which increased Adjusted EPS by 1.8 pence to 67.8 pence. As this was above the target range of 66.0 pence, 100 per cent of this half of the award will vest.

On the basis of the foregoing, 94.99 per cent of the total awards granted in 2017 to the Chief Executive Officer and Chief Financial Officer will vest in May 2020.

The remuneration policy operated as intended in the context of the level of bonus payable relative to the demanding performance targets set by the Committee for 2019. Vesting of LTIP awards was based on the achievement of the upper range of the EPS target for the three years to the end of 2019 and the TSR element of the LTIP opportunity reflected the very strong share price performance of Grafton relative to the FTSE 250 excluding investment trusts. The Remuneration Committee was satisfied that the short and long-term elements of remuneration are consistent with the strong performance of the Group over the three years to the end of 2019 and no further adjustments were required.

Corporate Governance Developments
During the year the Committee reviewed and carefully considered best practice developments in respect of directors' remuneration including the introduction of the Code which seeks to broaden the role of Remuneration Committees as well as introducing new provisions with respect to directors' remuneration. The Committee has undertaken actions to ensure that it is fully compliant with the Code including a review of pay and benefits generally across the Group. The Committee's terms of reference reflect its responsibilities under the Code.

Proposed Remuneration Policy Changes in 2020
The current Remuneration Policy was approved at the 2017 AGM and, although not required under Company Law in Ireland, will be subject to a shareholder resolution at the 2020 AGM which is consistent with regulations in the UK. The new policy will apply for a three year period and provide a framework for setting the remuneration of executive and non-executive directors and the Group's senior management.

Ahead of renewing the Remuneration Policy, the Committee has undertaken a detailed review of remuneration in the context of the Group's strategy and performance and relevant regulatory requirements including the 2018 Code and investor guidelines. The Committee has also reviewed the remuneration of senior management and the workforce and the alignment of incentives and rewards with culture, taking these into account in framing proposed changes to the remuneration policy. The Committee believes that the current policy has worked well and is not proposing fundamental changes to the remuneration structure which it believes supports the delivery of the Group's strategy, appropriately rewards executive directors and is aligned with the interests of shareholders and other stakeholders. The overall policy is designed to provide a market competitive remuneration opportunity with proportionate levels of pay that are linked to performance.

The Committee believes that the new policy is as clear and as simple as possible while incorporating a strong link between performance and reward and also ensuring that failure will not be rewarded.

The following changes are proposed to the Remuneration Policy for Directors having conducted a detailed review of the existing policy and engaged in a thorough shareholder consultation process;

Pension
The Committee is mindful of the preference of some shareholders and shareholder advisory firms that the pensions for incumbent directors should be aligned with the wider workforce by the end of 2022. The Committee understands the desire to move towards alignment but is also conscious that directors' pensions are specified in their contracts and can only be changed with consent of both parties. The Committee is also conscious that directors pension contributions are not excessive by market standards but that the gap with the workforce is significant.

For the coming year, the cash amount of the CEO's pension will remain frozen at the current level and the CFO's pension will remain at 20 per cent of salary with these levels set as the maximum payable under our new policy. With effect from 31 December 2022, the pension contributions for the Group CEO and the Group CFO will be aligned to that of the majority of the workforce at the time.

For all future executive appointments to the Board, pension will be set in line with the level paid to the majority of our workforce, which is currently 3.1 per cent.

Post-cessation Shareholdings
A requirement to hold 200 per cent of salary (or the executive's actual shareholding on departure, if lower) for two years post-cessation will apply to shares vesting under future long-term awards (i.e. from 2020 awards onwards). In considering this matter, the Committee wished to avoid capturing existing shareholdings accrued by directors prior to the guidelines being implemented as it does not want to discourage executives from acquiring shares in the future from their own resources.

Clawback and Malus Provisions
A separate legal review of clawback and malus provisions has been undertaken to ensure full compliance with the Code and to ensure alignment between bonus and LTIP provisions. This has extended the provisions to include a material failure of risk management, damage to the Group's businesses or reputation and breach of applicable restrictions on competition, solicitation or the use of confidential information.

Bonus Opportunity
For some years, the level of bonus opportunity at Grafton has been below market at 100 per cent and 120 per cent of salary for the CFO and CEO respectively. We are seeking flexibility within our new policy to increase this level to 125 per cent and 150 per cent respectively which is closer to market norms. The Committee has no intention of implementing a change for the coming year but would like to be able to make a change if it judges it appropriate during the life of the new policy. If the Committee were to increase the bonus opportunity in the future, it would undertake that deferral into shares, would apply for three years, at a minimum, to the proportion by which the opportunity had been increased.

The annual bonus will continue to be based primarily on challenging financial targets which the Committee keeps under review. The 2019 bonus was based on two financial performance targets being adjusted operating profit (70 per cent) and return on capital employed (30 per cent) with full disclosure of the targets set out in this Annual Report. Details of the financial performance targets for the 2020 annual bonus will be disclosed on a retrospective basis in next year's Annual Report.

No changes are currently proposed to the operation of the long-term incentive plan. As in previous years, the long-term incentive awards to be granted in 2020 will be based on an equal mix of adjusted earnings per share and relative total shareholder return measured against the constituents of the London Stock Exchange's FTSE 250 index excluding investment trusts. The Committee is satisfied that this balance of measures remains appropriate and supports the Group's long-term business strategy.

Remuneration for 2020

The Committee has approved a salary increase of 1.35 per cent for 2020 for the Chief Executive Officer and Chief Financial Officer.

The annual bonus opportunity remains at 120 per cent of salary for the CEO and 100 per cent of salary for the CFO. The 2020 bonus will be based on the same two critical measures of financial performance for the Group as in 2019, being operating profit (70 per cent) and ROCE (30 per cent). These measures are intended to focus the executive team on both profitability and the maintenance of a disciplined approach to the use of capital.

LTIP awards will continue to be made at 200 per cent of salary to the CEO and at 175 per cent of salary to the CFO. Half of the awards will be based on a TSR performance condition and half on an adjusted EPS performance condition. This is in line with awards made in 2019.

The TSR performance condition will be measured, in line with the policy, against a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts. This comparator group was chosen on the basis that it is more representative of the Group's overall trading and financial environment.

The proposed 2022 post-IFRS 16 adjusted EPS growth range for the 2020 LTIP award of 78.0p to 89.4p is based on compound annual growth of 7.5 per cent to 12.5 per cent on the post-IFRS 16 adjusted EPS of 62.8p for 2019. The lower end of the target range (threshold) is appropriately challenging whilst the upper end of the range is stretching and will only be achieved if performance is exceptional. This is equivalent to a pre-IFRS 16 growth range of 82.0p to 94.0p on the pre-IFRS 16 adjusted EPS of 66.0p in 2019.

The Committee believes that this range is aligned with delivery of the Group's strategic and financial objectives. 25 per cent of the award will vest if the lower target in the range is achieved. Where EPS is between the lower and higher targets in the range, then between 25 per cent and 100 per cent of this part of the award will vest on a straight-line basis.

The Remuneration Policy is set out on pages 84 to 89.

Colleague Engagement

The Remuneration Committee reviewed workforce remuneration including base pay, benefits and incentives and this was also taken into consideration in deciding the pay of Executive Directors and Senior Management.

Future meetings of the National Colleague Forums will provide an opportunity to enable the Committee to explain how decisions on executive pay reflect wider company pay policy.

Summary

The Committee has considered the new policy proposals very carefully and believes they are appropriate and necessary to incentivise and retain a highly regarded senior management team. The Committee has further supported the alignment of directors and shareholders interests by strengthening shareholder guidelines to require directors to hold shares for two years after leaving the Group. The Committee will have the discretion to override the formulaic outcome of the bonus and LTIP calculations and enhanced malus and clawback provisions will apply. In framing these proposals the Committee was clear that they should drive the right behaviour, reflect the Group's core values and support its purpose and culture.

Shareholder Engagement

The Committee is committed to ongoing dialogue with shareholders and institutional investor bodies on remuneration matters and it welcomes feedback as it helps to inform its decisions. The Committee takes an active interest in voting on Annual General Meeting resolutions and is pleased with the very high level of support received historically for its Annual Reports on Remuneration and for the three-yearly renewal of the Remuneration Policy.

The Committee has actively engaged with major shareholders and institutional investor bodies concerning the proposed changes to the Remuneration Policy and in some areas altered its original proposals to take account of the helpful feedback received during the consultation process.

I believe that the proposed policy is aligned with shareholders' interests and that it should continue to support the delivery of the Group's strategy and the creation of sustainable value for shareholders. I hope that we can rely on your continued support at this year's AGM. I am available to respond to any questions that shareholders have about the proposed changes to the Remuneration Policy, the Annual Report on Remuneration or indeed on any other aspect of the work of the Committee and can be contacted by email at remunerationchair@graftonplc.com.

Susan Murray
Chairman of the Remuneration Committee
9 March 2020

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the proposed Remuneration Policy for the Company and has been prepared in accordance with Schedule 8 to the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the disclosure requirements set out in the Listing Rules of the UK Financial Conduct Authority. The proposed policy has been developed taking into account the principles of the 2018 UK Corporate Governance Code and will, subject to shareholder approval, be applied from 1 January 2020 onwards.

This policy if approved will take formal effect from the 2020 AGM and is intended to apply until the 2023 AGM and cover the financial years 2020, 2021 and 2022.

Policy Overview
The objective of the Remuneration Policy is to provide remuneration packages for each Executive Director that will:
- Attract, retain and motivate executives of high calibre;
- Ensure that executive management is provided with appropriate incentives to encourage enhanced long-term performance;
- Ensure that the overall package for each director is linked to the short and longer term strategic objectives of the Group; and
- Have a significant proportion of the potential remuneration package paid in equity, which is designed to ensure that executives have a strong alignment with shareholders.

When setting the levels of short-term and long-term variable remuneration and the balance of equity and cash within the package, consideration is given to discouraging unnecessary risk-taking whilst ensuring that performance hurdles are suitably challenging.

In determining the policy, the Remuneration Committee took into account all factors which it considered necessary, including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individuals concerned and remuneration practices elsewhere in the Group.

How the Views of Shareholders are taken into Account
The Remuneration Committee considered the guidelines issued by bodies representing institutional shareholders and feedback from shareholders on the Group's remuneration policies and practices. Leading shareholders and investor bodies were consulted prior to finalising proposed changes to the current Remuneration Policy. The Committee also takes on board any shareholder feedback received prior to and during the AGM each year. This feedback, together with any feedback received during meetings and contacts with shareholders from time to time, was considered as part of the review of the Remuneration Policy and its effectiveness.

When any significant changes are proposed to the Remuneration Policy in the future, the Remuneration Committee Chairman will inform major shareholders of these in advance and will offer a meeting to discuss these changes. The Remuneration Committee will actively engage with shareholders and give serious consideration to their views as it has done on this occasion.

Details of votes cast for and against the resolution to approve the prior year's remuneration report and any matters discussed with shareholders during the year are referred to in the Annual Report on Remuneration on page 90 and in the Chairman's Annual Statement on page 81.

How the Views of Employees are taken into Account
When setting the Remuneration Policy for Executive Directors the Remuneration Committee takes into account the pay and employment conditions of other employees in the Group although it did not directly consult with employees on Directors' remuneration.

Determining the Remuneration Policy for Executive Directors
The Remuneration Committee addressed the following factors when determining the Remuneration Policy for Executive Directors:

Clarity
Remuneration arrangements are transparent and the outcomes of variable elements are dependent on the achievement of performance measures that are aligned with strategy and the interests of all stakeholders. Performance targets are set in line with the Group's budgets and plans and are reviewed by the Committee. Executive directors are required to build meaningful personal shareholdings in the company.

Simplicity
The Group follows a UK/Ireland market standard approach to remuneration which is familiar to all stakeholders. Variable schemes are operated on a clear and consistent basis and are assessed by measuring the performance of the Group.

Risk
The Remuneration Policy includes the following features:
- Setting defined limits on the maximum awards which can be earned
- Aligning the performance conditions with the strategy of the Company
- Ensuring a focus on long-term sustainable performance through the LTIP
- Ensuring there is sufficient flexibility to adjust bonus payments and LTIP awards through malus and clawback provisions
- The Committee has discretion to override formulaic outcomes that may not accurately reflect the underlying performance of the Group

Predictability
Shareholders are given full information on the potential values which could be earned under the bonus and LTIP plans through the Annual Reports on Directors Remuneration and by immediately publishing details of new LTIP awards on the RNS.

Proportionality
The performance metrics for the Annual Bonus and the LTIP are clearly aligned to strategy and are designed to reward the successful execution of strategy over the medium to long term. Outcomes are tested based on a regular assessment of the performance of the overall Group, its principal businesses and developing businesses to which the Group is allocating capital.

Alignment to Culture
The Group's culture encourages high performance and sustainable growth while recognising that the Group operates in sectors that are cyclical. The Committee believes that the Remuneration Policy drives the right behaviour, reflects the Group's values and supports its purpose and culture.

The Remuneration Policy for Directors

The table below summarises the key aspects of the Group's Remuneration Policy for Executive Directors.

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
Base Salary			
To recruit, retain and reward executives of a suitable calibre for the roles and duties required	Salaries of Executive Directors are reviewed annually in January and any changes made are effective from 1 January. When conducting this review and the level of increase, the Committee considers a range of factors including: • The performance of the Group and the individual; • Market conditions; • The prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers; • The responsibilities and experience of each Executive Director; and • The level of salary increases implemented across the Group.	There is no set maximum, however any increases are normally in-line with the general increase for the broader employee population. Individual adjustments in excess of this may be made at the discretion of the Committee for example: • To recognise an increase in the scale, scope or responsibility of a role; and • Development of an individual within the role.	Not applicable
Benefits			
Provide market competitive benefits	Benefits may include company car, mobile telephone, life assurance, private medical cover and permanent health insurance. Executive directors are also eligible for other benefits on broadly similar terms to those introduced for the wider workforce. Any reasonable business-related expenses may be reimbursed, including tax thereon. Relocation expenses or other related expenses may be offered as required.	The value of other benefits is based on the cost to the company and is not pre-determined. Relocation expenses must be reasonable and necessary.	Not applicable
Pension			
Provide market competitive benefits	A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension.	Current pension arrangements will remain in place until 31 December 2022. From 31 December 2022, pension contributions for existing Executive Directors will reduce to the level available for the majority of the workforce. The cash amount payable to Mr. Slark will remain frozen at the current level (£128,040) and Mr. Arnold's pension will remain at 20 per cent of his salary. Pension contributions for new Executive Directors will be aligned with the majority of the workforce level at the date of appointment.	Not applicable

Remuneration Policy Report (continued)

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
Annual Bonus			
To encourage and reward delivery of the Group's annual financial and strategic objectives	Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Performance measures and targets are reviewed annually. The bonus is payable in cash. An Executive Director is required to apply 30% of their annual bonus after statutory deductions for the purchase of shares in the Group until their shareholding is equivalent to at least 200 per cent of basic salary. Clawback applies as set out on page 88.	The maximum award under the annual bonus plan is 150% of basic salary for the CEO and 125% of salary for the CFO and any Executive Directors appointed in the future (other than a CEO). Current opportunity for the CEO and CFO is below this level and set out on page 92 of the Annual Report on Remuneration. The Committee will review the bonus outcome to ensure that it reflects underlying Company performance over the year. The Committee may amend the pay-out to better reflect performance if it feels it is appropriate to do so.	The bonus will be primarily based on the achievement of appropriate financial measures but may also include an element for non-financial measures including personal performance and strategic measures. Financial measures which will account for the vast majority of the bonus opportunity in any year may include measures such as earnings per share, profit, return on capital employed, free cash flow and such other measures as determined from time to time by the Committee. The metrics chosen and their weightings will be set out in the Annual Report on Remuneration. For financial measures, a sliding scale is set by the Committee. No bonus is payable if performance is below a minimum threshold, up to 20% is payable for achieving threshold and the bonus payable increases on a straight line or similar basis thereafter with full bonus payable for achieving the upper point on the scale. Any future increase in the bonus opportunity will be accompanied by deferral of an amount into shares for three years at least in proportion to the increase in the bonus opportunity.
Long-Term Incentives ('LTIP')			
To encourage and reward delivery of the Group's strategic objectives; to provide alignment with shareholders through the use of shares and to assist with retention	The 2011 LTIP is an incentive plan that is designed to reward Executive Directors and senior executives in a manner that aligns their interests with those of shareholders. An Executive Director nominated to participate in the plan is granted an award over "free shares" which vest subject to the achievement of performance conditions measured over three financial years and the Executive Director remaining employed in the Group. There is a holding period of two years on shares received by Executive Directors from LTIP awards that vest after taking into account any shares sold to pay tax and other statutory obligations. Malus and clawback applies as set out on page 88.	The maximum value of awards which may be granted in any financial year is 200% of salary. The Company's policy is to make awards of up to 200% of basic salary in the case of the CEO and 175% of basic salary in the case of the CFO and any Executive Directors (other than a CEO) appointed in the future. The Committee will review the vesting outcome to ensure that it reflects the underlying Company performance over the performance period. The Committee may amend the pay-out to better reflect performance if it feels it is appropriate to do so.	LTIP awards vest subject to the achievement of challenging financial and total shareholder return performance targets measured over a three year performance period. The vesting of LTIP awards made to Executive Directors is currently subject to EPS (earnings per share) and TSR (total shareholder return) performance conditions. The Remuneration Committee has the authority to set appropriate metrics (not limited to EPS and TSR) for each award taking account of the medium to long term strategic objectives of the Group. The EPS (as defined in the scheme rules) condition if chosen will be subject to achieving EPS within a target range. 25% of this part of the award will vest if the lower target in the range is achieved. Where the EPS is between the lower and higher targets in the range, then between 25% and 100% of this part of the award will normally vest on a straight line basis. If TSR is chosen as a metric, the Group's TSR must equal the median TSR of the peer group with 25% of this part of the award vesting on achieving threshold performance and full vesting for upper quintile performance or better. Awards will vest on a straight line basis for performance between the median and upper quintile. Notwithstanding the achievement of a TSR performance condition, no shares will vest unless the Committee considers that overall financial results have been satisfactory in the circumstances over the performance period.

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
All-Employee Share Plans			
To encourage share ownership and align the interests of employees with shareholders	Executive Directors are entitled to participate in employee share schemes in operation during the period of the policy on the same basis as other colleagues. The Group currently operates the 2011 Approved SAYE Plan for UK colleagues.	The limits are set by the UK tax authorities. Currently this limit is £500 per month for the SAYE scheme.	Not applicable
Share Ownership Guidelines			
To increase the alignment of interests between Executive Directors and shareholders	An Executive Director is required to apply 30% of their annual bonus after statutory deductions for the purchase of shares in the Group until his/her shareholding is equivalent to at least 200 per cent of basic salary. Half of any LTIP awards that vest, after taking into account any shares sold to pay tax and other statutory obligations, must be held until the share ownership guideline has been met. Vested awards subject to the two year holding period will be deemed to be part of an executive directors' shareholding.	Minimum 200% of basic salary to be held in Grafton units, built up over time. 200% of salary to be held in Grafton Group plc shares for two years after leaving the Group. This will apply to shares vesting under future long-term awards from 2020 onwards but will exclude shares purchased from personal resources.	Not applicable
Chairman and Non-Executive Director Fees			
To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level	The Chairman's fee is set based on a recommendation from the Remuneration Committee. The Board sets the level of remuneration of all Non-Executive Directors within an aggregate limit approved from time to time by shareholders. Additional fees may be payable for chairing the main Board Committees. The level of fees paid to the Chair of the Board and all Non-Executive Directors should recognise the time commitment and responsibilities of the role. Non-Executive Directors may be reimbursed for travel and accommodation expenses (and any personal tax that may be due on those expenses). Fees are reviewed from time to time to ensure that they remain in line with market practice. Fees are paid in equal monthly instalments. The Chairman and Non-Executive Directors do not participate in any pension or incentive plans.	Details of the outcome of the most recent fee review are provided in the Annual Report on Remuneration.	Not applicable

Clawback and Malus
The Bonus scheme and awards under the LTIP is subject to clawback if:
- The Remuneration Committee forms the view that the Company materially misstated its financial results for whatever reason and that such misstatement resulted in a bonus award vesting to a degree that would not otherwise be the case;
- The Remuneration Committee forms the view that in assessing the extent to which any performance condition or any other condition imposed on any bonus or LTIP award was based on error or on inaccurate or misleading information or assumptions resulting in a bonus or LTIP award vesting to a greater extent that would otherwise have been the case had the error not been made;
- The Group or any part of the Group in the reasonable opinion of the Committee following consultation with the Audit & Risk Committee suffered a material failure of risk management;
- A director is found guilty or pleads guilty to a crime that damages the business or reputation of any member of Grafton Group plc;
- There is reasonable evidence of fraud or material dishonesty by a director that is related to or damages the business or reputation of any member of the Group;
- A director is in breach of any applicable restrictions on competition, solicitation or the use of confidential information.

The LTIP is subject to malus provisions including but not limited to the material misstatement of financial results, a material failure of risk management, serious reputational damage or where a participant contributed to circumstances leading to the Group receiving a notification that it may become subject to any regulatory sanctions.

Annual Bonus and LTIP Discretions
The Committee will operate the annual bonus and LTIP according to their respective rules and in accordance with the Listing Rules and applicable tax rules. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award restricted as set out in the policy table above):
- Who participates in the plan;
- The timing of grant of awards;
- The size of awards;
- The choice of performance measures and performance target conditions in respect of each annual award (including the setting of EPS targets and the selection of a TSR comparator group);
- The determination of vesting, including discretion to override formulaic outcomes;
- Whether malus and/or clawback shall be applied to any award and, if so, to the extent to which they shall apply;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver status (in addition to other specified categories) for incentive plan purposes based on the rules of the plan;
- Adjustments required in certain circumstances (e.g. in the event of a de-merger, special dividend or an alteration to the capital structure of the Company including a capitalisation of reserves or rights issue); and
- The ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

Legacy Arrangements
For the avoidance of doubt, it is noted that the Group will honour any commitments entered into with current or former Directors that have been previously disclosed to shareholders except for the proposed changes to pension arrangements as set out in the Chairman's Statement and the proposed Remuneration Policy.

Differences in Remuneration Policy for Executive Directors Compared to Other Employees
The Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors.

Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between value created for shareholders and remuneration received by Executive Directors and recognises that Executive Directors should have the greatest accountability and responsibility for increasing shareholder value.

Approach to Recruitment and Promotions
The Committee will as a general principle seek to offer a remuneration package to a new executive Director which can secure the best individual for the role while seeking to pay no more than it believes is necessary to make the appointment

The remuneration package for a new Director will be set in accordance with and subject to the limits set out in the Group's approved policy as set out earlier in this report, subject to such modifications as are set out below.

Salary levels for Executive Directors will be set in accordance with the Group's Remuneration Policy, taking into account the experience and calibre of the individual and his/her existing remuneration package.

Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy. Where necessary the Committee may approve the payment of relocation expenses to facilitate recruitment and flexibility is retained for the Company to pay for legal fees and other costs incurred by the individual in relation to their appointment. The rate of pension contribution will be aligned with the majority of the workforce level at the date of appointment.

The structure of the variable pay element will be in accordance with and subject to the limits set out in the Group's approved policy detailed above. Different performance measures may be set initially for the annual bonus in the year an Executive Director joins the Group taking into account the responsibilities of the individual and the point in the financial year that he or she joins the Board. Subject to the rules of the scheme, an LTIP award may be awarded after joining the Group.

If it is necessary to buy-out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer) in the case of an external appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance conditions) of the remuneration being forfeited. The general policy is that payment should be no more than the Committee considers is required to provide reasonable compensation for remuneration being forfeited.

Share awards may be used to the extent permitted under the Group's existing share plans and the Listing Rules where necessary.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

Service Contracts & Payments for Loss of Office
The Remuneration Committee determines the contractual terms for new Executive Directors, subject to appropriate professional advice to ensure that these reflect best practice.

The Group's policy is that the period of notice for Executive Directors will not exceed 12 months. The employment contracts of the current CEO and the CFO may be terminated on six months' notice by either side. In the event of a director's departure, the Group's policy on termination is as follows:
- The Group will pay any amounts it is required to make in accordance with or in settlement of a director's statutory employment rights;
- The Group will seek to ensure that no more is paid than is warranted in each individual case;
- There is no entitlement to bonus paid following notice of termination unless expressly provided for in an Executive Director's employment contract but the Group reserves the right to pay a bonus for the notice period subject to performance conditions;
- The Committee also retains the discretion to meet any reasonable legal fees or outplacement costs if deemed necessary; and
- Following service of notice to terminate employment, the Company may place the executive on garden leave. During this time, the executive will continue to receive salary and benefits (or a sum equivalent to) until the termination of employment.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct.

If the Group terminates employment in lieu of notice in other circumstances, compensation payable is as provided for in employment contracts which is as follows:
- Gavin Slark – basic salary due for any unexpired notice period;
- David Arnold – basic salary together with benefits and bonus which would have been payable during the notice period or any unexpired balance thereof. Any bonus payable is subject to performance conditions. Payments may be made in monthly instalments.

The Group may pay salary, benefits and pension in lieu of notice for a new director.

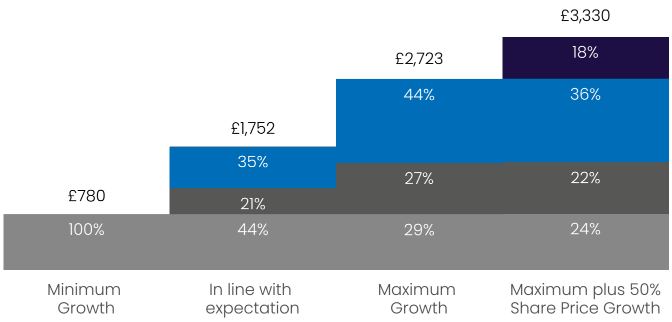
The treatment of unvested awards previously granted under the LTIP upon termination will be determined in accordance with the plan rules. As a general rule, an LTIP awards will lapse upon a participant giving or receiving notice of his/her cessation of employment. However, for certain good leaver reasons including death, ill health, injury, disability, redundancy, agreed retirement, their employing company or business being sold out of the Group, or any other reason at the Committee's discretion after taking into account the circumstances prevailing at the time, awards will vest on the normal vesting date subject to the satisfaction of performance conditions and pro-rating the award to reflect the reduced period of time between the commencement of the performance period and the Executive Director's cessation of employment as a proportion of the total performance period. Alternatively, the Committee can decide that the award will vest on the date of cessation, subject to the extent to which the performance conditions have been satisfied at the date of cessation and pro-rated to the date of cessation of employment.

Non-Executive Directors
All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice or otherwise in accordance with the Group's Articles of Association and subject to annual re-appointment at the AGM.

The appointment letters for Non-Executive Directors provide that no compensation is payable on termination other than accrued fees and expenses.

Remuneration Scenarios for Executive Directors
The Group's normal policy results in a significant portion of remuneration received by Executive Directors being dependent on performance. The chart below shows how the total pay opportunities for 2020 for Executive Directors vary under three performance scenarios – Minimum, In line with Expectation, Maximum and Maximum plus 50 per cent share price growth.

Chief Executive Officer (£'000)



Chief Financial Officer (£'000)

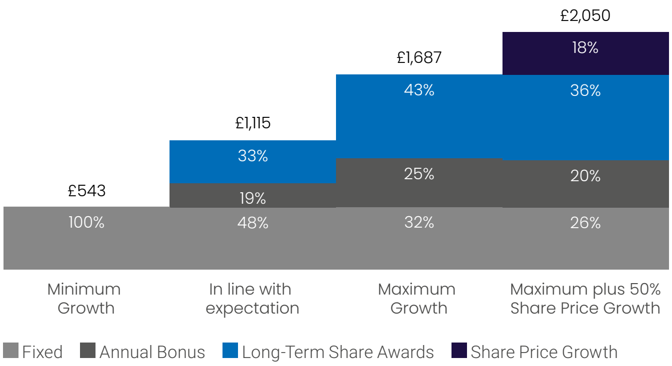


Chart labels show proposition of the total package comprised of each element.

Assumptions
Minimum = fixed pay only (2020 salary, benefits and pension).
In line with Expectation (which is not target) = 50 per cent vesting of the annual bonus and LTIP awards.
Maximum = 100 per cent vesting of the annual bonus and LTIP awards.
Maximum plus 50 per cent Share Price Growth = 100 per cent vesting of the annual bonus and LTIP awards plus 50 per cent share price growth.

Annual Report on Remuneration

Although not required under Irish Companies legislation, this report includes the disclosures required by UK legislation contained in Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and the disclosures required by 9.8.6R of the Listing Rules.

Membership of the Remuneration Committee
During the year, the Committee comprised Mrs. Susan Murray, Chairman, Mr. Frank van Zanten and Mr. Paul Hampden Smith, all of whom are Non- Executive Directors determined by the Board to be independent.

The Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes. The Committee's Terms of Reference can be found on the Group website.

Mr. Michael Roney, Chairman, attended meetings of the Committee during 2019 by invitation and participated in discussions. The Committee also consulted with the CEO who was invited to attend part of the meetings of the Committee. The Chair of the Committee was assisted in her work by Mr. Charles Rinn, Company Secretary and Ms. Paula Harvey, Group HR Director. No Director or the Company Secretary take part in discussions relating to their own remuneration and/or benefits.

Aon plc are the Committee's advisor on remuneration matters and fees paid to them during the year were £75,165. The Group has no other connection with Aon plc other than one of its departments provides pension advice. During the year Aon attended meetings of the Committee and provided a market practice update to the Committee on remuneration trends and governance. Aon also provided advice on the fulfilment of the TSR vesting condition for the LTIP awards that will vest in 2020, on the review of the Directors' Remuneration Policy to be put to shareholders at the 2020 AGM and on other remuneration matters.

The Committee is satisfied that the advice provided by Aon is objective and independent. Aon is a signatory to the Remuneration Consultants' Code of Conduct which requires its advice to be impartial and Aon has confirmed to the Committee its compliance with the Code.

Activity During the Year

17 January 2019
- Considered a draft of the Report of the Remuneration Committee on Directors' Remuneration;
- Considered the Gender Pay Gap Reporting for Selco and GMGB for 2018;
- Considered the extent to which the conditions were met for the 2018 bonus scheme and the LTIP awards granted in 2016

26 February 2019
- Considered and approved the Report of the Remuneration Committee on Directors' Remuneration;
- Determined the bonus awards under the 2018 bonus scheme for Executive Directors and the Company Secretary;
- Determined the extent of vesting of the LTIP awards made in 2016;
- Agreed the quantum of 2019 LTIP awards to be granted to Executive Directors and the Company Secretary;
- Considered the performance conditions for the 2019 LTIP awards including the EPS range

7 May 2019
- Determined arrangements for the vesting of the 2016 LTIP awards;
- Reviewed share allocation and dilution limits;
- Considered shareholder and proxy advisor feedback received on the 2018 Remuneration Report;
- Agreed process for the 2020 Remuneration Policy review;
- Considered results of a review of effectiveness of the Committee and its advisors

29 October 2019
- Considered an update from Aon on remuneration trends and corporate governance developments;
- Considered Remuneration Policy review matters;
- Considered an update on pay across the Group's workforce and pay ratios reporting;
- Considered guidance on malus and clawback;
- Reviewed LTIP dilution limits and headroom available;

12 December 2019
- Review of compliance with minimum shareholding guidelines;
- Considered potential bonus awards for 2019;
- Considered potential vesting of 2017 LTIP awards in 2020 and potential vesting of 2018 and 2019 LTIP awards in 2021 and 2022 respectively;
- Determined the rate of increase in basic salaries for 2020;
- Approved the 2020 bonus opportunity and framework for measuring financial targets;
- Initial consideration of 2020 LTIP awards;
- Considered feedback from shareholders to the consultation process on the 2020 Remuneration Policy;
- Considered advice on alignment of directors' pension contributions with the wider workforce

Single Total Remuneration Figure of Directors' Remuneration

The following table sets out the total remuneration for Directors for the year ending 31 December 2019 and the prior year.

	Salary/Fees (a)		Bonus (b)		Pension (c)		Other Benefits (d)		Long Term Incentive Plan (e)		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Executive Directors												
G. Slark	**599**	590	**134**	657	**128**	128	**45**	59	**1,238**	777	**2,144**	2,211
D. Arnold	**410**	404	**76**	375	**82**	81	**44**	43	**740**	443	**1,352**	1,346
	1,009	994	**210**	1,032	**210**	209	**89**	102	**1,978**	1,220	**3,496**	3,557
Non-Executive Directors												
M. Roney	**230**	230	**–**	–	**–**	–	**–**	–	**–**	–	**230**	230
P. Hampden Smith	**61**	62	**–**	–	**–**	–	**–**	–	**–**	–	**61**	62
F. van Zanten	**61**	62	**–**	–	**–**	–	**–**	–	**–**	–	**61**	62
S. Murray	**61**	62	**–**	–	**–**	–	**–**	–	**–**	–	**61**	62
V. Crowley	**61**	62	**–**	–	**–**	–	**–**	–	**–**	–	**61**	62
	474	478	**–**	–	**–**	–	**–**	–	**–**	–	**474**	478
Total Remuneration	**1,483**	1,472	**210**	1,032	**210**	209	**89**	102	**1,978**	1,220	**3,970**	4,035

Comparative figures included in the table above have been presented on a consistent basis with the current year. Further details on the valuation methodologies applied are set out in notes (a) to (e) below. These valuation methodologies are as required by the Regulations and are different from those applied within the financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The total expense relating to the Directors recognised within the income statement in respect of the Long-Term Incentive Plan (LTIP) is £1,256,000 (2018: £1,368,000).

Notes to the Directors' Remuneration Table:

(a) This is the amount of salaries and fees earned in respect of the financial year. Non-Executive Directors' fees are payable in Euro and remained unchanged at €70,000 for all Board and Committee duties. The sterling equivalent was £61,446 in 2019 on the basis of the average exchange rate for the year of 87.78 pence.

(b) This is the amount of bonus earned in respect of the financial year.

(c) This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a taxable payment in lieu of pension made through the payroll.

(d) Benefits comprise permanent health and medical insurance and the provision of a company car.

(e) For the year ended 31 December 2019, this is the value of LTIP awards that will vest in May 2020. The value of the awards is based on the average share price of £8.19 for the three months to 31 December 2019. The vesting of these awards was subject to performance conditions over the period from 1 January 2017 to 31 December 2019. For the year ended 31 December 2018, this is the value of LTIP awards that vested in May 2019 which has been updated from that disclosed last year to reflect the share price of £9.035 on the date of vesting.

Annual Report on Remuneration (continued)

Fixed pay in 2019

Salary and Fees

Having taken account of both external market developments and internal Group considerations, the Committee agreed in December 2018 that the basic salary of the Chief Executive Officer and the Chief Financial Officer would increase by 1.50 per cent for the year ended 31 December 2019. This reflects a salary cap in the Remuneration Policy which limits increases to current Directors' to that of the general workforce.

	Salary/Fees		
	2019 £'000	2018 £'000 %	Change
G. Slark	**599**	590	1.50%
D. Arnold	**410**	404	1.50%

Non-Executive Directors' fees were paid at the rate of £61,446 per annum (based on an exchange rate of Stg87.78 pence, the same level in constant currency (€70,000) since 2005. No additional fees were paid for chairing Board Committees. The fee paid to Mr. Roney, Non-Executive Chairman, was £230,000.

Benefits

Benefits comprise permanent health and medical insurance and the provision of a company car. In 2018, Mr. Slark had a rent allowance for part of the year.

	Health and Medical Insurance £'000	Provision of a Company car £'000	Rent Allowance £'000	**Total 2019 Taxable Benefits £'000**	Total 2018 Taxable Benefits £'000
G. Slark	11	34	–	**45**	59
D. Arnold	8	36	–	**44**	43

Pension

Pension benefits comprise either a company contribution to an Executive Director's personal pension plan, a company contribution to the Group defined contribution pension scheme or a taxable non- pensionable allowance paid through the payroll in lieu of pension benefit.

	2019 Base Salary	% of salary	**2019 Pension Contribution**	2018 Pension Contribution
G. Slark	**599**	21.4%	**128**	128
D. Arnold	**410**	20.0%	**82**	81

Mr. Slark's pension benefit comprised a payment made to a defined contribution scheme and a taxable allowance in lieu. The total pension benefit was £128,040. The pension benefit for Mr. Arnold was paid as a taxable non-pensionable cash allowance.

Pay for Performance

Annual Bonus

The maximum bonus opportunity for Mr. Slark and Mr. Arnold was 120 per cent and 100 per cent of salary respectively. The bonus was based on two financial measures.

The table below analyses the composition of the bonus opportunity for the year:

	Percentage of Basic Salary		
	Return on		
	Operating Profit	Capital Employed	Bonus Payable
G. Slark	84%	36%	120%
D. Arnold	70%	30%	100%

Financial targets were set at the beginning of the year by reference to the Group's budget for 2019. The actual targets and performance against those targets are set out in the table below for 2019:

	Threshold (0% Payable)	Budget (50% Payable)	Stretch (100% Payable)	Actual	% of Maximum Payable
Operating profit (£'000)*	188,466	194,848	209,462	194,307	15.25%
Return on capital employed**	13.3%	14.4%	15.5%	13.9%	26.38%

* In calculating the bonus percentage, the pre-IFRS 16 adjusted operating profit of £194.3m has been reduced by £3.9m to £190.4m to reflect the difference between budgeted property profit of £3.0m and actual property profit of £6.9m.

** Based on capital employed in monthly management accounts.

The Committee considered the impact of the Polvo acquisition and determined that no adjustment should be made.

The award for each financial measure was based on a sliding scale from 92.5 per cent to 107.5 per cent of the Group's budget for 2019. No bonus was payable if performance was below a minimum threshold of 92.5 per cent of budget. The minimum operating profit threshold was increased from £180.2 million to the 2018 adjusted operating profit of £188.5 million calculated as the published adjusted operating profit result for the year of £194.5 million less £6.0 million for Plumbase which was divested during the year and therefore not part of continuing operations. 50 per cent of the bonus opportunity was payable on a straight line basis between £188.5 million and £194.8 million. The bonus opportunity then increased on a straight line basis up to a limit of 100 per cent of the bonus opportunity on achieving 107.5 per cent of budget.

The Committee considered the extent to which these targets were achieved and agreed a payment of 22.31 per cent of salary for Mr. Slark and 18.59 per cent of salary for Mr. Arnold out of a maximum bonus opportunity of 120 per cent and 100 per cent of salary respectively. The Committee determined that no changes to these outcomes were required.

Long Term Incentive Plan (LTIP)

The Remuneration Committee has the authority to set appropriate criteria for each award. The Committee believes that the LTIP should align management and shareholder interests and assist the Group in the recruitment and retention of senior executives.

Awards Granted with a Performance Period Covering the Three Years to 31 December 2019

The performance conditions for LTIP awards made in April 2017 were based on growth in EPS and TSR. Half of the awards to Executive Directors were based on relative TSR versus a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investments trusts. The other half was based on the Group's adjusted EPS for the financial year ended 31 December 2019.

The relevant targets and results for the year were as follows:

	50% TSR relative to a peer group		50% Adjusted EPS	
	Performance ranking required	% of element vesting	Performance required	% of element vesting
Below threshold	Below median	0%	Below 59p	0%
Threshold	Median	25%	59p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	59p-66p	25%-100%
Stretch or above	Above 80th percentile	100%	66p	100%
Actual achieved	47 out of 207	89.97%	67.8p	100%*

* The Committee agreed that adjusted EPS would increase by 1.8p per share for vesting calculation purposes to include the profitability up to the date of disposal of Plumbase and the Belgium merchanting business in October 2019 which was not reflected in the results of continuing operations.

The following is a summary of the awards that will vest under the scheme in 2020:

Director	Total number of shares granted	Percentage of award vesting (%)	Number of shares vesting	Value of shares vesting (£'000)[1]
G. Slark	159,151	94.985	151,170	1,238
D. Arnold	95,113	94.985	90,343	740

1 As these awards do not vest until 9 May 2020, a deemed share price is used to calculate the value of shares vesting. This is taken as the three-month average to 31 December 2019 being £8.19.

LTIP Awards Granted During the Year Ended 31 December 2019

The following awards were made during the year ended 31 December 2019:

	Date of Grant	Number of nil cost Units	% of Base Salary	Share Price at Grant Date	Value of Award at Grant Date
G. Slark	12 Apr 19	141,336	200	8.4775	£1,198,176
D. Arnold	12 Apr 19	84,699	175	8.4775	£718,036

The 2019 awards to Mr. Slark and Mr. Arnold are subject to the achievement of the following TSR and Adjusted EPS performance conditions:

	50% TSR relative to a peer group		50% Adjusted EPS	
	Performance ranking required	% of element vesting	Performance required	% of element vesting
Below threshold	Below median	0%	Below 82p	0%
Threshold	Median	25%	82p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	82p-94p	25%-100%
Stretch or above	Above-80th percentile	100%	Above 94p	100%

The TSR comparator group consists of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts. Notwithstanding the achievement of the TSR performance condition, no shares will vest unless the Committee considers that the overall financial results have been satisfactory in the circumstances over the performance period.

Vested awards are subject to a two-year holding period. Clawback provisions will apply.

External Appointments

The Company recognises that Executive Directors may be approached to become Non-Executive Directors of other companies and that opportunities of this nature can provide valuable experience that benefits the company.

Mr. Slark is a Non-Executive Director of Galliford Try plc and is permitted to retain his fee for the role which amounted to £41,200 in 2019.

Loss of Office Payments and Payments to Past Directors

No loss of office payments or any payments to past Directors were made during the year.

Application of Remuneration Policy in 2020

Salaries

The Remuneration Policy for 2020 notes there is no prescribed maximum annual salary increase but the Committee will be guided by the general increases for the broader employee population but on occasion may need to recognise an increase in the scale, scope or responsibility of the role.

The following salaries will apply for 2020:

	2020 Base Salary	2019 Base Salary	% Increase
G. Slark	**£607,177**	£599,090	1.35%
D. Arnold	**£415,846**	£410,307	1.35%

Chairman and Non-Executive Directors' Fees

A benchmark review is currently being undertaken of fees payable to Non-Executive Directors and the Chairman and any changes arising from this review will be disclosed in the 2020 Annual Report.

Pension and Benefits

Mr. Slark and Mr. Arnold will receive taxable pension contributions/salary supplements in lieu of pension of £128,040 and 20 per cent of salary respectively which is consistent with the arrangements in place for 2019.

Annual Report on Remuneration (continued)

Annual Bonus
The maximum potential performance related bonus pay award for the Chief Executive Officer for 2020 is 120 per cent of basic salary and the maximum bonus opportunity for 2020 for the Chief Financial Officer is 100 per cent of salary. These limits also applied in respect of 2019. The measures and weightings for 2020 are as follows:

CEO Bonus Based on	**% of Salary 2020**	% of Salary 2019
Operating profit	**84%**	84%
Return on capital employed	**36%**	36%

CFO Bonus Based on	**% of Salary 2020**	% of Salary 2019
Operating profit	**70%**	70%
Return on capital employed	**30%**	30%

The actual bonus targets are commercially sensitive and will be disclosed in the 2020 Annual Report.

The annual bonus is payable in cash subject to part investment in shares if required under the Group's share ownership guidelines as set out in the Remuneration Policy.

Clawback provisions operate as set out in the Remuneration Policy.

Long-Term Incentives
Awards to be made in 2020 will be at the same level as 2019 being 200 per cent of salary for the CEO and 175 per cent of salary for the CFO.

Vesting of the 2020 award will continue to be based on relative TSR (50 per cent) and on EPS (50 per cent) performance conditions as follows:

	50% TSR relative to a peer group		50% Adjusted EPS	
	Performance ranking required	% of element vesting	Performance required	% of element vesting
Below threshold	Below median	0%	Below 78.0p	0%
Threshold	Median	25%	78.0p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	78.0p-89.4p	25%-100%
Stretch or above	Above 80th percentile	100%	89.4p	100%

The TSR performance condition will continue to be measured against a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts.

Notwithstanding the achievement of the TSR performance conditions, no shares will vest unless the Committee considers that the overall financial results of the Group have been satisfactory in the circumstances over the performance period.

The proposed 2022 post-IFRS 16 EPS growth range of 78.0p to 89.4p is based on compound annual growth of 7.5 per cent to 12.5 per cent on the post-IFRS 16 adjusted EPS of 62.8p for 2019. For completeness, this is equivalent to a pre-IFRS 16 growth range of 82.0p to 94.0p on the pre-IFRS 16 adjusted EPS of 66.0p in 2019.

The Committee set the percentage growth range having considered Analysts' forecasts, the Group's budget, strategic business plan and the economic and trading environment. The Committee has historically set very demanding growth ranges for EPS in absolute terms. Consistent with prior years, the lower end of the target range (threshold) is appropriately challenging whilst the upper end of the range is stretching and will only be achieved if performance is exceptional.

A holding period of two years will apply to LTIP awards received by Executive Directors that vest, after taking into account any shares sold to pay tax and other statutory obligations in line with the Remuneration Policy. Shares held during the two-year holding period will be deemed to be part of an executive directors' shareholding, for the purposes of monitoring the shareholding guidelines. The vesting period and the holding period will be five years in total.

Relative Importance of Spend on Pay
The following table sets out the percentage change in dividends and overall spend on employee pay in the 2019 financial year compared with the prior year.

	2019 £'000	2018 £'000	Percentage Change
Dividends payable	**45,181**	42,796	5.6%
Employee remuneration costs	**395,567**	384,306	2.9%

Percentage Change in CEO Pay
The table below shows the percentage year-on-year change in the value of salary, annual bonus, pension, benefits and LTIP for the Chief Executive Officer between the current and previous year compared to that of the average employee.

Chief Executive Officer	**2019 £'000**	2018 £'000	Percentage Change
Salary	**599**	590	1.5%
Bonus	**134**	657	(79.6%)
Pension	**128**	128	–
Benefits	**45**	59	(23.7%)
LTIP	**1,238**	777	59.3%
Total	**2,144**	2,211	(3.0%)
Average employee			
Salary, Benefits and Bonus (£)*	30,856	30,120	2.4%

* Based on average number of persons employed during the year, from continuing operations. The increase in constant currency was 2.7%.

CEO Pay Ratio to the Workforce
The table below shows the ratio of the CEO's total remuneration to the median (50th), 25th and 75th percentile full-time equivalent remuneration of the Group's UK employees.

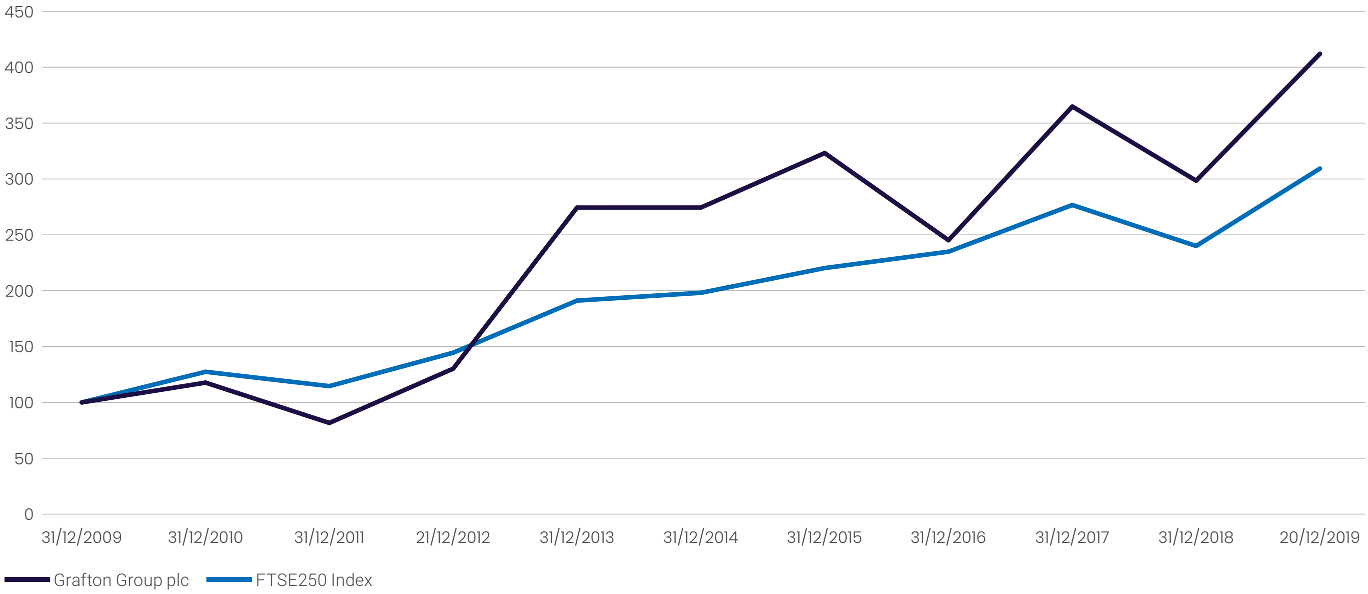
The total remuneration for employees includes wages and salaries, taxable benefits, bonuses, share based payments remuneration and pensions. Employee bonus data is based on bonuses paid in 2019, some of which relates to performance in the prior year.

CEO Pay	**£2,143,947**	Ratio
25th percentile	**£20,490**	105:1
Median (50th percentile)	**£24,697**	87:1
75th percentile	**£32,596**	66:1

Performance Graph and Single Total Figure of Remuneration

Total Shareholder Return

The graph below compares the TSR performance of Grafton Group plc, assuming dividends are re-invested,with the TSR performance of the FTSE 250 over the period 31 December 2009 to 31 December 2019.



Source: FactSet

This graph shows the value, by 31 December 2019, of £100 invested in Grafton Group Plc on 31 December 2009, compared with the value of £100 invested in the FTSE 250 Index on the same date.

The other points plotted are the values at intervening financial year-ends.

The table below shows the total remuneration figure for the position of CEO over the ten years to 2019.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
CEO single total figure of remuneration (£'000)	570	1,151	1,001	1,524	3,080	2,255	1,692	1,689	2,211	**2,144**
Annual bonus payout relative to maximum	0%	16%	49%	49%	98%	53%	60%	100%	93%	**19%**
LTIP vesting	N/A	N/A	N/A	45%	100%	87%	50%	26%	72%	**95%**

Statement of Shareholder Voting at the 2019 AGM

The 2018 Annual Report on Remuneration received the following votes from shareholders:

	Total Number of Votes	% of Votes Cast
For	150,635,611	99.41
Against	896,008	0.59
Total	151,531,619	100.00

The number of votes withheld was 998,834.

Annual Report on Remuneration (continued)

Directors' and Secretary's Interests

The beneficial interests of the Directors in the share capital of the Company were as follows:

Director	31 December 2019 Grafton Units*	31 December 2018 Grafton Units*	Unvested LTIP Awards**	Unvested SAYE Options***
G. Slark	**375,280**	330,747	**457,100**	–
D. Arnold	**103,000**	69,888	**273,666**	**2,696**
F. van Zanten	**3,000**	3,000	–	–
P. Hampden Smith	**32,990**	32,990	–	–
M. Roney	**22,432**	22,432	–	–
V. Crowley	**8,000**	8,000	–	–
S. Murray	**1,500**	1,500	–	–
Secretary				
C. Rinn	**428,117**	414,718	**77,694**	–

* At 31 December 2019 and at 31 December 2018, a Grafton Unit comprised one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

** Vesting of these awards is subject to performance conditions and includes awards granted in 2017, 2018 and 2019.

*** Option to buy shares at the agreed price at end of the three year period on 1 December 2020 (1,329 units) and at the agreed price at end of the three year period on 1 December 2021 (1,367 units).

The closing price of a Grafton Unit on 31 December 2019 was 867.0p (31 December 2018: 643.0p) and the price range during the year was between 645.5p and 937.0p (2018: 630.0p and 841.5p).

There have been no changes in the interests of the Directors and Secretary between 31 December 2019 and the date of this report other than the purchase by Dr. Rosheen McGuckian, who was appointed to the Board on 1 January 2020, of 1,200 Grafton Units on 3 March 2020.

To further align the interests of senior management with those of shareholders, Executive Directors are subject to share ownership guidelines. Executive Directors are required to build a holding of shares in the Company with a minimum value of 200 per cent of their salary. Directors are required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until this share ownership requirement is fulfilled.

Mr. Slark held shares at the year-end valued at 5.4 times his salary. Mr. Arnold held shares at the year-end valued at 2.2 times his salary. This is based on the closing price of a Grafton Unit on 31 December 2019 of 867p.

During the year, Mr. Arnold purchased 7,696 Grafton Units and received 49,057 Grafton Units on the maturity of the 2016 LTIP scheme of which he sold 23,641 Grafton Units to meet tax liabilities and brokers commission, retaining a net 25,416 Grafton Units.

Directors' and Secretary's Interests under the 2011 Long Term Incentive Plan

The grant of awards over Grafton Units to the Directors and Secretary under the LTIP are shown below:

	Grant Date	Share Price on date of Grant	Number of Units 1 January 2019	Granted	Lapsed	Shares Received	31 Dec 2019	EPS Condition	TSR Condition	Performance Period	Vesting Date**
G. Slark	14 April 2016	£7.18	118,894	–	(32,940)	(85,954)*	–	–	–	1 Jan 2016-31 Dec 2018	14 April 2019
	12 April 2017	£7.15	121,654	–	–	–	121,654	60,827	60,827	1 Jan 2017-31 Dec 2019	12 April 2020
	10 May 2017	£7.74	37,497	–	–	–	37,497	18,749	18,748	1 Jan 2017-31 Dec 2019	10 May 2020
	9 April 2018	£7.54	156,613		–	–	156,613	78,307	78,306	1 Jan 2018-31 Dec 2020	9 April 2021
	12 April 2019	£8.48	–	141,336	–	–	141,336	70,668	70,668	1 Jan 2019-31 Dec 2021	12 April 2022
			434,658	**141,336**	**(32,940)**	**(85,954)**	**457,100**	**228,551**	**228,549**		
D. Arnold	14 April 2016	£7.18	67,857	–	(18,800)	(49,057)*	–	–	–	1 Jan 2016-31 Dec 2018	14 April 2019
	12 April 2017	£7.15	69,432	–	–	–	69,432	34,716	34,716	1 Jan 2017-31 Dec 2019	12 April 2020
	10 May 2017	£7.74	25,681	–	–	–	25,681	12,841	12,840	1 Jan 2017-31 Dec 2019	10 May 2020
	9 April 2018	£7.54	93,854		–	–	93,854	46,927	46,927	1 Jan 2018-31 Dec 2020	9 April 2021
	12 April 2019	£8.48	–	84,699	–	–	84,699	42,349	42,350	1 Jan 2019-31 Dec 2021	12 April 2022
			256,824	**84,699**	**(18,800)**	**(49,057)**	**273,666**	**136,833**	**136,833**		
C. Rinn	14 April 2016	£7.18	18,534	–	(5,135)	(13,399)*	–	–	–	1 Jan 2016-31 Dec 2018	14 April 2019
	12 April 2017	£7.15	20,269	–	–	–	20,269	10,135	10,134	1 Jan 2017-31 Dec 2019	12 April 2020
	10 May 2017	£7.74	5,555	–	–	–	5,555	2,778	2,777	1 Jan 2017-31 Dec 2019	10 May 2020
	9 April 2018	£7.54	25,579		–	–	25,579	12,790	12,789	1 Jan 2018-31 Dec 2020	9 April 2021
	12 April 2019	£8.48	–	26,291	–	–	26,291	13,145	13,146	1 Jan 2019-31 Dec 2021	12 April 2022
			69,937	**26,291**	**(5,135)**	**(13,399)**	**77,694**	**38,848**	**38,846**		

* The market price at the date of vesting was £9.035.

** This is the earliest date for vesting. The actual date of vesting is subject to approval by the Remuneration Committee.

The Group's previous long-term incentive share scheme expired in April 2009. Consequently, no long-term incentive awards were made during 2010. Shareholder approval was granted at the AGM held on 4 May 2011 for the introduction of a new Long-Term Incentive Plan and the first awards under the plan were made on 25 May 2011. Subsequent awards under the LTIP were made on 18 April 2012, 16 April 2013, 16 April 2014, 17 April 2015, 14 April 2016, 12 April 2017, 10 May 2017, 9 April 2018 and 12 April 2019.

Susan Murray
Chair of the Remuneration Committee
9 March 2020

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2019.

Group Results
Group revenue from continuing operations increased by 2.7 per cent to £2.67bn (2018: £2.60bn). Statutory operating profit was £197.8 million (2018: £180.5 million). Adjusted operating profit, on a pre IFRS 16 basis, from continuing operations increased by 3.6 per cent to £194.3 million compared to £187.6 million in 2018.

The net finance expense was £25.1 million and £5.6 million on a pre IFRS 16 basis which compares to £6.1 million in 2018. Profit before tax was £172.6 million (2018: £174.4 million).

The income tax expense of £28.7 million (2018: £29.6 million) was equivalent to an effective tax rate of 16.6 per cent (2018: 17.0 per cent).

Basic earning per share from continuing operations was 60.5 pence and on a pre IFRS 16 basis was 63.7 pence (2018: 60.9 pence). Adjusted earnings per share (before amortisation of intangible assets arising on acquisitions) from continuing operations was 62.8 pence and on a pre IFRS 16 basis was 66.0 pence an increase of 4 per cent from 63.7 pence in 2018.

The Group and Company financial statements for the year ended 31 December 2019 are set out in detail on pages 102 to 185.

Dividends
The payment in 2019 of a second interim dividend for 2018 of 12.00 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £28.5 million. A 2019 interim dividend of 6.50 pence per share was paid on 11 October 2019 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £15.5 million.

A second interim dividend for 2019 of 12.50 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 6 March 2020 (the 'Record Date'). The dividend will be paid on 6 April 2020. A liability in respect of this second interim dividend has not been recognised at 31 December 2019 as there was no present obligation to pay the dividend at the year-end.

Review of the Business
Shareholders are referred to the Chairman's Statement, Chief Executive Officer's Review, Sectoral and Strategic Review and Financial Review which contain a review of operations and the financial performance of the Group for 2019, the outlook for 2020 and the key performance indicators used to assess the performance of the Group. These are deemed to be incorporated in the Report of the Directors.

Cautionary Statement
Certain statements made in this Annual Report are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of operations, financial conditions, liquidity, prospects, growth rate and potential growth opportunities, potential operating performance improvements, the effects of competition and the strategy of the overall Group and its individual businesses. You should not place undue reliance on forward looking statements. These forward looking statements are made as at the date of this Directors Report. The Company and its Directors expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by law.

The risk factors included on pages 48 to 53 of this Annual Report could cause the Group's results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that the Group is unable to predict at this time or that the Group currently does not expect to have a material adverse effect on its business. These forward-looking statements are made as of the date of this Annual Report.

The forward-looking statements in this Annual Report do not constitute reports or statements published in compliance with any of Regulations 4 to 9 and 26 of the Transparency (Directive 2004/109/EC) Regulations 2007.

Board of Directors
Under the Company's Articles of Association, Directors are required to submit themselves to shareholders for election at the Annual General Meeting following their appointment and all Directors are required to submit themselves for re-election at intervals of not more than three years.

However, in line with the provisions contained in the UK Corporate Governance Code, all Directors retired at the conclusion of the 2019 Annual General Meeting and being eligible offered themselves for re-election. All directors were re-elected to the Board on the same day.

The Board has decided that all Directors seeking election/re-election should retire at the 2020 Annual General Meeting and offer themselves for re-election, with the exception of Mr. Frank van Zanten who has indicated that he will resign from the board following the AGM in 2020.

Share Capital

At 31 December 2019, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in Note 18 to the Group Financial Statements.

The Group has in place a number of employee share schemes, the details of which are set out in the Report of the Remuneration Committee on Directors' Remuneration and in Note 33 to the Group Financial Statements.

Annual General Meeting (AGM)

The AGM of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on Wednesday 29 April 2019 at 10.30am. The Notice of Meeting for the 2020 AGM will be made available on the Group website, www.graftonplc.com which sets out details of resolutions to be considered at the Annual General Meeting, including the following:

Continuation in Office of Auditors

While it is not required under Irish law, an advisory, non-binding resolution is being presented in relation to the continuation of PwC in office as Auditors.

Authority to Allot Relevant Securities

Shareholders are being asked to renew the Directors' authority to allot and issue any unissued ordinary share capital of the Company. The total number of shares which the Directors may issue under this authority will be limited to approximately 26 per cent of the issued share capital of the Company at 9 March 2020. The Directors have no present intention to make a share issue other than in respect of employee share schemes.

Disapplication of Pre-emption Rights

At each Annual General Meeting, the Directors seek authority to disapply statutory pre-emption rights in relation to allotments of shares for cash up to an aggregate nominal value for all allotments and all treasury shares of approximately €594,542 representing five per cent of the nominal value of the issued ordinary share capital of the Company. Under the Articles of Association, shareholders are required to renew this power at each year's Annual General Meeting. The Directors confirm their intention to follow the provisions of the Pre-emption Principles regarding cumulative usage of authorities within a rolling three-year period. These principles provide that companies should consult shareholders prior to issuing, other than to existing shareholders, shares for cash representing in excess of 7.5 per cent of the Company's issued share capital in any rolling three-year period.

Authority to Make Market Purchases of the Company's Own Shares

At the 2019 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to 10 per cent of the Company's own shares. Shareholders are being asked to renew this authority.

The Directors have no present intention to exercise this authority. However, the Directors consider it appropriate to maintain the flexibility that this authority provides. The Directors monitor the Company's share price and may from time to time exercise this power to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. The minimum price which may be paid for any market purchase of the Company's own shares will be the nominal value of the shares and the maximum price which may be paid will be 105 per cent of the then average market price of the shares.

Authority to Re-issue Treasury Shares

Shareholders are being asked to sanction the price range at which any treasury share (that is a share of the Company redeemed or purchased and held by the Company rather than being cancelled) may be re-issued other than on the Stock Exchange. The maximum and minimum prices at which such a share may be re-issued are 120 per cent and 95 per cent respectively of the average market price of a share calculated over the five business days immediately preceding the date of such re-issue.

The authorities which will be sought at the forthcoming AGM to allot relevant securities, dis-apply pre-emption rights, purchase the Company's Units and re-issue treasury shares will, if granted, expire on the earlier of the date of the Annual General Meeting in 2021 or 15 months after the passing of these resolutions.

Report of the Remuneration Committee on Directors' Remuneration

In line with best practice, the Board is proposing to submit a new Remuneration Policy which is set out on pages 84 to 89 to a non-binding advisory vote. It is the Company's intention that this policy will apply until the 2023 AGM unless the Remuneration Committee seeks approval from shareholders to adopt a new policy at an earlier date.

The Board is proposing to submit the Chairman's Annual Statement and the Annual Report on Remuneration of the Remuneration Committee, as set out on pages 81 to 83 and 90 to 97 to a non-binding advisory vote.

Notice Period for Extraordinary General Meetings

This resolution will, if adopted, maintain the existing authority in the Articles of Association which permits the Company to convene an extraordinary general meeting on 14 days' notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 days' notice will only be utilised where the Directors believe that it is merited by the business of the meeting and the circumstances surrounding the business of the Meeting.

Substantial Holdings
So far as the Company is aware, the following held shares representing 3 per cent or more of the ordinary share capital of the Company (excluding treasury shares) at 31 December 2019 and 5 March 2020:

	31 December 2019		5 March 2020	
Name	Holding	%	Holding	%
Mr. Michael Chadwick*	21,926,409	9.22	21,926,409	9.22
Investec Asset Management Limited	19,046,178	8.01	19,046,178	8.01
The Capital Group Companies, Inc**	18,698,087	7.86	18,698,087	7.86
Blackrock, Inc.	14,279,577	6.00	14,269,579	6.00
Standard Life Aberdeen plc**	13,559,529	5.70	13,559,529	5.70
Dimensional Fund Advisors LP	9,513,966	4.00	9,513,966	4.00
Kames Capital plc	7,209,091	3.03	7,209,091	3.03

* Beneficial holding of 19,436,079 Grafton Units and non-beneficial holding of 2,490,330 Grafton Units.
** The Company has been advised that these units are not beneficially owned.

Apart from these holdings, the Company has not been notified at 5 March 2020 or at 31 December 2019 of any interest of 3 per cent or more in its ordinary share capital.

Directors' and Secretary's interests in the share capital of the Company are set out in the Report of the Remuneration Committee on Directors' Remuneration.

Accounting Records
The Directors are responsible for ensuring that adequate accounting records are maintained by the Company as required by Sections 281-285 of the Companies Act, 2014. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Business Park, Dublin 18, Ireland.

Takeover Regulations 2006
The capital structure of the Company is detailed in Note 18 to the Group Financial Statements. Details of employee share schemes are set out in Note 33. In the event of a change of control, the vesting/conversion/exercise of share entitlements/options may be accelerated. The Group's borrowing facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Act and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above. The Company's Memorandum and Articles of Association, which are available on the Company's website, www.graftonplc.com, are deemed to be incorporated in this part of the Report of the Directors.

Corporate Governance Regulations
As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 68 to 74 and which, for the purposes of Section 1373 of the Companies Act 2014, is deemed to be incorporated in this part of the Report of the Directors. This includes the Report of the Audit and Risk Committee. Details of the capital structure and employee share schemes are included in Notes 18 and 33 respectively.

Directors Compliance Statement
It is the policy of the Company to comply with its relevant obligations as defined in the Companies Act 2014. The Directors have drawn up a compliance policy statement as defined in section 225(3)(a) of the Companies Act 2014. Arrangements and structures have been put in place that are, in the directors' opinion, designed to secure a material compliance with the Company's relevant obligations. These arrangements and structures were reviewed by the Company during the financial year. As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for the Company's compliance with its relevant obligations. In discharging their responsibilities under section 225, the Directors relied on the advice of third parties who the Directors believe have the requisite knowledge and experience to advise the Company on compliance with its relevant obligations.

Principal Risks and Uncertainties
The Company is required under Irish company law to give a description of the principal risks and uncertainties. These principal risks and uncertainties are set out on pages 48 to 53 and are deemed to be incorporated in this section of the Report of the Directors.

Transparency Regulations 2007 and the European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017

The following are deemed to be incorporated in this part of the Report of the Directors:

Reporting Requirement	Location of Information	Page
Environmental Matters	Sustainability Report	61
Social & Employee Matters	Sustainability Report	57 to 60
	Note 11 to the Group Financial Statements	136
	Note 6 to the Group Financial Statements	133
Diversity	Sustainability Report	58
	Nomination Committee Report	80
Human Rights	Sustainability Report	63
Anti-bribery & Corruption	Sustainability Report	63
	Audit & Risk Committee Report	77
Business Model	Business Model	18-19
Non-Financial KPIs	Key Performance Indicators	23
Principal Risks	Risk Management	48 to 53
Financial Instruments	Note 21 to the Group Financial Statements	150 to 155

Subsidiaries
The Group's principal operating subsidiary undertakings are set out on page 184.

Political Contributions
There were no political contributions which require disclosure under the Electoral Act, 1997.

Events after the Balance Sheet Date
There have been no material events subsequent to 31 December 2019 that would require adjustment to or disclosure in this report.

Auditor
The statutory Auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 382 (2) of the Companies Act 2014 and a resolution authorising the Directors to fix their remuneration will be submitted to the Annual General Meeting.

Disclosure of Information to Statutory Auditors
In accordance with the provisions of section 330 of the Companies Act 2014, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2014) of which the statutory Auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to ensure that the statutory Auditor is aware of such information.

On behalf of the Board.

Gavin Slark
Director
9 March 2020

David Arnold
Director
9 March 2020

Financial Statements

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Statement of Directors' Responsibilities

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

Company law in the Republic of Ireland requires the Directors to prepare Group and Company financial statements each year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework) and Irish law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company as at the end of the financial year and the profit or loss of the Group for the financial year.

In preparing each of the Group and Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Group financial statements comply with IFRS as adopted by the European Union, and as regards the Company, have been prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework), and Irish law; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, and financial position, and which enable them to ensure that the financial statements of the Company comply with the provisions of the Companies Act 2014, and as regards to the Group financial statements Article 4 of IAS Regulation. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act 2014. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website (www.graftonplc.com). Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement as required by the Transparency Directive and the UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 66 to 67 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRS as adopted by the European Union and the Company financial statements prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework), and Irish law, as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities, financial position of the Group and Company at 31 December 2019 and of the profit of the Group for the year then ended;
- The Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company and that a fair description of the principal risks and uncertainties faced by the Group and Company is provided on pages 48 to 53; and
- The Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

On behalf of the Board

Gavin Slark
Director
9 March 2020

David Arnold
Director

Independent Auditors' Report
to the Members of Grafton Group plc

Report on the audit of the financial statements

Opinion

In our opinion

- Grafton Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at 31 December 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and Irish law); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts ("Annual Report"), which comprise:

- the Group Balance Sheet as at 31 December 2019;
- the Company Balance Sheet as at 31 December 2019;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Company Statement of Changes in Equity for the year then ended; and
- the Notes to the Group Financial Statements and the Notes to the Company Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

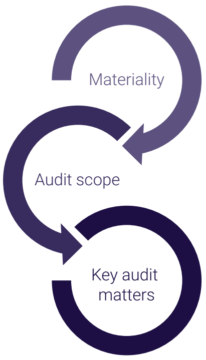
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or the Company.

Other than disclosed in Note 3 to the Financial Statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Materiality

- £8.6 million (2018: £8.7 million) – Group financial statements
- Based on c.5% of profit before tax.
- €8.6 million (2018: €8.3 million) – Company financial statements
- Based on c.0.5% of total assets.

Audit scope

- We conducted an audit of the complete financial information of 11 of the Group's 19 reporting components across the United Kingdom, Ireland and the Netherlands. These accounted for in excess of 90% of revenue and profit before tax from continuing operations and in excess of 95% of total assets.

Key audit matters

- Valuation of goodwill.
- Recognition of supplier rebates.
- Valuation of inventory.

Independent Auditors' Report to the Members of Grafton Group plc (continued)

Our audit approach (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill Refer to page 78 (Audit and Risk Committee Report), Note 1 Summary of significant accounting policies and Note 12, Goodwill. Goodwill amounted to £657.8 million at 31 December 2019. Goodwill is allocated to 4 groups of Cash Generating Units ("CGUs") in order to conduct impairment testing. These groups of CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes. Goodwill must be tested for impairment on at least an annual basis. The Group tests goodwill for impairment using a value-in-use ("VIU") model. The cash flows included in this VIU model are those included in the management approved forecasts for the period from 2020 to 2024 and long term growth rates are used to estimate cash flows beyond that period. As set out in Note 12 to the financial statements, impairment testing of goodwill involves a number of areas of judgement and estimates, in particular estimating the growth and gross margin assumptions in the period 2020 to 2024, long term growth rates used in calculating a terminal value and pre-tax discount rates for each CGU. We focused on this area because the Directors' assessment of the recoverable amount of goodwill involves complex and subjective judgements about the future results of the business and due to the significance of this asset, which accounts for 23% of total assets of the Group at 31 December 2019.	We agreed the underlying cash flow forecast models for each of the groups of CGUs to the management approved budgets and checked the mathematical accuracy of the impairment models. We considered the reliability of management's forecasting process by considering how actual results compared to forecasts for the years 2016 to 2019. We critically assessed and challenged management on the key assumptions included in the model, in particular the revenue and gross margin assumptions over the period 2020 – 2024. We compared the growth rates to external data and considered them to be within reasonable ranges. We assessed the appropriateness of forecast gross margins through comparison to actual historic margins achieved. We considered the appropriateness of the discount rates applied to each of the groups of CGUs by comparing the elements of the weighted average cost of capital calculation to external benchmarks. We also assessed the appropriateness of the Group's forecast long term growth rates used to calculate terminal values by comparing them to independent sources. We found that the assumptions were within a reasonable range. We performed sensitivity analysis on key assumptions in the goodwill impairment model, focussing on the cash flows, the discount rate and the rates of growth assumed by management. We assessed the appropriateness of the related disclosures in Note 12 to the Group's financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition of supplier rebates Refer to page 78 (Audit and Risk Committee Report), Note 1, Summary of Significant Accounting Policies and Note 17, Trade and Other Receivables. The Group has entered into rebate arrangements with a significant number of its suppliers. Supplier rebates received and receivable in respect of goods purchased are deducted from cost of sales in the income statement or the cost of inventory, to the extent that those goods remain in inventory at the year-end. Due to the nature of the agreements in place, a significant portion of the Group's supplier rebates recognised during the year is not finalised or received until after the year end. Certain arrangements have volume targets that span the year end. In addition, in certain businesses, the process for calculating rebate income requires manual input and use of spreadsheets. We have focused on this area as the calculation of supplier rebates recognised in the year and the rebates receivable at 31 December 2019 involves the use of estimates and because of the manual nature of the underlying calculations in some businesses.	We updated our understanding of the significant rebate arrangements that the Group has entered into by meeting procurement personnel and reading a sample of contracts. We assessed the reasonableness of any estimates made by management in the calculation of rebate income and rebate receivables. On a sample basis, we recalculated rebates recognised during the year and receivables by reference to supplier agreements and purchases reports. Where arrangements had volume targets, we assessed the appropriateness of assumptions made by reference to purchases in the period. We obtained third party confirmation of rebate income and rebates due at 31 December 2019, for a sample of suppliers. Where responses were not received, we completed alternative procedures including obtaining rebate agreements and re-computing rebate income and rebates receivable. We also considered the actual results of the collection of rebates during the year including those relating to the prior year comparing the amount collected to the related estimated rebates receivable and noted that recovered amounts did not vary significantly from amounts estimated. We assessed the appropriateness of the related disclosures within the financial statements.
Valuation of inventory Refer to page 78 (Audit and Risk Committee Report), Note 1, Summary of significant accounting policies and Note 16, Inventories. Inventory at 31 December 2019 amounted to £317.6 million. The Group holds a significant number of product lines across its branch network in the UK, Ireland and the Netherlands. Significant judgement is exercised by management in assessing the level of inventory provision in respect of slow moving inventory. Management assess the required level of provision based on a model that reflects the age of inventory on hand at year end and other considerations in respect of specific inventory. In locations that had stocktakes in advance of the year end, management estimates a provision for stock losses (a "shrinkage provision") in order to accurately state inventory on hand at year end. Where inventory on which rebates have been earned is held at the year-end, an appropriate rebate deduction is made from the gross carrying value of that inventory. We focused on this area due to the judgement and complexity involved in estimating the inventory provisions and rebate deductions across multiple product lines and locations.	We tested the accuracy of inventory ageing reports where they supported the calculation of inventory provisions by selecting a sample of inventory items on hand and testing the aged classification by reference to purchase documentation. We recomputed provisions recorded to assess whether they were in line with Group policy and we assessed the appropriateness of Group policy by reference to past experience. We also obtained an understanding from management of plans to liquidate slower moving inventory and we considered the appropriateness of provisions made. In locations where stocktaking occurred before the year-end, we evaluated the reasonableness of the shrinkage provisions recorded by reference to the historical shrinkage experience of the Group. On a sample basis, we tested the allocation of rebate deductions to inventory by reference to the volume and value of inventory sourced from specific suppliers and the related rebate arrangement with those suppliers. The rebate deducted from inventory was considered to be reasonable. We concluded that provisions were within a reasonable range. We assessed the appropriateness of the related disclosures within the financial statements.

Independent Auditors' Report to the Members of Grafton Group plc (continued)

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 19 reporting components across 4 geographical markets. The Group's accounting process is structured around a local finance function for each of the reporting components. These functions maintain their own accounting records and controls and report to the head office finance team in Dublin.

In establishing the scope of the Group audit, we identified 3 reporting components, each contributing over 15% of Group profit before tax, which in our view required an audit of their complete financial information due to their size and financial significance to the Group. A further 8 reporting components had an audit of their complete financial information based our risk assessment, the materiality of the reporting component and statutory audit requirements.

This resulted in a total of 11 reporting components which were subject to an audit of their full financial information. For the remaining 8 components, the Group audit team performed other procedures including analytics at a Group level.

The Group team were responsible for the overall scope and direction of the audit process. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The Group audit team visits the component teams on a rotational basis. During the year, senior members of the Group audit team visited 6 in scope locations, including the 3 identified significant components. In addition to these visits the Group team interacted regularly with the component teams during all stages of the audit. The Group audit team attended all of the component team meetings with local management where the results of each component's audit were finalised, either in person or by conference call. We obtained and considered the detailed findings reports from all component teams. In addition, the Group audit team reviewed certain working papers of the auditors for the significant components.

The full scope audits of reporting components accounted for in excess of 90% of revenue, and profit before tax from continuing operations and in excess of 95% of total assets.

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Company financial statements**
Overall materiality	£8.6 million (2018: £8.7 million).	€8.6 million (2018: €8.3 million).
How we determined it	c.5% of profit before tax.	c.0.5% of total assets.
Rationale for benchmark applied	We have applied this benchmark as profit before tax is a key accounting benchmark, which is also a key performance indicator for the Group.	We considered total assets to be the most relevant benchmark as the Company is primarily an investment holding company which holds investments in subsidiaries and receivables from Group companies.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £430,000 (Group audit) (2018: £435,000) and €430,000 (Company audit) (2018: €413,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (Ireland) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's or the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to going concern in accordance with Rule 9.8.6R(3) of the Listing Rules of the UK Financial Conduct Authority is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland), the Companies Act 2014 (CA14) and the Listing Rules applicable to the Company (Listing Rules) require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

Independent Auditors' Report to the Members of Grafton Group plc (continued)

Reporting on other information (continued)

Report of the Directors

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors (excluding the information included in the "Non Financial Statement" on which we are not required to report) for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Directors (excluding the information included in the "Non Financial Statement" on which we are not required to report). (CA14)

Corporate governance statement

- In our opinion, based on the work undertaken in the course of the audit of the financial statements,
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014;

  included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014. (CA14)
- Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement. (CA14)
- In our opinion, based on the work undertaken during the course of the audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 and regulation 6 of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 is contained in the Corporate Governance Statement. (CA14)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or to draw attention to regarding:

- The directors' confirmation on page 48 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 74 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit. (Listing Rules)

Other code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors on page 104 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 75 to 78 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the Company financial statements to be readily and properly audited.
- The Company Balance Sheet is in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Prior financial year Non Financial Statement

We are required to report if the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 in respect of the prior financial year. We have nothing to report arising from this responsibility.

Appointment

We were appointed by the directors on 4 July 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

Paul O'Connor
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
9 March 2020

Group Income Statement
For the year ended 31 December 2019

	Notes	2019 £'000	2018 Restated £'000
Revenue	2	**2,672,281**	2,603,120
Operating costs	3	**(2,481,392)**	(2,427,445)
Property profits		**6,894**	4,854
Operating profit		**197,783**	180,529
Finance expense	7	**(27,391)**	(7,071)
Finance income	7	**2,249**	944
Profit before tax		**172,641**	174,402
Income tax charge	9	**(28,717)**	(29,619)
Profit after tax for the financial year from continuing operations		**143,924**	144,783
(Loss)/profit after tax from discontinued operations	28	**(24,692)**	5,620
Profit after tax for the financial year		**119,232**	150,403
Profit attributable to:			
Owners of the Parent		**119,232**	150,403
Profit attributable to:			
Continuing operations		**143,924**	144,783
Discontinued operations		**(24,692)**	5,620
Earnings per ordinary share (continuing operations) – basic	11	**60.53p**	60.93p
Earnings per ordinary share (continuing operations) – diluted	11	**60.32p**	60.76p
Earnings per ordinary share (discontinued operations) – basic	11	**(10.38p)**	2.37p
Earnings per ordinary share (discontinued operations) – diluted	11	**(10.35p)**	2.36p
Earnings per ordinary share (total) – basic	11	**50.14p**	63.29p
Earnings per ordinary share (total) – diluted	11	**49.97p**	63.12p

On behalf of the Board

Gavin Slark
Director
9 March 2020

David Arnold
Director

Group Statement of Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Profit after tax for the financial year		**119,232**	150,403
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
– on foreign currency net investments		**(8,474)**	1,775
– on disposal of Group businesses		**(664)**	–
		(9,138)	1,775
Fair value movement on cash flow hedges:			
– Effective portion of changes in fair value of cash flow hedges		**(90)**	92
– Net change in fair value of cash flow hedges transferred from equity		**151**	337
Deferred tax on cash flow hedges	26	**(9)**	(45)
		(9,086)	2,159
Items that will not be reclassified to the income statement			
Remeasurement (loss)/gain on Group defined benefit pension schemes	32	**(1,291)**	1,205
Deferred tax on Group defined benefit pension schemes	26	**373**	(386)
		(918)	819
Total other comprehensive income		**(10,004)**	2,978
Total comprehensive income for the financial year		**109,228**	153,381
Total comprehensive income attributable to:			
Owners of the Parent		**109,228**	153,381
Total comprehensive income for the financial year		**109,228**	153,381

On behalf of the Board

Gavin Slark
Director
9 March 2020

David Arnold
Director

Group Balance Sheet
As at 31 December 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Goodwill	12	**657,845**	646,198
Intangible assets	15	**103,268**	79,809
Property, plant and equipment	13(a)	**500,924**	521,631
Right-of-use asset	13(b)	**522,245**	–
Investment properties	13(d)	**12,526**	15,048
Deferred tax assets	26	**7,600**	9,395
Finance lease receivable	17(b)	**2,417**	–
Retirement benefit assets	32	**756**	1,469
Other financial assets	14	**127**	123
Total non-current assets		**1,807,708**	1,273,673
Current assets			
Properties held for sale	13(c)	**16,274**	11,595
Inventories	16	**317,632**	350,061
Trade and other receivables	17(a)	**388,023**	451,245
Finance lease receivable	17(b)	**297**	–
Cash and cash equivalents	20	**348,787**	222,984
Derivative financial instruments	22	**7**	49
Total current assets		**1,071,020**	1,035,934
Total assets		**2,878,728**	2,309,607
EQUITY			
Equity share capital	18	**8,516**	8,514
Share premium account	18	**213,719**	213,430
Capital redemption reserve	19	**621**	621
Revaluation reserve	19	**12,954**	13,146
Shares to be issued reserve	19	**12,889**	11,220
Cash flow hedge reserve	19	**9**	(43)
Foreign currency translation reserve	19	**70,142**	79,280
Retained earnings		**1,047,698**	974,271
Treasury shares held	18	**(3,897)**	(3,897)
Total equity attributable to owners of the Parent		**1,362,651**	1,296,542
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**339,261**	273,476
Lease liabilities	20	**487,999**	–
Obligations under finance leases	20	**–**	1,774
Provisions	23	**15,785**	21,651
Retirement benefit obligations	32	**21,939**	21,632
Derivative financial instruments	22	**–**	–
Deferred tax liabilities	26	**47,109**	42,444
Total non-current liabilities		**912,093**	360,977
Current liabilities			
Interest-bearing loans and borrowings	20	**–**	332
Lease liabilities	20	**55,368**	–
Obligations under finance leases	20	**–**	435
Derivative financial instruments	22	**–**	103
Trade and other payables	24	**511,855**	608,659
Current income tax liabilities		**27,461**	33,036
Provisions	23	**9,300**	9,523
Total current liabilities		**603,984**	652,088
Total liabilities		**1,516,077**	1,013,065
Total equity and liabilities		**2,878,728**	2,309,607

On behalf of the Board

Gavin Slark
Director
9 March 2020

David Arnold
Director

Group Cash Flow Statement
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Profit before taxation from continuing operations		**172,641**	174,402
(Loss)/profit before taxation from discontinued operations	28	**(23,564)**	6,923
Profit before taxation		**149,077**	181,325
Finance income	7	**(2,249)**	(944)
Finance expense	7	**27,391**	7,071
Operating profit		**174,219**	187,452
Depreciation	13(a)/13(b)	**105,137**	41,875
Amortisation of intangible assets	15	**9,634**	7,118
Share-based payments charge	33	**6,171**	6,193
Movement in provisions	23	**4,876**	(1,525)
Asset impairment and fair value (gains)/losses		**1,982**	1,159
Goodwill written off on disposal of Group businesses	12	**–**	3,580
Loss/(profit) on sale of Group businesses	28	**19,828**	(1,649)
(Profit)/loss on sale of property, plant and equipment		**(672)**	577
Property profit		**(6,894)**	(4,854)
Contributions to pension schemes in excess of IAS 19 charge		**116**	(2,565)
(Increase)/decrease in working capital	27	**(23,261)**	(28,153)
Cash generated from operations		**291,136**	209,208
Interest paid		**(25,911)**	(6,628)
Income taxes paid	9	**(31,752)**	(24,299)
Cash flows from operating activities		**233,473**	178,281
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		**2,651**	7,350
Proceeds from sale of properties held for sale		**14,705**	2,614
Proceeds from sale of investment properties		**–**	934
Proceeds from sale of Group businesses (net)	28	**66,513**	12,951
Interest received		**1,059**	944
		84,928	24,793
Outflows			
Acquisition of subsidiary undertakings and businesses (net of cash acquired)	28	**(92,583)**	(73,815)
Investment in intangible assets – computer software	15	**(2,059)**	(6,859)
Purchase of property, plant and equipment	13(a)	**(50,375)**	(66,713)
		(145,017)	(147,387)
Cash flows from investing activities		**(60,089)**	(122,594)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**291**	1,283
Proceeds from borrowings		**116,256**	244,910
		116,547	246,193
Outflows			
Repayment of borrowings		**(59,590)**	(294,233)
Dividends paid	10	**(43,986)**	(38,598)
Treasury shares purchased		**(6,080)**	–
Payment on lease liabilities		**(52,835)**	(433)
		(162,491)	(333,264)
Cash flows from financing activities		**(45,944)**	(87,071)
Net increase/(decrease) in cash and cash equivalents		**127,440**	(31,384)
Cash and cash equivalents at 1 January		**222,984**	253,659
Effect of exchange rate fluctuations on cash held		**(1,637)**	709
Cash and cash equivalents at 31 December		**348,787**	222,984
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**348,787**	222,984

Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Year to 31 December 2019			
At 1 January 2019	**8,514**	**213,430**	**621**
Profit after tax for the financial year	**–**	**–**	**–**
Total other comprehensive income			
Remeasurement loss on pensions (net of tax)	**–**	**–**	**–**
Movement in cash flow hedge reserve (net of tax)	**–**	**–**	**–**
Currency translation effect on foreign currency net investments	**–**	**–**	**–**
Total other comprehensive income	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**–**
Transactions with owners of the Parent recognised directly in equity			
Dividends paid (Note 10)	**–**	**–**	**–**
Issue of Grafton Units	**2**	**289**	**–**
Share based payments charge	**–**	**–**	**–**
Tax on share based payments	**–**	**–**	**–**
Purchase of treasury shares	**–**	**–**	**–**
Cancellation of treasury shares	**–**	**–**	**–**
Transfer from shares to be issued reserve	**–**	**–**	**–**
Transfer from revaluation reserve	**–**	**–**	**–**
	2	**289**	**–**
At 31 December 2019	**8,516**	**213,719**	**621**

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Year to 31 December 2018			
At 1 January 2018	8,494	212,167	621
Profit after tax for the financial year	–	–	–
Total other comprehensive income			
Remeasurement gain on pensions (net of tax)	–	–	–
Movement in cash flow hedge reserve (net of tax)	–	–	–
Currency translation effect on foreign currency net investments	–	–	–
Total other comprehensive income			–
Total comprehensive income	–	–	–
Transactions with owners of the Parent recognised directly in equity			
Dividends paid (Note 10)	–	–	–
Issue of Grafton Units	20	1,263	–
Share based payments charge	–	–	–
Tax on share based payments	–	–	–
Transfer from shares to be issued reserve	–	–	–
Transfer from revaluation reserve	–	–	–
	20	1,263	–
At 31 December 2018	8,514	213,430	621

Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total equity £'000
13,146	**11,220**	**(43)**	**79,280**	**974,271**	**(3,897)**	**1,296,542**
–	**–**	**–**	**–**	**119,232**	**–**	**119,232**
–	**–**	**–**	**–**	**(918)**	**–**	**(918)**
–	**–**	**52**	**–**	**–**	**–**	**52**
–	**–**	**–**	**(9,138)**	**–**	**–**	**(9,138)**
–	**–**	**52**	**(9,138)**	**(918)**	**–**	**(10,004)**
–	**–**	**52**	**(9,138)**	**118,314**	**–**	**109,228**
–	**–**	**–**	**–**	**(43,986)**	**–**	**(43,986)**
–	**–**	**–**	**–**	**–**	**–**	**291**
–	**6,171**	**–**	**–**	**–**	**–**	**6,171**
–	**485**	**–**	**–**	**–**	**–**	**485**
–	**–**	**–**	**–**	**–**	**(6,080)**	**(6,080)**
–	**–**	**–**	**–**	**(6,080)**	**6,080**	**–**
–	**(4,987)**	**–**	**–**	**4,987**	**–**	**–**
(192)	**–**	**–**	**–**	**192**	**–**	**–**
(192)	**1,669**	**–**	**–**	**(44,887)**	**–**	**(43,119)**
12,954	**12,889**	**9**	**70,142**	**1,047,698**	**(3,897)**	**1,362,651**

Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total equity £'000
13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587
–	–	–	–	150,403	–	150,403
–	–	–	–	819	–	819
–	–	384	–	–	–	384
–	–	–	1,775	–	–	1,775
–		384	1,775	819	–	2,978
–	–	384	1,775	151,222	–	153,381
–	–	–	–	(38,598)	–	(38,598)
–	–	–	–	–	–	1,283
–	6,193	–	–	–	–	6,193
–	(304)	–	–	–	–	(304)
–	(3,413)	–	–	3,413	–	–
(181)	–	–	–	181	–	–
(181)	2,476	–	–	(35,004)	–	(31,426)
13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542

Notes to the Group Financial Statements

1. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The IFRSs applied in these financial statements were those effective for accounting periods ending on 31 December 2019.

New Standards, Amendments and Interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have been applied in preparing these financial statements. None of these have had a significant effect on the financial statements of the Group or parent company, except for the following:

IFRS 16 – Leases (effective date: financial year beginning 1 January 2019) introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, with a practical expedient for short-term leases and leases of low value assets.

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information from 1 January 2019. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from leases using the approach set out in IFRS 16.C8(b)(ii). The Group has a large number of property, vehicle and equipment leases as well as a small number of leases where the Group acts as a lessor. The standard has a material impact on the Group with the recognition of lease liabilities and right-of-use assets, however the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years. Further details on the impact of adopting IFRS 16 are set out in note 36 to these financial statements and bridges are contained within the APM's. These also set out the impact of IFRS 16 on the key ratios of the Group.

Identification of leases

The identification of leases involves judgement as IFRS 16 defines a lease as a contract (or part of a contract) that, for a period of time in exchange for consideration, conveys the right to:

- control an identified asset;
- obtain substantially all economic benefits from use of the asset; and
- direct the use of the asset

The Group has availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

Lease term

The lease term is the non-cancellable period for which the Group has the right to use an underlying asset together with:

- periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

This assessment involves the exercise of judgement by the Group.

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable for the lease term, discounted using the incremental borrowing rate. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.5 per cent.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments)
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees (e.g. if the fair value of the asset at the end of the lease term is below an agreed amount, the lessee would pay to the lessor an amount equal to the difference between the fair value and agreed amount);
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability does not include variable elements which are dependent on external factors, e.g. payments that are based on turnover. Instead, such variable elements are recognised directly in the income statement.

Judgements applied include determining the lease term for those leases with termination or extension options and the discount rate used which is based on incremental borrowing rate. Such judgements could impact the lease term and significantly the resultant lease liability and right-of-use asset recognised.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. dilapidation costs, the Group recognises a provision for dilapidations under IAS 37 in its balance sheet.

1. Summary of Significant Accounting Policies (continued)

Initial measurement of right-of-use asset

The right-of-use asset comprises the amount of the initial measurement of the lease liability, adjusted for:
- any lease payments made at or before the commencement date, less any lease incentives
- any initial direct costs incurred by the Group.

In addition, where the Group subleases a headlease (or part thereof) to a third party and such sublease is deemed by the Group to be a finance sublease, the right-of-use asset relating to sublease is derecognised and a finance lease receivable is recognised.

Subsequent measurement of lease liability

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any material adjustments outlined above during the periods presented.

Subsequent measurement of right-of-use asset

After initial measurement, the right-of-use assets are measured at cost less accumulated depreciation, adjusted for:
- any impairment losses in accordance with IAS 36 Impairment of Assets
- any remeasurement of the lease liability.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Lease modifications

A lease modification is a change to the original terms and conditions of the lease. The effective date of the modification is deemed to be the date when both parties agree to a lease modification.

A lease modification is accounted for as a separate lease if:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope of the lease.

If both criteria are met, the Group adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a change in the lease terms does not meet the test outlined above, the Group must modify the initially recognised components of the lease contract.

Sublease accounting

Where the Group acts as a lessor, the sublease is classified as a finance lease or an operating lease. A lease is deemed to be a finance lease where the lease transfers substantially all the risks and rewards incidental to the ownership of the underlying asset. Otherwise, the lease is deemed to be an operating lease.

Where the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. The Group assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If the head lease is not a short-term lease or low-value lease and the sublease is deemed to be a finance lease, the Group recognises a lease liability relating to the head lease but does not recognise a corresponding right-of-use asset. Instead, the Group recognises a finance lease debtor relating to the sublease.

IFRIC 23 – Uncertainty over Income Tax Treatments (effective date: beginning 1 January 2019) – This IFRIC did not have a material impact on the Group in the current period.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement (effective date: beginning 1 January 2019) – This amendment did not have a material impact on the Group in the current period.

1. Summary of Significant Accounting Policies (continued)

Statement of Compliance (continued)

New Standards, Amendments and Interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or parent company.

Basis of Preparation

The consolidated Financial Statements are presented in sterling, rounded to the nearest thousand and are prepared on a going concern basis. The Statements have been prepared under the historical cost convention, as modified by the previous revaluation of land and buildings, the measurement at fair value of share-based payments at initial date of award and the measurement at fair value of all derivative financial instruments. The carrying values of recognised assets and liabilities that are fair value hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Management believes that the estimates and assumptions made are reasonable based on the information available to it at the time that those estimates and assumptions are made. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements are set out in Note 34 and relate primarily to provisions for liabilities, valuation of inventory, accounting for defined benefit pension schemes, goodwill impairment, fair value of investment properties, rebate income, current taxation and IFRS 16 "leases".

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all subsidiaries drawn up to 31 December each year.

The financial year-end of the Group's subsidiaries are coterminous.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained and they cease to be consolidated from the date on which the Group loses control. The definition of control is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue Recognition

Revenue comprises the fair value of consideration receivable for goods and services supplied to external customers in the ordinary course of the Group's activities and excludes inter-company revenue and value added tax.

In general, revenue is recognised to the extent that the Group has satisfied its performance obligations to the buyer and the buyer has obtained control of the goods or services being transferred. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Service revenue comprises tool hire revenue and is recognised over the period of hire.

Revenues are recorded based on the price specified in the sales invoices/ contracts net of actual and estimated returns, rebates and any discounts granted and in accordance with the terms of sale. Accumulated experience is used to estimate returns, rebates and discounts using the expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

1. Summary of Significant Accounting Policies (continued)

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker, being the Board, who is responsible for allocating resources and assessing performance.

Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in sterling. Items included in the financial statements of each of the Group's entities are measured using its functional currency, being the currency of the primary economic environment in which the entity operates which is primarily euro and sterling. The functional currency of the parent company is euro.

Transactions and Balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for the effective portion designated as a hedge of a net investment in a foreign operation which is recognised in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to sterling at the foreign exchange rates ruling at the balance sheet date. Results and cash flows of subsidiaries which do not have sterling as their functional currency are translated into sterling at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra-Group loans deemed to be quasi equity in nature, are recognised directly in other comprehensive income, in the currency translation reserve. The portion of exchange gains or losses on foreign currency borrowings or derivatives used to provide a hedge against a net investment in a foreign operation that is designated as a hedge of those investments is recognised directly in other comprehensive income to the extent that they are determined to be effective. The ineffective portion is recognised immediately in the income statement.

Movements since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are reclassified to the income statement on disposal of the related business.

Share Capital and Share Premium

The company's share capital and share premium has been translated from euro into sterling at historic rates of exchange at the dates of transactions.

Exceptional Items and Non-Recurring Items

The Group has adopted a policy in relation to its income statement which seeks to highlight significant items within the Group's results. Such items may include significant restructuring and onerous lease provisions, profit or loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items which, by virtue of their scale and nature, should be disclosed in the income statement or related notes. Where exceptional items are not significant for separate presentation, they are disclosed as non-recurring items.

Property profit is disclosed as a separate line item on the face of the Income Statement. Property profit arises when the proceeds, less costs to sell, exceed the carrying value of the disposed property.

Rebate Arrangements

Rebate arrangements are a common component of supplier agreements in the merchanting industry. As part of its on-going business activities, Grafton Group plc has entered into such arrangements with a significant number of its suppliers.

Supplier rebates received and receivable in respect of goods which have been sold to the Group's customers are deducted from cost of sales in the income statement. Where goods on which rebate has been earned remain in inventory at the year-end, an appropriate rebate deduction is made from the gross balance sheet carrying value of that inventory. The rebate deduction is only released to the income statement when the goods are ultimately sold.

At the year-end the balance sheet includes a balance representing unpaid amounts receivable from suppliers.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, net foreign exchange losses on monetary items and gains and losses on hedging instruments that are recognised in the income statement. The net finance cost of pension scheme obligations is recognised as a finance expense in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is included as a finance expense or finance income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement as incurred using the effective interest rate method.

1. Summary of Significant Accounting Policies (continued)

Finance Income

Finance income comprises interest income on cash and cash equivalents, dividend income, gains on the disposal of financial assets, and gains on hedging instruments that are recognised in profit or loss. The net expected return on defined benefit pension scheme plan assets is recognised as finance income in the income statement. Interest income is recognised in the income statement as it accrues using the effective interest rate method.

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined as when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

The consideration transferred does not include amounts related to the settlement of the pre-existing relationships. Such amounts are generally recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill acquired is allocated, at acquisition date, to the groups of Cash Generating Units ("CGU's") expected to benefit from synergies related to the acquisition. Where management reassesses its groups of CGU's, goodwill is reallocated on a relative value basis.

Goodwill is measured at cost less accumulated impairment losses. The CGU's represent the lowest level within the Group at which goodwill is monitored for internal management purposes. These units are no larger than the operating segments determined in accordance with IFRS 8: Operating Segments. Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment exists.

Where the recoverable amount of a cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed once recognised.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, is included in determining the profit or loss arising on disposal.

Intangible Assets (Computer Software)

Acquired computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises of purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:

- An asset can be separately identified;
- It is probable that the asset created will generate future economic benefits;
- The development cost of the asset can be measured reliably;
- The completion and implementation of the asset is technically feasible;
- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met.

Computer software is amortised over its expected useful life, which ranges from 4 to 10 years, by charging equal instalments to the income statement from the date the assets are ready for use.

1. Summary of Significant Accounting Policies (continued)

Intangible Assets (Other than Goodwill and Computer Software)

An intangible asset, other than goodwill and computer software, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill at fair value on the date of acquisition if the intangible asset meets the definition of an asset and the fair value can be reliably measured.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying value of intangible assets is reviewed for impairment at each reporting date and is also subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

Intangible assets are amortised on a straight-line basis. In general, finite life intangible assets are amortised over periods ranging from one to twenty years, depending on the nature of the intangible asset.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's freehold properties in Ireland were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation. The valuations were deemed to be cost for the purposes of transition to IFRS as adopted by the EU.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

Freehold buildings	50 – 100 years
Freehold land	Not depreciated
Leasehold buildings	Lease term or up to 100 years
Plant and machinery	5 – 20 years
Motor vehicles	5 – 10 years
Plant hire equipment	4 – 10 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is firstly dealt with through the revaluation reserve relating to that asset with any residual amount being transferred to the income statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of replacing the item can be reliably measured. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investment Properties

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes from owner occupied or held for sale to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

1. Summary of Significant Accounting Policies (continued)

Assets Held for Sale

Non-current assets that are expected to be recovered principally through sale rather than continuing use and meet the IFRS 5 criteria are classified as held for sale. These assets are shown in the balance sheet at the lower of their carrying amount and fair value less any costs to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains or losses on re-measurement are recognised in the income statement.

Investments

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value with changes in fair value recognised directly in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit and loss following derecognition of the investment. Dividends from such investments are recognised in the income statement and are reported as non-operating items.

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IFRS 13, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group balance sheet. They are assessed for impairment annually.

Leases (prior year comparatives under IAS 17)

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. Leased assets are recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of finance leases. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of the obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis as a reduction of the lease expense.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made using the expected credit loss model which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due.

Bad debts are written-off in the income statement when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and the commencement of legal proceedings.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have an original maturity of three months or less. In addition, for the purposes of the Group cash flow statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Bank overdrafts are included within current interest- bearing loans and borrowings in the Group balance sheet.

1. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments and Hedging Activities

Derivative financial instruments, principally interest rate and currency swaps/forwards, are used in certain circumstances to hedge the Group's exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at fair value and thereafter are subsequently re-measured at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest rate and currency swaps/forwards is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swap counterparties.

The method of recognising the resulting gain or loss on re-measurement to fair value depends on whether the derivative is designated as a hedging instrument. Where derivatives are not designated or do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of the resulting gains or losses depends on the nature of the item being hedged. The Group designates certain derivatives for various purposes in hedge relationships in one or more of the following types of relationships:

(i) Fair value hedge: Hedges of the fair value of recognised liabilities;
(ii) Cash flow hedge: Hedges of a particular risk associated with a highly probable forecast transaction; or
(iii) Net investment hedge: Hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items.

(i) Fair Value Hedge

Any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash Flow Hedges

The effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedge reserve in equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from other comprehensive income and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement in the period.

(iii) Hedge of Net Investment in Foreign Operation

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or finance expense. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are reclassified to the income statement as part of the overall gain or loss on sale.

Notes to the Group Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the lower of the present value of the expected cost of terminating the contract and the present value of the expected net cost of continuing with the contract.

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to provide retirement benefits.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises actuarial gains and losses immediately in other comprehensive income.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The Group determines net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period. Differences between the income recognised based on the discount rate and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as a past service cost in the income statement at the earlier of the date when the plan amendment occurs and when the related restructuring costs are recognised. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Share-Based Payment Transactions

The 2011 Long-Term Incentive Plan ("LTIP"), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees should enable employees to acquire shares in the Company subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the issue of units or by a market purchase of units. The fair value of share entitlements at the grant date is recognised as an employee expense in the income statement over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted or issued.

1. Summary of Significant Accounting Policies (continued)

Income Tax

Income tax in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit and represents the expected tax payable for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes certain items that are not tax deductible including property depreciation. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date. The Group's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Group operates. The determination of the Group's charge for income tax in the income statement requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined. The amount shown for current taxation reflects tax uncertainties and is based on the Directors' estimate of (i) the most likely amount; or (ii) the expected value of the probable outflow of economic resources that will be required. The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements. Whilst it is possible, the Group does not currently anticipate that any such differences could have a material impact on the income tax provision and profit for the period in which such a determination is made nor does it expect any significant impact on its financial position in the near term. This is based on the Group's knowledge and experience, as well as the profile of the individual components which have been reflected in the current tax liability, the status of the tax audits, enquiries and negotiations in progress at each year-end, previous claims and any factors specific to the relevant tax environments.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences:

- Goodwill that is not deductible for tax purposes;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase of Share Capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid. In the case of final dividends these are declared when authorised by the shareholders in General Meeting.

Earnings per Share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for treasury shares held and for the effects of all dilutive potential ordinary shares related to employee share schemes.

2. Segment Information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker, being the Board, in order to allocate resources to the segments and to assess their performance. Three reportable segments have been identified, Merchanting, Retailing and Manufacturing.

The Merchanting segment is engaged in the distribution of building and plumbing materials primarily to professional trades people engaged in residential repair, maintenance and improvement projects and also in residential and other new build construction from a network of 505 branches in the UK, Ireland and the Netherlands. The Plumbase and Belgium merchanting businesses were disposed in 2019.

The aggregation of operating segments into the Merchanting segment reflects, in the opinion of management, the similar economic characteristics within each of these segments as well as the similar products and services offered and supplied and the classes of customers. This is assessed by reference to gross margins and long-term growth rates of the segments.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 35 stores that supply mainly retail customers with a wide range of products for DIY and for the home and garden.

The Manufacturing segment comprises the largest manufacturer of dry mortar in Great Britain operating from 10 plants and a plastics manufacturing business in Ireland.

Information regarding the results of each operating segment is included in this note. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's Chief Operating Decision Maker. Segment operating profit is used to measure performance as such information is the most relevant in evaluating the results of the Group's segments. The impact of IFRS 16 "Leases" on the reportable segments is set out in Note 36 and within the APM's.

No segment is over reliant on any major customer and credit risk is well diversified as disclosed in Note 17.

Segment results, assets and liabilities include all items directly attributable to a segment.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

2018 restated

Certain notes below for 2018 have been restated as Plumbase and the Belgium Merchanting business were divested during the year and are now classified as discontinued operations.

2. Segment Information (continued)

Group Income Statement

	2019 Reported £'000	2019 Pre-IFRS 16 £'000	2018 Restated £'000
Revenue			
UK merchanting	**1,710,829**	**1,710,829**	1,729,508
Ireland merchanting	**464,784**	**464,784**	441,106
Netherlands merchanting	**211,820**	**211,820**	155,519
Total merchanting – continuing	**2,387,433**	**2,387,433**	2,326,133
Retailing	**205,465**	**205,465**	198,174
Manufacturing	**92,362**	**92,362**	91,992
Less: inter-segment revenue – manufacturing	**(12,979)**	**(12,979)**	(13,179)
Total revenue from continuing operations	**2,672,281**	**2,672,281**	2,603,120
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK merchanting	**105,145**	**98,047**	104,004
Ireland merchanting	**43,051**	**42,802**	41,294
Netherlands merchanting	**19,915**	**19,632**	15,958
Total merchanting – continuing	**168,111**	**160,481**	161,256
Retailing	**22,641**	**19,936**	16,785
Manufacturing	**18,633**	**18,590**	19,248
	209,385	**199,007**	197,289
Reconciliation to consolidated operating profit			
Central activities	**(11,522)**	**(11,594)**	(14,588)
	197,863	**187,413**	182,701
Property profits	**6,894**	**6,894**	4,854
Operating profit before exceptional items and intangible amortisation arising on acquisitions	**204,757**	**194,307**	187,555
Amortisation of intangible assets arising on acquisitions	**(6,974)**	**(6,974)**	(5,095)
Profit on disposal of Group businesses	**–**	**–**	1,649
Goodwill written off on disposal of Group businesses	**–**	**–**	(3,580)
Operating profit	**197,783**	**187,333**	180,529
Finance expense	**(27,391)**	**(7,800)**	(7,071)
Finance income	**2,249**	**2,249**	944
Profit before tax	**172,641**	**181,782**	174,402
Income tax expense	**(28,717)**	**(30,245)**	(29,619)
Profit after tax for the financial period from continuing operations	**143,924**	**151,537**	144,783
(Loss)/profit after tax from discontinued operations	**(24,692)**	**(25,135)**	5,620
Profit after tax for the financial period	**119,232**	**126,402**	150,403

The amount of revenue, from continuing operations, by geographic area is as follows:

	2019 Reported £'000	2018 Restated £'000
Revenue*		
United Kingdom	**1,785,451**	1,803,976
Ireland	**675,010**	643,625
Netherlands	**211,820**	155,519
Total revenue – continuing operations	**2,672,281**	2,603,120

* Service revenue, which is recognised over time, amounted to £35.9 million for the period (2018: £38.3 million)

The analysis of geographic revenue above is the same whether it is based on location of assets or customers.

Notes to the Group Financial Statements (continued)

2. Segment Information (continued)

Group Balance Sheet

Segment assets and liabilities for 2019 increased as a result of the adoption of IFRS 16 "Leases". Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities.

	2019 £'000	2018 £'000
Segment assets		
Merchanting	**2,259,418**	1,965,869
Retailing	**213,167**	64,260
Manufacturing	**48,866**	45,458
	2,521,451	2,075,587
Unallocated assets		
Deferred tax assets	**7,600**	9,395
Retirement benefit assets	**756**	1,469
Other financial assets	**127**	123
Cash and cash equivalents	**348,787**	222,984
Derivative financial instruments (current)	**7**	49
Total assets	**2,878,728**	2,309,607

	2019 £'000	2018 £'000
Segment liabilities		
Merchanting	**858,124**	574,209
Retailing	**203,684**	48,344
Manufacturing	**18,499**	17,280
	1,080,307	639,833
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**339,261**	273,808
Finance lease liabilities	**–**	2,209
Retirement benefit obligations	**21,939**	21,632
Deferred tax liabilities	**47,109**	42,444
Current income tax liabilities	**27,461**	33,036
Derivative financial instruments (non-current)	**–**	103
Total liabilities	**1,516,077**	1,013,065

Other Segment Information

	Year Ended 31 December							
	Merchanting		Retailing		Manufacturing		Group	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Capital expenditure	**43,689**	58,755	**3,287**	3,340	**3,399**	4,618	**50,375**	66,713
Investment in intangible assets	**2,017**	6,817	**–**	–	**42**	42	**2,059**	6,859
Intangible assets acquired	**33,326**	25,614	**–**	–	**–**	–	**33,326**	25,614
Depreciation on property, plant & equipment	**38,251**	36,414	**3,270**	3,014	**2,642**	2,447	**44,163**	41,875
Depreciation on right-of use asset	**43,455**	–	**17,133**	–	**386**	–	**60,974**	–
Amortisation of intangible assets	**9,594**	7,090	**–**	–	**40**	28	**9,634**	7,118

2. Segment Information (continued)

Additional Geographic Analysis

The following is a geographic analysis of the information presented above.

	Belgium		Ireland		Netherlands		UK		Group	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Capital expenditure	**313**	2,196	**9,225**	10,038	**4,070**	1,191	**36,767**	53,288	**50,375**	66,713
Investment in intangible assets	**–**	–	**61**	–	**292**	326	**1,706**	6,533	**2,059**	6,859
Intangible assets acquired	**–**	–	**–**	–	**33,326**	–	**–**	25,614	**33,326**	25,614
Segment non-current assets	**–**	23,138	**458,984**	310,523	**219,016**	66,724	**1,121,342**	862,301	**1,799,342**	1,262,686
Properties held for sale									**16,274**	11,595
Inventories									**317,812**	350,061
Trade and other receivables									**388,023**	451,245
Total segment assets									**2,521,451**	2,075,587
Segment liabilities	**–**	14,649	**355,739**	193,898	**81,899**	16,677	**642,669**	414,609	**1,080,307**	639,833

3. Operating Costs and Income

The following have been charged/(credited) in arriving at operating profit:

	2019 £'000	2018 Restated £'000	2018 Reported £'000
Non-recurring items:			
Net loss on disposal of Group businesses/Goodwill written off	**–**	1,931	1,931
Total non-recurring items	**–**	1,931	1,931
Increase in inventories (Note 27)	**(6,739)**	(20,371)	(23,759)
Purchases and consumables	**1,763,490**	1,735,185	2,002,763
Staff costs before non-recurring items (Note 6)	**395,567**	384,306	424,348
Auditor's remuneration – Group and subsidiaries	**1,122**	856	984
Auditor's remuneration – Audit services provided by other firms	**113**	–	–
Depreciation (Note 13a)	**44,163**	39,098	41,875
Depreciation on right-of-use assets (Note 13b)	**60,974**	–	–
Lease rentals and other hire charges (Note 31)	**1,378**	68,795	77,007
Amortisation of intangible assets (Note 15)	**9,634**	6,963	7,118
(Profit)/loss on disposal of property, plant and equipment	**(672)**	667	577
Selling, distribution and administrative expenses	**212,362**	210,015	237,301
	2,481,392	2,427,445	2,770,145

Notes to the Group Financial Statements (continued)

3. Operating Costs and Income (continued)

The following services were provided by the Group's Auditor:

	2019 £'000	2018 £'000
Audit services (i)		
– Group Auditor – PwC Ireland	**516**	424
– Other network firm – PwC*	**578**	541
	1,094	965
Other assurance services (ii)		
– Group Auditor – PwC Ireland	**13**	9
– Other network firm – PwC	**15**	10
	28	19
Auditor's remuneration – Group and subsidiaries (i) & (ii)	**1,122**	984
Other non-audit services		
– Group Auditor – PwC Ireland	**–**	–
– Other network firm – PwC	**–**	–
	–	–
Tax advisory services		
– Group Auditor – PwC Ireland	**–**	–
– Other network firm – PwC	**–**	–
	–	–
Total (including expenses)		
– Group Auditor – PwC Ireland	**529**	433
– Other network firm – PwC	**593**	551
	1,122	984

* 2019 fees disclosed include overruns from previous years of £40,000.

4. Exceptional Items

There were no exceptional items recognised in 2019 other than the disposal costs of the discontinued operations which are detailed in Note 28 (2018: £Nil).

5. Directors' Remuneration, Pension Entitlements and Interests

	2019 £'000	2018 £'000
Emoluments	**1,992**	2,815
Benefits under Long-Term Incentive Plan (LTIP)*	**1,978**	1,220
Total emoluments	**3,970**	4,035
Emoluments above include the following pension payments/contributions		
– Defined contribution **	**210**	209
	210	209

* For the year ended 31 December 2019, this is the value of LTIP awards that will vest in May 2020. The value of the awards is based on the average share price of £8.19 for the three months to 31 December 2019. The vesting of these awards was subject to performance conditions over the period from 1 January 2017 to 31 December 2019. For the year ended 31 December 2018, this is the value of LTIP awards that vested in May 2019. The value of this award has been updated from that disclosed last year to reflect the share price of £9.035 on the date of vesting.

** This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a payment in lieu of pension made through the payroll. This amount is accruing to two directors at 31 December 2019 (2018: two).

Further information on Directors' remuneration, pension entitlements and interests in shares and share entitlements is presented in the Report of the Remuneration Committee on Directors' Remuneration on pages 81 to 97.

6. Employment

The average number of persons employed during the year by segment was as follows:

	2019 Total	2019 Continuing	2018 Continuing	2018 Reported
Merchanting	**11,616**	**10,337**	10,317	11,293
Retailing	**1,103**	**1,103**	1,096	1,096
Manufacturing	**220**	**220**	224	224
Holding company	**22**	**22**	24	24
	12,961	**11,682**	11,661	12,637

The aggregate remuneration costs of employees were:

	2019 Total £'000	2019 Continuing* £'000	2018 Restated* £'000	2018 Reported £'000
Wages and salaries	**368,734**	**342,957**	335,825	370,067
Social welfare costs	**39,170**	**35,108**	33,073	38,316
Share based payments charge	**6,171**	**6,171**	6,193	6,193
Defined benefit pension (Note 32)	**3,072**	**3,072**	2,763	2,763
Defined contribution pension and related costs	**8,745**	**8,259**	6,452	7,009
Staff costs charged to operating profit	**425,892**	**395,567**	384,306	424,348
Net finance cost on pension scheme obligations (Note 32)	**411**	**411**	503	503
Charged to income statement	**426,303**	**395,978**	384,809	424,851
Remeasurement loss/(gain) on pension schemes (Note 32)	**1,291**	**1,291**	(1,205)	(1,205)
Total employee benefit cost	**427,594**	**397,269**	383,604	423,646

* This amount represents the aggregate remuneration costs of employees from continuing operations only.

The share-based payments charge was derived on the basis of the Group's expectation of the number of shares likely to vest having regard to the service, the historic performance of the Group over the period since the share entitlements were granted and the forecast performance over the remaining life of share awards.

Total capitalised costs in the year of £0.3 million (2018: £2.0 million) related to the development of computer software for internal use.

Key Management

The cost of key management including Directors is set out in the table below:

	2019	2018
Number of individuals	**8**	8

	2019 £'000	2018 £'000
Short-term employee benefits	**2,146**	3,146
Share-based payment charge	**1,389**	1,505
Retirement benefits expense	**271**	271
Charged to operating profit	**3,806**	4,922

7. Finance Expense and Finance Income

	2019 £'000	2018 £'000
Finance expense:		
Interest on bank loans, US senior notes and overdrafts	**7,101***	5,865*
Net change in fair value of cash flow hedges transferred from equity	**151**	337
Interest on lease liabilities	**19,728**	–
Interest on obligations under finance leases	**–**	165
Net finance cost on pension scheme obligations	**411**	503
Foreign exchange loss	**–**	201
	27,391	7,071
Finance income:		
Interest income on bank deposits	**(1,059)***	(944)*
Foreign exchange gain	**(1,190)**	–
	(2,249)	(944)
Net finance expense recognised in income statement	**25,142**	6,127

* Net bank/loan note interest of £6.0 million (2018: £4.9 million). Including interest on lease liabilities, this amounts to £25.8 million (2018: £5.1 million)

Amounts relating to items not at fair value through income statement		
– Total finance expense on financial liabilities	**27,240**	6,734
– Total finance income on financial assets	**(2,249)**	(944)
Recognised directly in other comprehensive income		
Currency translation effects on foreign currency net investments	**(8,474)**	1,775
Effective portion of changes in fair value of cash flow hedges	**(90)**	92
Net change in fair value of cash flow hedges transferred to income statement	**151**	337
	(8,413)	2,204

8. Foreign Currencies

The results and cash flows of the subsidiaries with euro functional currencies have been translated into sterling using the average exchange rate for the year. The balance sheets of subsidiaries with euro functional currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date.

The average sterling/euro rate of exchange for the year ended 31 December 2019 was Stg87.78 pence (2018: Stg88.47 pence). The sterling/euro exchange rate at 31 December 2019 was Stg85.08 pence (2018: Stg89.45 pence).

9. Income Tax

(a) Income tax recognised in income statement

	2019 £'000	2018 Restated £'000
Current tax expense		
Irish corporation tax	**6,716**	4,823
UK and other corporation tax	**20,156**	23,093
	26,872	27,916
Deferred tax expense		
Irish deferred tax expense relating to the origination and reversal of temporary differences	**1,504**	1,484
Deferred tax credit resulting from change in tax rates	**(153)**	(489)
UK and other deferred tax expense relating to the origination and reversal of temporary differences	**494**	708
	1,845	1,703
Total income tax expense in income statement	**28,717**	29,619

9. Income Tax (continued)

Taxation

The income tax expense of £28.7 million (2018: £29.6 million) was equivalent to an effective tax rate of 16.6 per cent on profit from continuing operations (2018: 17.0 per cent). The rate is lower than the rate of 17.7 per cent guided at the time of our Interim Results due to higher than anticipated reliefs and allowances in the UK. The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland and the Netherlands. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax where the highest proportion of Group profits are earned. In 2016 legislation was passed to reduce this rate by two percent to 17 per cent with effect from 1 April 2020. This reduction is now expected to be put on hold and the 2016 legislation amended to maintain the rate at its current level of 19 per cent.

Taxation paid in 2019 was £31.8 million. In 2018 taxation paid was £24.3 million which reflected the availability of tax allowances and various reliefs carried forward from prior years.

The amount shown for current taxation reflects tax uncertainties and is based on the Directors' estimate of: (i) the most likely amount; or (ii) the expected value, of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

(b) Reconciliation of effective tax rate

	2019 £'000	2018 Restated £'000
Profit before tax	**172,641**	174,402
Profit before tax multiplied by the Irish standard rate of tax of 12.5% (2018: 12.5%)	**21,580**	21,800
Effects of:		
Expenses not deductible for tax purposes	**3,304**	4,247
Differences in effective tax rates on overseas earnings	**5,652**	6,692
Effect of change in tax rates	**(153)**	(489)
Items not previously recognised for deferred tax	**(1,030)**	(667)
Other differences	**(636)**	(1,964)
Total income tax expense in income statement	**28,717**	29,619

(c) Deferred tax recognised directly in equity/other comprehensive income

	2019 £'000	2018 £'000
Actuarial movement on pension schemes (Note 32)	**(373)**	386
Employee share schemes	**(485)**	304
Financing – cash flow hedge	**9**	45
	(849)	735

At 31 December 2019 the Group had no recognised deferred tax assets on tax losses (2018: £2.6 million) as a result of the remaining tax losses in Ireland being fully utilised and following the disposal of the Belgium business in 2019, which had deferred tax assets on tax losses.

Deferred income tax liabilities have not been recognised for any taxes that would be payable on the unremitted earnings of certain subsidiaries as it is probable that any temporary differences will not reverse in the foreseeable future.

Notes to the Group Financial Statements (continued)

10. Dividends

	2019 £'000	2018 £'000
Group		
Interim dividend of 12.00p per Grafton Unit – paid 5 April 2019	**28,532**	–
Interim dividend of 6.50p per Grafton Unit – paid 11 October 2019	**15,454**	–
Interim dividend of 10.25p per Grafton Unit – paid 6 April 2018	**–**	24,334
Interim dividend of 6.00p per Grafton Unit – paid 28 September 2018	**–**	14,264
	43,986	38,598

The payment in 2019 of a second interim dividend for 2018 of 12.00 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £28.5 million. An interim dividend for 2019 of 6.50 pence per share was paid on 11 October 2019 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £15.5 million.

A second interim dividend of 12.50 pence will be paid on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 6 March 2020 (the "Record Date") and the cash consideration will be paid on 6 April 2020. A liability in respect of this second interim dividend has not been recognised at 31 December 2019, as there was no present obligation to pay the dividend at the year-end. The dividend payable on 6 April 2020 of £29.7 million will be recognised in 2020.

11. Earnings per Share – Group

The computation of basic, diluted and adjusted earnings per share is set out below. The pre-IFRS 16 earnings per share computation is set out within the APM's.

	2019 £'000	2018 Restated £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year from continuing operations	**143,924**	144,783
(Loss)/profit after tax for the financial year from discontinued operations	**(24,692)**	5,620
Numerator for basic and diluted earnings per share	**119,232**	150,403
Profit after tax for the financial year from continuing operations	**143,924**	144,783
Net loss on disposal of Group businesses including Goodwill written off	**–**	1,931
Tax on disposal of Group businesses	**–**	488
Amortisation of intangible assets arising on acquisitions	**6,974**	5,095
Tax relating to amortisation of intangible assets arising on acquisitions	**(1,474)**	(1,025)
Numerator for adjusted earnings per share	**149,424**	151,272

Denominator for basic and adjusted earnings per share:	Number of Grafton Units	Number of Grafton Units
Weighted average number of Grafton Units in issue	**237,785,154**	237,626,735
Dilutive effect of options and awards	**797,483**	664,353
Denominator for diluted earnings per share	**238,582,637**	238,291,088
Earnings per share (pence) – from continuing operations		
– Basic	**60.53**	60.93
– Diluted	**60.32**	60.76
Adjusted earnings per share (pence) – from continuing operations		
– Basic	**62.84**	63.66
– Diluted	**62.63**	63.48
Earnings per share (pence) – from discontinued operations		
– Basic	**(10.38)**	2.37
– Diluted	**(10.35)**	2.36
Earnings per share (pence) – from total operations		
– Basic	**50.14**	63.29
– Diluted	**49.97**	63.12

The weighted average potential employee share entitlements over 1,351,421 Grafton Units (2018: 1,165,051) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

12. Goodwill

Cost	2019 £'000	2018 £'000
At 1 January	**646,198**	591,746
Arising on acquisitions (Note 28)	**53,263**	56,218
Disposal of Group businesses (Note 28)	**(28,113)**	(3,580)
Translation adjustment	**(13,503)**	1,814
At 31 December	**657,845**	646,198

Goodwill Acquired

Goodwill acquired during the year in the amount of £53.3 million (2018: £56.2 million) was allocated to the Netherlands merchanting CGU. Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group. Intangible assets which formed part of the acquisition consideration are detailed in Note 15.

Disposal of Group Businesses

During the year the Group completed the disposal of a number of businesses which were no longer considered to be a good strategic fit in the Group's portfolio of businesses. These were the Plumbase business and the Belgium merchanting business. This resulted in a write-off of goodwill amounting to £28.1 million.

Goodwill Impaired

There were no impairments during the year (2018: £Nil). Total accumulated impairment losses at 31 December 2019 amounted to £Nil (2018: £Nil).

Cash Generating Units

Goodwill arising as part of a business combination is allocated to groups of cash generating units ("CGUs") for the purpose of impairment testing based on the Group's existing business segments or,where appropriate, recognition of a new CGU. The CGUs represent the lowest level at which goodwill is monitored for internal management purposes and are not larger that the operating segments determined in accordance with IFRS 8, Operating Segments. A total of six CGUs (2018: seven) have been identified and these are analysed between the three reportable segments as follows:

	Cash-generating units		Goodwill	
	2019 Number	2018 Number	2019 £'000	2018 £'000
Merchanting	**3**	4	**655,681**	644,034
Retailing	**1**	1	**–**	–
Manufacturing	**2**	2	**2,164**	2,164
	6	7	**657,845**	646,198

Impairment Testing

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. The recoverable amount of each cash generating unit is determined based on value-in-use calculations. The carrying value of each cash generating unit was compared to its estimated value-in-use. There were no impairments during the year (2018: £Nil).

Value-in-use Calculations

The value-in-use is calculated on the basis of estimated future cash flows discounted to present value. Estimated future cash flows were determined by reference to the budget for 2020 and management forecasts for each of the following years from 2021 to 2024 inclusive. The terminal value was calculated using a long-term growth rate in respect of the years after 2024. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for each of the businesses within the CGUs. The assumptions used are also referenced against external industry data.

The key assumptions used in the value-in-use calculations are the revenue growth rate, the discount rate and the long term growth rate. The pre-tax discount rates used were based on the Group's estimated weighted average cost of capital, adjusted to reflect risks associated with each CGU. The discount rates range from 6.9 per cent to 7.7 per cent (2018: 8.3 per cent to 10.0 per cent). In determining the terminal value of the value-in-use, it was assumed that cash flows after the first five years will increase at a long term growth rate of two per cent (2018: two per cent). The rate assumed was based on an assessment of the likely long term growth prospects of the individual CGUs.

12. Goodwill (continued)

Significant Goodwill Amounts

The UK merchanting, Irish merchanting and Netherlands merchanting CGUs have significant amounts of goodwill. Prior to the acquisition of Polvo in 2019, the Netherlands merchanting CGU was not considered significant and therefore was not disclosed separately.

A summary of the allocated goodwill and the assumptions relating to the recoverable amounts of these CGUs is shown below:

	UK Merchanting		Irish Merchanting		Netherlands Merchanting	
	2019	2018	**2019**	2018	**2019**	2018
Goodwill (£'000)	**396,207**	415,207	**154,666***	162,611	**104,808**	57,062
Recoverable amount basis	**Value-in-use**	Value-in-use	**Value-in-use**	Value-in-use	**Value-in-use**	Value-in-use
Revenue growth rate average	**1.3%**	1.7%	**3.3%**	5.3%	**3.4%**	5.3%
Long term growth rate	**2.0%**	2.0%	**2.0%**	2.0%	**2.0%**	2.0%
Discount rate (pre-tax)	**7.7%**	9.9%	**7.1%**	9.4%	**6.9%**	8.3%

* The movement in the goodwill allocated to Irish merchanting relates to foreign exchange movements.

The remaining goodwill balance of £2.2 million (2018: £68.4 million) is allocated to the UK manufacturing CGU (2018: three CGUs) and the goodwill amount of this CGU is not significant.

Sensitivity Analysis

The value-in-use calculations are sensitive to changes in the key assumptions of the revenue growth rate, the discount rate and the long term growth rate. While management believes that the value-in-use assumptions are prudent, sensitivity analysis was performed based on reasonable changes in each of the three key assumptions in the significant CGUs. No reasonably possible change in any of the key assumptions would cause the carrying amount to exceed the recoverable amount in significant CGUs.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties

13. (a) Property, Plant and Equipment

	Freehold land and buildings £'000	Leasehold improvements/ buildings £'000	Plant and Machinery £'000	Motor Vehicles £'000	Total £'000
Year ended 31 December 2018					
Opening net book amount	290,383	70,092	97,160	46,777	504,412
Additions	948	10,282	35,616	19,867	66,713
Arising on acquisitions	–	907	457	126	1,490
Disposals	(698)	(259)	(2,277)	(436)	(3,670)
Disposal of Group businesses	(1,712)	(618)	(264)	(619)	(3,213)
Depreciation charge	(4,196)	(5,419)	(22,108)	(10,152)	(41,875)
Impairment charge	(646)	(13)	(387)	–	(1,046)
Reclassification to properties held for sale	(1,683)	–	–	–	(1,683)
Reclassification to investment properties	(762)	–	–	–	(762)
Reclassifications	711	(792)	(94)	175	–
Exchange adjustment	880	86	293	6	1,265
Closing net book amount	283,225	74,266	108,396	55,744	521,631
At 31 December 2018					
Cost	328,863	125,361	291,503	91,034	836,761
Accumulated depreciation & impairment loss	(45,638)	(51,095)	(183,107)	(35,290)	(315,130)
Net Book Amount	283,225	74,266	108,396	55,744	521,631
Year ended 31 December 2019					
Opening net book amount	**283,225**	**74,266**	**108,396**	**55,744**	**521,631**
Derecognition of finance lease assets	**–**	**(2,541)**	**–**	**–**	**(2,541)**
Opening net book amount (revised)	**283,225**	**71,725**	**108,396**	**55,744**	**519,090**
Additions	**1,268**	**9,967**	**25,171**	**13,969**	**50,375**
Arising on acquisitions (Note 28)	**13,458**	**–**	**2,153**	**93**	**15,704**
Disposals	**(141)**	**–**	**(1,533)**	**(44)**	**(1,718)**
Disposal of Group businesses (Note 28)	**(4,558)**	**(5,252)**	**(3,601)**	**(3,116)**	**(16,527)**
Depreciation charge (Note 3)	**(4,303)**	**(6,233)**	**(22,423)**	**(11,204)**	**(44,163)**
Impairment charge	**(58)**	**(43)**	**(2,773)**	**–**	**(2,874)**
Reclassification to properties held for sale	**(11,094)**	**–**	**–**	**–**	**(11,094)**
Reclassifications	**(2,105)**	**2,225**	**(88)**	**(32)**	**–**
Exchange adjustment	**(5,841)**	**(61)**	**(1,657)**	**(310)**	**(7,869)**
Closing net book amount	**269,851**	**72,328**	**103,645**	**55,100**	**500,924**
At 31 December 2019					
Cost	**314,933**	**113,627**	**287,022**	**80,644**	**796,226**
Accumulated depreciation & impairment loss	**(45,082)**	**(41,299)**	**(183,377)**	**(25,544)**	**(295,302)**
Net Book Amount	**269,851**	**72,328**	**103,645**	**55,100**	**500,924**

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at fair value or cost. The valuations,which were made on an open market for existing use basis,were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom and the Netherlands, are included at cost less depreciation.

Following a review of the assets in a number of the UK merchanting businesses during the year, an impairment charge of £2.8 million was recognised.

Property, plant and equipment included leased assets as follows:

	Leasehold properties	
	2019 £'000	2018 £'000
Cost	**–**	6,763
Accumulated depreciation	**–**	(4,222)
Net book amount	**–**	2,541
Depreciation charge for year	**–**	272

The Group repaid finance leases amounting to £0.0 million (2018: £0.4 million) and entered no new leases during the year.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties (continued)

13. (b) Right-Of-Use Asset

	Property & Land Leases £'000	Vehicles £'000	Other Assets £'000	Total £'000
Year ended 31 December 2019				
Recognised at 1 January 2019 (Note 36)	**546,497**	**14,604**	**583**	**561,684**
Additions	**32,848**	**7,939**	**–**	**40,787**
Arising on acquisitions (Note 28)	**16,378**	**1,404**	**–**	**17,782**
Disposals of Group businesses (Note 28)	**(21,894)**	**(1,801)**	**(221)**	**(23,916)**
Disposals	**(36)**	**–**	**–**	**(36)**
Depreciation charge	**(53,554)**	**(7,275)**	**(145)**	**(60,974)**
Translation adjustment	**(12,642)**	**(388)**	**(52)**	**(13,082)**
Closing net book amount	**507,597**	**14,483**	**165**	**522,245**

The carrying value of assets, which the Group sublease as operating leases and generate income from, amounted to £20.1 million.

Cashflows relating to extension options and termination options of £1.9 million are not reflected in the measurement of lease liabilities.

The average lease term is 7.8 years.

The amounts recognised in the income statement include:

	2019 £'000
Depreciation expense on right-of-use assets (Note 3)	**60,974**
Interest expense on lease liabilities (Note 7)	**19,728**
Expense relating to short-term leases (Note 3)	**1,326**
Expense relating to leases of low-value assets (Note 3)	**28**
Expense relating to variable lease payments not included in the measurements of lease liability (Note 3)	**24**
Income from subleasing right-of-use assets – operating leases	**440**

The total cash outflow for leases amounted to £73.5 million.

There have been no sale and leaseback transactions in the current year.

The undiscounted lease amounts to be received on an annual basis, in relation to the sublease operating lease income, is £0.5 million for each of the first five years and £0.5 million for year six onwards with total income from subleasing right-of-use assets amounting to £3.0 million.

Further detail on the impact of IFRS 16 "Leases" is set out within the APM's and also in Note 31, Note 34 and Note 36.

13. (c) Properties Held for Sale

	Carrying Amount £'000
At 1 January 2018	5,055
Transfers from property, plant and equipment	1,683
Transfers from investment properties	7,025
Impairments and property revaluations	(113)
Disposals	(2,075)
Translation adjustment	20
At 31 December 2018	**11,595**
Transfers from property, plant and equipment	**11,094**
Transfers from investment properties	**2,095**
Impairments and property revaluations	**–**
Disposals	**(8,072)**
Translation adjustment	**(438)**
At 31 December 2019	**16,274**

During the year four Irish and six UK held for sale properties were sold. Five properties were transferred from investment properties and eight properties from PPE. The total number of properties held for sale at 31 December 2019 was 19 (2018: 16), of which 11 (2018: 12) are located in the UK, two (2018: four) in Ireland and six in Belgium (2018:Nil). These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Six properties are included at a fair value of £6.0 million (2018: five properties at £9.6 million).

Properties held for sale are not used in the course of business and are available for immediate sale in their present condition subject to terms that are usual and customary for properties of this nature. The individual properties were being actively marketed at the year end and the Group is committed to its plan to sell these properties in an orderly manner.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties (continued)

13. (d) Investment Properties

	Fair Value £'000
At 1 January 2018	22,056
Transfers to properties held for sale	(7,025)
Transfers from property, plant & equipment	762
Disposals	(876)
Translation adjustment	131
At 31 December 2018	**15,048**
Transfers to properties held for sale	**(2,095)**
Transfers from property, plant & equipment	**–**
Disposals	**–**
Translation adjustment	**(427)**
At 31 December 2019	**12,526**

The total number of investment properties at 31 December 2019 was 15 (2018: 20) of which five (2018: seven) are located in the UK, 10 (2018: 12) in Ireland and none (2018: one) in Belgium. These properties are being held pending a further recovery in the property market or with a view to enhancing their development potential by securing alternative use planning.

Investment properties of £12.5 million, which are separately classified in non-current assets, are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions that were recently completed or on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields, consideration of residual value and consultations with external agents who have knowledge of local property markets.

13. (e) Fair Value Hierarchy – Properties Held for Sale Carried at Fair Value and Investment Properties

As noted in the Group's accounting policies on pages 123 and 124, properties held for sale are held at the lower of carrying amount and fair value less costs to sell. Investment properties are carried at fair value. Fair value is defined as the price that would be received if the asset was sold in an orderly transaction between market participants based on the asset's highest and best use. Valuations are reviewed each year by the Directors with movements in fair value recognised in the income statement.

The Group reviewed its property portfolio during the year. Properties held for sale comprise land and buildings in a number of locations across the UK, Ireland and Belgium. Investment properties, comprising land and buildings located in the UK and Ireland, are held for capital appreciation and or rental income and are not occupied by the Group for trading purposes. This also includes parts of properties which are sub-let to third parties. Properties held for sale comprise properties that are held at a carrying amount of £10.3 million (2018: £2.0 million) and properties held at a fair value of £6.0 million (2018: £9.6 million). Investment properties are held at a fair value of £12.5 million (2018: £15.0 million).

In general, valuations have been undertaken having regard to comparable market transactions between informed market participants. Due to very limited transactions for properties of a similar nature in the UK and Ireland, the valuations of a number of properties were determined internally with reference to local knowledge, valuation techniques and the exercise of judgement following consultation with property advisers with recent experience of the location and nature of the properties being valued.

Property valuations are derived from data which is not publicly available and for these reasons, the valuations of the Group's property portfolio is classified as level 3 as defined by IFRS 13.

The following is a summary of valuation methods used in relation to the Group's held for sale and investment properties which are carried at fair value:

At 31 December 2019

	Comparable market transactions £'000	Offers from third parties £'000	Total 2019 £'000
Properties Held for Sale			
Merchanting segment	**6,003**	**–**	**6,003**

	Comparable market transactions £'000	Other methods £'000	Total 2019 £'000
Investment Properties			
Merchanting segment	**8,945**	**–**	**8,945**
Manufacturing segment	**2,424**	**1,157**	**3,581**
Total	**11,369**	**1,157**	**12,526**

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties (continued)

At 31 December 2018

	Comparable market transactions £'000	Offers from third parties £'000	Total 2018 £'000
Properties Held for Sale			
Merchanting segment	9,626	–	9,626

	Comparable market transactions £'000	Other methods £'000	Total 2018 £'000
Investment Properties			
Merchanting segment	11,283	–	11,283
Manufacturing segment	2,548	1,217	3,765
Total	13,831	1,217	15,048

The following table shows a reconciliation from the opening balance to the closing 2019 balance for level 3 fair values:

	Properties held for sale 2019 £'000	**Investment properties 2019 £'000**
Balance at beginning of year	**11,595**	**15,048**
Transfers from property, plant and equipment	**11,094**	**–**
Transfers from investment properties	**2,095**	**(2,095)**
Disposals	**(8,072)**	**–**
Fair value losses	**–**	**–**
Foreign exchange movement	**(438)**	**(427)**
Balance at end of year	**16,274**	**12,526**
Recorded at fair value	**6,003**	**12,526**
Recorded at cost	**10,271**	**–**
Total	**16,274**	**12,526**

The following table shows a reconciliation from the opening balance to the closing 2018 balance for level 3 fair values:

	Properties held for sale 2018 £'000	Investment properties 2018 £'000
Balance at beginning of year	5,055	22,056
Transfers from property, plant and equipment	1,683	762
Transfers from investment properties	7,025	(7,025)
Disposals	(2,075)	(876)
Fair value losses	(113)	–
Foreign exchange movement	20	131
Balance at end of year	11,595	15,048
Recorded at fair value	9,626	15,048
Recorded at cost	1,969	–
Total	11,595	15,048

During 2018 a fair value loss of £0.1 million was recognised on two properties.

Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring the fair value of properties held for sale and investment properties and the significant unobservable inputs used. Where market transactions are present, the comparable market transaction method is used for land and buildings held for sale or capital appreciation.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties (continued)

Properties Held for Sale

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Comparable market transactions – price per square metre: The value is based on comparable market transactions after discussion with independent agents and/or with reference to other information sources.	**UK – Regional (excluding major cities)** • Comparable warehouse market prices of £411 – £853 per square metre. • Comparable industrial development land prices of £50,000 – £322,000 per acre. **Ireland – Urban (major cities)** • Comparable warehouse market price of £407 per square metre. • Comparable industrial or development land prices of £243,000 per acre.	**The estimated fair value would increase/ (decrease) if:** • Comparable market prices per square metre were higher/(lower).
Offers from third parties: This valuation is used for properties that have formal offer documentation received by the Group from third parties intending to purchase with a reasonable possibility of a sale being concluded.	**UK – Regional (excluding major cities)** • One offer for warehouse property at £865 per square metre. • One offer for residential property at £745 per square metre. • One offer for industrial land at £225,000 per acre. **UK – Urban (major cities)** • One retail property under offer at £3,444 per square metre.	**The estimated fair value would increase/ (decrease) if:** • Final offer price increased/(decreased).

Investment Properties

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Comparable market transactions – price per square metre: The value is based on comparable market transactions after discussion with independent registered property appraisers and/or with reference to other information sources.	**Ireland – Urban** • Comparable office market prices of £425 – £1,113 per square metre. • Comparable minimum warehouse market prices of £213 – £847 per square metre. • Comparable agricultural land market prices of £11,486 per acre. • Comparable minimum industrial land price of £85,080 per acre. **Ireland – Regional** • Comparable warehouse market prices of £151 – £319 per square metre. **UK – Regional (excluding major cities)** • Comparable warehouse market price of £335 – £350 per square metre. **UK – Urban** • Comparable market prices for development sites of between £150,000 and £1,500,000 per acre.	**The estimated fair value would increase/ (decrease) if:** • Comparable market prices per square metre were higher/(lower).

14. Other Financial Assets

	Other Investments £'000
At 1 January 2018	126
Translation adjustment	(3)
At 31 December 2018	**123**
Translation adjustment	**4**
At 31 December 2019	**127**

Other investments represent sundry equity investments at cost less provision for impairment.

15. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
Cost				
At 1 January 2018	34,000	3,440	25,251	62,691
Additions	6,859	–	–	6,859
Acquisitions (Note 28)	701	1,880	23,033	25,614
Translation adjustment	(3)	20	144	161
At 1 January 2019	**41,557**	**5,340**	**48,428**	**95,325**
Additions	**2,059**	**–**	**–**	**2,059**
Acquisitions (Note 28)	**–**	**2,202**	**31,124**	**33,326**
Translation adjustment	**15**	**(231)**	**(2,473)**	**(2,689)**
At 31 December 2019	**43,631**	**7,311**	**77,079**	**128,021**
Amortisation				
At 1 January 2018	2,767	697	4,887	8,351
Charge for the year	2,023	511	4,584	7,118
Translation adjustment	1	3	43	47
At 1 January 2019	**4,791**	**1,211**	**9,514**	**15,516**
Charge for the year	**2,660**	**638**	**6,336**	**9,634**
Translation adjustment	**(15)**	**(45)**	**(337)**	**(397)**
At 31 December 2019	**7,436**	**1,804**	**15,513**	**24,753**
Net book amount				
At 31 December 2019	**36,195**	**5,507**	**61,566**	**103,268**
At 31 December 2018	36,766	4,129	38,914	79,809

Computer software of £36.2 million at 31 December 2019 (2018: £36.8 million) reflects the cost of the Group's investment to upgrade the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment. A number of these systems are not yet available for use in the business and are therefore not amortised.

Customer relationships and trade names arise from business combinations (Note 28) and are amortised over their estimated useful lives. The average remaining amortisation period is 6.9 years (2018: 7.6 years).

The amortisation expense of £9.6 million (2018: £7.1 million) has been charged in operating costs in the income statement. Amortisation on acquired intangibles amounted to £7.0 million (2018: £5.1 million).

16. Inventories

	2019 £'000	2018 £'000
Raw materials	**1,397**	1,511
Finished goods	**1,365**	1,465
Goods purchased for resale	**314,870**	347,085
	317,632	350,061

The inventory provision at 31 December 2019 was £37.4 million (2018: £37.9 million).

Movement in Impairment Provision

	2019 £'000	2018 £'000
At 1 January	**37,877**	36,379
Utilised/released during year	**(2,656)**	(3,702)
Acquired during the year	**3,869**	188
Disposed during the year	**(5,726)**	–
Additional provision	**4,948**	4,851
Translation adjustment	**(926)**	161
At 31 December	**37,386**	37,877

17. Trade and Other Receivables and Finance Lease Receivables

17. (a) Trade and Other Receivables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade receivables	**262,100**	306,569
Other receivables	**125,923**	144,676
	388,023	451,245

The carrying amount of trade and other receivables represents the maximum credit exposure. Other receivables primarily includes prepayments and rebates receivable. Rebates receivable amounted to £97.5 million (2018: £100.4 million).

The maximum exposure to credit risk for trade debtors and other receivables at the reporting date by geographic region was as follows:

	Carrying Amount	
	2019 £'000	2018 £'000
United Kingdom	**266,300**	325,471
Ireland	**84,417**	84,965
Netherlands	**37,306**	24,428
Belgium	**–**	16,381
	388,023	451,245

Credit risk is well diversified over a broad customer base with only a small number of accounts with balances in excess of £100,000 that collectively account for a small proportion of total trade receivables. A number of businesses also have credit insurance policies in place which provide cover for the most significant amounts receivable from customers in the UK and Ireland.

Notes to the Group Financial Statements (continued)

17. Trade and Other Receivables and Finance Lease Receivables (continued)
The ageing of trade and other receivables, under the expected credit loss model, at 31 December 2019 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
Not Past Due	**307,548**	**(934)**	**306,614**	**0.3%**
Past Due				
0-30 days	**44,880**	**(458)**	**44,422**	**1.0%**
30-60 days	**21,342**	**(2,548)**	**18,794**	**11.9%**
+60 days	**23,603**	**(5,410)**	**18,193**	**22.9%**
	89,825	**(8,416)**	**81,409**	**9.4%**
	397,373	**(9,350)**	**388,023**	**2.4%**

The ageing of trade and other receivables at 31 December 2018 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
Not Past Due	290,924	(281)	290,643	0.1%
Past Due				
0-30 days	118,190	(460)	117,730	0.4%
30-60 days	31,048	(2,074)	28,974	6.7%
+60 days	22,350	(8,452)	13,898	37.8%
	171,588	(10,986)	160,602	6.4%
	462,512	(11,267)	451,245	2.4%

Movement in Impairment Provision

	2019 £'000	2018 £'000
At 1 January	**11,267**	10,136
Written-off during year	**(3,321)**	(4,511)
Additional provision	**3,571**	5,610
Acquired during the year	**80**	–
Disposed during the year	**(2,054)**	–
Translation adjustment	**(193)**	32
At 31 December	**9,350**	11,267

17. (b) Finance Lease Receivables

Finance lease receivables are presented in the balance sheet as follows:

	2019 £'000	2018 £'000
Lease receivables:		
Lease receivables – falling due within one year	**297**	–
Lease receivables – falling due after more than one year	**2,417**	–
	2,714	–

The maturity profile of the Group's finance lease receivables can be summarised as follows:

	2019 £'000
Lease receivables:	
Due within one year	**297**
Between one and two years	**287**
Between two and three years	**261**
Between three and four years	**203**
Between four and five years	**195**
After five years	**1,471**
	2,714

The average lease term is 21.5 years. The finance income on the finance lease receivable recognised during the year amounted to £0.4 million.

18. Share Capital and Share Premium

Group and Company

	2019 €'000	2018 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	**15,000**	15,000
30 billion 'A' ordinary shares of 0.001c each	**300**	300
	15,300	15,300

Year ended 31 December 2019

	Issue Price	Number of Shares	2019 Nominal Value £'000
Issued and fully paid:			
Ordinary shares – nominal value of €0.05			
At 1 January		**238,265,881**	**8,492**
Issued under UK SAYE scheme*		**41,917**	**2**
2011 Long Term Incentive Plan			
April 2016 LTIP Award	**Nil**	**664,961**	**29**
Cancellation of shares repurchased		**(664,961)**	**(29)**
At 31 December		**238,307,798**	**8,494**
'A' ordinary shares			
At 1 January		**4,050,519,977**	**22**
'A' ordinary shares issued in year (net of cancellations)		**712,589**	**–**
At 31 December		**4,051,232,566**	**22**
Total nominal share capital issued			**8,516**

* Refer to Note 33 which outlines the issue price of the 2019, 2018, 2017 and the 2014 SAYE Schemes.

Year ended 31 December 2018

	Issue Price	Number of Shares	2018 Nominal Value £'000
Issued and fully paid:			
Ordinary shares – nominal value of €0.05			
At 1 January		237,785,549	8,472
Issued under UK SAYE scheme**		212,475	8
2011 Long Term Incentive Plan			
April 2015 LTIP Award	Nil	267,857	12
At 31 December		238,265,881	8,492
'A' ordinary shares			
At 1 January		4,042,354,333	22
'A' ordinary shares issued in year		8,165,644	–
At 31 December		4,050,519,977	22
Total nominal share capital issued			8,514

** Refer to Note 33 which outlines the issue price of both the 2018, 2017 and 2014 SAYE Schemes.

18. Share Capital and Share Premium (continued)

Share Premium

Group	2019 £'000	2018 £'000
At 1 January	**213,430**	212,167
Premium on issue of shares under UK SAYE scheme	**289**	1,263
At 31 December	**213,719**	213,430

Grafton Units Issued and Cancelled During 2019

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 706,878 (2018: 480,332). Costs relating to the issues were £Nil (2017: £Nil). The number of Grafton units cancelled during the year was 664,961 (2018: Nil). The total consideration received, net of cancellations, amounted to £291,000 (2018: £1,283,000).

Grafton Units

At 31 December 2019 and 31 December 2018, a Grafton Unit comprised one ordinary share of Euro five cent and 17 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Ordinary Shares

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

'A' Ordinary Shares

At 31 December 2019, there were seventeen 'A' Ordinary shares per Grafton Unit. All 'A' ordinary shares purchased between 2004 to 2009 were cancelled.

The 'A' ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.001 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

'C' Ordinary Shares (in Grafton Group (UK) plc)

The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared on 'C' ordinary shares, the holder of a Grafton Unit shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, pari passu with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share,with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

Treasury Shares

The Group holds 500,000 (2018: 500,000) Grafton Units at a cost of £3,897,000 (2018: £3,897,000) as treasury shares.

19. Group Statement of Changes in Equity

The capital redemption reserve is a legal reserve which arose from the purchase of 'A' ordinary shares, the redemption of redeemable shares in prior years and the buy-back and cancellation of shares.

The revaluation reserve was created as a result of a revaluation of Irish properties in 1998.

The shares to be issued reserve comprises amounts expensed in the income statement in connection with share-based payments, net of transfers to retained earnings on the exercise of share entitlements and the lapsing of such entitlements.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The foreign currency translation reserve arises from the currency effect on translation of the investment in subsidiaries with euro functional currencies as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

20. Interest-Bearing Loans and Borrowings

	2019 £'000	2018 £'000
Non-current liabilities		
Euro bank loans	**203,814**	131,138
US senior notes	**135,447**	142,338
Total interest-bearing loans and borrowings	**339,261**	273,476
Lease liabilities	**487,999**	–
Finance leases	**–**	1,774
	827,260	275,250
Current liabilities		
Euro bank loans	**–**	332
Lease liabilities	**55,368**	–
Finance leases	**–**	435
	55,368	767

The increase in non-current interest-bearing loans and borrowings largely reflects net borrowings drawn during the year offset by the foreign exchange movement on translation of the Group's euro denominated bank loans/US senior notes into sterling at the year end.

Maturity of Financial Liabilities

The maturity profile of the Group's interest-bearing financial liabilities (bank debt, loan notes and lease liabilities) can be summarised as follows:

	Bank loans 2019 £'000	US senior notes 2019 £'000	Lease liabilities 2019 £'000	Total 2019 £'000	Bank loans 2018 £'000	US senior notes 2018 £'000	Lease liabilities 2018 £'000	Total 2018 £'000
Due within one year	**–**	**–**	**55,368**	**55,368**	332	–	435	767
Between one and two years	**–**	**–**	**53,251**	**53,251**	282	–	435	717
Between two and three years	**–**	**–**	**52,011**	**52,011**	304	–	435	739
Between three and four years	**203,814**	**–**	**50,624**	**254,438**	250	–	435	685
Between four and five years	**–**	**–**	**49,931**	**49,931**	130,302	–	435	130,737
After five years	**–**	**135,447**	**282,182**	**417,629**	–	142,338	34	142,372
	203,814	**135,447**	**543,367**	**882,628**	131,470	142,338	2,209	276,017
Derivatives				**(7)**				54
Gross debt				**882,621**				276,071
Cash and short-term deposits				**(348,787)**				(222,984)
Net debt				**533,834**				53,087
Shareholders' equity				**1,362,651**				1,296,542
Gearing				**39%**				4%

The following table indicates the effective interest rates at 31 December 2019 in respect of interest bearing financial assets and financial liabilities and the periods during which they re-price.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Euro deposits	**0.00%**	**5,448**	**5,448**	**–**	**–**	**–**	**–**
Sterling deposits	**0.77%**	**162,747**	**162,747**	**–**	**–**	**–**	**–**
Cash at bank	**(0.40%)–0.75%**	**180,592**	**180,592**	**–**	**–**	**–**	**–**
Total cash and cash equivalents		**348,787**	**348,787**	**–**	**–**	**–**	**–**
Floating rate debt:							
Euro loans	**0.77%**	**(203,814)**	**(203,814)**	**–**	**–**	**–**	**–**
Total floating rate debt		**(203,814)**	**(203,814)**	**–**	**–**	**–**	**–**
Fixed rate debt:							
Lease liabilities	**3.63%**	**(543,367)**	**(27,684)**	**(27,684)**	**(53,251)**	**(152,566)**	**(282,182)**
US senior notes	**2.49%**	**(135,447)**	**–**	**–**	**–**	**–**	**(135,447)**
Total fixed rate debt		**(678,814)**	**(27,684)**	**(27,684)**	**(53,251)**	**(152,566)**	**(417,629)**
Derivatives		**7**	**7**	**–**	**–**	**–**	**–**
Total Net Debt		**(533,834)**	**117,296**	**(27,684)**	**(53,251)**	**(152,566)**	**(417,629)**

20. Interest-Bearing Loans and Borrowings (continued)

Borrowing Facilities and US Senior Notes

The Group had bilateral loan facilities of £476.7 million with six relationship banks at the year-end. An option was exercised in February 2018 to extend facilities of £412.9 million for a further year to March 2023. In 2018, the maturity of the remaining facility of £63.8 million was extended by two years to March 2023.

The Group had an undrawn committed borrowing facility at 31 December 2019 of £271.4 million (2018: £356.8 million) in respect of which all conditions precedent were met.

In September 2018, the Group raised €160 million (31 December 2019: £136.1 million before costs) through an issue of unsecured senior notes in the US Private Placement market with ten and twelve year maturities at an average fixed annual coupon of 2.5 per cent and used the proceeds received to refinance existing debt. The issue of these notes diversified the Group's sources of funding by re-entering the US Private Placement market, extended the maturity profile of debt and provided greater certainty over the cost of debt for an extended period at attractive rates.

The average maturity of committed bank facilities and unsecured senior notes at 31 December 2019 was 4.6 years.

The following table indicates the effective interest rates at 31 December 2018 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were adjusted for the effect of derivatives.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Euro deposits	0.00%	3,939	3,939	–	–	–	–
Sterling deposits	0.74%	9,943	9,943	–	–	–	–
Cash at bank	0.00% – 0.70%	209,102	209,102	–	–	–	–
Total cash and cash equivalents		222,984	222,984	–	–	–	–
Floating rate debt:							
Euro loans	0.93%	(68,855)	(68,855)	–	–	–	–
Total floating rate debt		(68,855)	(68,855)	–	–	–	–
Fixed rate debt:							
Euro loans	1.37%	(62,615)	(62,615)	–	–	–	–
US senior notes	2.49%	(142,338)	–	–	–	–	(142,338)
Finance leases	6.00%	(2,209)	(218)	(217)	(435)	(1,305)	(34)
Total fixed rate debt		(207,162)	(62,833)	(217)	(435)	(1,305)	(142,372)
Derivatives		(54)	(54)	–	–	–	–
Total Net Debt		(53,087)	91,242	(217)	(435)	(1,305)	(142,372)

21. Financial Instruments and Financial Risk

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

At 31 December 2019

	Fair value through OCI £'000	Amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	127	–	127	–
Trade and other receivables*	–	388,023	388,023	–
Lease receivables*	–	2,714	2,714	–
Cash and cash equivalents*	–	348,787	348,787	–
	127	739,524	739,651	–
Interest rate swaps and other derivatives	7	–	7	7
Euro bank loans	–	(203,814)	(203,814)	(205,295)
US senior notes	–	(135,447)	(135,447)	(136,128)
Lease liabilities	–	(543,367)	(543,367)	(543,367)
Trade and other payables*	–	(511,855)	(511,855)	–
	7	(1,394,483)	(1,394,476)	(884,783)

21. Financial Instruments and Financial Risk (continued)

At 31 December 2018

	Fair value through OCI £'000	Amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	123	–	123	–
Trade and other receivables*	–	451,245	451,245	–
Cash and cash equivalents*	–	222,984	222,984	–
	123	674,229	674,352	–
Interest rate swaps	(54)	–	(54)	(54)
Euro bank loans	–	(131,470)	(131,470)	(133,911)
US senior notes	–	(142,338)	(142,338)	(143,120)
Finance leases	–	(2,209)	(2,209)	(2,209)
Trade and other payables*	–	(608,659)	(608,659)	–
	(54)	(884,676)	(884,730)	(279,294)

* The Group has not disclosed the fair values of financial instruments such as short term receivables and payables because their carrying value closely approximates fair value.

Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of financial instruments carried at fair value, by valuation method. The different levels in the fair value hierarchy have been defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.
Level 3: inputs that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

- **Trade and other receivables/trade and other payables**
  For receivables and payables with a remaining life of less than six months or demand balances, fair value is the amount that is payable contractually less an impairment provision where appropriate.

- **Cash and cash equivalents, including short-term bank deposits**
  For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the carrying amount is a reasonable approximation of fair value. At 31 December 2019, £4.0 million of cash is retained in the event of a default by the Group on a letter of credit. This arrangement can be replaced at any time.

- **Other financial assets**
  Certain of the Group's financial assets are comprised of investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such investments are measured at cost less provision for impairment where appropriate and applicable.

- **Derivative instruments (Interest rate swaps & foreign currency forwards)**
  The fair values of interest rate swaps and foreign currency forwards are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using the spot, forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

- **Interest bearing loans and borrowings**
  For floating rate interest bearing loans and borrowings with a contractual repricing date of less than six months, the nominal amount is deemed to reflect fair value. For loans with repricing dates of greater than six months, the fair value is calculated based on the present value of the expected future principal and interest cash flows discounted at interest rates effective at the balance sheet date and adjusted for credit spread.

- **Lease liabilities**
  The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

- **Finance lease liabilities**
  Fair value is based on the present value of future cash flows discounted at market rates and credit spread.

21. Financial Instruments and Financial Risk (continued)

Fair Value (continued)

The following table shows the fair values of financial assets and liabilities including their level in the fair value hierarchy, all of which are considered Level 2. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2019 Total £'000	2019 Level 2 £'000
Liabilities measured at fair value		
Designated as hedging instruments		
Other derivatives and interest rate swaps	**7**	**7**
Liabilities not measured at fair value		
Liabilities at amortised cost		
Euro bank loans	**(205,295)**	**(205,295)**
US senior notes	**(136,128)**	**(136,128)**
Lease liabilities	**(543,367)**	**(543,367)**
	(884,790)	**(884,790)**

	2018 Total £'000	2018 Level 2 £'000
Liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps	(54)	(54)
Liabilities not measured at fair value		
Liabilities at amortised cost		
Euro bank loans	(133,911)	(133,911)
US senior notes	(143,120)	(143,120)
Finance leases	(2,209)	(2,209)
	(279,240)	(279,240)

Level 2 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Financial assets and liabilities measured at fair value			
Interest rate swaps and foreign currency forwards	The fair value of interest rate swaps and foreign currency forwards is calculated as the present value of the estimated future cashflows based on observable yield curves, spot and forward currency rates	Not applicable	Not applicable
Financial assets and liabilities not held at fair value			
Other financial liabilities*	Discounted cash flows	Not applicable	Not applicable

* Other financial liabilities include Euro bank loans, US senior notes and lease liabilities.

Risk Exposures and Group Treasury Policy

The Group's operations expose it to various financial risks that include credit risk, liquidity risk, currency risk and interest rate risk. The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost-efficient way. A limited number of foreign currency spot contracts, foreign exchange swaps, foreign currency forwards and interest rate swaps are undertaken periodically to hedge underlying interest rate, fair value and currency exposures and it is Board policy to manage these risks in a non-speculative manner.

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

The manner in which the Group is exposed to each of these risks and the risk management policies applied are discussed below.

The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Board and the Audit and Risk Committee have reviewed the process for identifying, evaluating and managing the significant risks affecting the business.

21. Financial Instruments and Financial Risk (continued)

Credit Risk

Credit risk arises from credit granted to customers. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Exposure to credit risk is monitored on an ongoing basis. The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by Business Unit credit control teams. Credit insurance is in place, subject to annual renewal, to cover major exposures in the UK and Irish merchanting businesses. Credit evaluations are performed regularly. New customers are subject to initial credit checks that include trade and bank references and are generally subject to restricted credit limits prior to developing a credit history. Due to the established nature of the businesses, a high proportion of customers have long-standing trading relationships with Group companies. These established customers are reviewed regularly for financial strength and the appropriateness of their credit limit.

The Group establishes a provision for impairment that represents its estimate of losses in respect of trade and other receivables. The main components of this provision are a specific loss component that relate to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and short-term bank deposits are invested with a range of banks, all with original maturities of less than 3 months at 31 December 2019.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The maximum exposure to credit risk at 31 December 2019 and 31 December 2018 was:

	2019 £'000	2018 £'000
Trade and other receivables	**388,023**	451,245
Cash and cash equivalents	**348,787**	222,984
	736,810	674,229

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in Note 17.
The maximum exposure to credit risk for cash and cash equivalents, based on the domicile of the parent bank, at the reporting date was:

	Carrying Amount	
	2019 £'000	2018 £'000
United Kingdom	**267,481**	161,183
Republic of Ireland	**70,072**	58,825
Netherlands	**4,551**	2,747
France	**6,469**	–
Belgium	**214**	229
	348,787	222,984

The majority of the Group's cash on deposit and cash balances is held with financial institutions that have an upper investment grade credit rating.

	2019 £'000	2018 £'000
Gross amounts of cash and cash equivalents	**350,159**	230,308
Amounts set off in the balance sheet*	**(1,372)**	(7,324)
Net amounts of cash and cash equivalents in the balance sheet	**348,787**	222,984

* The Group has netting arrangements in place with Bank of Ireland, HSBC and Lloyds Bank with cash balances and overdrawn positions being netted, as a legal right of set-off exists with each bank.

Foreign Currency Risk Management

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Group operations manage foreign exchange trading risks against their functional currencies. The majority of trade conducted by the Group's Irish and Dutch businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A proportion of the Group's net worth is denominated in euro. This is reflected in profit after tax reserves retained in euro denominated trading and finance companies which gives rise to translation differences on conversion to sterling.

Borrowings made in a non-functional currency are swapped into a functional currency.

21. Financial Instruments and Financial Risk (continued)

Sensitivity Analysis

A ten per cent strengthening of the sterling exchange rate against the euro exchange rate at the balance sheet date would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each euro functional currency entity and interest rates, remained constant. A ten per cent weakening of the sterling exchange rate against the euro exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity £'000	Profit after tax £'000
31 December 2019		
10% strengthening of sterling currency against the euro	**(35,354)**	(3,319)
31 December 2018		
10% strengthening of sterling currency against the euro	**(28,900)**	(4,741)

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and has hedged an element of this risk by entering into interest rate swaps. The nominal value of contracts outstanding at 31 December 2019 was £Nil (2018: £62,615,000) and the period hedged was from December 2014 to May 2019 (2018: December 2014 to May 2019).

The Group classified interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2019 was £Nil (2018: a liability of £0.1 million). A net charge of £0.1 million (2018: £0.4 million) was recorded in the cash flow hedge reserve in other comprehensive income and a balance of £Nil (2018: £Nil), being the ineffective portion of the hedge, was taken to the Group Income Statement (Note 7).

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Bank borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

In September 2018, the Group raised €160 million (31 December 2019: £136.1 million before costs) through an issue of unsecured senior notes in the US Private Placement market with ten and twelve year maturities at an average fixed annual coupon of 2.5 per cent and used the proceeds received to refinance existing debt. The issue of these notes diversified the Group's sources of funding by re-entering the US Private Placement market, extended the maturity profile of debt and provided greater certainty over the cost of debt for an extended period at attractive rates.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 50 basis points in interest rates at the reporting date would have increased profit before tax and equity by £1.0 million (2018: £0.4 million) on the basis of the Group's gross debt of £882.6 million at 31 December 2019. £203.8 million of the gross debt is exposed to variable rates with the interest rate on the US senior notes of £135.4 million and the implicit interest rate on lease liabilities of £543.4 million is fixed. An increase of 50 basis points, on the same basis, would have an equal and opposite effect.

Capital Management

The capital structure of the Group comprises share capital, reserves and net debt.

The overall approach is to optimise shareholder value by leveraging the balance sheet to an appropriate level having regard to economic and trading conditions in the Group's markets, the level of internal cash generation, credit conditions generally and interest rates payable.

The Group's capital structure is kept under ongoing review and the debt component is actively managed with a view to maintaining diversified sources of funding, significant undrawn facilities and cash deposits.

The Directors monitor the Company's share price and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

The principal bank covenants, which are tested on a pre-IFRS 16 basis, are a net debt to equity ratio limit of 85 per cent, EBITDA interest cover of 4 times and a minimum shareholders' equity of £0.9 billion at 31 December 2019.

At 31 December 2019 the net debt to equity ratio was 39 per cent and shareholders' equity was £1.4 billion. EBITDA for the year was £312.6 million and underlying EBITDA interest cover for 2019 was 12.1 times. On a pre-IFRS 16 basis, the Group had net cash of £7.8 million and shareholders' equity of £1.4 billion at the year end. EBITDA for the year was £241.1 million and underlying EBITDA interest cover for 2019 was 39.9 times.

Funding and Liquidity

The Group has cash resources at its disposal through the holding of deposits and cash balances of £348.8 million at the year end (2018: £223.0 million) which together with undrawn bank facilities of £271.4 million (2018: £356.8 million) and cash-flow from operations provides flexibility in financing its operations.

21. Financial Instruments and Financial Risk (continued)

The following are the undiscounted contractual maturities of financial liabilities, including interest payments.

31 December 2019

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	**203,814**	**210,299**	**1,572**	**1,572**	**207,155**	**–**
US senior notes	**135,447**	**169,005**	**3,383**	**3,383**	**10,148**	**152,091**
Lease liabilities	**543,367**	**689,563**	**72,966**	**69,306**	**190,465**	**356,826**
Trade and other payables	**511,855**	**511,855**	**511,855**	**–**	**–**	**–**
Derivative Financial Instruments						
Interest rate swaps and other derivatives	**–**	**–**	**–**	**–**	**–**	**–**
	1,394,483	**1,580,722**	**589,776**	**74,261**	**407,768**	**508,917**

* Includes interest based on the rates in place at 31 December 2019.

31 December 2018

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	131,470	140,193	1,845	1,780	136,568	–
US senior notes	142,338	181,242	3,557	3,557	10,670	163,458
Finance leases	2,209	9,497	755	755	2,265	5,722
Trade and other payables	608,659	608,659	608,659	–	–	–
Derivative Financial Instruments						
Interest rate swaps and other derivatives	54	89	89	–	–	–
	884,730	939,680	614,905	6,092	149,503	169,180

* Includes interest based on the rates in place at 31 December 2018.

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur.

31 December 2019

	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Interest rate swaps and other derivatives	**7**	**7**	**7**	**–**	**–**	**–**	**–**	**–**

31 December 2018

	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Interest rate swaps and other derivatives	(54)	(89)	(89)	–	–	–	–	–

22. Derivatives

	2019 £'000	2018 £'000
Included in current assets and non-current liabilities:		
Fair value of interest rate swaps and other derivatives	**7**	(54)

The movement in derivatives at 31 December 2019 is due to the maturity of the Group's interest rate swaps in May 2019 and the movement in the fair values of the other derivatives.

Nature of derivative instruments as at 31 December 2019

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Foreign Currency Forwards*	**June 2019 – Feb 2020**	**Forward purchase of foreign currency liabilities**	**£1,900,000**	**£1,900,000**	**7**	**–**

* The fair value of foreign currency forwards (derivative financial instruments) are shown as current asset of £7,000 in the balance sheet.

Nature of derivative instruments as at 31 December 2018

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Interest Rate Swap	Dec 2014 to May 2019	Floating interest rate to fixed interest rate	€70,000,000	€70,000,000	–	(72)
Foreign Currency Forwards	Oct 2018 to June 2019	Forward purchase of foreign currency liabilities	£6,900,000	£6,900,000	18	–

23. Provisions

	2019 £'000	2018 £'000
Non-current liabilities		
Insurance provision	**8,939**	9,480
Onerous lease provision	–	6,521
Dilapidations provision	**5,569**	5,650
Other provisions	**1,277**	–
	15,785	21,651
Current liabilities		
Insurance provision	**3,607**	3,903
Onerous lease provision	–	1,654
Dilapidations provision	**724**	1,344
Disposal provisions	**2,401**	–
Other provisions	**2,568**	2,622
	9,300	9,523

23. Provisions (continued)

	Insurance		Onerous Leases		Dilapidations	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
At 1 January	**13,383**	13,244	**8,175**	9,849	**6,994**	6,987
Charge in year	**5,052**	4,862	**–**	437	**1,464**	1,487
Utilised	**–**	–	**–**	(1,519)	**(226)**	(1,065)
Released	**(2,570)**	(1,873)	**–**	(653)	**(105)**	(431)
Paid during the year	**(2,670)**	(2,940)	**–**	–	**–**	–
Disposed during the year	**–**	–	**–**	–	**(1,753)**	–
Recognised against right-of-use asset	**–**	–	**(8,175)**	–	**–**	–
Foreign exchange	**(649)**	90	**–**	61	**(81)**	16
At 31 December	**12,546**	13,383	**–**	8,175	**6,293**	6,994
Non-current	**8,939**	9,480	**–**	6,521	**5,569**	5,650
Current	**3,607**	3,903	**–**	1,654	**724**	1,344

	Disposal Provisions		Other Provisions		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
At 1 January	**–**	–	**2,622**	2,441	**31,174**	32,521
Charge in year	**7,216**	–	**3,295**	170	**17,027**	6,956
Utilised	**(3,861)**	–	**(876)**	–	**(4,963)**	(2,584)
Released	**(878)**	–	**(965)**	–	**(4,518)**	(2,957)
Paid during the year	**–**	–	**–**	–	**(2,670)**	(2,940)
Disposed during the year	**–**	–	**–**	–	**(1,753)**	–
Recognised against right-of-use asset	**–**	–	**–**	–	**(8,175)**	–
Foreign exchange	**(76)**	–	**(231)**	11	**(1,037)**	178
At 31 December	**2,401**	–	**3,845**	2,622	**25,085**	31,174
Non-current	**–**	–	**1,277**	–	**15,785**	21,651
Current	**2,401**	–	**2,568**	2,622	**9,300**	9,523

Insurance Provision

The insurance provision relates to actual obligations under the self-insurance elements of the Group's overall insurance arrangements which are subject to limits in respect of both individual and aggregate claims. This provision was based on an independent actuarial valuation. The provision principally covers the combined public and employer liability claims for the Group's businesses. The Group has third party insurance cover above specific limits for individual claims and has an overall maximum aggregate payable for all claims for any one year. Given the nature of employer and public liability claims, the timing of cash outflows can vary significantly. The outflow arising from the payment of claims in 2020 is expected to be at a similar level to 2019. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2019 will be paid over a two to six year period.

The incurred but not reported ("IBNR") element of the insurance provision is classified as non-current as the normal cycle for settlement of such claims is likely to be more than 12 months from the year end.

Claims no longer being challenged by the Group are classified as current liabilities at year end. The Group no longer has an unconditional right to defer payment and it is only the timing of the payment that is uncertain.

Claims in legal process are classified as non-current liabilities at year end as the Group still has an unconditional right to defer settlement since it can not generally determine the extent and duration of the legal process unless it expects to settle claims within 12 months.

Onerous Lease Provision

The onerous lease provision covers the expected cost to the Group of onerous property leases based on the present value of the unavoidable costs of meeting obligations under lease contracts where the unavoidable costs exceed the economic benefits expected to be received under the contract. The timing of cash outflows is over the remaining life of the relevant lease. Changes in trading patterns from year to year may impact forecast cashflows and alter the amount and timing of outflows. Expected reimbursements in the form of sub-lease rental income are taken into account in respect of certain properties which can be sublet.

Upon transition to IFRS 16, the right-of-use asset was reduced by the carrying amount of the onerous lease provision at 31 December 2018.

Dilapidations Provision

The dilapidations provision covers the cost of reinstating certain Group properties at the end of the lease term. This is based on the terms of individual leases which set out the conditions relating to the return of property. The timing of the outflows will match the ending of the relevant leases which ranges from two to 20 years.

Notes to the Group Financial Statements (continued)

23. Provisions (continued)

Disposals Provision

The disposal provision covers the future legal and lease commitment costs in relation to the disposal of the Belgium and Plumbase businesses.

Other Provisions

Other provisions relate to restructuring, pension contributions, legal provisions, deferred consideration and Waste Electrical & Electronic Equipment ("WEEE") provisions. None of these are individually material to require separate disclosure in the financial statements.

24. Trade and Other Payables

	2019 £'000	2018 £'000
Trade payables	**393,927**	460,778
Accruals	**79,115**	104,307
Social welfare	**4,399**	4,392
Employee income tax	**6,275**	7,660
Value added tax	**28,139**	31,522
	511,855	608,659

25. Obligations under Finance Leases

Leasehold Property

	2018		
	Minimum lease payments £'000	Interest £'000	Principal £'000
Committed finance lease obligations:			
Within one year	755	320	435
Between one and five years	3,020	1,280	1,740
Later than five years	5,722	5,688	34
	9,497	7,288	2,209

Under the terms of the leases, no contingent rents were payable at 31 December 2018.

26. Deferred Taxation

Recognised deferred tax assets and liabilities

	Assets 2019 £'000	Liabilities 2019 £'000	Net (assets)/ liabilities 2019 £'000	Assets 2018 £'000	Liabilities 2018 £'000	Net (assets)/ liabilities 2018 £'000
Property, plant and equipment	**(2,647)**	**29,555**	**26,908**	(2,429)	31,364	28,935
Employee share schemes	**(1,168)**	–	**(1,168)**	(698)	–	(698)
Financing	–	–	–	(10)	–	(10)
Other items	**(557)**	**977**	**420**	(696)	970	274
Intangibles	–	**16,577**	**16,577**	–	10,110	10,110
Tax value of losses carried forward	–	–	–	(2,636)	–	(2,636)
Pension	**(3,228)**	–	**(3,228)**	(2,926)	–	(2,926)
(Assets)/liabilities	**(7,600)**	**47,109**	**39,509**	(9,395)	42,444	33,049

The decrease in the deferred tax asset reflects the utilisation of tax allowances and reliefs for which deferred tax assets were previously recognised, offset by a small increase in the deferred tax asset in respect of property, plant and equipment and an increase in the deferred tax asset on the pension schemes deficit.

At 31 December 2019, there were unrecognised deferred tax assets in relation to capital losses of £1.6 million (31 December 2018: £1.9 million), trading losses of £1.9 million (31 December 2018: £3.3 million) and deductible temporary differences of £2.2 million (31 December 2018: £2.6 million).

Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits. The Directors believe that it is not probable that such profits will arise in the foreseeable future. The trading losses arose in entities that have incurred losses in recent years and the Directors believe that it is not probable there will be sufficient taxable profits in the relevant entities against which they can be utilised. Separately, the Directors believe that it is not probable the deductible temporary differences will be utilised.

26. Deferred Taxation (continued)

Analysis of Net Deferred Tax (asset)/liability – 2019

	Balance 1 Jan 19 £'000	Recognised in profit or loss £'000	Discontinued operations £'000	Recognised in other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on disposals (Note 28) £'000	Arising on acquisitions (Note 28) £'000	Balance 31 Dec 19 £'000
Property, plant and equipment	**28,935**	**448**	**(7)**	**–**	**(714)**	**(1,754)**	**–**	**26,908**
Employee share schemes	**(698)**	**15**	**–**	**(485)**	**–**	**–**	**–**	**(1,168)**
Financing	**(10)**	**–**	**–**	**9**	**1**	**–**	**–**	**–**
Other items	**274**	**459**	**–**	**–**	**128**	**–**	**(441)**	**420**
Intangibles	**10,110**	**(259)**	**–**	**–**	**(589)**	**–**	**7,315**	**16,577**
Tax value of losses carried forward	**(2,636)**	**1,226**	**219**	**–**	**30**	**1,161**	**–**	**–**
Pension	**(2,926)**	**(44)**	**–**	**(373)**	**115**	**–**	**–**	**(3,228)**
	33,049	**1,845**	**212**	**(849)**	**(1,029)**	**(593)**	**6,874**	**39,509**

Analysis of Net Deferred Tax (asset)/liability – 2018

	Balance 1 Jan 18 £'000	Recognised in profit or loss £'000	Recognised in other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on acquisitions £'000	Balance 31 Dec 18 £'000
Property, plant and equipment	28,676	77	–	108	74	28,935
Employee share schemes	(667)	(335)	304	–	–	(698)
Financing	(55)	–	45	–	–	(10)
Other items	52	252	–	43	(73)	274
Intangibles	5,856	(7)	–	26	4,235	10,110
Tax value of losses carried forward	(4,162)	1,543*	–	(17)	–	(2,636)
Pension	(3,581)	297	386	(28)	–	(2,926)
	26,119	1,827	735	132	4,236	33,049

* £0.1 million of this balance relates to discontinued operations.

27. Movement in Working Capital

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2018	328,525	413,095	(572,130)	169,490
Translation adjustment	1,069	977	(1,422)	624
Disposal of Group businesses	(9,984)	(6,281)	7,820	(8,445)
Acquisitions	6,692	3,083	(6,950)	2,825
Movement in 2018	23,759	40,371	(35,977)	28,153
At 1 January 2019	**350,061**	**451,245**	**(608,659)**	**192,647**
IFRS 16 impact on opening balances (Note 36)	**–**	**(7,869)**	**10,992**	**3,123**
At 1 January 2019 (revised)	**350,061**	**443,376**	**(597,667)**	**195,770**
Translation adjustment	**(7,764)**	**(7,831)**	**11,269**	**(4,326)**
Disposal of Group businesses (Note 28)	**(49,819)**	**(60,881)**	**63,041**	**(47,659)**
Consideration receivable on disposal of Group businesses (Note 28)	**–**	**1,953**	**–**	**1,953**
Acquisitions (Note 28)	**18,415**	**19,532**	**(13,146)**	**24,801**
Movement in 2019	**6,739**	**(8,126)**	**24,648**	**23,261**
At 31 December 2019	**317,632**	**388,023**	**(511,855)**	**193,800**

Notes to the Group Financial Statements (continued)

28. Acquisition & Disposals of Subsidiary Undertakings and Businesses

Acquisition of Subsidiary Undertakings and Businesses

On 1 July 2019, the Group acquired the entire share capital (100%) of Polvo BV ("Polvo"). Polvo is a distributor of ironmongery, tools, fixings and related products that trades from 51 branches in the Netherlands. The business is incorporated in the merchanting segment.

On 25 November 2019, the Group acquired 100% of Kooning Schiphol BV ("Kooning"), a single branch specialist merchant in the Netherlands. This business is also incorporated in the merchanting segment.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies that should be realised as part of the enlarged Group.

The fair values of assets and liabilities acquired in 2019 are set out below:

	Polvo £'000	Other £'000	Total £'000
Property, plant and equipment (Note 13)	15,671	33	15,704
Right-of-use asset (Note 13)	17,782	–	17,782
Intangible assets – customer relationships (Note 15)	31,124	–	31,124
Intangible assets – trade names (Note 15)	2,202	–	2,202
Inventories (Note 27)	18,097	318	18,415
Trade and other receivables (Note 27)	18,998	534	19,532
Trade and other payables (Note 27)	(12,928)	(218)	(13,146)
Lease liability	(17,782)	–	(17,782)
Employee benefits	(227)	–	(227)
Corporation tax asset/(liability)	16	(6)	10
Deferred tax liability (Note 26)	(7,315)	–	(7,315)
Deferred tax asset (Note 26)	390	51	441
Debt repaid at completion	(27,206)	(214)	(27,420)
Cash acquired	192	59	251
Net assets acquired	39,014	557	39,571
Goodwill (Note 12)	52,636	627	53,263
Consideration	**91,650**	**1,184**	**92,834**
Satisfied by:			
Cash paid	91,650	1,184	92,834
Net cash outflow – arising on acquisitions			
Cash consideration	91,650	1,184	92,834
Less: cash and cash equivalents acquired	(192)	(59)	(251)
	91,458	1,125	92,583

Acquisitions would have contributed revenue of £114.7 million and operating profit of £8.9 million in the year ended 31 December 2019 on the assumption that they had been acquired on 1 January. Acquisitions completed in 2019 contributed revenues of £52.8 million and operating profit of £3.8 million for the period from the date of acquisition until the year end.

In 2019, the Group incurred acquisition costs of £0.5m (2018: £0.7m). These have been included in operating costs in the Group Income Statement.

The fair value of identifiable net assets acquired in 2019 was £39.6 million.

	Fair Value £'000	Consideration £'000	Goodwill £'000
Total acquisitions	39,571	92,834	53,263

Any adjustments to these fair values within the twelve month timeframe from the date of acquisition will be disclosed in the 2020 Annual Report as stipulated by IFRS3 Business Combinations.

There were no adjustments processed during the year to the fair value of business combinations completed during the year ended 31 December 2018.

28. Acquisition & Disposals of Subsidiary Undertakings and Businesses (continued)

Disposal of Subsidiary Undertakings and Businesses

During the year the Group disposed of the Plumbase business in the UK and the Belgium merchanting business. These were no longer considered to be a good strategic fit with the Group's businesses.

Plumbase Disposal

On 1 October 2019, the Group completed the disposal of Plumbase, its specialist UK plumbing and heating business, to Plumbing and Heating Investments Limited ("PHIL"), a UK company engaged in the distribution of plumbing and heating products, for an enterprise value of £66.75 million. After allowing for adjustments for debt-like items and working capital, net cash proceeds of £60.5m were received on completion with an additional £2.0 million due to the Group. The disposal of Plumbase is in line with the Group's strategy of orientating towards higher returning businesses with good long-term growth prospects. Plumbase has been reported as a discontinued operation. The related goodwill allocated to the Plumbase has been written off in the year.

As a result, the net assets of the Group increased by £0.1 million representing an overall profit on disposal. The profit on disposal reflects the cash consideration of £70.7 million offset by the net book value of the assets disposed of £70.6 million. The net assets disposed include the write off of the carrying value of the allocated goodwill of £19.0 million.

Belgium Merchanting Disposal

The Group conducted a strategic review of its operations in Belgium in the context of the Group's allocation and reallocation of capital. This resulted in a decision to divest of the business and a process was initiated to dispose of the operations. The Group completed the disposal of the Belgium merchanting business on 4 October 2019. The Belgium business has been reported as a discontinued operation. The related goodwill allocated to the Belgium business has been written off in the year.

As a result, the net assets of the Group decreased by £20.0 million representing an overall loss on disposal. The loss on disposal reflects the cash consideration of £8.2 million offset by the net book value of the assets disposed of £28.1 million. The net assets disposed include the write off of the carrying value of the allocated goodwill of £9.1 million.

The carrying value of assets and liabilities disposed in 2019 are set out below:

	Belgium £'000	Plumbase £'000	Total £'000
Property, plant and equipment (Note 13)	**4,076**	**12,451**	**16,527**
Right-of-use asset (Note 13)	**9,728**	**14,188**	**23,916**
Inventories (Note 27)	**14,017**	**35,802**	**49,819**
Trade and other receivables (Note 27)	**15,839**	**45,042**	**60,881**
Trade and other payables (Note 27)	**(14,992)**	**(48,049)**	**(63,041)**
Lease liability	**(9,712)**	**(13,761)**	**(23,473)**
Provisions	**–**	**(1,753)**	**(1,753)**
Employee benefits	**(423)**	**–**	**(423)**
Corporation tax asset/(liability)	**25**	**(527)**	**(502)**
Deferred tax asset (Note 26)	**1,161**	**–**	**1,161**
Deferred tax liability (Note 26)	**(1,698)**	**(56)**	**(1,754)**
Debt disposed	**(1,177)**	**–**	**(1,177)**
Cash disposed	**2,185**	**8,236**	**10,421**
Goodwill written off (Note 12)	**9,113**	**19,000**	**28,113**
Net assets disposed	**28,142**	**70,573**	**98,715**
Cash consideration received	**(8,167)**	**(68,767)**	**(76,934)**
Cash consideration receivable (Note 27)	**–**	**(1,953)**	**(1,953)**
Net loss/(profit) on disposal of Group businesses	**19,975**	**(147)**	**19,828**
Analysis of net loss/(profit) on disposal of Group businesses			
Goodwill written off (Note 12)	**(9,113)**	**(19,000)**	**(28,113)**
(Loss)/profit on disposal	**(10,862)**	**19,147**	**8,285**
	(19,975)	**147**	**(19,828)**
Net cash inflow – arising on disposals			
Cash consideration received	**8,167**	**68,767**	**76,934**
Cash disposed	**(2,185)**	**(8,236)**	**(10,421)**
	5,982	**60,531**	**66,513**

28. Acquisition & Disposals of Subsidiary Undertakings and Businesses (continued)

Amounts recognised in the year within discontinued operations

The following amounts were recognised within discontinued operations for 2019:

	Belgium £'000	Plumbase £'000	Total £'000
Loss/(profit) on disposal of Group businesses	19,975	(147)	19,828
Foreign currency reserve on disposal of Group businesses	664	–	664
Result for the year from discontinued operations	(813)	(3,852)	(4,665)
Disposal costs*	4,892	3,973	8,865
Total exceptional items recognised in discontinued operations	**24,718**	**(26)**	**24,692**

* Disposal costs include professional fees of £4.5 million, asset impairments of £1.0 million, future lease commitment costs of £0.9 million, property registration costs of £1.2 million and other costs related to the divested businesses of £1.3 million.

Impact of Discontinued Operations

	2019 Reported £'000	**2019 Pre-IFRS16 £'000**	2018 Reported £'000
Revenue	**251,792**	**251,792**	349,623
Operating costs	**(245,297)**	**(246,442)**	(342,700)
Operating profit pre-exceptional items	**6,495**	**5,350**	6,923
Exceptional items (see above)	**(29,357)**	**(29,357)**	–
Operating (loss)/profit	**(22,862)**	**(24,007)**	6,923
Net finance costs	**(702)**	**–**	–
(Loss)/profit before tax	**(23,564)**	**(24,007)**	6,923
Income tax	**(1,128)**	**(1,128)**	(1,303)
(Loss)/profit after tax for the financial period	**(24,692)**	**(25,135)**	5,620

28. Acquisition & Disposals of Subsidiary Undertakings and Businesses (continued)
The overall impact on the Group income statement for 2019 and 2018 is set out below.

Impact on the Group Income Statement
For the year ended 31 December 2019

	2019 Continuing £'000	2019 Discontinued £'000	2019 Total £'000
Revenue	**2,672,281**	**251,792**	**2,924,073**
Operating costs	**(2,481,392)**	**(245,297)**	**(2,726,689)**
Operating profit before property profits	**190,889**	**6,495**	**197,384**
Property profits	**6,894**	**–**	**6,894**
Operating profit before exceptional items	**197,783**	**6,495**	**204,278**
Exceptional items	**–**	**(29,357)**	**(29,357)**
Operating profit	**197,783**	**(22,862)**	**174,921**
Finance expense	**(27,391)**	**(702)**	**(28,093)**
Finance income	**2,249**	**–**	**2,249**
Profit before tax	**172,641**	**(23,564)**	**149,077**
Income tax expense	**(28,717)**	**(1,128)**	**(29,845)**
Profit after tax for the financial period	**143,924**	**(24,692)**	**119,232**

Impact on the Group Income Statement
For the year ended 31 December 2018

	2018 Continuing £'000	2018 Discontinued £'000	2018 Total £'000
Revenue	2,603,120	349,623	2,952,743
Operating costs	(2,427,445)	(342,700)	(2,770,145)
Operating profit before property profits	175,675	6,923	182,598
Property profits	4,854	–	4,854
Operating profit	180,529	6,923	187,452
Finance expense	(7,071)	–	(7,071)
Finance income	944	–	944
Profit before tax	174,402	6,923	181,325
Income tax expense	(29,619)	(1,303)	(30,922)
Profit after tax for the financial period	144,783	5,620	150,403

29. Reconciliation of Net Cash Flow to Movement in Net Debt

	2019 £'000	2018 £'000
Net increase/(decrease) in cash and cash equivalents	**127,440**	(31,384)
Net movement in derivative financial instruments	**61**	430
Bank loans and loan notes acquired with subsidiaries (Note 28)*	**(27,420)**	(7,386)
Bank loans and loan notes disposed (Note 28)	**1,177**	–
Movement in debt and lease financing	**(597,924)**	49,756
Change in net debt resulting from cash flows	**(496,666)**	11,416
Translation adjustment	**15,919**	(1,597)
Movement in net debt in the year	**(480,747)**	9,819
Net debt at 1 January	**(53,087)**	(62,906)
Net debt at 31 December	**(533,834)**	(53,087)

* Repaid at completion.

Notes to the Group Financial Statements (continued)

29. Reconciliation of Net Cash Flow to Movement in Net Debt (continued)

Analysis of net debt – 2019

	Balance 31 Dec 18 £'000	IFRS 16 Leases £'000	Balance 1 Jan 19 £'000	Cashflow £'000	Acquisition £'000	Disposal £'000	Non-cash movements £'000	Translation adjustment £'000	Balance 31 Dec 19 £'000
Cash and cash equivalents	222,984	–	**222,984**	**137,610**	**251**	**(10,421)**	**–**	**(1,637)**	**348,787**
Interest bearing loans and borrowings:									
Non-current liabilities	(273,476)	–	**(273,476)**	**(84,267)**	**–**	**908**	**134**	**17,440**	**(339,261)**
Current liabilities	(332)	–	**(332)**	**27,601**	**(27,420)**	**269**	**(134)**	**16**	**–**
Total interest-bearing loans and borrowings	(273,808)	–	**(273,808)**	**(56,666)**	**(27,420)**	**1,177**	**–**	**17,456**	**(339,261)**
Lease liabilities	(2,209)	(572,673)	**(574,882)**	**72,426**	**(17,782)**	**23,473**	**(46,702)**	**100**	**(543,367)**
Derivatives – current and non-current	(54)	–	**(54)**	**61**	**–**	**–**	**–**	**–**	**7**
Net debt	(53,087)	(572,673)	**(625,760)**	**153,431**	**(44,951)**	**14,229**	**(46,702)**	**15,919**	**(533,834)**

Analysis of net debt – 2018

	Balance 1 Jan 18 £'000	Cashflow £'000	Acquisition £'000	Non-cash movements £'000	Translation adjustment £'000	Balance 31 Dec 18 £'000
Cash and cash equivalents	253,659	(37,301)	5,917	–	709	222,984
Interest bearing loans and borrowings:						
Non-current liabilities	(312,980)	41,375	–	412	(2,283)	(273,476)
Current liabilities	(478)	7,948	(7,386)	(412)	(4)	(332)
Total interest-bearing loans and borrowings	(313,458)	49,323	(7,386)	–	(2,287)	(273,808)
Finance leases	(2,623)	433	–	–	(19)	(2,209)
Derivatives – current and non-current	(484)	430	–	–	–	(54)
Net debt	(62,906)	12,885	(1,469)	–	(1,597)	(53,087)

30. Capital Expenditure Commitments

At the year end the following commitments authorised by the Board had not been provided for in the financial statements:

	2019 £'000	2018 £'000
Contracted for	**7,110**	4,965
Not contracted for	**62,103**	72,989
	69,213	77,954

Capital expenditure commitments are analysed by geography in the table below:

	2019 £'000	2018 £'000
UK	**50,466**	58,094
Ireland	**13,642**	13,905
Netherlands	**5,105**	5,483
Belgium	**–**	472
	69,213	77,954
Amounts relating to intangibles included above	**1,474**	203

31. Leases

On 1 January 2019, the Group applied IFRS 16 "Leases" using the modified retrospective approach without restatement of the comparative information.

Details of the right-of-use asset are set out in Note 13(b) with details of the lease liabilities outlined in Note 20 and Note 21. The Group has also provided detailed information on the overall impact of IFRS 16 which is contained in Note 36 and within the supplementary information to these financial statements.

31. Leases (continued)

Total commitments payable under non-cancellable operating leases in 2018 were as follows:

	Land and buildings 2018 £'000	Other 2018 £'000	Total 2018 £'000
Operating lease payments due:			
Within one year	68,832	6,323	75,155
Between two and five years	250,118	8,037	258,155
Over five years	385,046	58	385,104
	703,996	14,418	718,414

The Group leases a number of properties under operating leases. The leases typically run for a period of 15 to 25 years. Rents are generally reviewed every five years. During the year ended 31 December 2018, £77.0 million was recognised as an expense in the income statement in respect of operating leases and other hire charges.

Details of the transition to IFRS 16 "leases" are set out in Note 36 where a reconciliation of the operating lease obligations at 31 December 2018 to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019 is provided.

£1.4 million was recognised in the income statement, principally for short-term leases, during the year ended 31 December 2019, details of which are set out in Note 13(b).

32. Pension Commitments

A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

The Group operates four defined benefit schemes in Ireland, two defined benefit schemes in the UK and one scheme in the Netherlands for qualifying employees (the "DB Schemes"). The three schemes in Belgium were disposed of in 2019 as part of the sale of the Belgium merchanting businesses. All schemes except one are closed to new entrants. The DB Schemes are administered by trusts that are legally separated from the Group. The trustees of the DB Schemes are required by law to act in the interest of the members of the DB Schemes. The trustees of the DB Schemes are responsible for the investment policy of the schemes.

Under the DB Schemes, the employees are entitled to receive an annual payment on attainment of normal retirement age which in Ireland, is in line with the State pension age (i.e. age 66, 67 or 68 depending on year of birth) and in the UK is age 65 for the majority of benefits. The level of benefit payable depends on length of service. It also depends, in the case of Ireland, on a member's final pensionable salary near retirement (excluding salary increases up to and including 1st January 2019) and in the case of the UK, on a member's 2013 pensionable salary. Salary for pension purposes is integrated with the State Pension. The DB Schemes provide post retirement pension increases in the UK only and spouse's death in retirement pensions in both Ireland and the UK. No other post-retirement benefits are provided to employees.

Defined Benefit Pension Schemes – Principal Risks

Through its defined benefit pension schemes the Group is exposed to a number of risks the most significant of which are detailed below:

Asset volatility: Under IFRS the assets of the Group's defined benefit pension schemes are reported at fair value. The majority of the schemes' assets comprise of equities, bonds and property all of which may fluctuate significantly from one reporting period to the next.

Discount rates: the discount rates used in calculating the present value of scheme liabilities are determined by reference to market yields at the balance sheet date of high quality corporate bonds consistent with the currency and term of the retirement benefit obligations. Changes to the discount rates can have a very significant impact on the amount of defined benefit scheme liabilities.

Salary and price inflation: Some of the Group's pension obligations are salary and inflation linked. Higher salary and price inflation will lead to higher liabilities. In 2013 the Group agreed new arrangements on pensionable salary increases which reduced this risk as noted in the financial assumptions. The exposure to inflation risk relates to the granting of inflation linked pension increases in the UK and also to revaluation of deferred benefits in both the UK and Ireland.

Longevity risk: In the majority of cases the Group's defined benefit pension schemes provide benefits for life. Increases in life expectancy will therefore give rise to higher liabilities.

The nature of these risks is not materially different across all schemes with the exception of salary and price inflation risks which differ between the UK and Ireland.

32. Pension Commitments (continued)

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2019 Irish schemes	At 31 Dec 2019 UK schemes	At 31 Dec 2018 Irish schemes	At 31 Dec 2018 UK schemes
Valuation method	**Projected Unit**	**Projected Unit**	Projected Unit	Projected Unit
Rate of increase in salaries	**2.30%***	**0.00%****	2.40%*	0.00%**
Rate of increase of pensions in payment	**–**	**2.90%**	–	3.10%
Discount rate	**1.05%**	**2.10%**	1.80%	2.90%
Inflation rate increase	**1.10%**	**1.90%*****	1.20%	2.10%***

* 2.30% applies from 2 January 2020 (2018: 2.40% from 2 January 2019).
** Pensionable salaries are not adjusted for inflation.
*** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI).

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2019 and 2018 year end IAS 19 disclosures are as follows:

2019 Mortality (years)		Ireland	UK	2018 Mortality (years)		Ireland	UK
Future Pensioner aged 65:	**Male**	**22.8**	**21.6**	**Future Pensioner aged 65:**	**Male**	**22.7**	**22.1**
	Female	**25.0**	**23.8**		**Female**	**24.9**	**24.3**
Current Pensioner aged 65:	**Male**	**21.5**	**21.0**	**Current Pensioner aged 65:**	**Male**	**21.4**	**21.5**
	Female	**24.0**	**23.1**		**Female**	**23.8**	**23.5**

Scheme Assets

The assets in these schemes are analysed below:

	%	2019 £'000	%	2018 £'000
UK equities	**2**	**5,530**	2	5,635
Overseas (non-UK) equities	**41**	**102,898**	39	90,023
Government bonds	**27**	**67,017**	21	47,325
Corporate bonds	**3**	**7,848**	3	6,394
Property	**5**	**11,932**	6	13,082
Diversified growth funds	**19**	**46,542**	13	30,031
Other	**0**	**1,211**	0	1,508
Cash	**3**	**6,955**	16	36,673
	100	**249,933**	100	230,671
Actuarial value of liabilities		**(271,116)**		(250,834)
Deficit in the schemes		**(21,183)**		(20,163)
Represented by:				
Retirement benefit assets		**756**		1,469
Retirement benefit obligations		**(21,939)**		(21,632)
		(21,183)		(20,163)

Some of the investment funds in which the schemes invest, held shares in Grafton Group plc. The total amount held in Grafton Group plc shares was £Nil at 31 December 2019 (2018: £Nil).

The net pension scheme deficit of £21,183,000 is shown in the Group balance sheet at 31 December 2019 as (i) retirement benefit obligations (non-current liabilities) of £21,939,000 of which £10,823,000 relates to the Euro schemes and £11,116,000 relates to a UK scheme and (ii) retirement benefit assets (non-current assets) of £756,000 relating to another UK scheme (£348,000) and a Euro scheme (£408,000).

The net pension scheme deficit of £20,163,000 is shown in the Group balance sheet at 31 December 2018 as (i) retirement benefit obligations (non-current liabilities) of £21,632,000 of which £14,982,000 relates to the Euro schemes and £6,650,000 relates to a UK scheme and (ii) retirement benefit assets (non-current assets) of £1,469,000 relating to another UK scheme (£1,060,000) and a Euro scheme (£409,000).

32. Pension Commitments (continued)

Scheme Assets (continued)

The actual return on plan assets is set out below:

	2019 £'000	2018 £'000
Actual return on plan assets	**34,708**	(7,341)

Plan assets are comprised as follows:

	2019 Quoted £'000	2019 Unquoted £'000	2019 Total £'000	2018 Quoted £'000	2018 Unquoted £'000	2018 Total £'000
Equity – UK	**5,530**	**–**	**5,530**	5,315	320	5,635
Equity – Other	**102,898**	**–**	**102,898**	89,603	420	90,023
Bonds – Government	**67,017**	**–**	**67,017**	46,960	365	47,325
Bonds – Corporate	**7,848**	**–**	**7,848**	5,901	493	6,394
Property	**11,932**	**–**	**11,932**	12,888	194	13,082
Cash	**6,955**	**–**	**6,955**	36,673	–	36,673
Diversified growth funds	**46,542**	**–**	**46,542**	30,031	–	30,031
Other	**–**	**1,211**	**1,211**	–	1,508	1,508
Total	**248,722**	**1,211**	**249,933**	227,371	3,300	230,671

Sensitivity of Pension Liability to Judgemental/Assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.4%
Rate of salary growth	Increase by 0.25%	Increase by 0.7%
Rate of inflation*	Increase by 0.25%	Increase by 2.6%
Life expectancy	Increase by 1 year	Increase by 3.8%

* Assumed that an increase of 0.25% in the inflation assumption would also give rise to an increase in the salary increase assumption of 0.25%.

The above sensitivity analysis is derived through changing an individual assumption while holding all other assumptions constant.

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

	Year Ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
At 1 January	**230,671**	239,363	**(250,834)**	(262,842)	**(20,163)**	(23,479)
Acquired in year	**–**	–	**(227)**	–	**(227)**	–
Disposed in year	**(1,575)**	–	**1,998**	–	**423**	–
Interest income on plan assets	**5,352**	5,328	**–**	–	**5,352**	5,328
Contributions by employer	**2,956**	5,499	**–**	–	**2,956**	5,499
Contributions by members	**621**	651	**(621)**	(651)	**–**	–
Benefit payments	**(11,376)**	(8,399)	**11,376**	8,399	**–**	–
Current service cost	**–**	–	**(2,443)**	(2,764)	**(2,443)**	(2,764)
Past service credit	**–**	–	**–**	34	**–**	34
Settlement cost	**–**	–	**(580)**	–	**(580)**	–
Other long term benefit (expense)	**–**	–	**(49)**	(33)	**(49)**	(33)
Interest cost on scheme liabilities	**–**	–	**(5,763)**	(5,831)	**(5,763)**	(5,831)
Remeasurements						
Actuarial gain/(loss) arising from:						
– experience variations	**–**	–	**1,579**	6,270	**1,579**	6,270
– financial assumptions	**–**	–	**(31,178)**	7,848	**(31,178)**	7,848
– demographic assumptions	**–**	–	**(1,048)**	(244)	**(1,048)**	(244)
Return on plan assets excluding interest income	**29,356**	(12,669)	**–**	–	**29,356**	(12,669)
Translation adjustment	**(6,072)**	898	**6,674**	(1,020)	**602**	(122)
At 31 December	**249,933**	230,671	**(271,116)**	(250,834)	**(21,183)**	(20,163)
Related deferred tax asset (net)					**3,228**	2,926
Net pension liability					**(17,955)**	(17,237)

32. Pension Commitments (continued)

Expense Recognised in Income Statement

	2019 £'000	2018 £'000
Current service cost	**2,443**	2,764
Other long term benefit expense	**49**	33
Settlement cost	**580**	–
Past service credit	**–**	(34)
Total operating charge	**3,072**	2,763
Net finance costs on pension scheme obligations	**411**	503
Total expense recognised in income statement	**3,483**	3,266

Recognised Directly in Other Comprehensive Income

	2019 £'000	2018 £'000
Remeasurement (loss)/gain on pensions	**(1,291)**	1,205
Deferred tax on pensions	**373**	(386)
	(918)	819

Actuarial Valuations – Funding Requirements

Employees pay contributions equal to a percentage of pensionable salary. The percentage payable varies by scheme. Triennial actuarial valuations are carried out to determine the group's contribution rate required under the schemes.

In Ireland, the DB schemes are assessed against the Funding Standard (the statutory minimum funding requirement). As most of the DB schemes did not satisfy the Funding Standard, funding proposals are in place to address Funding Standard deficits. The funding proposals were agreed between the Group and the trustees of the relevant schemes and were designed to restore the Funding Standard positions by the end of 2023. The portion of contributions due for 2020, which relate to deficit funding in the Irish Schemes, is £1.5 million. An annual assessment is carried out each year to confirm the funding proposals remain on-track to achieve their funding targets. If a funding proposal is certified as being off-track, higher contributions may be required to fund the deficits. The next triennial valuations are also due to be carried out for the Irish schemes at 1st January 2022.

In the UK, the DB schemes are subject to the Statutory Funding Objective under the Pensions Act 2004. Valuations of the DB Schemes are carried out at least once every three years to determine whether or not the Statutory Funding Objectives are met. As part of the process, the Group must agree with the Trustees of the DB Schemes the contributions to be paid to address any shortfalls against the Statutory Funding Objectives and contributions to pay for future accrual of benefits. The next valuation is due as at 31 December 2020.

No explicit external contracts have been entered into to provide liability matching such as longevity swaps or annuity purchase. Following a recent strategy review the scheme's investments are being more closely aligned to the liabilities by term and nature in order to minimise volatility and target full funding on the local statutory funding measures.

The contributions expected to be paid to the Group's defined benefit schemes in 2020 total approximately £2.3 million.

Average duration and scheme composition

	Ireland		UK	
	2019	2018	2019	2018
Average duration of defined benefit obligation (years)	**18.00**	18.00	**17.95**	17.95

Allocation of total defined benefit obligation by participant

	2019	2018
Active plan participants	**33%**	33%
Deferred plan participants	**29%**	27%
Retirees	**38%**	40%
	100%	100%

33. Share Based Payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 Share Based Payments. The total share based payments expense for the year charged to the income statement was £6,171,000 (2018: £6,193,000), analysed as follows:

	2019 £'000	2018 £'000
LTIP	**5,502**	5,235
UK SAYE Scheme	**669**	958
	6,171	6,193

Details of the schemes operated by the Group are set out below:

Long Term Incentive Plan (LTIP)

A Long Term Incentive Plan (LTIP) was introduced in 2011. Details of the plan are set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 81 to 97. Awards over 885,484 Grafton Units were granted under the plan on 12 April 2019 (2018: 967,455 on 9 April 2018).

A summary of the award granted on 12 April 2019 is set out below:

Grant date	**LTIP 2019 12 April 2019**	LTIP 2018 9 April 2018
Share price at date of award	**£8.48**	£7.54
Exercise price	**N/A**	N/A
Number of employees	**232**	215
Number of share awards	**885,484**	967,455
Vesting period	**3 years**	3 years
Expected volatility	**25.9%**	35.4%
Award life	**3 years**	3 years
Expected life	**3 years**	3 years
Risk free rate	**0.78%**	0.86%
Expected dividends expressed as dividend yield	**2.04%**	2.05%

Valuation model – EPS Valuation model – TSR	**Black Scholes/** **Monte-Carlo**	Black Scholes/ Monte-Carlo
Fair value of share award – EPS component	**£7.97**	£7.09
Fair value of share award – TSR component	**£5.55**	£4.08

The expected volatility, referred to above, is based on volatility over the last 3 years. The expected life is equal to the vesting period. The risk free rate of return is the yield on bonds from the Bank of England for a term consistent with the life of the award at the grant date. The fair values of share awards granted under the 2011 plan were determined taking account of peer group total share return volatility together with the above assumptions.

A reconciliation of all share awards granted under the LTIP is as follows:

	2019 Number	2018 Number
Outstanding at 1 January	**2,575,907**	2,383,190
Granted in year	**885,484**	967,455
Forfeited#	**(188,976)**	(167,610)
Expired unvested	**(56,875)**	(339,271)
Exercised	**(664,961)**	(267,857)
Outstanding at 31 December	**2,550,979**	2,575,907

Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

At 31 December 2019 and 31 December 2018 none of the LTIPs were exercisable as the conditions for exercise were not fulfilled before the year-end.

33. Share Based Payments (continued)

Share Schemes

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme had a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits complied with Institutional Guidelines.

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was Nil (2018: Nil). Entitlements outstanding at 31 December 2019 amounted to Nil (2018: 1,505,001). Grafton Units may be acquired, in accordance with the rules of the scheme, at a price of €1.66 during the period to 2019.

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2019		2018	
	Number	**Weighted average exercise price €**	Number	Weighted average exercise price €
Outstanding at 1 January	**1,505,001**	**1.66**	1,505,001	1.66
Forfeited#	**–**	**–**	–	–
Expired	**(1,505,001)**	**(1.66)**	–	–
Outstanding at 31 December	**–**	**–**	1,505,001	1.66

\# Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

Share entitlements are exercisable within six months upon a change of control of the Company. The weighted average remaining life of the share entitlements is 0.0 years (2018: 0.2 years). At 31 December 2019 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

UK SAYE Scheme

Options over 1,662,925 (2018: 1,593,003) Grafton Units were outstanding at 31 December 2019, pursuant to a new 2019 and existing 2018 and 2017 three year saving contracts under the Grafton Group (UK) plc 2011 Approved SAYE Plan at a price of £6.33, £6.58 and £6.77 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being December 2022 for the 2019 SAYE scheme, December 2021 for the 2018 SAYE scheme and December 2020 for the 2017 SAYE scheme.

Options over the Group's 2014 three year savings contract under the Grafton Group UK plc 2011 approved SAYE plan at a price of £5.97 were Nil at 31 December 2019 (2018: Nil). The number of Grafton Units issued during the year under this scheme was Nil (2018: 211,728) and the total consideration received amounted to £Nil (2018: £1,264,000). Options forfeited in the year were Nil (2018: 15,904).

The number of Grafton Units issued during the year under the 2017 SAYE scheme was 36,336 (2018: 747) and the total consideration received amounted to £253,000 (2018: £5,000). Options forfeited in the year were 164,027 (2018: 141,903).

The number of Grafton Units issued during the year under the 2018 SAYE Scheme was 5,581 (2018: Nil) and the total consideration received amounted to £38,000 (2018: £Nil). Options forfeited in the year were 90,905 (2018: 8,470).

A reconciliation of options granted under the 2014 Grafton Group (UK) plc 2011 Approved SAYE Plan is as follows:

	Number	**2019 Option price £**	Number	2018 Option price £
Outstanding at 1 January	**–**	**–**	227,632	5.97
Forfeited	**–**	**–**	(15,904)	5.97
Exercised	**–**	**–**	(211,728)	5.97
Outstanding at 31 December	**–**		–	

33. Share Based Payments (continued)

UK SAYE Scheme (continued)

A reconciliation of options granted under the 2017 SAYE is as follows:

	Number	2019 Option price £	Number	2018 Option price £
Outstanding at 1 January	**1,024,994**	**6.77**	1,167,644	6.77
Granted	**–**	**–**	–	–
Forfeited	**(164,027)**	**6.77**	(141,903)	6.77
Exercised	**(36,336)**	**6.77**	(747)	6.77
Outstanding at 31 December	**824,631**		1,024,994	

A reconciliation of options granted under the 2018 SAYE is as follows:

	Number	2019 Option price £	Number	2018 Option price £
Outstanding at 1 January	**568,009**	**6.58**	–	–
Granted	**–**	**–**	576,479	6.58
Forfeited	**(90,905)**	**6.58**	(8,470)	6.58
Exercised	**(5,581)**	**6.58**	–	–
Outstanding at 31 December	**471,523**		568,009	

A reconciliation of options granted under the 2019 SAYE is as follows:

	Number	2019 Option price £
Outstanding at 1 January	**–**	**–**
Granted	**376,774**	**6.33**
Forfeited	**(10,003)**	**6.33**
Outstanding at 31 December	**366,771**	

The weighted average share price for the period was £7.98 (2018: £7.62).

At 31 December 2019 none of the 2019 or the 2018 UK SAYE shares were exercisable. The weighted average remaining life is 2.0 years (2018: 2.6 years).

34. Accounting Estimates and Judgements

In the opinion of the Directors, there were no matters of significant judgement exercised in the preparation of the financial statements and the key sources of estimation uncertainty were as follows:

Goodwill

The Group has capitalised goodwill of £657.8 million at 31 December 2019 (2018: £646.2 million) as detailed in Note 12. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value in use calculations to determine the recoverable amount of cash generating units containing goodwill. Value in use is calculated as the present value of future cash flows. In calculating value in use, management estimation is required in forecasting cash flows of the segments and in selecting an appropriate discount rate and the nominal growth rate in perpetuity. In 2019, the Group disposed of a number of businesses which resulted in a write off of goodwill amounting to £28.1 million (31 December 2018: £3.6 million).

Retirement Benefit Obligations

The Group operates a number of defined benefit retirement plans which are as set out in Note 32. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals £271.1 million at 31 December 2019 (2018: £250.8 million). Plan assets at 31 December 2019 amounted to £249.9 million (2018: £230.7 million) giving a net scheme deficit of £21.2 million (2018: £20.2 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. The sensitivities of the principal assumptions used to measure defined benefit pension scheme obligations are set out in Note 32.

Rebate Income

Rebate arrangements with suppliers are a common feature of trading in the merchanting industry and the Group has agreements with individual suppliers related to purchases of goods for resale.

Rebates are accounted for as a deduction from the cost of goods for resale and are recognised in the financial statements based on the amount that has been earned in respect of each individual supplier up to the balance sheet date. Rebates receivable are determined using established methodologies and are only recognised in the income statement where there is an agreement in place with an individual supplier, any related performance conditions have been met and the goods have been sold to a third-party customer.

34. Accounting Estimates and Judgements (continued)

Rebate Income (continued)

Rebates receivable from individual suppliers are typically calculated by applying an agreed percentage to the purchase price shown on the supplier invoice for products purchased for resale. A small proportion of rebates receivable are based on volumes purchased with certain supplier agreements providing for a stepped increase in rebates if purchases reach predetermined targets within a specified time period.

The majority of rebate arrangements cover a calendar year which coincides with the financial year of the Group and this reduces the requirement to estimate rebates receivable at the year-end. Where estimation is used in the calculation of rebates receivable it is done on a consistent and prudent basis, based upon management's knowledge and experience of the suppliers and historic collection trends.

Rebates are classified in the balance sheet as follows:

Inventories

The carrying value of inventories at the balance sheet date is reduced to reflect rebates receivable relating to inventory that has not been sold at the balance sheet date.

Trade and Other Receivables

The amount of rebate receivable at the balance sheet date is classified as other receivables and separately disclosed in Note 17, Trade and Other Receivables.

Trade and Other Payables

Where the Group has the legal right to set-off rebates receivable against amounts owing to individual suppliers, any rebates receivable at the balance sheet date are netted against amounts payable to these suppliers and the amount, if material, is separately disclosed in Note 24, Trade and Other Payables.

Valuation of Inventory

Inventory comprises raw materials, finished goods and goods purchased for resale. Provisions are made against slow moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than cost. Determining the net realisable value of the wide range of products held in many locations requires estimation to be applied to determine the likely saleability of products and the potential prices that can be achieved. In arriving at any provisions for net realisable value, the Directors take into account the age, condition, quality of the products in stock and recent sales trends. The actual realisable value of inventory may differ from the estimated value on which the provision is based. The Group held provisions in respect of inventory balances at 31 December 2019 amounting to £37.4 million (2018: £37.9 million).

IFRS 16 "Leases"

Where the Group has an option to extend or terminate a lease, management uses its judgement to determine whether such an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including past practice and costs that would be incurred if an option were to be exercised, to help them determine the lease term. Management have also applied judgements in assessing the discount rate, which are based on the incremental borrowing rate. Such judgements could impact lease terms and associated lease liabilities. The Group has availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

35. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, key management personnel and post-employment benefit plans.

Subsidiaries

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IFRS 10, Consolidated Financial Statements.

Key Management Personnel

The term key management personnel for 2019 is the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in Note 6 to the Group Financial Statements. The Report of the Remuneration Committee on Directors' Remuneration on pages 81 to 97 provides detailed disclosure for 2019 and 2018 of salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the 1999 Grafton Group Share Scheme and awards granted under the LTIP.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 32 to the Group Financial Statements.

36. Transition to IFRS 16 "Leases"

Summary

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii). Under IFRS 16.C8(b)(ii) right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

36. Transition to IFRS 16 "Leases" (continued)

Impact of IFRS 16 – As a lessee

On initial application of IFRS 16 for operating leases, right-of-use assets were generally measured at the present value of the future lease payments. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.5 per cent.

As part of the Group's adoption of IFRS 16 the Group has elected to use the following practical expedients:
- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- accounting for short-term leases (leases less than 12 months) or low value asset leases (i.e. where the value of the underlying asset when new is less than £4,000) by recognising the lease payments as an operating expense on a straight-line basis over the term of the lease;
- right-of-use asset has been reduced by the carrying amount of the onerous lease provision at 31 December 2018 instead of performing impairment reviews under IAS 36; and
- hindsight has been used in determining the lease term.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16:
- right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.
- the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the Group Income Statement. Under IAS 17, operating leases previously gave rise to a straight-line expense in the Group Income Statement.
- the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and an interest portion (presented within operating activities) in the Group Cash Flow Statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Contracts that qualified as leases as defined by IFRS 16 related primarily to property, motor vehicles and office equipment. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of £561.7 million and lease liabilities of £574.9 million.

Impact of IFRS 16 – As a lessor

The Group was only required to make adjustments on transition to IFRS 16 for leases where it subleases a headlease. At the date of initial application, the Group reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. The Group concluded that the subleases in existence require classification as finance leases under IFRS 16 and as a result £2.7 million was recognised as finance lease receivables.

Impact of IFRS 16 – Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have an effect on the Group's Financial Statements.

Financial Impact – Opening balance sheet

The table below reconciles the relevant assets and liabilities under IAS 17 at 31 December 2018 to those under IFRS 16 at 1 January 2019:

	31 December 2018 Pre-IFRS 16 £'000	1 January 2019 IFRS 16 Impact £'000	1 January 2019 Post-IFRS 16 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	521,631	(2,541)	519,090
Right-of-use asset*	–	563,916	563,916
Total non-current assets	521,631	561,375	1,083,006
Current assets			
Trade and other receivables	451,245	(7,869)	443,376
Total current assets	451,245	(7,869)	443,376
Total assets	972,876	553,506	1,526,382

Notes to the Group Financial Statements (continued)

36. Transition to IFRS 16 "Leases" (continued)

Financial Impact – Opening balance sheet (continued)

	31 December 2018 Pre-IFRS 16 £'000	1 January 2019 IFRS 16 Impact £'000	1 January 2019 Post-IFRS 16 £'000
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	275,250	(1,774)	273,476
Lease liabilities	–	525,495	525,495
Provisions	21,651	(6,521)	15,130
Total non-current liabilities	296,901	517,200	814,101
Current liabilities			
Interest-bearing loans and borrowings	767	(435)	332
Lease liabilities	–	49,387	49,387
Trade and other payables	608,659	(10,992)	597,667
Provisions	9,523	(1,654)	7,869
Total current liabilities	618,949	36,306	655,255
Total liabilities	915,850	553,506	1,469,356

* Right-of-use asset IFRS 16 impact reflects £561.7 million plus £2.2 million right-of-use asset which is subsequently derecognised as a finance lease receivable

Of the total right-of-use assets of £561.7 million recognised at 1 January 2019 is comprised as follows:

	£'000
Property and land leases	**546,497**
Vehicles	**14,604**
Other assets	**583**
Total right-of-use asset recognised at 1 Jan 2019	**561,684**

Financial Impact – Reconciliation of operating lease commitments at 31 December 2018

The table below reconciles the Group's operating lease obligations at 31 December 2018 to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

	£'000
Operating lease commitments at 31 December 2018	**718,414**
Additional operating leases identified at 31 December 2018	19,793
Difference due to extensions, terminations etc.	16,463
Other adjustments to operating lease commitments	(756)
Restated 31 December 2018 operating lease commitments	**753,914**
Impact of discounting on leases	(181,241)
Discounted operating leases	**572,673**
Finance lease liability at 31 December 2018	2,209
IFRS 16 lease liability at 1 January 2019	**574,882**

Financial Impact – Group primary statements for year ended 31 December 2019

The impact of IFRS 16 on the Group's primary statements and reportable segments is detailed within the supplementary financial information on pages 192 to 197.

37. Events after the Balance Sheet Date

There have been no other material events subsequent to 31 December 2019 that would require adjustment to or disclosure in this report.

38. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 112 to 174 on 9 March 2020.

Company Balance Sheet
As at 31 December 2019

	Notes	2019 €'000	2018 €'000
Fixed assets			
Intangible assets	4(a)	**174**	164
Tangible assets	4(a)	**115**	225
Right-of-use asset	4(b)	**582**	–
Financial assets	5	**532,052**	524,724
Total fixed assets		**532,923**	525,113
Current assets			
Debtors (including €Nil (2018: €12.7m) due after more than one year)	6	**1,238,376**	1,213,984
Cash at bank and in hand		**66,830**	4,670
Total current assets		**1,305,206**	1,218,654
Creditors: amounts falling due within one year	7	**(572,398)**	(493,277)
Net current assets		**732,808**	725,377
Total assets less current liabilities		**1,265,731**	1,250,490
Creditors: amounts falling due after one year	7	**(443)**	–
Net assets		**1,265,288**	1,250,490
Capital and reserves			
Called-up share capital	11	**11,956**	11,954
Share premium account	11	**304,266**	303,938
Capital redemption reserve		**938**	905
Shares to be issued reserve		**14,724**	13,582
Profit and loss account		**939,150**	925,857
Treasury shares held		**(5,746)**	(5,746)
Shareholders' equity		**1,265,288**	1,250,490

There was a profit after tax of €14.4 million (2018: loss €5.4 million) attributable to the parent undertaking for the financial year.

On behalf of the Board

Gavin Slark
Director
9 March 2020

David Arnold
Director

Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Profit and loss account €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2019							
At 1 January 2019	**11,954**	**303,938**	**905**	**13,582**	**925,857**	**(5,746)**	**1,250,490**
Profit after tax for the financial year	–	–	–	–	**14,404**	–	**14,404**
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	**14,404**	–	**14,404**
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units	**35**	**328**	–	–	–	–	**363**
Share based payments charge	–	–	–	**7,005**	–	–	**7,005**
Transfer from shares to be issued reserve	–	–	–	**(5,863)**	**5,863**	–	–
Purchase of treasury shares	–	–	–	–	–	**(6,974)**	**(6,974)**
Cancellation of treasury shares	**(33)**	–	**33**	–	**(6,974)**	**6,974**	–
	2	**328**	**33**	**1,142**	**(1,111)**	–	**394**
At 31 December 2019	**11,956**	**304,266**	**938**	**14,724**	**939,150**	**(5,746)**	**1,265,288**
Year to 31 December 2018							
At 1 January 2018	11,930	302,508	905	10,433	927,415	(5,746)	1,247,445
Loss after tax for the financial year	–	–	–	–	(5,387)	–	(5,387)
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	(5,387)	–	(5,387)
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units	24	1,430	–	–	–	–	1,454
Share based payments charge	–	–	–	6,978	–	–	6,978
Transfer from shares to be issued reserve	–	–	–	(3,829)	3,829	–	–
	24	1,430	–	3,149	3,829	–	8,432
At 31 December 2018	11,954	303,938	905	13,582	925,857	(5,746)	1,250,490

Notes to the Company Financial Statements

1. Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention in accordance with the Companies Act 2014 and Generally Accepted Accounting Practice in the Republic of Ireland (Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101)). Note 2 describes the principle accounting policies under FRS101, which have been applied consistently.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- The option to take tangible and intangible assets at deemed cost;
- Disclosures in respect of transactions with wholly-owned subsidiaries;
- Disclosures in respect of financial risk management;
- Disclosure of key management compensation;
- Certain requirements of IAS 1 Presentation of Financial Statements;
- Disclosures required by IFRS 7 Financial Instrument Disclosures;
- Disclosures required by IFRS 13 Fair Value Measurement;
- Certain disclosures required by IFRS 16 Leases; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of Grafton Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosure:
- IFRS 2 Share Based Payments in respect of group settled share-based payments.

In accordance with Section 304(2) of the Companies Act 2014, the income statement and related notes of the parent undertaking have not been presented separately in these financial statements.

2. Accounting Policies

Key accounting policies which involve estimates, assumptions and judgements

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Financial assets

Investments in subsidiaries are stated at cost less any accumulated impairment and are reviewed for impairment if there are any indicators that the carrying value may not be recoverable.

Loans receivable and payable

Intercompany loans receivable and payable are initially recognised at fair value. These are subsequently measured at amortised cost, less any provision for impairment.

Other significant accounting policies

Operating income and expense

Operating income and expense arises from the Company's principal activities as a holding company for the Group and are accounted for on an accruals basis.

Foreign currencies

The functional and presentation currency of the Company is euro. Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account.

Share issue expenses

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share-based payments

The Company has applied the requirements of Section 8 of FRS 101. The accounting policy applicable to share-based payments is addressed in detail on page 126 of the Consolidated Financial Statements.

IFRS 16 Leases

The accounting policy applicable to IFRS 16 leases is addressed in detail on pages 118-119 of the Consolidated Financial Statements.

Treasury Shares

Own equity instruments (i.e. Ordinary Shares) acquired by the Company are deducted from equity and presented on the face of the Company Balance Sheet. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's Ordinary Shares.

Dividends

Dividends on Ordinary Shares are recognised as a liability in the Company's Financial Statements in the period in which they are declared by the Company.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Notes to the Company Financial Statements (continued)

2. Accounting Policies (continued)

Other significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated over their useful economic life on a straight line basis in line with Group policy as noted in Note 1 to the Consolidated Financial Statements.

Intangible assets (computer software)

Acquired computer software is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises of purchase price and any other directly attributable costs. Computer software is recognised in line with the criteria as outlined in Note 1 to the Consolidated Financial Statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held for the purpose of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts are included within creditors falling due within one year in the Company Balance Sheet.

3. Statutory and Other Information

The following items have been charged to the company income statement:

	Reported 2019 €'000	Pre IFRS 16 2019 €'000	2018 €'000
Statutory audit (refer to Note 3 of Group Financial Statements)	**75**	**75**	60
Depreciation	**132**	**132**	204
Depreciation on right-of-use assets	**149**	**–**	–
Intangible asset amortisation	**59**	**59**	38
Operating lease costs	**–**	**156**	142
Directors' remuneration	**3,700**	**3,700**	4,728

The interest expense on lease liabilities in the year was €13,000.

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 81 to 97.

The average number of persons employed by the Company during the year was 22 (2018: 24).

	2019 €'000	2018 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	**3,696**	5,289
Social welfare costs	**367**	303
Share-based payments charge	**2,154**	1,966
Defined contribution and pension related costs	**573**	404
Charged to operating profit	**6,790**	7,962
Net finance cost on pension scheme obligations	**–**	–
Charged to income statement	**6,790**	7,962
Actuarial loss on pension scheme	**–**	–
Total employee benefit cost	**6,790**	7,962

4. Tangible, Intangible and Right-of-Use Assets

4. (a) Tangible and Intangible Assets

	Plant and Equipment 2019 €'000	Intangible Assets* 2019 €'000
Company Cost		
At 1 January	**3,077**	**263**
Additions	**22**	**69**
At 31 December	**3,099**	**332**
Depreciation		
At 1 January	**2,852**	**99**
Charge for year	**132**	**59**
At 31 December	**2,984**	**158**
Net book amount		
At 31 December	**115**	**174**
At 1 January	**225**	**164**

* The computer software additions reflects the cost of the Company's investment on upgrading the IT systems and infrastructure.

4. (b) Right-of-Use Asset

	Right-of-Use Asset* 2019 €'000
Company Cost	
At 1 January	–
Recognised at 1 January 2019	**731**
Additions	–
At 31 December	**731**
Depreciation	
At 1 January	–
Charge for year	**149**
At 31 December	**149**
Net book amount	
At 31 December	**582**
At 1 January	–

* The lease term remaining as at 31 December 2019 is 3.9 years and this relates to a property lease.

5. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2018	13	535,117	535,130
Additions	1	–	1
Impairments during the year	–	(15,418)	(15,418)
Capital contribution – share-based payments	–	5,011	5,011
At 31 December 2018	**14**	**524,710**	**524,724**
Additions	**–**	**2,617**	**2,617**
Capital contribution – share-based payments	**–**	**4,850**	**4,850**
Impairments during the year	**–**	**(139)**	**(139)**
At 31 December 2019	**14**	**532,038**	**532,052**

* The impairment charge during 2019 largely relates to subsidiaries which were liquidated

Other investments represent sundry equity investments at cost less provision for impairment.

6. Debtors

	Reported 2019 €'000	Pre IFRS 16 2019 €'000	2018 €'000
Amounts falling due within one year:			
Amounts owed by subsidiary undertakings	**1,233,297**	**1,233,297**	1,195,343
Deferred tax	**24**	**24**	94
Other receivables	**5,055**	**5,093**	5,861
	1,238,376	**1,238,414**	1,201,298
Amounts falling due after one year:			
Amounts owed by subsidiary undertakings	**–**	**–**	12,686

7. Creditors

	Reported 2019 €'000	Pre IFRS 16 2019 €'000	2018 €'000
Amounts falling due within one year:			
Accruals	**4,636**	**4,636**	7,190
Lease liability*^	**107**	**–**	–
Amounts owed to subsidiary undertakings	**567,655**	**567,655**	486,087
	572,398	**572,291**	493,277

	Reported 2019 €'000	Pre IFRS 16 2019 €'000	2018 €'000
Amounts falling due after one year:			
Lease liability*^	**443**	**–**	–

* The Company's incremental borrowing rate applied to the lease liability as at 1 January 2019 was 2.0%.
^ The lease liability recognised at 1 January 2019 was €731,000.

The maturity analysis of the lease liability is as follows:

	€'000
Year 1	107
Year 2	149
Year 3	152
Year 4	142
Year 5	–
Onwards	–

8. Deferred Taxation

Recognised deferred tax (assets) and liabilities

	Assets 2019 €'000	Liabilities 2019 €'000	Net (assets)/ liabilities 2019 €'000	Assets 2018 €'000	Liabilities 2018 €'000	Liabilities Net (assets)/ 2018 €'000
Other items	**(24)**	**–**	**(24)**	(94)	–	(94)

	Balance 1 Jan 19 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 19 €'000
Other items	**(94)**	**70**	**–**	**–**	**–**	**(24)**

	Balance 1 Jan 18 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 18 €'000
Other items	(214)	120	–	–	–	(94)

9. Transition to IFRS 16 "Leases" and Operating Leases

Total commitments payable under non-cancellable operating leases in 2018 were as follows:

	Land and Buildings/Other 2018 €'000
Operating lease payments due:	
Within one year	165
Between two and five years	603
Over five years	–
	768

* The Company had no short-term or low value asset leases during 2019.

The table below reconciles the Company's operating lease obligations at 31 December 2018 to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

	€'000
Operating lease commitments at 31 December 2018	768
Other adjustments to operating lease commitments	(12)
Restated 31 December 2018 operating lease commitments	756
Impact of discounting on leases	(25)
Discounted operating leases	731
Finance lease liability at 31 December 2018	–
IFRS 16 lease liability at 1 January 2019	731

Cash outflows in respect of lease commitments in 2019 were as follows:

	€'000
Lease liability	181
Interest expense	13
Total cash outflows for leases amounted to	194

10. Pension Commitments

A defined benefit scheme and defined contribution pension schemes are operated by the Company and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

An actuarial valuation was updated to 31 December 2019 by a qualified independent actuary.

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2019 Company scheme	At 31 Dec 2018 Company scheme
Valuation Method	Projected Unit	Projected Unit
Rate of increase of pensions in payment	–	–
Discount rate	1.05%	1.80%
Inflation rate increase	1.10%	1.20%

The Company's obligations to the scheme at the end of 2019 and 2018 were limited to providing a pension to an executive who retired in 2009 on a fixed pension.

	Year ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2019 €'000	2018 €'000	2019 €'000	2018 €'000	2019 €'000	2018 €'000
At 1 January	1,276	1,309	(1,276)	(1,309)	–	–
Interest income on plan assets	22	24	–	–	22	24
Benefit payments	(76)	(76)	76	76	–	–
Interest cost on scheme liabilities	–	–	(22)	(24)	(22)	(24)
Remeasurement gains/(losses)	105	19	(105)	(19)	–	–
At 31 December	1,327	1,276	(1,327)	(1,276)	–	–
Related deferred tax asset (net)					–	–
Net pension liability					–	–

No contributions are expected to be paid to the Company's defined benefit scheme in 2020 (2019: €Nil).

11. Share Capital and Share Premium

Details of equity share capital and share premium are set out below and in Note 18 to the Group Financial Statements.

	Issue Price	Number of Shares	2019 Nominal Value €'000	2018 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		**238,265,881**	**11,914**	11,890
Issued under UK SAYE scheme*		**41,917**	**2**	11
2011 Long Term Incentive Plan				
April 2016 LTIP Awards	**Nil**	**664,961**	**33**	–
April 2015 LTIP Awards	**Nil**	**–**	**–**	13
Cancellation of treasury shares		**(664,961)**	**(33)**	–
At 31 December		**238,307,798**	**11,916**	11,914
'A' ordinary shares				
At 1 January		**4,050,519,977**	**40**	40
'A' ordinary shares issued in year (net of cancellations)		**712,589**	**–**	–
At 31 December		**4,051,232,566**	**40**	40
Total nominal share capital issued			**11,956**	11,954

* Refer to Note 33 to the Group Financial Statements which outlines the issue price of the SAYE Schemes.

Share Premium

Company	2019 €'000	2018 €'000
At 1 January	**303,938**	302,508
Premium on issue of shares under UK SAYE scheme	**328**	1,430
At 31 December	**304,266**	303,938

12. Share-Based Payments

Details of Share-Based Payments are set out in Note 33 of the Group Financial Statements.

13. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, key management personnel and post-employment benefit plans.

Subsidiaries

The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation:
- Management charges made by the Company to its subsidiaries of €11.3 million (2018: €10.2million) for the year ended 31 December 2019; and
- Loans were granted to and by the Company to its subsidiaries.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 10 to the Company Financial Statements.

Notes to the Company Financial Statements (continued)

14. Principal Operating Subsidiaries

The principal operating subsidiaries operating in Ireland are:

Name of Company	Nature of Business
Chadwicks Group Limited	Builders merchants
Woodie's DIY Limited	DIY superstores

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business
Grafton Merchanting GB Limited	Builders merchants
Macnaughton Blair Limited	Builders merchants
Selco Trade Centres Limited	Builders merchants
LSDM Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the UK. The registered office of Grafton Merchanting GB Limited is Ground Floor, Boundary House 2 Wythall Green Way, Wythall, Birmingham, United Kingdom, B47 6LW. The registered office of Selco Trade Centres Limited is First Floor, Boundary House, 2 Wythall Green Way, Wythall, Birmingham, B47 6LW. The registered office of LSDM Limited is Ground Floor, Boundary House 2 Wythall Green Way, Wythall, Birmingham, United Kingdom, B47 6LW. The registered office of CPI Mortars Limited is Oak Green House, 250-256 High Street, Dorking, Surrey, RH4 1QT. The registered office of Macnaughton Blair Limited is 10 Falcon Road, Belfast, BT12 6RD, Northern Ireland.

The principal operating subsidiaries in Belgium in 2019 were:

Name of Company	Nature of Business
YouBuild NV (formerly BMC Groep NV)	Builders merchants
Binje Ackermans S.A. (trading as MPRO)	Builders merchants

All principal subsidiaries in Belgium were disposed of during 2019.

The principal operating subsidiaries in the Netherlands are:

Name of Company	Nature of Business
Isero B.V.	Ironmongery, tools and fixings
Pijnenburg Bouw en Industrie B.V.	Ironmongery, tools and fixings
Gunters en Meuser B.V.	Ironmongery, tools and fixings
Polvo B.V.	Ironmongery, tools and fixings

The registered office of Isero B.V. is Barwoutswaarder 1, 3449 HE Woerden, the Netherlands. The registered office of Pijnenburg Bouw en Industrie B.V. is Pegasusweg 4, 5015BZ Tilburg, the Netherlands. The registered office of Gunters en Meuser B.V. is Egelantiersgracht 2-6, 1015 RL Amsterdam, the Netherlands. The registered office of Polvo B.V. is Tradeboulevard 5 a, 4761RL Zevenbergen, the Netherlands.

15. Section 357 Guarantees

Each of the following Irish registered subsidiaries of the Company, whose registered office is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18 (company number: 8149) may avail of the exemption from filing its statutory financial statements for the year ended 31 December 2019 as permitted by section 357 of the Companies Act 2014 and, if any these Irish registered subsidiaries of the Company elects to avail of this exemption, there will be in force an irrevocable guarantee from the Company in respect of all commitments entered into by such wholly-owned subsidiary, including amounts shown as liabilities (within the meaning of section 357 (1) (b) of the Companies Act 2014) in such wholly-owned subsidiary's statutory financial statements for the year ended 31 December 2019:

Athina Limited, Atlantic Home and Garden Centre Limited, Barretts of Ballinasloe Limited, Beralt Developments Limited, Bluebell Sawmills Limited, Cardston Properties Limited, Chadwicks Limited, Chadwicks Holdings Limited, Cheshunt Limited, Cork Builders Providers Limited, CPI Limited, Davies Limited, Deltana Limited, Denningco Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Dunmore Holdings Limited, Eddie's Hardware Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Frank Barrett & Sons Limited, Garvey Builders Providers Limited, Gillespie Building Supplies (Carlow) Limited, Grafton Group European Holdings Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Management Services Limited, Grafton Group Secretarial Services Limited, Grafton Group Treasury Limited, Grafton Group Finance plc, Chadwicks Group Limited, Heatovent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E.Telford Limited, Jarkin Properties Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarry) Limited, Panelling Centre Limited, Payless D.I.Y. Limited, Perchura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Stettler Properties Limited,Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited, Woodies DIY (Irl) Limited and Woodie's DIY Limited.

16. Other Guarantees

The company has declared and assumes joint and several liability for any obligations arising from the legal acts of Grafton Holding Netherlands BV, Isero BV, Pijnenburg Bouw en Industrie BV, Gunters en Meuser BV, Freke Inbraakbeveiliging BV, Polvo BV, Polvo Real Estate BV, GKL BV and Kooning Schiphol BV in accordance with article 2:403 paragraph (f) of the Dutch Civil Code and such declarations will be filed at the Dutch commercial register (Kamer van Koophandel) in accordance with article 2:403 paragraph (g).

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €401.3 million at the balance sheet date. The guarantee is over bank debt of €241.3 million and US senior notes of €160.0 million. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

17. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2019 on 9 March 2020.

Supplementary Information

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Supplementary Financial Information

Alternative Performance Measures
Certain financial information set out in this consolidated year end financial statements is not defined under International Financial Reporting Standards ("IFRS"). These key Alternative Performance Measures ("APMs") represent additional measures in assessing performance and for reporting both internally and to shareholders and other external users. The Group believes that the presentation of these APMs provides useful supplemental information which, when viewed in conjunction with IFRS financial information, provides readers with a more meaningful understanding of the underlying financial and operating performance of the Group.

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS.

The key APMs of the Group are set out below. As amounts are reflected in £'m some non-material rounding differences may arise. Numbers that refer to 2018 are available in the 2018 Annual Report.

Note: The Plumbase business and the Belgium Merchanting business are now classified as discontinued operations. The sales and operating profit are excluded from the Group reported results. The 2018 comparatives have been updated to conform to the current year presentation.

IFRS 16 "Leases" Impact: The Group has also analysed the APM's between the reported results and the results pre-IFRS 16. The pre and post impact of IFRS 16 is detailed on pages 192 – 197. Pre-IFRS 16 measures reverse the right-of-use asset, lease liability, depreciation on the right-of-use asset, interest on lease liabilities and any tax related impact from the reported amounts. The IAS 17 amounts relating to lease charges, finance lease liabilities, onerous lease provisions and any rent prepayments or accruals are then reinstated.

APM	Description
Adjusted operating profit/EBITA	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted operating profit/EBITA before property profit	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted operating profit/EBITA margin before property profit	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
Adjusted profit before tax	Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense.
Adjusted profit after tax	Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense.
Capital turn	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
Constant currency	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
Dividend cover	Group earnings per share divided by the total dividend per share for the Group.
EBITDA	Earnings before exceptional items, net finance expense, income tax expense, depreciation and intangible assets amortisation. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
EBITDA interest cover	EBITDA divided by net bank/loan note interest.
Free cash conversion	Free cash flow as a percentage of adjusted operating profit.
Free cash flow	Cash generated from operations less replacement capital expenditure (net of disposal proceeds), less interest paid (net) and income taxes paid.
Gearing	The Group net debt divided by the total equity attributable to owners of the Parent times 100.
Like-for-like revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating profit/EBIT margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Return on capital employed	Adjusted operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.

Adjusted Operating Profit/EBITA before Property Profit

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Revenue	**2,672.3**	**2,672.3**	2,603.1
Operating profit	**197.8**	**187.3**	180.5
Property profit	**(6.9)**	**(6.9)**	(4.9)
Goodwill written off/profit on disposal of Group businesses	**–**	**–**	1.9
Amortisation of intangible assets arising on acquisitions	**7.0**	**7.0**	5.1
Adjusted operating profit/EBITA before property profit	**197.9**	**187.4**	182.7
Adjusted operating profit/EBITA margin before property profit	**7.4%**	**7.0%**	7.0%

Operating Profit/EBIT Margin

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Revenue	**2,672.3**	**2,672.3**	2,603.1
Operating profit	**197.8**	**187.3**	180.5
Operating profit/EBIT margin	**7.4%**	**7.0%**	6.9%

Adjusted Operating Profit/EBITA & Margin

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Operating profit	**197.8**	**187.3**	180.5
Goodwill written off/profit on disposal of Group businesses	**–**	**–**	1.9
Amortisation of intangible assets arising on acquisitions	**7.0**	**7.0**	5.1
Adjusted operating profit/EBITA	**204.8**	**194.3**	187.6
Adjusted operating profit/EBITA margin	**7.7%**	**7.3%**	7.2%

Adjusted Profit before Tax

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Profit before tax	**172.6**	**181.8**	174.4
Goodwill written off/profit on disposal of Group businesses	**–**	**–**	1.9
Amortisation of intangible assets arising on acquisitions	**7.0**	**7.0**	5.1
Adjusted profit before tax	**179.6**	**188.8**	181.4

Adjusted Profit after Tax

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Profit after tax for the financial year	**143.9**	**151.5**	144.8
Goodwill written off/profit on disposal of Group businesses	**–**	**–**	1.9
Related tax on disposal of Group businesses	**–**	**–**	0.5
Amortisation of intangible assets arising on acquisitions	**7.0**	**7.0**	5.1
Tax on amortisation of intangible assets arising on acquisitions	**(1.5)**	**(1.5)**	(1.0)
Adjusted profit after tax	**149.4**	**157.0**	151.3

Reconciliation of Profit to EBITDA

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restaed £'m
Profit after tax for the financial year	**143.9**	**151.5**	144.8
Net finance expense	**25.1**	**5.6**	6.1
Income tax expense	**28.7**	**30.2**	29.6
Depreciation	**105.1**	**44.2**	41.9
Intangible asset amortisation	**9.6**	**9.6**	7.1
EBITDA	**312.6**	**241.1**	229.5

Supplementary Financial Information (continued)

Net debt to EBITDA

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
EBITDA	**312.6**	**241.1**	229.5
Net debt/(cash)	**533.8**	**(7.8)**	53.1
Net debt/(cash) to EBITDA – times	**1.71**	**–**	0.23

EBITDA Interest Cover

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
EBITDA	**312.6**	**241.1**	229.5
Net bank/loan note interest	**25.8**	**6.0**	4.9
EBITDA interest cover – times	**12.1**	**39.9**	46.6

Free Cash Flow

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 £'m
Cash generated from operations	**291.1**	**219.1**	209.2
Replacement capital expenditure	**(27.3)**	**(27.3)**	(32.7)
Proceeds on sale of property, plant and equipment	**2.7**	**2.7**	7.4
Proceeds on sale of properties held for sale/investment properties	**14.7**	**14.7**	3.5
Interest received	**1.1**	**1.1**	0.9
Interest paid	**(25.9)**	**(6.3)**	(6.6)
Income taxes paid	**(31.8)**	**(31.8)**	(24.3)
Free cash flow	**224.6**	**172.2**	157.4

Gearing

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 £'m
Total equity attributable to owners of the Parent	**1,362.7**	**1,369.6**	1,296.5
Group net debt/(cash)	**533.8**	**(7.8)**	53.1
Gearing	**39%**	**(1%)**	4%

Return on Capital Employed

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Operating profit	**197.8**	**187.3**	180.5
Goodwill written off/profit on disposal of Group businesses	**–**	**–**	1.9
Amortisation of intangible assets arising on acquisitions	**7.0**	**7.0**	5.1
Adjusted operating profit	**204.8**	**194.3**	187.6
Total equity – current period end (from continuing operations)	**1,362.7**	**1,369.6**	1,276.7
Net debt/(cash) – current period end	**533.8**	**(7.8)**	53.1
Capital employed – current period end	**1,896.5**	**1,361.8**	1,329.8
Total equity – prior period end (from continuing operations)	**1,276.7**	**1,276.7**	1,154.8
Net debt – prior period end	**53.1**	**53.1**	62.9
Capital employed – prior period end	**1,329.8**	**1,329.8**	1,217.7
Average capital employed	**1,613.1**	**1,345.8**	1,273.7
Return on capital employed	**12.7%**	**14.4%**	14.7%

Capital Turn

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Revenue	**2,672.3**	**2,672.3**	2,603.1
Average capital employed	**1,613.1**	**1,345.8**	1,273.7
Capital turn – times	**1.7**	**2.0**	2.0

Dividend Cover

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	2018 Restated £'m
Group adjusted EPS – basic (pence)	**62.84**	**66.04**	63.66
Group dividend (pence)	**19.00**	**19.00**	18.00
Group dividend cover – times	**3.3**	**3.5**	3.5

Free Cash Conversion

	2019 Reported £'m	2019 Pre-IFRS 16 £'m	*2018 Restated £'m
Free cash flow	**224.6**	**172.2**	157.4
Adjusted operating profit	**204.8**	**194.3**	187.6
Free cash conversion	**110%**	**89%**	84%

* The 2018 reported free cash conversion was 81%, this was before the restatement of 2018 balances.

Supplementary Financial Information (continued)

The impact of IFRS 16 "Leases"

The following tables outline the impact of IFRS 16 "Leases" on the Group's primary statements. Additional tables are also provided to show the effect on the overall segmental analysis and the Group's Earning per Share.

Impact of IFRS 16 "Leases" and Discontinued Operations on the Group Income Statement

	2019 Pre adjusted £'000	2019 Discontinued operations £'000	2019 Continuing £'000	2019 IFRS 16 (see below) £'000	2019 Reported £'000
Revenue	2,924,073	(251,792)	2,672,281	–	**2,672,281**
Operating costs	(2,738,244)	246,442	(2,491,842)	10,450	**(2,481,392)**
Operating profit before property profits	185,789	(5,350)	180,439	10,450	**190,889**
Property profits	6,894	–	6,894	–	**6,894**
Operating profit before exceptional items	192,683	(5,350)	187,333	10,450	**197,783**
Exceptional items	(29,357)	29,357	–	–	**–**
Operating profit	163,326	24,007	187,333	10,450	**197,783**
Finance expense	(7,800)	–	(7,800)	(19,591)	**(27,391)**
Finance income	2,249	–	2,249	–	**2,249**
Profit before tax	157,775	24,007	181,782	(9,141)	**172,641**
Income tax expense	(31,373)	1,128	(30,245)	1,528	**(28,717)**
Profit after tax for the financial year from continuing operations	126,402	25,135	151,537	(7,613)	**143,924**
Result from discontinued operations	–	(25,135)	(25,135)	443	**(24,692)**
Profit after tax for the financial year	126,402	–	126,402	(7,170)	**119,232**

Overall impact of IFRS 16 "Leases" – Group Income Statement

For the year ended 31 December 2019

	2019 Pre IFRS 16 Impact £'000	2019 IFRS 16 Impact £'000	2019 Reported £'000
Revenue	2,672,281	–	**2,672,281**
Operating costs	(2,491,842)	10,450	**(2,481,392)**
Operating profit before property profits	180,439	10,450	**190,889**
Property profits	6,894	–	**6,894**
Operating profit	187,333	10,450	**197,783**
Finance expense	(7,800)	(19,591)	**(27,391)**
Finance income	2,249	–	**2,249**
Profit before tax	181,782	(9,141)	**172,641**
Income tax expense	(30,245)	1,528	**(28,717)**
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
Result from discontinued operations	(25,135)	443	**(24,692)**
Profit after tax for the financial year	126,402	(7,170)	**119,232**
Profit attributable to:			
Owners of the Company – continuing operations	151,537	(7,613)	**143,924**
Earnings per ordinary share – basic	63.73p	(3.20p)	**60.53p**
Earnings per ordinary share – diluted	63.52p	(3.19p)	**60.32p**

Group Balance Sheet as at 31 December 2019

ASSETS	2019 Pre IFRS 16 Impact £'000	2019 IFRS 16 Impact £'000	2019 Reported £'000
Non-current assets			
Goodwill	657,845	–	**657,845**
Intangible assets	103,268	–	**103,268**
Property, plant and equipment	503,094	(2,170)	**500,924**
Right-of-use asset	–	522,245	**522,245**
Investment properties	12,526	–	**12,526**
Deferred tax assets	7,007	593	**7,600**
Lease receivable	–	2,417	**2,417**
Retirement benefit assets	756	–	**756**
Other financial assets	127	–	**127**
Total non-current assets	1,284,623	523,085	**1,807,708**
Current assets			
Properties held for sale	16,274	–	**16,274**
Inventories	317,632	–	**317,632**
Trade and other receivables	396,345	(8,322)	**388,023**
Lease receivable	–	297	**297**
Derivative financial instruments	7	–	**7**
Cash and cash equivalents	348,787	–	**348,787**
Total current assets	1,079,045	(8,025)	**1,071,020**
Total assets	2,363,668	515,060	**2,878,728**
Equity			
Equity share capital	8,516	–	**8,516**
Share premium account	213,719	–	**213,719**
Capital redemption reserve	621	–	**621**
Revaluation reserve	12,954	–	**12,954**
Shares to be issued reserve	12,889	–	**12,889**
Cash flow hedge reserve	9	–	**9**
Foreign currency translation reserve	69,962	180	**70,142**
Retained earnings (prior years)	974,271	–	**974,271**
Retained earnings (current year)	80,597	(7,170)	**73,427**
Treasury shares held	(3,897)	–	**(3,897)**
Total equity	1,369,641	(6,990)	**1,362,651**
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	339,261	–	**339,261**
Lease liabilities	1,272	486,727	**487,999**
Provisions	20,985	(5,200)	**15,785**
Retirement benefit obligations	21,939	–	**21,939**
Deferred tax liabilities	47,109	–	**47,109**
Total non-current liabilities	430,566	481,527	**912,093**
Current liabilities			
Lease liabilities	438	54,930	**55,368**
Trade and other payables	523,381	(11,526)	**511,855**
Current income tax liabilities	28,396	(935)	**27,461**
Provisions	11,246	(1,946)	**9,300**
Total current liabilities	563,461	40,523	**603,984**
Total liabilities	994,027	522,050	**1,516,077**
Total equity and liabilities	2,363,668	515,060	**2,878,728**

Supplementary Financial Information (continued)

Group Cash Flow Statement

	2019 Pre IFRS 16 Impact £'000	2019 IFRS 16 Impact £'000	2019 Reported £'000
Profit before taxation from continuing operations	181,782	(9,141)	**172,641**
(Loss) before taxation from discontinued operations	(24,007)	443	**(23,564)**
Profit before taxation	157,775	(8,698)	**149,077**
Finance income	(2,249)	–	**(2,249)**
Finance expense *(continuing and discontinued)*	7,800	19,591	**27,391**
Operating profit	163,326	10,893	**174,219**
Depreciation	44,163	60,974	**105,137**
Amortisation of intangible assets	9,634	–	**9,634**
Share-based payments charge	6,171	–	**6,171**
Movement in provisions	4,186	690	**4,876**
Asset impairment/fair value adjustments	2,874	(892)	**1,982**
Profit on sale of property, plant and equipment	(672)	–	**(672)**
Property profit	(6,894)	–	**(6,894)**
Loss on disposal of Group businesses	19,385	443	**19,828**
Contributions to pension schemes in excess of IAS 19 charge	116	–	**116**
(Increase) in working capital	(23,180)	(81)	**(23,261)**
Cash generated from operations	219,109	72,027	**291,136**
Interest paid *(continuing and discontinued)*	(6,320)	(19,591)	**(25,911)**
Income taxes paid	(31,752)	–	**(31,752)**
Cash flows from operating activities	181,037	52,436	**233,473**
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	2,651	–	**2,651**
Proceeds from sales of properties held for sale	14,705	–	**14,705**
Proceeds from sale of Group businesses (net of cash)	66,513	–	**66,513**
Interest received	1,059	–	**1,059**
	84,928	–	**84,928**
Outflows			
Acquisition of subsidiary undertakings (net of cash)	(92,583)		**(92,583)**
Investment in intangible asset – computer software	(2,059)	–	**(2,059)**
Purchase of property, plant and equipment	(50,375)	–	**(50,375)**
	(145,017)	–	**(145,017)**
Cash flows from investing activities	(60,089)	–	**(60,089)**
Financing activities			
Inflows			
Proceeds from the issue of share capital	291	–	**291**
Proceeds from borrowings	116,256	–	**116,256**
	116,547	–	**116,547**
Outflows			
Repayment of borrowings	(59,590)	–	**(59,590)**
Dividends paid	(43,986)	–	**(43,986)**
Treasury shares purchased	(6,080)	–	**(6,080)**
Payment on lease liabilities	(399)	(52,436)	**(52,835)**
	(110,055)	(52,436)	**(162,491)**
Cash flows from financing activities	6,492	(52,436)	**(45,944)**
Net increase in cash and cash equivalents	127,440	–	**127,440**
Cash and cash equivalents at 1 January	222,984	–	**222,984**
Effect of exchange rate fluctuations on cash held	(1,637)	–	**(1,637)**
Cash and cash equivalents at the end of the year	348,787	–	**348,787**

Reconciliation of Net Cash Flow to Movement in Net Debt

	2019 Pre IFRS 16 Impact £'000	2019 IFRS 16 Impact £'000	2019 Reported £'000
Net increase in cash and cash equivalents	127,440	–	**127,440**
Bank loans and loan notes acquired	(27,420)	–	**(27,420)**
Bank loans and loan notes disposed	1,177	–	**1,177**
Net movement in derivative financial instruments	61	–	**61**
Movement in debt and lease financing	(56,267)	(541,657)	**(597,924)**
Change in net debt resulting from cash flows	44,991	(541,657)	**(496,666)**
Currency translation adjustment	15,919	–	**15,919**
Movement in net debt in the year	60,910	(541,657)	**(480,747)**
Net debt at 1 January	(53,087)	–	**(53,087)**
Net cash/(debt) at end of the year	7,823	(541,657)	**(533,834)**

Supplementary Financial Information (continued)

Segmental Analysis

	2019 Pre IFRS 16 Impact £'000	2019 IFRS 16 Impact £'000	2019 Reported £'000
Revenue			
UK merchanting	1,710,829	–	**1,710,829**
Ireland merchanting	464,784	–	**464,784**
Netherlands merchanting	211,820	–	**211,820**
Total merchanting	2,387,433	–	**2,387,433**
Retailing	205,465	–	**205,465**
Manufacturing	92,362	–	**92,362**
Less: Inter-segment revenue – manufacturing	(12,979)	–	**(12,979)**
Total revenue	2,672,281	–	**2,672,281**
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK merchanting	98,047	7,098	**105,145**
Ireland merchanting	42,802	249	**43,051**
Netherlands merchanting	19,632	283	**19,915**
Total merchanting	160,481	7,630	**168,111**
Retailing	19,936	2,705	**22,641**
Manufacturing	18,590	43	**18,633**
	199,007	10,378	**209,385**
Reconciliation to consolidated operating profit			
Central activities	(11,594)	72	**(11,522)**
	187,413	10,450	**197,863**
Property profits	6,894	–	**6,894**
	194,307	10,450	**204,757**
Operating profit before exceptional items and intangible amortisation arising on acquisitions			
Amortisation of intangible assets arising on acquisitions	(6,974)	–	**(6,974)**
Operating profit	187,333	10,450	**197,783**
Finance expense	(7,800)	(19,591)	**(27,391)**
Finance income	2,249	–	**2,249**
Profit before tax	181,782	(9,141)	**172,641**
Income tax expense	(30,245)	1,528	**(28,717)**
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
Result from discontinued operations	(25,135)	443	**(24,692)**
Profit after tax for the financial year	126,402	(7,170)	**119,232**

Earnings per Share

	2019 Pre IFRS 16 Impact £'000	2019 IFRS 16 Impact £'000	2019 Reported £'000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
(Loss) after tax for the financial year from discontinued operations	(25,135)	443	**(24,692)**
Numerator for basic and diluted earnings per share	126,402	(7,170)	**119,232**
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
Amortisation of intangible assets arising on acquisitions	6,974	–	**6,974**
Tax relating to amortisation of intangible assets arising on acquisitions	(1,474)	–	**(1,474)**
Numerator for adjusted earnings per share – continuing	157,037	(7,613)	**149,424**

	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	237,785,154	237,785,154	**237,785,154**
Dilutive effect of options and awards	797,483	797,483	**797,483**
Denominator for diluted earnings per share	238,582,637	238,582,637	**238,582,637**
Earnings per share (pence) – from continuing operations			
– Basic	63.73	(3.20)	**60.53**
– Diluted	63.52	(3.19)	**60.32**
Earnings per share (pence) – from discontinued operations			
– Basic	(10.57)	0.19	**(10.38)**
– Diluted	(10.54)	0.19	**(10.35)**
Adjusted earnings per share (pence) – from continuing operations			
– Basic	66.04	(3.20)	**62.84**
– Diluted	65.82	(3.19)	**62.63**
Earnings per share (pence) – from total operations			
– Basic	53.16	(3.02)	**50.14**
– Diluted	52.98	(3.01)	**49.97**

Grafton Group plc Financial History – 1997 to 2019

Group Income Statements	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012‡ £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Revenue	**2,672.3**	2,952.7	2,715.8	2,507.3	2,212.0	2,081.7	1,899.8	1,760.8	1,782.5	1,719.4	1,763.8	2,128.5
Operating profit	**190.9**	182.6	158.2	134.9	121.5	110.1	77.2	59.1	47.5	41.5	21.3	92.7
Operating margin %	**7.1%**	6.2%	5.8%	5.4%	5.5%	5.3%	4.1%	3.4%	2.7%	2.4%	1.2%	4.4%
Restructuring (costs)/credit	**–**	–	–	(19.7)	–	–	2.8	(21.2)	(27.8)	(13.2)	(17.0)	(13.7)
Property profit	**6.9**	4.9	2.7	4.9	6.7	–	–	–	–	–	–	–
Finance (expense)/income (net)	**(25.1)**	(6.1)	(6.4)	(5.9)	(7.9)	(8.9)	(12.3)	(12.9)	(10.8)	(6.4)	7.8	(28.0)
Profit before taxation	**172.6**	181.3	154.5	114.2	120.3	101.2	67.7	25.0	8.9	21.9	12.1	51.0
Taxation	**(28.7)**	(30.9)	(26.6)	(21.1)	(23.8)	(21.2)	(5.6)	6.6	(6.7)	33.0	(0.2)	(5.1)
Profit after taxation	**143.9**	150.4	127.8	93.1	96.5	80.0	62.1	31.6	2.2	54.9	11.9	45.9

Group Balance Sheets	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Capital employed												
Goodwill and intangibles	**761.1**	726.0	646.1	610.8	554.2	485.9	481.0	476.2	474.9	479.7	489.3	516.0
Property, plant and equipment/ROU	**1,023.2**	521.6	504.4	461.7	430.1	423.4	413.4	458.3	471.9	489.6	537.1	603.2
Financial assets	**0.1**	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	3.4	3.5	0.2
Net current assets**	**173.6**	161.7	136.3	141.5	149.6	112.8	136.5	133.7	121.2	122.2	122.6	193.0
Other net non-current liabilities	**(61.5)**	(59.8)	(49.4)	(52.6)	(31.3)	(40.6)	(23.0)	(85.9)	(58.4)	(22.8)	(56.4)	(69.9)
	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5
Financed as follows:												
Shareholders' equity	**1,362.7**	1,296.5	1,174.6	1,062.1	985.7	902.3	870.3	813.5	821.0	852.5	809.7	827.6
Non-controlling interest	**–**	–	–	3.1	3.4	4.0	4.0	4.1	–	–	–	–
Net debt/(cash)	**533.8**	53.1	62.9	96.3	113.6	75.3	133.7	164.9	188.7	219.6	286.4	414.9
	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5
Other Information												
Acquisitions & investments	**92.6**	73.8	40.4	11.9	98.6	33.1	5.9	17.6	11.1	2.1	6.1	22.4
Purchase of fixed assets/investment in intangible assets	**52.4**	73.6	81.4	60.4	51.6	46.9	24.7	23.0	30.6	8.2	11.0	62.6
	145.0	147.4	121.8	72.3	150.2	80.0	30.6	40.6	41.7	10.3	17.1	85.0
Depreciation and intangible amortisation	**114.8**	49.0	43.5	38.1	33.1	32.5	31.5	33.9	37.1	40.1	44.7	45.0

Financial Highlights	2019	2018	2017	2016	2015	2014	2013	2012‡	2011	2010	2009	2008
Adjusted EPS*** (pence)	**62.8**	66.0	54.9	47.7	41.2	34.4	22.3	15.1	13.4	15.9	4.8	25.6
Dividend/share purchase per share (pence)	**19.0**	18.0	15.5	13.8	12.5	10.8	8.5	7.0	6.5	6.0	4.5	11.9
Cashflow per share (pence)#	**108.8**	83.9	72.4	64.0	54.9	48.4	39.5	29.9	24.9	44.8	26.6	39.6
Net assets per share (pence)	**573.0**	545.3	495.0	449.5	419.0	387.9	374.4	350.6	354.1	368.5	351.0	359.5
Underlying EBITDA interest cover (times)	**12.1**	48.0	48.4	37.9	27.3	19.4	11.0	8.6	6.4	10.0	5.6	4.5
Dividend/share purchase cover	**3.3**	3.7	3.5	3.5	3.3	3.2	2.6	2.2	2.1	2.6	1.1	2.1
Net debt to shareholders' funds	**39%**	4%	5%	9%	12%	8%	15%	20%	23%	26%	35%	50%
ROCE	**12.7%**	15.0%	13.6%	12.5%	12.2%	11.1%	7.8%	6.1%	4.6%	3.8%	1.8%	7.6%

* The summary financial information is stated under IFRS for 2004 to 2019 and under Irish GAAP for all years from 1997 to 2003. 2019 is presented as the post-IFRS 16 balances.

** Excluding net debt/(cash)

*** Before amortisation of intangible assets arising on acquisitions in 2019. Before amortisation of intangible assets arising on acquisitions and profit/(loss) on disposal of Group businesses in 2018. Before amortisation of intangible assets arising on acquisitions in 2017. Before exceptional items and amortisation of intangible assets arising on acquisitions in 2016. Before pension credit, asset impairment and amortisation of intangible assets arising on acquisitions in 2015 (restated). Before pension credit and property impairment in 2013 and before restructuring costs and intangible amortisation in 2012 and taxation credits in both years. In previous years before intangible amortisation, onerous lease provision and impairment, restructuring costs (net), taxation credit in 2010 and investment profit in 2009 and excluding material property profits in previous years

Group Income Statements	2007 £'m	2006 £'m	2005 £'m	2004 £'m	2003 £'m	2002 £'m	2001 £'m	2000 £'m	1999 £'m	1998 £'m	1997 £'m
Revenue	2,193.3	2,000.0	1,798.1	1,270.5	1,035.2	724.6	614.9	506.2	408.6	289.7	239.1
Operating profit	180.4	165.4	146.2	109.3	80.1	56.4	48.1	39.4	30.5	22.4	18.7
Operating margin %	8.2%	8.3%	8.1%	8.6%	7.7%	7.8%	7.8%	7.8%	7.5%	7.7%	7.8%
Restructuring (costs)/credit	–	–	–	–	–	–	–	–	–	–	–
Property profit	5.0	25.9	6.6	5.1	2.4	2.3	1.4	–	–	–	–
Finance (expense)/income (net)	(24.0)	(21.4)	(21.4)	(15.5)	(11.9)	(8.3)	(7.7)	(7.2)	(5.4)	(3.3)	(1.8)
Profit before taxation	161.4	169.9	131.4	98.9	70.6	50.4	41.8	32.2	25.1	19.1	16.9
Taxation	(21.0)	(22.0)	(17.8)	(13.5)	(10.6)	(7.5)	(5.4)	(4.2)	(3.0)	(2.7)	(2.5)
Profit after taxation	140.4	147.9	113.6	85.4	60.0	42.9	36.4	28.0	22.1	16.4	14.4

Group Balance Sheets	2007 £'m	2006 £'m	2005 £'m	2004 £'m	2003 £'m	2002 £'m	2001 £'m	2000 £'m	1999 £'m	1998 £'m	1997 £'m
Capital employed											
Goodwill and intangibles	448.7	400.3	375.4	174.2	148.6	65.3	38.0	32.3	19.7	6.9	–
Property, plant and equipment	516.1	460.8	427.1	286.4	244.4	196.6	153.0	130.8	109.4	99.2	42.1
Financial assets	0.6	0.3	0.2	33.2	23.7	21.9	20.5	11.7	11.8	0.1	8.5
Net current assets**	256.9	225.4	207.8	137.6	139.9	93.9	78.8	66.5	47.4	42.5	20.1
Other net non-current liabilities	(35.7)	(35.8)	(52.4)	(35.8)	(19.9)	(11.7)	(10.8)	(10.0)	(8.8)	(8.7)	(0.8)
	1,186.6	1,051.0	958.1	595.6	536.7	366.0	279.5	231.3	179.5	140.0	69.9
Financed as follows:											
Shareholders' equity	783.0	681.1	557.7	349.4	317.0	209.5	160.9	135.1	112.7	98.6	53.6
Non-controlling interest	–	–	–	–	–	–	–	–	–	–	–
Net debt/(cash)	403.6	369.9	400.4	246.2	219.7	156.5	118.6	96.2	66.8	41.4	16.3
	1,186.6	1,051.0	958.1	595.6	536.7	366.0	279.5	231.3	179.5	140.0	69.9
Other Information											
Acquisitions & investments	61.0	59.4	326.7	60.2	152.3	55.8	38.4	34.5	41.9	36.2	21.7
Purchase of fixed assets/investment in intangible assets	71.7	84.8	68.8	60.3	48.0	42.8	26.1	26.3	19.4	14.0	10.7
	132.7	144.2	395.5	120.5	200.3	98.6	64.5	60.8	61.3	50.2	32.4
Depreciation and intangible amortisation	40.4	37.8	34.5	23.5	26.0	16.7	13.6	10.1	8.3	4.9	3.9

Financial Highlights	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Adjusted EPS*** (pence)	57.7	53.2	46.4	38.1	31.2	23.3	20.0	15.8	12.8	9.6	8.5
Dividend/share purchase per share (pence)	15.1	12.8	10.8	8.8	7.3	5.3	4.7	3.7	3.0	2.2	2.0
Cashflow per share (pence)#	74.1	68.4	60.4	49.1	40.6	32.7	27.9	22.1	18.1	13.1	11.5
Net assets per share (pence)	341.2	284.7	234.9	163.7	149.1	118.1	91.4	77.6	65.2	59.9	33.3
Underlying EBITDA interest cover (times)	8.2	10.2	9.4	9.9	9.1	9.1	8.2	6.9	7.2	8.3	12.9
Dividend/share purchase cover	3.8	4.2	4.3	4.3	4.3	4.4	4.3	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	52%	54%	72%	70%	69%	75%	74%	71%	59%	42%	30%
ROCE	16.1%	16.5%	18.8%	19.3%	17.1%	16.5%	17.4%	17.4%	16.9%	18.2%	23.1%

\# Based on profit after tax before depreciation, 2016 exceptional items, 2015 pension credit, 2013 pension credit, intangible amortisation, onerous lease provision, impairment and excluding material property profits in previous years.

‡ IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRS from the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.

Corporate Information

Corporate & Registered Office	Heron House Corrig Road Sandyford Business Park D18 Y2X6 Phone: +353 (0)1 216 0600 Email: email@graftonplc.com www.graftonplc.com
Registrars	Link Asset Services Link Registrars Limited PO Box 1110, Maynooth, Co. Kildare Phone: +353 (0)1 553 0050 Email: enquiries@linkgroup.ie www.linkassetservices.com
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Squire Patton Boggs, London Allen & Overy, Amsterdam
Bankers	Bank of Ireland HSBC Bank plc Ulster Bank Barclays Bank plc ABN AMRO Bank N.V. Lloyds Bank plc
Stockbrokers	Goodbody, Dublin Numis Securities Limited, London
Auditors	PricewaterhouseCoopers

Financial Calendar 2020

Results

Final Results for 2019	27 February 2020
Annual General Meeting 2020	29 April 2020
Half-Year Results for 2020	27 August 2020

Interim Dividends for 2019

Record date	27 September 2019
Payment date	11 October 2019
Record date	6 March 2020
Payment date	6 April 2020

Annual General Meeting 2020

The Annual General Meeting of the Company will be held at 10.30am on Wednesday 29 April 2020 at the IMI Conference Centre, Sandyford Road, Dublin 16.

Glossary of Terms

AGM	Annual General Meeting
APM	Alternative Performance Measure
BES 6001	Framework Standard for Responsible Sourcing
BRR	Business Risk Register
bps	Basis Points
CA14	Companies Act 2014
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CO_2e	Carbon Dioxide Equivalent
CPC	Construction Products Certification
CPI	Consumer Price Index
CRR	Corporate Risk Register
CSR	Corporate Social Responsibility
DB Schemes	Defined Benefit Schemes
EBITA	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense
EBITDA	Earnings before exceptional items, net finance expense, income tax expense, depreciation and intangible assets amortisation
EGM	Extraordinary General Meeting
EPS	Earnings per Share
FRS	Financial Reporting Standard
FSC	Forest Stewardship Council
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
GAAP	Generally Accepted Accounting Principles
GDPR	EU General Data Protection Regulation
Grafton	Grafton Group plc
GRC	Group Risk Committee
IAS	International Accounting Standards
IAASA	Irish Auditing and Accounting Supervisory Authority
IBNR	Incurred But Not Reported
IFRS	International Financial Reporting Standards
IGBC	Irish Green Building Council
IOSH	Institution of Occupational Safety and Health
ISAs (Ireland)	International Standards on Auditing (Ireland)
KPI	Key Performance Indicators
LSDM Limited	Leyland SDM Limited
LTIFR	Lost Time Injury Frequency Rate
LTIP	Long Term Incentive Plan
PEFC	Programme for the Endorsement of Forest Certification
PPE	Property, Plant & Equipment
QQI	Quality and Qualifications Ireland
Record Date	The date on which holders of Grafton Units must be on the Company's Register of Members at the close of business to be eligible to receive a dividend payment
RMI	Repair, Maintenance and Improvement
ROCE	Return on Capital Employed
SAYE	Save As You Earn
The Code	2018 UK Corporate Governance Code
The Company	Grafton Group plc
The Group	Grafton Group plc and its subsidiaries
TSR	Total Shareholder Return
Unit/Grafton Unit	A Grafton Unit, comprising one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc
VIU	Value-In-Use
WEEE	Waste Electrical and Electronic Equipment

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