



**Final Results
For the Year Ended 31 December 2021**

Grafton Group plc

Final Results for Year Ended 31 December 2021

Record Performance and Transformational Year for Business

Grafton Group plc ("Grafton"), the international building materials distributor and DIY retailer is pleased to announce its final results for the year ended 31 December 2021.

These results are presented for continuing operations following the sale of the Group's Traditional Merchanting business in Great Britain on 31 December 2021 and the results for 2020 have been restated accordingly.

Continuing Operations ¹	2021	2020 ² (restated)	Change
Revenue	£2,110m	£1,679m	+25.6%
Adjusted ³ operating profit	£288.0m	£170.6m	+68.8%
Adjusted operating profit before property profit ⁴	£271.2m	£170.7m	+58.9%
Adjusted operating profit margin before property profit	12.9%	10.2%	+270bps
Adjusted profit before tax	£268.6m	£146.4m	+83.5%
Adjusted earnings per share	93.0p	50.3p	+84.9%
Dividend	30.5p	14.5p	+110.3%
Adjusted return on capital employed (ROCE)	19.4%	11.9%	+750bps
Net cash (before IFRS 16 leases) ⁵	£588.0m	£181.9m	+£406.1m
Net cash/(debt) – (including IFRS 16 leases) ⁶	£139.0m	(£355.0m)	+£494.0m

Statutory Results – Continuing Operations	2021	2020 (restated)	Change
Operating profit	£269.2m	£157.8m	+70.6%
Profit before tax	£249.8m	£133.6m	+87.0%
Basic earnings per share	86.4p	45.9p	+88.3%

¹ Supplementary financial information in relation to Alternative Performance Measures (APMs) is set out on pages 44 to 49.

² The results for 2020 have been restated as the Traditional Merchanting Business in Great Britain is now classified as a discontinued operation. Details are set out in Note 14.

³ The term "Adjusted" means before exceptional items and acquisition related items. Please refer to APMs on page 44 for details of acquisition related items. The adjustment of acquisition related items is a change on previous years and thus the 2020 comparative APM's have been restated to conform to current year presentation.

⁴ The property profit from continuing operations amounted to £16.7 million in 2021 whereas this was a loss of £0.1 million in 2020.

⁵ Net cash from total operations (before IFRS 16 lease liabilities), which includes cash of the discontinued operations in 2020.

⁶ Net cash/(debt) from total operations (including IFRS 16 lease liabilities), which includes the discontinued operations in 2020.

Operational Highlights

- Excellent results were slightly ahead of expectations
- Very strong performance across all businesses, with record contributions from Woodie's and Selco
- Strong gains by Chadwicks and Isero brands
- Record contribution from businesses in Ireland
- Sale of Traditional Merchanting Business in Great Britain for £520 million provides further investment capacity for growth
- Acquisition of IKH in Finland for €200 million provides new growth platform in the Nordics
- Good contribution from StairBox acquisition which performed ahead of plan
- Ongoing investment in digital
- Continued progress of sustainability agenda

Financial Highlights

- Record adjusted operating profit of £271.2 million (before property profit)
- Record Group adjusted operating profit margin of 12.9% (before property profit)
- Structural transformation in operating margin in UK Distribution business to 12.5%
- Adjusted return on capital employed of 19.4%
- Cash generated from operations of £303.2m million
- Net cash at year end of £588.0 million (before IFRS 16 lease liabilities)

Gavin Slark, Chief Executive Officer Commented:

"2021 saw record profits, a step change to higher returning businesses following the divestment of our Traditional Merchanting business, exposure to a new growth platform in the Nordics and increased focus on digital and sustainability opportunities.

"Our people have been a key differentiator in delivering safe and superior customer outcomes throughout the pandemic and in mitigating supply chain challenges at a time of resilient demand in the broader repair, maintenance and improvement and DIY segments in our markets.

"Trading year to date has been encouraging and the outlook for 2022 is positive, supported by strong housing and RMI markets, the inherent strength of our businesses, our strong balance sheet and future investment opportunities."

Webcast and Conference Call Details

A pre-recorded results presentation and a copy of the results presentation document are available at 7:00am today via the home page of the Company's website www.graftonplc.com.

A live audio conference call for analysts and investors will be hosted by Gavin Slark and David Arnold at 10:00am today. If investors would like to listen to the conference call, they can do so either via the "Live Audio Conference Call" webcast link on the home page of the Company's website or by clicking on the following link: https://brrmedia.news/GFTU_FY21

Analysts will be invited to raise questions on the call. Should investors wish to submit a question in advance, they can do so before 9.15am today by sending an email to ir@graftonplc.com. A recording of the call will be available on the Company's website later today.

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Cautionary Statement

Certain statements made in this announcement 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 announcement and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Final Results for the Year Ended 31 December 2021

Statement from Gavin Slark, Chief Executive Officer

Grafton achieved record results in 2021, a year that also marked the completion of a key phase of our strategic development with the divestment of the Traditional Merchanting Business in Great Britain. This development has seen the Group transformed into a portfolio of high quality and high returning businesses with good market positions.

We continued to invest both organically and through acquisitions in our existing businesses and in July we acquired IKH in Finland which provides a new growth platform in the Nordics

Results for Year

These excellent results, which were achieved in broadly favourable markets, show the benefits of the multi-year investments in the more resilient segments of our markets. The residential repair, maintenance and improvement ("RMI") market is our primary end-use market and we saw the real benefits during the year of our sectoral focus on this market.

We continued to progress initiatives to extend the competitive advantages that our businesses have and to grow our market positions. We invested in digital as part of our commitment to providing customers with a seamless omnichannel experience. We are blending our physical branches and stores, which remain at the heart of our business, with the digital environment and we are increasingly interacting with our customers through social media.

Supply chain disruption resulted in shortages of core building materials, longer lead times, managed allocation for selected products and a sharp increase in product price inflation across a range of categories in the distribution businesses in the UK and Ireland.

Group adjusted operating profit (before property profit) increased by 58.9 per cent to £271.2 million (2020: £170.7 million and 2019: £173.2 million) in the continuing business, which excludes the Traditional Merchanting Business in Great Britain that was divested at the year end. The Group adjusted operating profit margin in the continuing businesses was a record 12.9 per cent, an increase of 270 basis points on the outturn for 2020.

Our market leading businesses in the UK, Ireland and the Netherlands performed strongly, and we had a second half contribution from the IKH business in Finland. The Woodie's DIY, Home and Garden retail business in Ireland benefitted from an exceptional level of demand in the first half which eased following the reopening of non-essential retail.

Selco Builders Warehouse, which now makes up three quarters of our UK distribution business, achieved a significant step up in revenue and profitability. The operating profit margin in the continuing UK distribution business before property profit was 12.5 per cent (2020: 8.8 per cent and 2019: 11.7 per cent). Divestment of the lower margin UK distribution businesses and the allocation of capital to new Selco branches over recent years has resulted in a planned structural increase in the operating profit margin. The 2019 operating profit margin before property profit in the UK Distribution business, including the divested Traditional Merchanting business, was 6.1 per cent which demonstrates the scale of the operating margin transformation in 2021.

We have reported property profit of £16.7 million for the financial year. Proceeds of £13.6 million were received on the successful completion of the sale of freehold properties in Belgium that were retained following the sale of the distribution business in 2019.

Cashflow generated from operations for the year increased to £303.2 million and the Group ended the year with net cash of £588.0 million before IFRS 16 lease liabilities, an increase of £406.1 million.

The Board of Grafton is committed to a progressive dividend policy and, at the Capital Markets Day in November 2021, we announced that we would look to maintain dividend cover of between two and three times in future with the dividend cover for 2021 at the upper end of that range. Consistent with this, we have today announced a proposed final dividend of 22.0 pence per share to give a total dividend for the 2021 financial year of 30.5 pence per share, representing cover of 3.0 times based on adjusted earnings per share.

Implementing our Group Strategy and Increasing Returns

As already noted, we completed the divestment of the Traditional Merchanting Business in Great Britain on 31 December 2021 for an enterprise value of £520 million following a strategic review. Freehold properties that have a market value of approximately £25 million (fair value of £15.75 million) were retained. This transaction completed our programme of planned disposals and we again thank all our former colleagues in this business for their longstanding and valued contribution to Grafton and wish them every success in the future.

We now have the opportunity to recycle the proceeds received on the divestment into more differentiated, higher growth potential businesses that generate superior returns over the long term. The divestment enables us to refocus resources on our international development strategy which will be our main priority over the coming years.

Acquisitions have always been an important part of the Grafton growth strategy. We have a long history of identifying, acquiring and integrating businesses and an acquisition team that is skilled and experienced in all aspects of transactions. We entered the Netherlands market at the end of 2015 and since then have developed a best-in-class business of scale in an attractive segment of the distribution market. This involved an initial platform acquisition that gave us an entry point into a new geography and customer segment. We followed up with bolt-on acquisitions in a consolidating market and a transformative deal in 2019 when we acquired Polvo. We have also grown the business organically and have continued to expand geographically as we seek to create a national branch footprint.

We completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH") in Finland on 1 July 2021. IKH is one of the largest wholesalers and distributors of workwear, personal protective equipment ("PPE"), tools, spare parts and accessories in Finland. We were very pleased to welcome our new colleagues in Finland to the Grafton family and we look forward to working with them on the next phase of IKH's growth and development.

The acquisition of IKH, which has a number two market position in the tools and PPE product categories in Finland, provides Grafton with exposure to a new geographic market and creates a new platform for growth in the Nordic region. IKH has also expanded our product ranges and customer segments in core and related markets.

Completion of the IKH transaction was consistent with our disciplined approach to acquisitions. We have allocated capital on the basis of strategic fit and meeting our hurdle rates of return for operating profit margin and ROCE. We recognise the importance of retaining our focused approach and strong disciplines around capital allocation, particularly as we look to deploy our balance sheet strength over the next few years.

At the Capital Markets Day in November, we increased the Group's long term operating profit margin target from 7 per cent to 10 per cent and we raised our underlying ROCE target by one per cent to 13 per cent after adjusting for the treatment of leases under IFRS 16.

Through a combination of organic growth and the acquisition of high growth potential businesses trading in segments of our markets that have good structural growth drivers, we will continue to allocate capital to opportunities that will allow us to deliver sustainable value and good returns.

Implementing Our Sustainability Strategy

At Grafton we believe there is a positive connection between sustainability and financial performance and we are facing up to the bigger questions about what's right for our business, for society and for the environment. We have developed a strategy that challenges us to take the lead on the material issues that are closest to our business, and which make the biggest contribution to the UN Sustainable Development Goals that are most relevant to us. Our businesses are focusing on the issues most relevant to them, and we are aligning resources to these key areas to deliver maximum impact.

We have set specific targets and KPIs across the five focus areas of our sustainability strategy to guide our performance and help us work in a way that's responsible and sustainable. Our sustainability programme informs our strategic decision making about where to innovate and where to invest, as well as the operational decisions we all make every day.

We have made good progress to date, and you will see this in a very real way in the reviews of the individual businesses that follow. We will continue working towards our sustainability strategy commitments whilst also aiming higher to ensure we make a valuable contribution to society and help build a sustainable future for everyone.

Colleagues

In closing, I would like to again express my sincere thanks to colleagues across our Group for living the values of Grafton in their exceptional response throughout the Covid-19 pandemic and for safely supporting each other, our customers and business partners. It was their efforts and commitment that have made these results possible.

Gavin Slark, Chief Executive Officer

Group Results – Trading Summary, Cashflow, Dividend and Outlook

The Group's high performance, market leading distribution, retailing and manufacturing business delivered a record set of results for the year.

Trading in January and February was affected by restrictions in place nationally in all our geographies during the early stages of vaccine rollout programmes. A strong recovery in March and April, as restrictions were relaxed, was sustained through May and June. There was some disruption to supply chains caused by strong global demand for building materials, insufficient manufacturing capacity, raw materials shortages and container shipping and transport logistics issues.

The trading environment remained strong in the second half measured against a demanding prior year comparator that had benefitted from pent up demand as markets continued to normalise. While supply chain pressures eased, building materials price inflation was a key driver of revenue growth in our distribution businesses in the UK and Ireland.

Distribution

UK

Following the divestment of the Traditional Merchanting Business in Great Britain, the Group's distribution business in the UK now comprises Selco, Leyland SDM, MacBlair and TG Lynes.

Trading conditions in the UK residential RMI market were subdued in January and February before good growth momentum developed during March and continued through to the end of the first half. Revenue growth was sustained in the second half as demand for home improvements was significantly higher than the prior year. This resulted in a very strong operating profit performance for the year and impressive growth of 370 basis points in the operating margin before property profit to a record 12.5 per cent.

Selco opened three new branches during the year, increasing the estate to 72. We have identified significant opportunities to further grow the business over the coming years and our target is to increase the branch estate to 100 by 2026.

Ireland

Chadwicks, the market leader in Ireland, operated at lower levels of activity from early January to mid-April as a phased re-opening of the construction sector including house building got underway. May and June saw a spike in demand in the residential RMI and house building markets significantly boosting profitability in the first half.

RMI and house building activity was very buoyant in the second half driven by fewer restrictions, pent up demand and a recovering economy. Second half profitability was also very strong, and the full year result represented a marked improvement on the outcome for 2019. Both Daly Brothers, the Dundalk builders merchant acquired in July 2020 and Proline, the architectural ironmongery business acquired in February 2021, made excellent profit contributions. The operating profit margin before property profit increased by 330 basis points to a record 12.3 per cent.

The Netherlands

The Isero ironmongery, tools and fixings business reported good growth in revenue and profitability on the prior year when it was permitted to continue trading as an essential distributor and was relatively unaffected by the pandemic. The positive revenue growth trends that developed in the first half continued in the second half and the business reported increased operating profit and an improvement in the operating margin to 10.5 per cent. Isero made further strategic progress expanding the Group's branch footprint in the Netherlands.

Finland

The IKH workwear, personal protective equipment, tools and spare parts wholesaler that was acquired on 1 July 2021 reported revenue and profitability in line with expectations. Our experience of the business under Grafton ownership confirms our pre-acquisition assessment that IKH is a very good strategic and cultural fit for Grafton.

Retailing

The **Woodie's** market leading DIY, Home and Garden business in Ireland had a remarkable year reporting record breaking revenue and profitability and a further advance in the operating margin to 18.0 per cent. Woodie's was classified as an essential retailer and permitted to trade throughout the first half making exceptional gains in the period. Customer demand moderated as expected in the second half, as retail and leisure restrictions were lifted, while continuing to show a step change in performance compared to 2019.

Manufacturing

The **CPI EuroMix** mortars manufacturing business in Great Britain reported good growth in revenue and profitability and achieved an operating margin of 19.4 per cent. The year started slowly and then gradually gained momentum as house builders increased construction activity in response to good underlying demand for new homes.

StairBox, a market leading staircase manufacturer that trades on-line, had an excellent first full year under Grafton ownership. StairBox is a leader in technology in its field and provides Grafton with access to an attractive segment of the UK RMI market. Profitability and cash generation were materially ahead of plan and the operating margin of 34.2 per cent for the year established a new record for a Grafton business.

Cash Flow

The Group's cashflow from operations, including discontinued operations for the first half, declined to £303.2 million from £377.7 million in 2020. This excellent cash generation was driven by strong trading in the Group's businesses and included an investment of £64.1 million in working capital to support the 25.6 per cent increase in revenue during the year and to ensure that we were well placed to meet anticipated levels of demand coming into 2022. This follows a reduction in working capital by £81.2 million in 2020.

The Group had net cash before IFRS 16 lease liabilities of £588.0 million at the year end, an increase of £406.1 million having started the year with net cash of £181.9 million. Net cash including IFRS 16 lease liabilities was £139.0 million, an improvement of £494.0 million since the end of 2020 when the Group reported net debt, including IFRS 16 lease liabilities, of £355.0 million.

Dividend

The Group had a cash outflow on dividends of £84.9 million during the year comprising:

- the second interim dividend for 2019 of 12.5p per (£29.9 million) that was suspended in March 2020 as a precautionary measure to preserve liquidity in light of Covid-19;
- the final dividend for the year ended 31 December 2020 of 14.5p per ordinary share (£34.7 million); and
- an interim dividend for 2021 of 8.5p per share (£20.3 million).

The Board of Grafton is very conscious of the importance of dividends to shareholders and is committed to a progressive dividend policy. At the Capital Markets Day in November 2021, we announced that the Company would look to maintain dividend cover of between two and three times going forward with the dividend cover for 2021 expected to be at the upper end of that range. Consistent with this, the proposed final dividend for 2021 of 22.0 pence per share gives a total dividend for the year of 30.5 pence per share, representing cover of 3.0 times based on adjusted earnings per share.

The final dividend for 2021 and future dividends will be paid by Grafton Group plc following the simplification of the Grafton Unit which was approved by shareholders at the EGM on 21 January 2021.

This dividend for 2021 of 30.5p per share (2020: 14.5p) is in line with the Board's progressive dividend policy and reflects both the Group's strong profitability and cashflow from operations for the year and its (pre-IFRS 16) net cash position at 31 December 2021.

It is proposed to pay a final dividend for 2021 of 22.0p per ordinary share on 5 May 2022, subject to approval by shareholders at the Annual General Meeting, to shareholders on the Register of Members at the close of business on 8 April 2022, the record date. The Ex-dividend date is 7 April 2022.

A liability in respect of the final 2021 dividend has not been recognised at 31 December 2021, as there was no obligation to pay it at the year end.

Outlook

The recent wave of the Covid-19 pandemic has been less severe than previous waves and the restrictions now in place in the four countries where we operate have either been reduced significantly or reducing.

Consumer price inflation is expected to ease but to remain above the low levels of recent decades and while global supply chain disruption caused by the pandemic has eased considerably it is likely to continue to impact the availability of certain products. The overall rate of building materials price inflation appears to be moderating but there is a carryover effect from price increases in the second half of last year and the pricing of certain key products, such as timber and steel, may prove volatile in the current year.

The UK economy staged a strong recovery last year and is forecast to continue, albeit at a moderating pace. Activity in the new housing market is underpinned by demand exceeding supply in a low interest rate environment with good levels of mortgage availability. The demand fundamentals in the housing RMI market are supported by an aging housing stock, an increase in housing transactions in 2021, a build-up of savings during the pandemic and by employment growth and a desire by households for more indoor and outdoor living space. The willingness of households to undertake major projects due to the squeeze on real incomes caused by high rates of inflation and the cost and availability of labour in a tight market are possible headwinds for the RMI market.

In Ireland, the reopening of the economy through 2021 led to a sharp increase in employment and household spending and the outlook remains positive for 2022. Chadwicks should continue to make gains as activity in the residential RMI market is expected to remain strong and the level of housing commencements in 2021 points to a further increase in house completions, albeit skills shortages could curtail growth. We expect some dilution of gross margin as the mix of business normalises. The exceptional revenue growth trends in Woodie's business eased as anticipated in the second half of last year following the reopening of non-essential retail and leisure activities and it is anticipated that this trend will continue through the first half as revenue normalises at well above the pre-pandemic level.

The Netherlands' economy has been resilient throughout the pandemic and while above trend growth is forecast, driven by consumer spending, the historically low rate of unemployment and a high number of job vacancies may weigh on activity. Underlying demand conditions in the RMI and new housing markets are very positive, but housing transactions are likely to remain under pressure due to the shortage of properties for sale. We expect to make further progress growing our Isero/Polvo ironmongery, tools and fixings distribution business.

The Finnish economy continues to recover and growth is forecast to be supported by increased household spending, employment and incomes. House building is expected to be brisk in the Helsinki region and in the larger urban centres. We expect the IKH business to perform in line with plan.

Average daily like-for-like Group revenue increased by 18.9 per cent in the period from 1 January to 13 February 2022 measured against a weaker performance in the same period last year which was impacted by the pandemic. This comprised increases of 13.2 per cent in UK Distribution, 47.2 per cent in Irish Distribution measured against trading during the lockdown of the construction sector, 6.7 per cent in Netherlands Distribution and by 36.4 per cent in Manufacturing. Average daily like-for-like revenue declined, as anticipated, by 4.4 per cent in Retailing which compares to growth of circa 40.0 per cent in the same period last year.

The business is performing in line with management expectations at this early stage of the financial year and we look to the future with confidence given the strength of our businesses, strong balance sheet and future investment opportunities.

Operating Review – Continuing Operations

The Distribution businesses in the UK, Ireland, the Netherlands and Finland contributed 81.9 per cent of Group revenue (2020: 81.7 per cent), Retailing 13.4 per cent (2020: 14.7 cent) and Manufacturing 4.7 per cent (2020: 3.6 per cent).

Our distribution footprint continues to diversify. UK businesses contributed 43.4 per cent (2020: 40.9 per cent) of Group revenue, Ireland 39.5 per cent (2020: 42.6 per cent), the Netherlands 13.8 per cent (2020: 16.5 per cent) and Finland 3.3 per cent (2020: N/A).

Distribution Segment (82% of Group Revenue)

	2021	2020	2019	
	£'m	£'m	£'m	Change*
Revenue	1,727.6	1,371.3	1,358.7	26.0%
Adjusted operating profit before property profit	209.8	126.3	143.2	66.2%
Adjusted operating profit margin before property profit	12.1%	9.2%	10.5%	+290bps
Adjusted operating profit	221.8	126.2	147.3	75.8%
Adjusted operating profit margin	12.8%	9.2%	10.8%	+360bps

*Change represents the movement between 2021 v 2020 and is based on unrounded numbers

UK Distribution generated 39.0 per cent (2020: 37.6 per cent) of Group revenue, Irish Distribution 25.8 per cent (2020: 27.6 per cent), Netherlands Distribution 13.8 per cent (2020: 16.5 per cent) and Finnish Distribution 3.3 per cent (2020: N/A).

UK Distribution

	2021	2020	2019	
	£'m	£'m	£'m	Change*
Revenue	821.9	630.9	682.1	30.3%
Adjusted operating profit before property profit	102.5	55.8	80.0	83.7%
Adjusted operating profit margin before property profit	12.5%	8.8%	11.7%	+370bps
Adjusted operating profit	113.0	55.9	80.0	102.2%
Adjusted operating profit margin	13.7%	8.9%	11.7%	+480bps

*Change represents the movement between 2021 v 2020 and is based on unrounded numbers

The results of the UK distribution business and comparative results for 2020 do not include the Traditional Merchanting Business in Great Britain that was divested on 31 December 2021 which is classified as discontinued operations.

Revenue growth of 30.3 per cent reflects a continuation of the strong demand trends that developed in the second half of last year and a weaker performance in the second quarter of 2020 - when pandemic lockdown measures resulted in the closure of all branches (except for Leyland SDM) on 24 March and the phased reopening in May and June.

Like-for-like revenue was up by 28.8 per cent on 2020 and by 16.8 per cent on 2019. There was one less trading day in 2021 compared to 2020.

The GDC Paints business acquired in July 2020 contributed revenue of £3.6 million in the first half of 2021 and new Selco and Leyland SDM branches contributed revenue of £9.0 million. The P. McDermott distribution business acquired in Northern Ireland in December contributed revenue of £0.4 million.

Gross margin was up by 110 basis points on the level reported for 2019, when trading conditions were more comparable than 2020. This improvement was attributable to changes in product mix, improved procurement arrangements and inventory gains related to the increase in prices.

Operating profit before property profit increased to £102.5 million (2020: £55.8 million) at an operating profit margin of 12.5 per cent, a level that signals a strong performance by the continuing distribution business in the UK and a structural shift following divestment of the Traditional Merchanting Business in Great Britain.

Selco Builders Warehouse

Selco Builders Warehouse delivered an excellent performance achieving a significant step-up in revenue and profitability to record levels while continuing to invest in the branch network and digital to support future growth. This strong performance reflected the benefits of expanding the branch network and digital investment in recent years.

Selco is a great business built on very solid foundations. Its experienced management team, with the support of colleagues, delivered strong results despite many challenges while at all times prioritising the health and safety

of customers and each other. The success of Selco in over achieving as a business is dependent on the quality of engagement with its 3,000 colleagues. In the recent Best Companies engagement survey, Selco received a very good to work for 1-star accreditation, an important milestone on its colleague engagement journey.

Average daily like-for-like revenue increased by 32.0 per cent on 2020 which was impacted by the closure of all branches in late March 2020 due to the pandemic and the subsequent reopening on a phased basis in May and June. Average daily like-for-like revenue growth of 18.7 per cent on 2019 is a better gauge of the good progress made in 2021. Revenue trends were relatively even over the course of the year compared to 2019.

The year started strongly building on the progress made in the second half of 2020 and gained good momentum in the first half. Trading conditions continued to normalise in the second half, measured against a strong performance in the same period last year, as the very high levels of demand for materials eased.

The improved performance was broadly based across the branch network with branches outside of the Greater London Area, that accounted for almost one-third of revenue, making the strongest revenue gains.

Supply chain disruption caused longer lead times resulting in some in-market shortages of core building materials. The procurement team worked closely with supply chain partners to mitigate the worst impacts of these shortages on customers. High demand and supply shortages contributed to significant price inflation which we estimate at 13 per cent for the year with a significant weighting towards the second half.

Demand conditions at Selco, *"It's where the trade go"*, were positive, driven by strong demand for building materials to undertake a wide range of housing RMI projects. Double digit house price inflation, low interest rates and a renewed focus on better quality indoor and outdoor living space prompted by the pandemic led to increased spending on the home. Households were generally well resourced having built up a pool of savings during the restrictions and some spending was diverted to the home from leisure and non-essential retail. A shortage of skills in a tight labour market and product shortages moderated growth in RMI activity.

The overall performance of the branches that opened last year in Orpington and Salford, the relocated branch in Bristol and the Chessington branch that was extended, materially outperformed plan.

Selco's well invested and well stocked branches are located in generally densely populated catchment areas that provide the business with resilience and a structural advantage. We know our customers well and the format of our branches and the product ranges stocked are tailored to meet their needs. Our trade customers are very loyal and shop frequently, often daily, across all categories and over the branch network. While they generally prefer to physically purchase materials in our branches, they are also very active digital users. Selco's digital journey evolved in 2019 with the launch of a Click & Deliver service for all products to complement its established Click & Collect service. A significant investment was made upgrading the online platform in early 2020 which delivered additional features and made it easier to trade online. On reopening in May 2020 at the end of the initial phase of the pandemic, trading online accelerated and initially accounted for almost one fifth of revenue before settling at five to six per cent.

Selco continued to work with best-in-class partners to develop a tailored and flexible ecosystem to make online trading easier and to provide a scalable solution for the longer term as online volumes increase. The ongoing investment in improving the capability of our platforms is helping to provide a seamless omnichannel experience for customers. Digital sales accounted for 5.1 per cent of revenue and approximately 80 per cent of on-line orders were fulfilled through deliveries from branches and delivery hubs.

The estate increased to 72 with the opening of new branches in Liverpool in April, Canning Town in November and Rochester in December. Trading in these locations has got off to an encouraging start and we are progressing a good pipeline of opportunities that are at varying stages of development. We have identified significant opportunities to grow the business over the coming years and our target is to increase the branch estate to 100 by 2026. We also completed major upgrades to the Catford, Ruislip and Barking branches as part of a rolling programme of investment in the branch estate and mini upgrades were completed on five branches. Following the success of the delivery hub in Edmonton, that centralised customer deliveries for six branches in North London, a second hub was opened that centralises deliveries for the seven branches in the Birmingham Area.

The Selco Sustainability Pledge, a blueprint for what can be achieved over the next decade, was launched during the year. The business has already taken decisive action this year, as part of its responsibility to the environment, with the launch of 'Selco Forest', an initiative designed to accelerate the process of offsetting its carbon footprint. The trees planted this year will offset 8,000 tonnes of carbon during their life cycle which is equivalent to the amount of carbon used on customer deliveries over two years. A similar initiative is planned for this year. Selco is also testing and trialling greener delivery vehicles utilising compressed natural gas technology. Selco raised

over £100,000 for Global Make Some Noise, its charity partner who helps disadvantaged people across the UK, bringing the total raised for the charity to over £200,000 since the start of 2020.

Leyland SDM

Leyland SDM, London's largest specialist decorators' merchant, continued trading as an essential business throughout 2020 and same store revenue was marginally down in 2021 due to the pandemic impacting footfall in central London.

2021 average daily revenue in the like-for-like stores was down by 7.0 per cent on the pre-pandemic level in 2019 and broadly operated at this level throughout the year. Like-for-like operating profit was in line with 2019.

While the re-opening of non-essential retail on 12 April 2021 helped to increase footfall and the level of transactions conducted with retail customers, demand from trade customers was weak because the limited number of workers and international tourists in central London has significantly reduced investment particularly in offices, restaurants and the leisure sector. The stores located in the commuter belt continued to make gains from increased spending by households and trade customers on painting and decorating products.

The five store GDC Paints business acquired in July 2020 performed ahead of plan and was integrated into the Leyland SDM store network. New stores were opened in Clapham Junction, Dulwich and Bayswater increasing the estate to 32.

MacBlair

The MacBlair distribution business in Northern Ireland performed at record levels of activity in what was its most successful year ever. Revenue exceeded £100 million for the first time. Average daily like-for-like revenue was ahead of 2019 by 23.7 per cent comprising growth of 26.7 per cent in the first half and 20.8 per cent in the second half reflecting both significant building materials price inflation and volume growth. The management team delivered an exceptional performance, responding to the increased activity levels and managing margins closely with the result that the business recorded a double-digit operating profit margin for the year. There was also favourable change in the mix of end-use markets supplied with a switch in the proportion of spending from the house building to housing RMI.

There was exceptional demand in the residential RMI market, the key driver of revenue growth. The completion by households of outdoor projects created strong demand for landscaping and timber products. There was a series of exceptional increases in timber prices during the year that were far in excess of historic norms due to record demand for timber products internationally and logistics issues in the timber supply chain.

House building in Northern Ireland was subdued in the early months of the year but returned to growth led initially by self build customers and smaller house builders. Housing completions increased marginally in the nine months to the end of September compared to the same period in 2019 while starts showed double digit growth. Trading with customers operating in the commercial, industrial and infrastructure sectors was also positive.

P. McDermott & Sons (Omagh) Ltd., a single branch distribution business located in Omagh, County Tyrone was acquired in December. Earlier this month MacBlair acquired the Woodfloor Warehouse Ltd, a leading in-store and on-line timber flooring distributor with branches in Bangor, Belfast and Warrington.

TG Lynes

Trading in TG Lynes, a leading distributor of commercial pipes and fittings in London and the South East, experienced a relatively slow start to the year before recovering as the year progressed with the momentum continuing through the second half and powering the business to record full year revenue and a level of profitability that matched the previous high reported for 2019. The strong trading performance delivered a high double digit operating profit margin for the year.

House and apartment building, the largest individual end-use market segment supplied by TG Lynes through its subcontractor customer base, staged a strong recovery with the opening of new sites in the City and outside the M25. Activity in the commercial sector remained subdued but there was a good recovery in public sector work such as schools and hospitals.

TG Lynes has implemented a number of successful sustainability initiatives that were aimed at reducing carbon emissions including the installation of solar panels on its property in Enfield that reduced demand for energy from the national grid, the replacement of traditional light fittings with LED lighting and the installation of electric vehicle charging points for use by colleagues.

Irish Distribution

	2021	2020	2019		Constant Currency Change*
	£'m	£'m	£'m	Change*	
Revenue	544.3	463.9	464.8	17.3%	21.8%
Adjusted operating profit before property profit	66.8	41.8	43.1	59.6%	67.1%
Adjusted operating profit margin before property profit	12.3%	9.0%	9.3%	+330bps	-
Adjusted operating profit	68.2	41.8	47.1	63.0%	68.7%
Adjusted operating profit margin	12.5%	9.0%	10.1%	+350bps	-

*Change represents the movement between 2021 v 2020 and is based on unrounded numbers

There was a sharp contraction in construction activity in Ireland in the period from early January to mid-April as pandemic related restrictions weighed heavily on activity. Chadwicks' branches remained open to support those elements of construction that were permitted to trade but activity levels were well down. Average daily like-for-like revenue declines were contained to just two per cent in the four months to mid-April on the same period in 2019, reflecting the acceleration in building materials price inflation of circa seven per cent.

There was a very rapid rebound in activity following the lifting of restrictions on house building from mid-April and the resumption of all construction activity from early May 2021. The sector expanded at an exceptionally strong pace as activity restarted across all segments of the market. The immediate strength of the resumption in house building was particularly evident, helped by the lifting of restrictions and release of pent-up demand. The Chadwicks' branches traded at the highest levels of activity since 2008 driven by an increase in confidence among households leading to increased spending on home maintenance and improvement projects and the reopening of house building sites. Average daily like-for-like revenue in the period from mid-April to the end of June increased by circa 30 per cent compared to the same period in 2019 as the business responded to the exceptional levels of customer demand. Overall growth in average daily like-for-like revenue of 11.7 per cent in the first half, compared to the first half of 2019, reflected two very distinct phases of trading in the period.

While the pace of growth eased back in the second half from the exceptional level recorded in the months following reopening of the sector, Chadwicks made sizable revenue gains and continued to show strong growth as it benefitted from its leading market position and the reopening of the economy. The pace of commercial construction activity also picked-up markedly over the second half of the year. Growth in average daily like-for-like revenue was 20.1 per cent higher in the second half, compared to the second half of 2019.

The business worked with its partners to overcome supply chain challenges, and to mitigate the impacts of longer lead times and record growth in prices.

Housing transaction volumes are estimated to have grown by almost a quarter on 2020, returning to 2019 levels. The lack of housing supply, a very low level of homes available for sale and increased employment in well paid sectors of the economy contributed to strong demand for housing and double-digit growth in prices. Covid-19 restrictions on house building were removed in April and the monthly profile of completions since then points to the construction of new homes gradually returning to normal levels of activity with completions for the year estimated at 21,000 units. The pace of housing starts gathered speed increasing to over 30,000 units, the highest level since 2008.

The increase of 300bps in the operating profit margin, before property profit, since 2019 reflected:

- excellent self-help measures adopted by management,
- strong operating leverage from revenue growth,
- an increase in the gross margin from the very high proportion of residential RMI transactions in the first four months of the year during the partial lockdown of the sector, and
- inflation related inventory gains realised on core commodity products including steel products which made a significantly higher profit contribution than in recent years.

Proline Architectural Hardware ("Proline") acquired in February 2021 brings specialist expertise to Chadwicks in the distribution of architectural ironmongery products and a range of Proline products were introduced in 11 branches. The Daly Brothers branch in Dundalk, County Louth acquired in July 2020 was integrated into the Chadwicks' branch network and ERP system. Both businesses performed ahead of plan. The acquisition of Sitetech Building Products Ltd, the market leader in the distribution of specialist construction accessories in

Ireland with revenue of £15.0 million in 2020, will complete at the end of February 2022 following approval of the transaction by the Competition and Consumer Protection Commission in Ireland.

Good progress was made on renewing the branch estate with the upgrading of five branches taking the number completed to 24 under a multi-year programme of modernisation and redevelopment. A third Fixings Centre was opened in the Galway branch to provide house builders, engineers and trades people with a wide range of fixings and tools.

Chadwicks launched a new transactional website for trade customers with rollout successfully completed to date in half of the branch network. Customers now have Click & Collect and Click & Deliver optionality and they can also upload requests for quotations and open credit accounts.

Chadwicks opened its first dedicated ECO Centre in its Galway branch to showcase sustainable products for energy efficient new build and retrofit projects. This development is part of a wider programme by Chadwicks to take a leading role supporting customers and communities in Ireland through the distribution of building materials that improve the sustainability of buildings.

Chadwicks is moving towards more sustainable transport through trialling electric vehicles and replacement of its fleet of forklifts with low emission vehicles. In conjunction with Bord Gais and the SEAI, Chadwicks promoted a new carbon credit scheme to increase the installation of energy efficient products in the home. These include insulation, solar PV systems and heating controls.

Netherlands Distribution

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	290.5	276.6	211.8	5.1%	8.6%
Adjusted operating profit	30.5	28.4	20.2	7.4%	10.8%
Adjusted operating profit margin	10.5%	10.3%	9.5%	+20bps	-

*Change represents the movement between 2021 v 2020 and is based on unrounded numbers

The Isero and Polvo ironmongery, tools and fixings specialist business in the Netherlands was classified as an essential distributor and permitted to remain open throughout the pandemic except for the closure of a small number of retail orientated branches for a period. These results show a continuation of the positive year on year revenue and operating profit growth trends experienced since Grafton entered the Dutch market in late 2015. They also demonstrate the success of our acquisition and organic growth strategy that has established the Isero and Polvo business as the clear market leader in an attractive segment of the building materials distribution market in the Netherlands.

Revenue growth was modest in January and February before showing signs of improvement in March that gathered pace in the second quarter as the economy reopened and confidence returned. Overall average daily like-for-like revenue growth was 5.6 per cent for the first half. The increase in activity was assisted by an easing of Covid-19 measures generally including the removal of restrictions on trading with retail customers.

The positive volume and revenue growth trends that developed in the first half continued through the second half and average daily like-for-like revenue increased by 5.6 per cent. The return to a steady growth path was sustained by increased spending across all customer segments notably renovation projects, house building and commercial construction.

The Netherlands economy started to recover strongly in the second quarter with the phasing out of Covid-19 restrictions and returned to a more normal growth rate later in the year as the catch-up effects lessened. The number of home owners putting their homes on the market fell and housing transactions were down because of the shortage of properties available for sale. The scarcity of supply and historically low interest rates pushed house prices up by 15 per cent. Increased spending on home improvement projects was driven by very strong labour market conditions and households spending some of the savings accumulated during the pandemic. The construction sector was impacted by supply chain disruption caused by shortages of labour and raw materials.

The Polvo business acquired in July 2019 had an excellent year growing revenue and profitability strongly. The business gained from favourable trading conditions in its markets including increased demand in the new housing market, a resumption of RMI work by housing corporations on social houses and increased activity on commercial projects.

Growth in operating profit in the Netherlands reflected the drop-through from growth in average daily like-for-like revenue of 5.6 per cent and an increase in the gross margin from purchasing initiatives that more than offset the adverse mix effect of increased revenue from volume projects.

In January 2021, the acquisition of Van den Anker Ijzerhandel Katwijk B.V., a single branch distributor of ironmongery, tools and fasteners, strengthened the market position of Polvo in the Mid-Western region. The acquisition in April of Govers B.V, a four branch ironmongery, tools and workwear business, expanded branch coverage into the North West Netherlands region. The Govers branches were integrated into the Isero branch network and ERP system in December. In January 2022, Isero acquired Regts B.V. (“Regts”), a distributor of ironmongery, tools and fixings with revenue of £23.0 million in 2021. Regts trades from five branches in Friesland, a province in the North East of the Netherlands, where it has a strong regional market position. Regts and Govers are two high quality, complementary businesses that provided an attractive route to expand market coverage into the North East region of the Netherlands. The Regts acquisition increased the branch estate to 122.

Organic developments in the period included the opening of a branch in Lelystad, a growth city in the centre of the Netherlands, and the successful relocation of two branches in Rotterdam to higher profile locations that have improved access and increased the level of customer collection transactions. Isero continued to invest in the future by upgrading five branches and now has 43 branches trading from its new format. We are investing in the branch estate by expanding showroom self-select areas to improve the customer experience and extending product ranges to ensure that they best reflect their changing needs.

As part of the shift to renewable energy, solar panels are generating part of the electricity required at the Head Offices and distribution centres of Isero at Waddinxveen and Polvo at Moerdijk. The Isero panels generate over 30 per cent of its current annual energy consumption at the head office and distribution centre. The remainder of its electricity, together with that for all branch locations is sourced from 100 per cent certificated renewable sources. The Polvo panels generate almost 50 per cent of its requirement at the HQ and distribution centre. Isero and Polvo also encourage energy efficient or electric cars, and they currently have over 30 electric cars and 7 electric vans in their fleet and an electric scooter for local deliveries.

Finland Distribution

	2021 £'m
Revenue	70.8
Operating profit	10.0
Operating profit margin	14.1%

On 1 July 2021, Grafton acquired Isojoen Konehalli Oy and Jokapaikka Oy (“IKH”), one of Finland’s largest workwear and personal protective equipment (“PPE”), tools, spare parts and accessories wholesalers and distributors.

IKH is a high-quality business with a strong market position and an experienced management team. This acquisition created a new growth platform for Grafton in the Nordic Region. It extended the Group’s geographic reach into Finland and increased its revenue stream from the distribution of tools and personal protective equipment (“PPE”).

IKH has developed organically since it was founded in 1956 and has a track record of uninterrupted revenue growth over the past two decades. It has 400 employees and is headquartered in Kauhajoki, Western Finland where its distribution and logistics centre is located. Over 50,000 SKUs are held in stock comprising quality private label and leading technical brands. IKH offers one of the widest and deepest category ranges in Finland.

Products are distributed nationally in Finland through a committed network of independently operated IKH partner stores that are the strategic cornerstone of the business. IKH also has third party distributors and it operates eleven owned stores located in major cities including a new store that we opened in the city of Hameenlinna in October 2021. IKH also continued to grow its market position in Sweden and Estonia through a network of local partner stores.

IKH operates in attractive segments of the technical trades’ distribution market in Finland. Its end-customers are primarily SMEs that operate in the property construction, renovation, industrial, agricultural and repair shops sectors. The geographic coverage provided by partners and own stores, broad product ranges and excellent stock availability should continue to secure its competitive advantage.

IKH revenue, operating profit and cashflows were in line with pre-acquisition expectations under the Group's ownership of the business for the second of half the year.

Retail Segment (13% of Group Revenue)

	2021	2020	2019		Constant Currency Change*
	£'m	£'m	£'m	Change*	
Revenue	282.8	246.6	205.5	14.7%	19.4%
Operating profit	50.9	42.0	22.6	21.0%	27.2%
Operating profit margin	18.0%	17.0%	11.0%	+100bps	-

*Change represents the movement between 2021 v 2020 and is based on unrounded numbers

The Woodie's DIY, Home and Garden business in Ireland was categorised as an essential retailer and remained open during the early months of the year when the country was in lockdown. The business made exceptional gains in the four months to mid-April increasing revenue by 69.7 per cent on the same period in 2019. Demand was very strong across all categories including core products and fast moving lines. There was an early start to seasonal trading in outdoor products and the business worked closely with supply chain partners to maximise inventory levels and overcome the impact of supply chain disruption for certain products at a time of high demand globally.

The rate of revenue growth eased very marginally compared to 2019 over the remainder of the first half following the full reopening of non-essential retail and other elements of the economy in May. The branches traded at record levels of activity in the first half making market share gains and improving the perception of Woodie's as one of Ireland's most distinctive retail brands.

Demand remained strong through the second half although the rate of growth moderated as expected from the post lockdown highs of 2020. While market conditions continued to normalise, Woodie's maintained a step change in performance with exceptional revenue growth of 21.7 per cent compared to the second half of 2019.

Revenue growth compared to 2019 was broadly based across all DIY, home and garden categories and was partly driven by pandemic tailwinds.

Woodie's puts its 1,700 colleagues at the heart of the business and was ranked A Great Place to Work in Ireland for the sixth consecutive year and was also ranked in the Top 75 of Europe's Best Workplaces benchmarked against the largest international and domestic employers in Ireland and Europe. Creating a high performing workplace and an environment where colleagues feel valued and can develop professionally and personally has contributed greatly to the improved business and financial performance of Woodie's in recent years.

Woodie's has a 98 per cent level of brand recognition and awareness in Ireland coupled with a strong foothold in the community. A digital first approach is used to communicate with customers and enable them to engage with the brand. Social media and a market leading influencer strategy help acquire, grow and retain customers, drive brand engagement and increase website clicks in a seamless omnichannel environment. Significant progress was made building a new data platform of households and targeting customers with relevant and inspiring project and product content. Woodie's was one of the first retailers in Europe to launch Google's Beta feature that provides the option of contactless pick-up at stores, and it also introduced live chat on its website.

A new website, a new fulfilment centre and a new home delivery partner saw digital investment increase sixfold since 2019. The new fulfilment centre is located in the Woodie's branch in Drogheda and currently accommodates 12,000 products, with scalable ranges, that are available for home delivery through a new partner using the latest electronic labelling, track and trace and proof of delivery technology. On-line transactions, the vast majority of which were Click & Collect, represented 4.3 per cent of revenue in the year. Woodie's now has the strategy and infrastructure in place and is well positioned to drive increased on-line revenue in the coming years.

Woodie's branches merchandised and sold record levels of inventory in response to exceptional demand conditions while providing customers with a great service and a great shopping experience in a safe environment. Service levels were maintained with the appointment of 150 additional colleagues during the period. Sourcing with integrity and developing good long term relationships with a diversified supplier network in Ireland and internationally was fundamental to Woodie's fulfilling unprecedented levels of customer demand.

The number of shopping transactions increased by 14.3 per cent in the two years since 2019 and the average basket value increased by 25.9 per cent as customers increased the range of products purchased during a single store visit and seasonal products accounted for a higher proportion of revenue.

Gross margin was maintained in line with the prior year and was marginally ahead of the outturn in 2019 while the operating profit margin was a record 18.0 per cent.

Woodie's branches now have a "new look and feel" following the completion of a multi-year investment programme, including two branch upgrades during the year and the complete refurbishment of the Sallynoggin branch in South Dublin, that has helped to reposition Woodie's unique DIY, Home and Garden retail proposition in the Irish market.

Woodie's Heroes campaign raised over €400,000 in vital funds for four charities in Ireland in a year when many charities had to cancel traditional fund-raising events for the second successive year due to the pandemic. Positive engagement with the communities where we operate is an important part of building a sustainable business and this year's fund raising brings to €2.5 million the amount raised for children's charities over the past seven years.

Manufacturing Segment (5% of Group Revenue)

	2021	2020	2019		Constant
	£'m	£'m	£'m	Change*	Currency
					Change*
Revenue	99.6	61.3	79.4	62.4%	62.9%
Operating profit	24.0	13.3	18.6	80.8%	79.0%
Operating profit margin	24.1%	21.7%	23.5%	+240bps	-

*Change represents the movement between 2021 v 2020 and is based on unrounded numbers

CPI EuroMix silo system technology is used to produce a range of high quality ready-to-use dry mix mortars for residential construction projects. Its market leadership position is backed by a network of ten manufacturing facilities that provide almost national coverage in Great Britain to support its customer base of national, regional and local house builders and plastering contractors.

Market conditions were softer in January and February due to the disruption to house building caused by the pandemic before starting to recover in March. The recovery continued in the second quarter although volumes remained below the same period in 2019. The improving trend in mortar volumes in the first half continued through the second half and full year volumes were up 18.0 per cent on 2020. Volumes for the year were below the 2019 level partly due to a shortage of cement and tight mortar delivery capacity and also as result of some disruption to the build programmes of customers caused by the pandemic and supply chain shortages.

Underlying demand for new houses remained strong and exceeded supply despite changes to the Help to Buy Scheme and stamp duty. The market was also supported by good mortgage availability and historically low interest rates that make home ownership more affordable.

CPI EuroMix invested in additional capacity had a record number of mortar silos on customers sites at the year-end building on its competitive advantage and reputation for service.

The operating profit margin was 20.0 per cent for the year.

Grafton recognises that CPI EuroMix business is a significant contributor to the Group's carbon emissions, in particular from the mortar drying production process. The business is working with all stakeholders to reduce emissions. This includes working with one of its plant suppliers to develop more efficient drying solutions, with cement suppliers to develop more energy efficient raw materials and with fleet manufacturers to review future options for diesel alternatives. CPI EuroMix also partnered with Cambridge University on research to identify carbon reduction opportunities in its manufacturing process.

The manufacturing segment also incorporates StairBox, the market leading staircase manufacturer in Great Britain acquired in November 2020. StairBox had a very successful first full year under Grafton ownership and outperformed pre-acquisition expectations. Revenue for the year was £26.3 million and operating profit was £9.0 million, an operating margin of 34.2 per cent. StairBox provides national coverage to trade customers operating in the residential RMI market from its manufacturing facility in Stoke-on-Trent.

Stairbox deploys cutting edge technology to design and manufacture an extensive range of customised staircases while maintaining traditional handcrafted quality standards. The StairBuilder on-line stairs designer software, the first of its kind in the UK, was updated in June to provide a new version of this interactive software with additional features and improved functionality making it easier for customers to design, price and buy a staircase on-line. The new features include a 3D model that updates with each click as customers create their own unique staircase designs virtually.

StairBox also launched Balustrade Designer, the latest addition to its online software that simplifies the process for renewing an existing staircase and allows customers to receive an instant quote and purchase the components required to complete projects in just a few clicks.

Operating Review – Discontinued Operations

Discontinued Operations

	2021	2020	2019	
	£'m*	£'m	£'m	Change**
Revenue	522.9	829.8	1,028.7	(37.0%)
Adjusted operating profit before property profit	29.0	21.4	25.2	35.8%
Adjusted operating profit margin before property profit	5.6%	2.6%	2.4%	+300bps
Adjusted operating profit	29.4	24.1	28.0	22.2%

*Represents revenue and operating profit for H1 2021 only

**Change represents the movement between 2021 v 2020 and is based on unrounded numbers

The Group entered an agreement on 30 June 2021 to divest the Traditional Merchanting Business in Great Britain for an enterprise value of £520 million and the transaction completed on 31 December 2021. This business comprised the Buildbase, Civils & Lintels, PDM Buildbase, The Timber Group, Frontline, Bathroom Distribution Group and NDI brands. The Group also retained freehold properties with development potential that have a market value of circa £25 million. Grafton retained responsibility for funding the UK defined benefit pension scheme which was closed to future accrual at the end of 2020 when alternative arrangements were put in place.

The Share Purchase Agreement was signed on 30 June 2021 and from that date Grafton ceased to have rights to variable returns from its shareholdings in the entities being divested and instead received an agreed daily amount up to the date of completion. International Financial Reporting Standards required that the business being divested be treated as discontinued operations and as a deemed disposal at 30 June 2021.

The enterprise value agreed with the purchaser was based on the balance sheet as at 30 April 2021 and all cashflow generated after that date was for the benefit of the purchaser. Grafton received a daily ticker rate for the period from 1 May 2021 to 31 December 2021 that compensated the Group for the loss of profits over this period. The total daily ticker amount received in cash on completion of the transaction was £30.2 million.

A profit after tax of £134.4 million has been recognised in the income statement and more details are set out in Note 14.

Financial Review

Revenue

Group revenue from continuing operations, which excludes the Traditional Merchanting Business in Great Britain that is classified as discontinued, increased by 25.6 per cent to £2.11 billion from £1.68 billion in 2020 and was up by 28.4 per cent from £1.64 billion in 2019.

Revenue in the continuing like-for-like business increased by 20.1 per cent (£337.8 million) on the prior year and by 16.5 per cent (£270.4 million) on 2019. Acquisitions contributed revenue of £120.9 million and new branches £9.0 million. A currency translation loss reduced revenue by £37.0 million.

Adjusted Operating Profit

Adjusted operating profit from continuing operations of £288.0 million (2020: £170.6 million) was up by 68.8 per cent, the highest level of profitability ever reported by Grafton.

Adjusted operating profit before property profit of £271.2 million (2020: £170.7 million) grew by 58.9 per cent and the adjusted operating profit margin before property profit increased by 270 basis points to 12.9 per cent.

Property

The Group recognised property profits of £16.7 million in the financial year.

The disposal of properties in Belgium that were retained following divestment of the distribution business in 2019, together with small number of properties in Ireland, the UK and the Netherlands, generated proceeds of £22.2 million (2020: £7.2 million) and a profit on disposal of £6.8 million (2020: loss of £0.1 million).

In addition, a fair value gain £9.9 million was recognised on four properties which were transferred to investment properties during the period. These properties were retained by the Group following the agreement to divest the Traditional Merchanting business in Great Britain. These four properties have a fair value of £15.75 million and a market value of circa £25 million that reflected their planning potential.

Net Finance Income and Expense

The net finance expense decreased by £4.9 million to £19.4 million (2020: £24.2 million). This charge includes £14.6 million (2020: £15.6 million) of an interest charge on lease liabilities recognised under IFRS 16.

Interest payable on bank borrowings and US Private Placement Senior Unsecured Notes, net of bank interest received on deposits, decreased by £1.5 million to £6.1 million (2020: £7.5 million). The decline was mainly due to the repayment of cash drawdown during the first half of 2020 as a precautionary measure to increase liquidity in response to the Covid-19 crisis. The rate of interest receivable on bank deposits declined in 2021 because of lower sterling and euro market interest rates.

The net finance expense included a foreign exchange translation gain of £1.7 million which compares to a loss of £0.8 million in the same period last year.

Taxation

The income tax expense of £43.0 million (2020: £24.1 million) is equivalent to an effective tax rate of 17.2 per cent on profit from continuing operations (2020: 18.1 per cent). This is a blended rate of corporation tax on profits in the four countries where the Group operates. The charge for the year includes a once-off increase in deferred tax arising from the UK tax rate increasing to 25 per cent from 19 per cent which is effective from 1 April 2023. This change was enacted in UK legislation in May 2021 and adds 1.3 per cent to the tax rate on profits in the Group's continuing operations.

Certain items of expenditure charged in arriving at profit before tax, including depreciation on buildings, are not eligible for a tax deduction. This factor increased the rate of tax payable on profits above the headline rates that apply in the UK, Ireland and the Netherlands.

Cashflow

Cash generated from operations, including the divested operations for the half year to 30 June 2021 was £303.2 million (2020: £377.7 million). The decline compared to the prior year was due to an investment of £64.1 million in working capital to support growth in revenue and to ensure that the Group's businesses were well placed to meet the anticipated level of activity entering 2022. There was a cash release of £81.2 million from working capital in 2020.

Expenditure on acquisitions was £123.3 million (2020: £47.5 million) which comprised the acquisition of IKH in Finland, Proline in Ireland and Van den Anker and Govers in the Netherlands.

Capital Expenditure and Investment in Intangible Assets

We maintained disciplined control over the allocation of capital and capital expenditure for the period was £43.6 million (2020: £35.2 million). There was also expenditure of £0.8 million (2020: £1.9 million) on software costs that are classified as intangible assets.

The Group incurred capital expenditure of £19.0 million (2020: £15.1 million) on a range of development initiatives including new branches in Selco, Leyland SDM and the Netherlands, upgrades to Woodie's, Chadwicks, Selco and Leyland SDM branches and the creation of additional manufacturing capacity in StairBox.

Asset replacement capital expenditure of £24.6 million (2020: £20.1 million) compares to the depreciation charge on property, plant and equipment of £38.3 million and related principally to the replacement of the distribution fleet that supports customer deliveries, replacement of fixtures and fittings, plant and machinery, forklifts, plant and tools for hire by customers and other assets required to operate the Group's branch network.

Proceeds of £22.2 million (2020: £7.2 million) were received on disposal of fixed assets. Capital expenditure net of the proceeds on disposal of fixed assets was £21.4 million (2020: £28.0 million).

Pensions

The IAS 19 deficit on defined benefit pension schemes was £11.5 million at 31 December 2021, a decrease of £39.1 million from £50.6 million at 31 December 2020. A payment of £20.0 million was made in July 2021 as part of a funding arrangement with Trustees to reduce the deficit on the UK defined benefit scheme.

Changes to financial assumptions reduced scheme liabilities by £2.0 million and reflected the net impact of a gain from the increase in discount rates and a loss from the increase in inflation expectations. Experience gains and changes in demographic assumptions reduced the deficit by £1.1 million and by £0.9 million respectively.

There was an increase in discount rates used to discount scheme liabilities in line with increases in corporate bond rates. The rate used to discount UK liabilities increased by 50 basis points to 1.9 per cent and the rate used to discount Irish liabilities increased by 45 basis points to 1.15 per cent.

Market forecasts for future inflation increased significantly over the past 12 months. This impacted the value of liabilities as future benefit payments from the pension plans are directly or indirectly linked to future inflation. This is more relevant to the UK scheme where inflation both in the period up to and after retirement increases the projected growth in benefits. In Ireland, pensions are fixed once they come into payment with inflation only increasing liabilities in the period up to the date that members retire.

There was an actuarial gain of £10.9 million on plan assets due to the investment performance in the period exceeding the assumed interest income on assets.

Grafton retained responsibility for the UK defined benefit pension scheme which was closed to future accrual at the end of 2020 when alternative arrangements were put in place.

Net Cash/Debt

The Group's net cash position, before recognising lease liabilities, increased to £588.0 million at 31 December 2021, up from £181.9 million at 31 December 2020.

On 1 July 2021 the Group completed the IKH acquisition at a cost of €199.3 million on a cash and debt free basis.

The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 50.5 times (2020: 24.9 times).

Net cash including lease obligations was £139.0 million at 31 December 2021. This represents an improvement of £494.0 million from net debt of £355.0 million at 31 December 2020. The Group's net cash position benefitted from the proceeds received on the sale of the Traditional Merchanting Business in Great Britain for an enterprise value of £520.0 million.

The Group's policy is to maintain its 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.

Liquidity

Grafton started the year in a very strong financial position with excellent liquidity, net cash before IFRS 16 lease liabilities and a robust balance sheet.

The Group had liquidity of £1,235.4 million at 31 December 2021 (31 December 2020: £811.2 million) of which £840.7 million (31 December 2020: £452.0 million) was held in accessible cash and £394.7 million (31 December 2020: £359.2 million) in undrawn revolving bank facilities.

At 31 December 2021, the Group had bilateral loan facilities of £433.7 million with five relationship banks and debt obligations of £134.4 million (31 December 2020: £143.8 million) from the issue of unsecured senior notes in the US Private Placement market.

A new one-year facility for £84.0 million was put in place in 2021 and facilitated by one of the Group's five relationship banks under the ECB's Targeted Longer-Term Refinancing Operations. This facility was used to temporarily replace drawings on existing facilities on more attractive terms.

The average maturity of the committed bank facilities and unsecured senior notes at 31 December 2021 was 2.5 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. 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, the Netherlands and Finland following the acquisition of IKH on 1 July 2021.

IFRS 16 Leases

Leases that are recorded on the balance sheet principally relate to properties, cars and distribution vehicles.

IFRS 16 increased operating profit by £13.0 million and the finance (interest) expense by £14.6 million in the year. Profit before tax was reduced by £1.6 million and profit after tax by £1.4 million as a result of IFRS 16.

The right-of-use asset in the balance sheet at 31 December 2021 was £421.3 million (31 December 2020: £505.9 million).

IFRS 16 does not alter the overall cashflows or the economic effect of the leases to which the Group is a party. Similarly, there is no effect on Grafton's banking covenants as a result of the adoption of IFRS 16 in 2019.

Shareholders' Equity

The Group's balance sheet strengthened further with shareholders' equity up by £252.6 million to £1.72 billion. Profit after tax increased shareholders' equity by £341.3 million and there was a loss of £25.2 million on translation of euro denominated net assets to sterling. Shareholders' equity was increased by £11.7 million for a remeasurement gain on pension schemes and reduced for dividends paid of £84.9 million. Other changes increased equity by £9.7 million.

Return on Capital Employed

Return on Capital Employed in continuing operations improved by 750 basis points to 19.4 per cent (2020: 11.9 per cent) including leased assets.

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 59 to 65 of the 2020 Annual Report and will be updated in the 2021 Annual Report which will be published on 9 March. These risks refer to Macro Economic Conditions in the UK, Ireland, the Netherlands and Finland including the Impact of Brexit; Colleagues; Pandemic Risk – Covid-19 Virus; Competition in Distribution, Retailing and Manufacturing Markets; Sustainability and Climate Change; Information Technology Systems and Infrastructure; Cyber Security and Data Protection; Health and Safety; Acquisition and Integration of New Businesses; Supplier Management and Rebates; and Internal Controls and Fraud.

As noted above, the Group experienced supply chain disruption and significant building materials price inflation with the risk that the Group is unable to fulfil customer demand because of volume shortages or because customer demand reduces due to increased prices.

The Covid-19 pandemic has increased the potential impact of a number of these risks and the longer term impacts will depend on a range of factors including the duration and scope of the pandemic, the impact of the pandemic on economic activity in the UK, Ireland, the Netherlands and Finland and the nature and severity of measures adopted by governments in these countries, including restrictions on or temporarily requiring the closure of the Group's businesses including, distribution branches, DIY, Home and Garden stores and manufacturing plants, travel, regulations that require avoiding large gatherings and orders to self-quarantine or self-isolate. The Covid-19 pandemic may have significant negative impacts in the medium and long term on the Group's businesses. Changes in consumer behaviour as a result of government-imposed lockdowns and the need for people to self-quarantine or self-isolate or observe social distancing for an indeterminate period of time may lead to the closure of distribution branches, DIY, Home and Garden stores and manufacturing plants. The severity of government-imposed lockdowns and the period for which they continue in the UK, Ireland, the Netherlands and Finland will have an impact on customer demand in those countries. A deterioration in the financial position of customers and consumers as a result of Covid-19 pandemic may also impact demand for the Group's distribution, DIY and mortar products. In addition, disruptions as a result of Covid-19 in manufacturing, supply and distribution arrangements may also adversely impact the performance of the overall Group.

Grafton Group plc

Group Income Statement

For the year ended 31 December 2021

	Notes	2021 £'000	2020 Restated £'000
Revenue	2	2,109,909	1,679,247
Operating costs		(1,857,487)	(1,518,868)
Property profits/(losses)	3	16,740	(83)
Operating profit before exceptional items		269,162	160,296
Exceptional items	3	-	(2,481)
Operating profit		269,162	157,815
Finance expense	4	(21,269)	(24,936)
Finance income	4	1,904	698
Profit before tax		249,797	133,577
Income tax expense	17	(42,952)	(24,149)
Profit after tax for the financial year from continuing operations		206,845	109,428
Profit/(loss) after tax from discontinued operations	14	134,422	(1,886)
Profit after tax for the financial year		341,267	107,542
Profit attributable to:			
Owners of the Company		341,267	107,542
Profit attributable to:			
Continuing operations		206,845	109,428
Discontinued operations		134,422	(1,886)
Earnings per ordinary share (continuing operations) - basic	5	86.4p	45.9p
Earnings per ordinary share (continuing operations) - diluted	5	86.3p	45.9p
Earnings per ordinary share (discontinued operations) - basic	5	56.2p	(0.8p)
Earnings per ordinary share (discontinued operations) - diluted	5	56.1p	(0.8p)
Earnings per ordinary share (total) - basic	5	142.6p	45.1p
Earnings per ordinary share (total) - diluted	5	142.3p	45.1p

Grafton Group plc

Group Statement of Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Profit after tax for the financial year		341,267	107,542
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		(25,168)	11,777
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		57	(74)
		(25,111)	11,703
Items that will not be reclassified to the income statement			
Remeasurement gain/(loss) on Group defined benefit pension schemes	13	14,886	(21,779)
Deferred tax on Group defined benefit pension schemes		(3,212)	3,709
		11,674	(18,070)
Total other comprehensive expense		(13,437)	(6,367)
Total comprehensive income for the financial year		327,830	101,175
Total comprehensive income attributable to:			
Owners of the Company		327,830	101,175
Total comprehensive income for the financial year		327,830	101,175

Grafton Group plc - Group Balance Sheet as at 31 December 2021

	Notes	31 Dec 2021 £'000	31 Dec 2020 £'000
ASSETS			
Non-current assets			
Goodwill	15	599,810	704,064
Intangible assets	16	144,327	115,905
Property, plant and equipment	9	319,295	493,539
Right-of-use asset	8	421,254	505,922
Investment properties	9	26,527	12,328
Deferred tax assets		8,793	13,386
Lease receivable		881	2,015
Retirement benefit assets	13	3,596	2,099
Other financial assets		126	128
Total non-current assets		1,524,609	1,849,386
Current assets			
Properties held for sale	9	6,125	18,058
Inventories	10	344,172	321,558
Trade and other receivables	10	233,486	336,944
Lease receivable		212	301
Cash and cash equivalents	11	844,663	456,028
Total current assets		1,428,658	1,132,889
Total assets		2,953,267	2,982,275
EQUITY			
Equity share capital		8,570	8,569
Share premium account		219,447	216,496
Capital redemption reserve		643	621
Revaluation reserve		12,519	12,733
Shares to be issued reserve		11,837	6,714
Cash flow hedge reserve		(8)	(65)
Foreign currency translation reserve		56,751	81,919
Retained earnings		1,413,737	1,143,933
Treasury shares held		(3,897)	(3,897)
Equity attributable to owners of the Parent		1,719,599	1,467,023
Total equity		1,719,599	1,467,023
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	11	172,601	274,030
Lease liabilities	11	396,070	479,019
Provisions		14,862	20,620
Retirement benefit obligations	13	15,067	52,683
Deferred tax liabilities	17	56,402	54,399
Total non-current liabilities		655,002	880,751
Current liabilities			
Interest-bearing loans and borrowings	11	84,030	-
Lease liabilities	11	52,924	57,915
Trade and other payables	10	419,111	545,949
Current income tax liabilities	17	15,956	21,116
Derivative financial instruments	11	8	65
Provisions		6,637	9,456
Total current liabilities		578,666	634,501
Total liabilities		1,233,668	1,515,252
Total equity and liabilities		2,953,267	2,982,275

Grafton Group plc - Group Cash Flow Statement

For the year ended 31 December 2021

	Notes	31 Dec 2021 £'000	31 Dec 2020 Restated £'000
Profit before taxation from continuing operations		249,797	133,577
Profit/(loss) before taxation from discontinued operations	14	143,846	(839)
Profit before taxation (including discontinued operations)		393,643	132,738
Finance income		(1,904)	(698)
Finance expense	4,14	22,512	27,639
Operating profit (including discontinued operations)		414,251	159,679
Depreciation	8,9	97,894	107,212
Amortisation of intangible assets	16	17,184	14,146
Share-based payments charge		5,601	719
Movement in provisions		(1,950)	3,954
Asset impairment and fair value losses	9	248	5,498
Fair value gains recognised as property profits	9	(9,850)	-
Loss on sale of property, plant and equipment	9	522	1,294
Property profits – continuing operations	9	(6,890)	(2,613)
Property profits – discontinued operations	9	(396)	-
Gain on derecognition of leases		(500)	-
Profit on disposal of Group businesses	14	(125,116)	-
Contributions to pension schemes in excess of IAS 19 charge		(23,650)	6,639
(Increase)/decrease in working capital	10	(64,129)	81,164
Cash generated from operations		303,219	377,692
Interest paid		(20,464)	(27,272)
Income taxes paid		(43,722)	(34,087)
Cash flows from operating activities		239,033	316,333
Investing activities			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	9	2,611	816
Proceeds from sale of properties held for sale	9	18,881	6,378
Proceeds from sale of investment properties	9	756	-
Proceeds from sale of Group businesses (net of cash disposed)	14	498,530	-
Interest received		193	698
		520,971	7,892
<i>Outflows</i>			
Acquisition of subsidiary undertakings (net of cash acquired)	14	(123,309)	(47,508)
Investment in intangible asset – computer software	16	(827)	(1,893)
Purchase of property, plant and equipment	9	(43,616)	(35,182)
		(167,752)	(84,583)
Cash flows from investing activities		353,219	(76,691)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital		2,974	2,830
Proceeds from borrowings		96,897	261,099
		99,871	263,929
<i>Outflows</i>			
Repayment of borrowings		(152,004)	(348,636)
Dividends paid	6	(84,921)	-
Payment on lease liabilities		(56,043)	(56,493)
		(292,968)	(405,129)
Cash flows from financing activities		(193,097)	(141,200)
Net increase in cash and cash equivalents		399,155	98,442
Cash and cash equivalents at 1 January		456,028	348,787
Effect of exchange rate fluctuations on cash held		(10,520)	8,799
Cash and cash equivalents at the end of the year		844,663	456,028
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		844,663	456,028

Grafton Group plc Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	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
Year to 31 December 2021										
At 1 January 2021	8,569	216,496	621	12,733	6,714	(65)	81,919	1,143,933	(3,897)	1,467,023
Profit after tax for the financial period	-	-	-	-	-	-	-	341,267	-	341,267
Total other comprehensive income										
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	11,674	-	11,674
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	57	-	-	-	57
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(25,168)	-	-	(25,168)
Total other comprehensive expense	-	-	-	-	-	57	(25,168)	11,674	-	(13,437)
Total comprehensive income	-	-	-	-	-	57	(25,168)	352,941	-	327,830
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(84,921)	-	(84,921)
Issue of Grafton Units	23	2,951	-	-	-	-	-	-	-	2,974
Cancellation of A Shares	(22)	-	22	-	-	-	-	-	-	-
Share based payments charge	-	-	-	-	5,601	-	-	-	-	5,601
Tax on share based payments	-	-	-	-	1,092	-	-	-	-	1,092
Transfer from shares to be issued reserve	-	-	-	-	(1,570)	-	-	1,570	-	-
Transfer from revaluation reserve	-	-	-	(214)	-	-	-	214	-	-
	1	2,951	22	(214)	5,123	-	-	(83,137)	-	(75,254)
At 31 December 2021	8,570	219,447	643	12,519	11,837	(8)	56,751	1,413,737	(3,897)	1,719,599

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	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
Year to 31 December 2020										
At 1 January 2020	8,516	213,719	621	12,954	12,889	9	70,142	1,047,698	(3,897)	1,362,651
Profit after tax for the financial year	-	-	-	-	-	-	-	107,542	-	107,542
Total other comprehensive income										
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(18,070)	-	(18,070)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(74)	-	-	-	(74)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	11,777	-	-	11,777
Total other comprehensive expense	-	-	-	-	-	(74)	11,777	(18,070)	-	(6,367)
Total comprehensive income	-	-	-	-	-	(74)	11,777	89,472	-	101,175
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	-	-	-
Issue of Grafton Units	53	2,777	-	-	-	-	-	-	-	2,830
Share based payments charge	-	-	-	-	719	-	-	-	-	719
Tax on share based payments	-	-	-	-	(352)	-	-	-	-	(352)
Transfer from shares to be issued reserve	-	-	-	-	(6,542)	-	-	6,542	-	-
Transfer from revaluation reserve	-	-	-	(221)	-	-	-	221	-	-
	53	2,777	-	(221)	(6,175)	-	-	6,763	-	3,197
At 31 December 2020	8,569	216,496	621	12,733	6,714	(65)	81,919	1,143,933	(3,897)	1,467,023

Grafton Group plc

Notes to Final Results for the year ended 31 December 2021

1. General Information

Grafton Group plc (“Grafton” or “the Group”) is an international distributor of building materials to trade customers who are primarily engaged in residential repair, maintenance and improvement projects and house building.

The Group has leading regional or national market positions in the distribution markets in the UK, Ireland, the Netherlands and Finland. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in Great Britain where it also operates a staircase manufacturing business.

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.

The 2020 income statement has been restated as a result of the divestment of the Traditional Merchanting Business in Great Britain which is treated as discontinued operations.

The financial information presented in this Final Results Announcement does not constitute full statutory financial statements. The Final Results Announcement was approved by the Board of Directors. The annual report and financial statements will be approved by the Board of Directors and reported on by the auditors in due course. Accordingly, the financial information is unaudited. The Annual Report for the year ended 31 December 2020 has been filed with the Irish Registrar of Companies. The audit report on those statutory financial statements was unqualified.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group have been prepared in accordance with the Transparency Rules of the Financial Conduct Authority (‘FCA’) and in accordance with International Financial Reporting Standards (‘IFRS’) issued by the International Accounting Standards Board (‘IASB’) as adopted by the European Union (‘EU’); and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. They do not include all the information and disclosures necessary for a complete set of financial statements prepared in accordance with IFRS. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Group’s financial position and performance since the last annual financial statements as at and for the year ended 31 December 2020.

The financial information in this report has been prepared in accordance with the Group’s accounting policies. Full details of the accounting policies adopted by the Group are contained in the consolidated financial statements included in the Group’s Annual Report for the year ended 31 December 2020 which is available on the Group’s website; www.graftonplc.com.

The accounting policies and methods of computation and presentation adopted in the preparation of the Group financial information are consistent with those described and applied in the annual report for the year ended 31 December 2020. The financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature. Certain tables in the financial information may not add precisely due to rounding.

1. General Information (continued)

Basis of Preparation, Accounting Policies and Estimates (continued)

Going Concern

The Group's net cash position, before recognising lease liabilities, increased to £588.0 million at 31 December 2021 from £181.9 million at 31 December 2020. The Group had liquidity of £1,235.4 million at 31 December 2021 of which £840.7 million was held in accessible cash and £394.7 million in undrawn revolving bank facilities. No refinancing of debt is due until March 2023, the Group does not have a leverage (net debt/EBITDA) covenant in its financing arrangements and its assets are unsecured.

Having made appropriate enquiries and regard to the above information, the Directors have a reasonable expectation that Grafton Group plc, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the Annual Report. Having reassessed the principal risks, as detailed on page 20, in particular the impact of the Covid-19 pandemic and based on expected cashflows, the strong liquidity position of the Group, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its financial statements.

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.

Climate Change

In preparing the financial statements, the Directors have considered the impact of climate change. These considerations did not have a material impact on the financial reporting judgements and estimates in the current year, specifically in the impairment and going concern analysis. The Group's analysis of the impact of climate change continues to evolve with Grafton committed to reducing its carbon impact.

The financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature.

(b) Estimates

In preparing the Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements as at and for the year ended 31 December 2020. Actual results may differ from estimates calculated using judgements and assumptions.

Impacts of standards and interpretations in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Impacts of standards effective from 1 January 2021

Certain new accounting standards and interpretations have been published that are effective from 1 January 2021. These standards did not have a material impact on the Group in the current reporting period and are not expected to have a material impact on future reporting periods and on foreseeable future transactions.

2. Segmental Analysis

The amount of revenue and operating profit under the Group's reportable segments of Distribution, Retailing and Manufacturing is shown below. Segment profit measure is operating profit before exceptional items, amortisation of intangible assets arising on acquisitions and other acquisition related items*.

The UK distribution, UK revenue and distribution assets and liabilities exclude amounts related to the discontinued operations in both the current and comparative values.

	2021 £'000	2020 Restated £'000
Revenue		
UK distribution	821,923	630,890
Ireland distribution	544,289	463,894
Netherlands distribution	290,540	276,563
Finland distribution	70,810	-
Total distribution - continuing	<u>1,727,562</u>	<u>1,371,347</u>
Retailing	282,756	246,576
Manufacturing	112,436	71,723
Less: inter-segment revenue - manufacturing	<u>(12,845)</u>	<u>(10,399)</u>
Total revenue from continuing operations	<u>2,109,909</u>	<u>1,679,247</u>
Segmental operating profit before exceptional items, intangible amortisation arising on acquisitions and other acquisition related items		
UK distribution	102,523	55,816
Ireland distribution	66,792	41,848
Netherlands distribution	30,544	28,590
Finland distribution	9,952	-
Total distribution – continuing	<u>209,811</u>	<u>126,254</u>
Retailing	50,858	42,028
Manufacturing	24,049	13,301
	<u>284,718</u>	<u>181,583</u>
Reconciliation to consolidated operating profit		
Central activities	<u>(13,479)</u>	<u>(10,887)</u>
	271,239	170,696
Property profits/(losses)	16,740	(83)
Operating profit before exceptional items, intangible amortisation arising on acquisitions and other acquisition related items	<u>287,979</u>	<u>170,613</u>
Acquisition related items*	(4,129)	(1,380)
Amortisation of intangible assets arising on acquisitions	<u>(14,688)</u>	<u>(8,937)</u>
Operating profit before exceptional items	269,162	160,296
Exceptional items	-	(2,481)
Operating profit	<u>269,162</u>	<u>157,815</u>
Finance expense	(21,269)	(24,936)
Finance income	1,904	698
Profit before tax	<u>249,797</u>	<u>133,577</u>
Income tax expense	<u>(42,952)</u>	<u>(24,149)</u>
Profit after tax for the financial year from continuing operations	<u>206,845</u>	<u>109,428</u>
Profit/(loss) after tax from discontinued operations	134,422	(1,886)
Profit after tax for the financial year	<u>341,267</u>	<u>107,542</u>

*Acquisition related items comprise deferred consideration payments relating to the retention of former owners of businesses acquired, transaction costs and expenses, professional fees, adjustments to previously estimated earn outs, customer relationships asset impairment charges and goodwill impairment charges. The 2020 comparatives, where applicable, have been restated to conform to current year presentation.

2. Segmental Analysis (continued)

The amount of revenue by geographic area is as follows:

	2021 £'000	2020 Restated £'000
Revenue*		
United Kingdom	914,971	687,251
Ireland	833,588	715,433
Netherlands	290,540	276,563
Finland	70,810	-
Total revenue – continuing operations	<u>2,109,909</u>	<u>1,679,247</u>

*Service revenue from continuing operations, which is recognised over time, amounted to £8.7 million for the year (2020 restated: £8.3 million)

	31 Dec 2021 £'000	31 Dec 2020 £'000
Segment assets		
Distribution	1,782,973	2,190,663
Retailing	210,400	216,907
Manufacturing	<u>102,716</u>	<u>103,064</u>
	2,096,089	2,510,634
Unallocated assets		
Deferred tax assets	8,793	13,386
Retirement benefit assets	3,596	2,099
Other financial assets	126	128
Cash and cash equivalents	<u>844,663</u>	<u>456,028</u>
Total assets	<u>2,953,267</u>	<u>2,982,275</u>

	31 Dec 2021 £'000	31 Dec 2020 £'000
Segment liabilities		
Distribution	658,122	861,964
Retailing	201,147	225,258
Manufacturing	<u>30,335</u>	<u>25,737</u>
	889,604	1,112,959
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	256,631	274,030
Retirement benefit obligations	15,067	52,683
Deferred tax liabilities	56,402	54,399
Current income tax liabilities	15,956	21,116
Derivative financial instruments (current)	<u>8</u>	<u>65</u>
Total liabilities	<u>1,233,668</u>	<u>1,515,252</u>

3. Operating Profit & Exceptional Items

Operating profit, from total operations, includes Government Assistance of £Nil (2020: £19.6 million) in respect of the Coronavirus Job Retention Scheme in the UK. Any assistance received in respect of the Temporary Covid-19 Wage Subsidy Scheme in Ireland was subsequently repaid.

The property profit of £6.8 million (2020: loss of £0.1 million) relates to the disposal of two UK properties, three Irish properties and six properties in Belgium (2020: one UK property).

In addition, a fair value gain of £9.9 million on four properties which were transferred to investment properties during the period was recognised in property profit. These were properties which were retained by the Group following the agreement to divest the Traditional Merchanting business in Great Britain. These four properties have a fair value of £15.75 million.

Exceptional Items in 2020

Branch and organisational changes were implemented in a number of our traditional UK merchanting businesses in the second half of 2020. These measures provided sustainable benefits to the business and resulted in an exceptional charge of £24.7 million, including changes related to defined benefit pension scheme arrangements.

	Continuing £'000	Discontinued £'000	Total Exceptional items £'000
Redundancy	140	7,513	7,653
Fixed asset write-offs	-	1,809	1,809
Inventory write-offs	-	1,151	1,151
Pension (Note 13)	-	8,019	8,019
Lease impairments/terminations	-	2,176	2,176
Dilapidation provisions	-	838	838
Other	2,341	698	3,039
Total exceptional items recognised in 2020	2,481	22,204	24,685

4. Finance Expense and Finance Income

	2021 £'000		2020 Restated £'000
Finance expense			
Interest on bank loans, US senior notes and overdrafts	6,249 *		8,218 *
Interest on lease liabilities	14,637 *		15,553 *
Net finance cost on pension scheme obligations	383		339
Foreign exchange loss	-		826
	<u>21,269</u>		<u>24,936</u>
Finance income			
Interest income on bank deposits	(193) *		(698) *
Foreign exchange gain	(1,711)		-
	<u>(1,904)</u>		<u>(698)</u>
Net finance expense	<u>19,365</u>		<u>24,238</u>

* Net bank and US senior note interest of £6.1 million (2020: £7.5 million). Including interest on lease liabilities, this amounts to £20.7 million (2020 Restated: £23.1 million)

5. Earnings per Share

The computation of basic, diluted and underlying earnings per share is set out below:

	Year ended 31 Dec 2021	Year Ended 31 Dec 2020 Restated £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year from continuing operations	206,845	109,428
Profit/(loss) after tax for the financial year from discontinued operations	134,422	(1,886)
Numerator for basic and diluted earnings per share	341,267	107,542
Profit after tax for the financial year from continuing operations	206,845	109,428
Amortisation of intangible assets arising on acquisitions	14,688	8,937
Tax relating to amortisation of intangible assets arising on acquisitions	(3,151)	(2,013)
Acquisition related items*	4,129	1,380
Tax on acquisition related items	(74)	-
Exceptional items	-	2,481
Tax relating to exceptional items	-	(400)
Numerator for adjusted earnings per share	222,437	119,813
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	239,294,286	238,379,488
Dilutive effect of options and awards	478,708	82,675
Denominator for diluted earnings per share	239,772,994	238,462,163
Earnings per share (pence) – from total operations		
- Basic	142.6	45.1
- Diluted	142.3	45.1
Earnings per share (pence) – from continuing operations		
- Basic	86.4	45.9
- Diluted	86.3	45.9
Earnings per share (pence) – from discontinued operations		
- Basic	56.2	(0.8)
- Diluted	56.1	(0.8)
Adjusted earnings per share (pence) – from continuing operations*		
- Basic	93.0	50.3
- Diluted	92.8	50.2

* The adjustment of acquisition related items to the adjusted earnings per share APM is a change on previous years and thus the 2020 comparative has been restated to conform to current year presentation.

6. Dividends

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February 2021 in the amount of £29.9 million. A final dividend for the year ended 31 December 2020 of 14.5p per ordinary share was paid on 5 May 2021 in the amount of £34.7 million.

An interim dividend for 2021 of 8.5p per share was paid on 1 October 2021 in the amount of £20.3 million.

A final dividend for 2021 of 22.0p per share will be paid to all holders of Grafton Units on the Company's Register of Members at the close of business on 9 April 2022 (the 'Record Date'). The Ex-dividend date is 8 April 2022. The cash consideration will be paid on 5 May 2022. A liability in respect of the final dividend has not been recognised at 31 December 2021, as there was no obligation to pay any dividends at the end of the year.

7. Exchange Rates

The results and cash flows of 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 was Stg85.96p (2020: Stg88.97p). The sterling/euro exchange rate at 31 December 2021 was Stg84.03p (2020: Stg89.90p).

8. Right-Of-Use Asset

	Right-of-use asset £'000
Recognised at 1 January 2021	505,922
Additions	22,630
Disposals	(2,796)
Depreciation	(59,624)
Remeasurements	5,821
Arising on acquisition (Note 14)	24,192
Disposal of Group businesses (Note 14)	(60,613)
Currency translation adjustment	(14,278)
As at 31 December 2021	421,254

9. Property, Plant and Equipment, Properties Held for Sale and Investment Properties

	Property, plant and equipment £'000	Properties held for sale £'000	Investment properties £'000
Net Book Value			
As at 1 January 2021	493,539	18,058	12,328
Additions	43,616	-	-
Depreciation	(38,270)	-	-
Disposals	(3,133)	(11,915)	(436)
Fair value gains	-	-	9,850
Impairment charge and fair value losses	(166)	-	(82)
Transfer to properties held for sale	(324)	870	(546)
Transfer to investment properties	(5,900)	-	5,900
Arising on acquisition (Note 14)	18,036	-	-
Disposal of Group businesses (Note 14)	(177,515)	-	-
Currency translation adjustment	(10,588)	(888)	(487)
As at 31 December 2021	319,295	6,125	26,527

10. Movement in Working Capital

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
Current				
At 1 January 2021 - Continuing	228,463	184,694	(365,909)	47,248
At 1 January 2021 - Discontinued	93,095	152,250	(180,040)	65,305
At 1 January 2021	321,558	336,944	(545,949)	112,553
Currency translation adjustment	(10,864)	(8,546)	15,501	(3,909)
Disposal of Group businesses (Note 14)	(99,253)	(216,013)	242,467	(72,799)
Deferred acquisition consideration (Note 14)	-	-	(1,007)	(1,007)
Arising on acquisition (Note 14)	51,717	22,640	(14,777)	59,580
Working capital movement in 2021	81,014	98,461	(115,346)	64,129
At 31 December 2021	344,172	233,486	(419,111)	158,547
Working Capital Movement				
Discontinued operations	6,158	63,763	(62,427)	7,494
Continuing operations	74,856	34,698	(52,919)	56,635
Total working capital movement	81,014	98,461	(115,346)	64,129

11. Interest-Bearing Loans, Borrowings and Net Debt

	31 Dec 2021 £'000	31 Dec 2020 £'000
Non-current liabilities		
Bank loans	38,699	130,842
US senior notes	133,902	143,188
Total non-current interest-bearing loans and borrowings	172,601	274,030
Current liabilities		
Bank loans	84,030	-
Total current interest-bearing loans and borrowings	84,030	-
Leases		
Included in non-current liabilities	396,070	479,019
Included in current liabilities	52,924	57,915
Total leases	448,994	536,934
Derivatives		
Included in current liabilities	8	65
Included in current assets	-	-
Total derivatives	8	65
Cash and cash equivalents	(844,663)	(456,028)
Net (cash)/debt	(139,030)	355,001
Net (cash) - excluding the impact of leases	(588,024)	(181,933)

11. Interest-Bearing Loans, Borrowings and Net Debt (continued)

The following table shows the fair value of financial assets and liabilities, all of which are within level 2 of the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 Dec 2021 £'000	31 Dec 2020 £'000
Assets/liabilities measured and recognised at fair value		
<i>Designated as hedging instruments</i>		
Interest rate swaps and other derivatives	<u>8</u>	<u>65</u>
Liabilities not measured at fair value		
<i>Liabilities recognised at amortised cost</i>		
Bank loans	123,017	131,521
US senior notes	<u>134,448</u>	<u>143,840</u>

Financial assets and liabilities recognised at amortised cost

It is considered that the carrying amounts of other financial assets and liabilities including trade payables, trade receivables and deferred consideration, which are recognised at amortised cost in the financial statements, approximate to their fair values.

Financial assets and liabilities carried at fair value

Interest rate swaps and other derivatives which are carried at fair value are classified as Level 2 in the fair value hierarchy. There have been no transfers between levels in the current year. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of interest rate swaps and other derivatives are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using 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.

12. Reconciliation of Net Cash Flow to Movement in Net Cash/(Debt)

	31 Dec 2021 £'000	31 Dec 2020 £'000
Net increase in cash and cash equivalents	399,155	98,442
Net movement in derivative financial instruments	57	(72)
Bank loans and loan notes acquired with subsidiaries (Note 14)	(55,647)	-
Lease liabilities disposed (Note 14)	67,100	-
Movement in debt and lease financing	<u>60,671</u>	<u>107,329</u>
Change in net debt resulting from cash flows	471,336	205,699
Currency translation adjustment	<u>22,695</u>	<u>(26,686)</u>
Movement in net debt in the year	494,031	178,833
Net debt at 1 January	<u>(355,001)</u>	<u>(533,834)</u>
Net cash/(debt) at end of the year (reported)	<u>139,030</u>	<u>(355,001)</u>

13. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current and prior year were as follows:

	Irish Schemes		UK Schemes	
	At 31 Dec 2021	At 31 Dec 2020	At 31 Dec 2021	At 31 Dec 2020
Rate of increase in salaries	3.30%	2.25%	0.00%*	0.00%*
Rate of increase of pensions in payment	-	-	3.10%	2.70%
Discount rate	1.15%	0.70%	1.90%	1.40%
Inflation	2.10%	1.05%	2.70%/3.30%**	2.00%/2.80%**

* Pensionable salaries are not adjusted for inflation

** The inflation assumption shown for the UK is based on both the Consumer Price Index (CPI) and the Retail Price Index (RPI)

13. Retirement Benefits (continued)

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

	Assets		Liabilities		Net asset/(deficit)	
	Year to 31 Dec 2021	Year to 31 Dec 2020	Year to 31 Dec 2021	Year to 31 Dec 2020	Year to 31 Dec 2021	Year to 31 Dec 2020
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	263,604	249,933	(314,188)	(271,116)	(50,584)	(21,183)
Interest income on plan assets	2,836	3,998	-	-	2,836	3,998
Contributions by employer	24,082	4,209	-	-	24,082	4,209
Contributions by members	469	598	(469)	(598)	-	-
Benefit payments	(9,128)	(11,701)	9,128	11,701	-	-
Current service cost	-	-	(2,359)	(2,443)	(2,359)	(2,443)
Other long-term benefit (expense)	-	-	(191)	(81)	(191)	(81)
Past service credit/(cost) (exceptional) – discontinued operations	-	-	2,500	(5,000)	2,500	(5,000)
Curtailed loss (exceptional) – discontinued operations	-	-	-	(2,463)	-	(2,463)
Interest cost on scheme liabilities	-	-	(3,219)	(4,337)	(3,219)	(4,337)
Administration costs	(382)	(305)	-	-	(382)	(305)
Administration costs (exceptional) – discontinued operations	-	(556)	-	-	-	(556)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations		-	1,131	(4,433)	1,131	(4,433)
-financial assumptions		-	1,992	(27,394)	1,992	(27,394)
-demographic assumptions		-	846	(534)	846	(534)
Return on plan assets excluding interest income	10,917	10,582	-	-	10,917	10,582
Translation adjustment	(8,693)	6,846	9,653	(7,490)	960	(644)
At 31 December	283,705	263,604	(295,176)	(314,188)	(11,471)	(50,584)
Related deferred tax asset (net)					1,636	8,660
Net pension liability					(9,835)	(41,924)

The Group retained responsibility for the UK defined benefit pension scheme following the divestment of the traditional merchanting business in Great Britain. This scheme was closed to future accrual at the end of 2020 when alternative arrangements were put in place.

In 2020, a past service cost of £5.0 million was recognised as an exceptional item within discontinued operations (Note 3). A related credit of £2.5 million in 2021 was recognised in the result for discontinuing operations and a charge of £1.1 million was recognised in the gross profit on disposal of the traditional merchanting business in Great Britain.

The net pension scheme deficit of £11.5 million (31 December 2020: £50.6 million) is shown in the Group balance sheet as (i) retirement benefit obligations (non-current liabilities) of £15.1 million (31 December 2020: £52.7 million) and (ii) retirement benefit assets (non-current assets) of £3.6 million (31 December 2020: £2.1 million). £14.4 million (31 December 2020: £18.3 million) of the retirement benefit obligations relates to schemes in Ireland and the Netherlands and £0.7 million (31 December 2020: £34.3 million) relates to one UK scheme.

14. Acquisitions and Discontinued Operations

Acquisitions

On 22 December 2020, the Group announced that it had agreed to acquire Proline Architectural Hardware Limited ("Proline"), a leading distributor of architectural ironmongery products for doors from a single location in Dublin. Proline specialises in the supply of a wide range of high quality traditional and contemporary architectural ironmongery products, in a variety of designs and finishes, including door locks, hinges and handles. The acquisition was completed on 11 February 2021 and is incorporated in the distribution segment.

On 13 January 2021, the Group acquired the entire share capital of Van Den Anker IJzerhandel Katwijk B.V. ("VDA"). VDA is a single branch merchanting business based in the Netherlands and is incorporated in the distribution segment. On 21 April 2021, the Group acquired the entire share capital of Govers B.V. ("Govers"). Govers is a four-branch business located in the Netherlands that complements the Isero branch network and is incorporated in the distribution segment.

Further to the announcement on 22 June 2021, the Group completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH") on 1 July 2021. IKH is one of the largest workwear, personal protective equipment ("PPE"), tools, spare parts and accessories technical wholesalers and distributors in Finland. The business is incorporated in the distribution segment.

On 9 December 2021, the Group expanded its coverage of the Northern Ireland market with the acquisition of P. McDermott & Sons (Omagh) Ltd. ("McDermott's"), a single branch builders' distribution business located in Omagh, County Tyrone. The business is incorporated in the distribution segment.

The provisional fair value of assets and liabilities acquired in 2021 are set out below:

	IKH £'000	Other £'000	Total £'000
Property, plant and equipment	16,321	1,715	18,036
Right-of-use asset	21,497	2,695	24,192
Intangible assets – computer software	388	-	388
Intangible assets – trade names	20,707	2,465	23,172
Intangible assets – customer relationships	53,259	2,275	55,534
Inventories	47,422	4,295	51,717
Trade and other receivables	16,194	6,446	22,640
Trade and other payables	(11,031)	(3,746)	(14,777)
Lease liability	(21,497)	(2,695)	(24,192)
Corporation tax liability	(2,370)	(303)	(2,673)
Deferred tax liability	(14,793)	(615)	(15,408)
Deferred tax asset	609	-	609
Debt acquired*	(55,647)	-	(55,647)
Cash acquired	7,582	4,814	12,396
Net assets acquired	<u>78,641</u>	<u>17,346</u>	<u>95,987</u>
Goodwill	<u>35,263</u>	<u>5,462</u>	<u>40,725</u>
Consideration	<u>113,904</u>	<u>22,808</u>	<u>136,712</u>
<i>Satisfied by:</i>			
Cash paid	113,904	21,801	135,705
Deferred consideration (Note 10)	-	1,007	1,007
	<u>113,904</u>	<u>22,808</u>	<u>136,712</u>

* Debt of £55.6 million (€64.7 million), which was outstanding following the buy-back of shares from minority shareholders, was settled on completion. The total cash consideration paid for IKH of £113.9 million excludes the debt amount whereas the amount previously announced of €199.3 million was on a cash and debt free basis.

14. Acquisitions and Discontinued Operations (continued)

Net cash outflow – arising on acquisitions

	IKH £'000	Other £'000	Total £'000
Cash consideration	113,904	21,801	135,705
Less: cash and cash equivalents acquired	(7,582)	(4,814)	(12,396)
	106,322	16,987	123,309

The fair value of the net assets acquired have been determined on a provisional basis. Goodwill on these acquisitions reflects the anticipated cashflows to be realised as part of the enlarged Group.

Any adjustments to provisional fair value of assets and liabilities including recognition of any newly identified assets and liabilities, will be made within 12 months of respective acquisition dates.

Acquisitions contributed revenue of £88.3 million and operating profit of £12.3 million for the period from the date of acquisition to 31 December 2021. If all five acquisitions had occurred on 1 January 2021, they would have contributed revenue of £177.4 million and operating profit of £25.6 million in the year. The Group incurred acquisition costs of £3.5 million in 2021 (2020: £1.4 million) which are included in operating costs in the Group Income Statement.

Deferred consideration is payable within 3 years and is not contingent. In addition to this deferred consideration, the Group has an agreement to make further payments to selling shareholders who as part of the agreement are required to remain in employment with the Group for the deferred period.

Discontinued Operations – Traditional Merchanting Business in the UK

In April 2021, the Group announced that it had appointed Rothschild & Co to undertake a review of a number of its traditional merchanting businesses in Great Britain. This strategic review was focused solely on the Buildbase, Civils & Lintels, PDM Buildbase, The Timber Group, Bathroom Distribution Group and NDI businesses.

On 30 June 2021, the Group entered into an agreement to divest its Traditional Merchanting Business in Great Britain (“the Business”) for an enterprise value of £520.0 million to Huws Gray, one of the UK’s largest independent builders’ merchants, that is controlled by equity funds managed by Blackstone. The Group retained freehold properties with development potential that have a market value of circa £25 million.

The decision to divest followed a comprehensive strategic review of the Business which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value. Completion of this transaction will also enable the Group to focus on its international development strategy which will be a key priority over the coming years.

In accordance with IFRS, for reporting purposes, the disposal of the Traditional Merchanting Business in Great Britain has been accounted for as discontinued operations, in line with the accounting treatment of the deemed disposal at 30 June 2021. As a result, the net assets of the Group increased by £113.2 million representing an overall profit on disposal after costs of disposal. The profit on the disposal reflects the cash consideration of £602.3 million offset by the net book value of the assets being disposed of £477.2 million. The net assets disposed include the write-off of the carrying value of the allocated goodwill of £126.3 million.

The transaction completed on 31 December 2021 and the proceeds, which amounted to £602.3 million, were received on that date. These included £116.0 million of intercompany balances which were due to Grafton Group at 30 June 2021.

14. Acquisitions and Discontinued Operations (continued)

The carrying value of assets and liabilities disposed are as follows:

	Total £'000
Goodwill	126,291
Intangible assets	29,827
Property, plant and equipment	177,515
Right-of-use assets	60,613
Finance lease receivable	1,931
Deferred tax asset	1,729
Inventory	99,253
Trade and other receivables	216,013
Cash	103,778
Trade and other payables	(242,467)
Provisions	(5,339)
Lease liabilities (current and non-current)	(67,100)
Deferred tax liability	(18,691)
Income tax liability	(6,161)
Net assets of disposed business	477,192
Cash consideration received and settlement of intercompany balances	(602,308)
Net profit on disposal of Group businesses, before disposal costs	(125,116)

Reconciliation of cash consideration receivable from 30 June 2021

	£'000
Cash consideration receivable at 30 June 2021	465,734
Cash received for intercompany balances owed to the Group at 30 June 2021	115,969
Additional consideration payable to date of completion (daily ticker rate)	20,385
Other adjusting items upon completion	220
Cash consideration received and settlement of intercompany balances	602,308

Net cash inflow on disposals

	£'000
Cash consideration received	602,308
Cash disposed with Group businesses	(103,778)
Proceeds from disposal – net of cash disposed	498,530

Amounts recognised in the period within discontinued operations

	£'000
Gross profit on disposal	125,116
Disposal costs*	(11,945)
Profit on disposal, net of disposal costs	113,171
Result for the period from discontinued operations	21,251
Total amount recognised in discontinued operations	134,422

* Disposal costs include professional fees of £4.9 million, legal fees of £1.0 million, vendor financial, tax & IT due diligence fees of £0.9 million, property related costs of £0.3 million and £4.8 million of other costs related to the divestment of the business.

14. Acquisitions and Discontinued Operations (continued)

Results from discontinued operations

	31 December 2021 £'000	31 December 2020 £'000
Revenue	522,895	829,842
Operating costs	(493,873)	(808,470)
Operating profit before property profits	29,022	21,372
Property profits	396	2,696
Operating profit pre-exceptional items	29,418	24,068
Exceptional items*	2,500	(22,204)
Operating profit	31,918	1,864
Net finance costs	(1,243)	(2,703)
Profit/(loss) before tax	30,675	(839)
Income tax	(9,424)	(1,047)
Profit/(loss) after tax for the financial period	21,251	(1,886)

* Exceptional items at 31 December 2021 relates to an IAS 19 past service credit against other costs originally booked in 2020 (Note 13). The 2020 costs related to branch and organisational changes which were implemented in the Traditional UK merchanting business in the second half of 2020 (Note 3).

Profit before taxation from discontinued operations

	£'000
Results from discontinued operations	30,675
Profit on disposal of Group businesses, net of disposal costs	113,171
Profit before taxation from discontinued operations	143,846

Cash flows from discontinued operations

	31 December 2021 £'000	31 December 2020 £'000
Net cash flow from operating activities	36,592	84,427
Net cash flow from investing activities	(3,346)	530
Net cash flow from financing activities	(4,794)	(9,845)
Net cash flow from discontinued operations	28,452	75,112

14. Acquisitions and Discontinued Operations (continued)

The overall impact on the Group income statement for December 2021 and December 2020 is set out below. The results for the period ended 31 December 2020 have been restated to include the Traditional Merchanting Business of Great Britain as discontinued operations.

Impact on the Group Income Statement for the year ended 31 December 2021

	2021 Continuing £'000	2021 Discontinued £'000	2021 Total £'000
Revenue	2,109,909	522,895	2,632,804
Operating costs	(1,857,487)	(493,873)	(2,351,360)
Operating profit before property profits	252,422	29,022	281,444
Property profits	16,740	396	17,136
Operating profit before exceptional items	269,162	29,418	298,580
Exceptional items	-	2,500	2,500
Operating profit	269,162	31,918	301,080
Finance expense	(21,269)	(1,243)	(22,512)
Finance income	1,904	-	1,904
Profit before tax	249,797	30,675	280,472
Income tax expense	(42,952)	(9,424)	(52,376)
Profit after tax for the financial period	206,845	21,251	228,096

Impact on the Group Income Statement for the year ended 31 December 2020

	2020 Continuing Restated £'000	2020 Discontinued Restated £'000	2020 Total Reported £'000
Revenue	1,679,247	829,842	2,509,089
Operating costs	(1,518,868)	(808,470)	(2,327,338)
Operating profit before property profits	160,379	21,372	181,751
Property profits	(83)	2,696	2,613
Operating profit before exceptional items	160,296	24,068	184,364
Exceptional items (Note 3)	(2,481)	(22,204)	(24,685)
Operating profit	157,815	1,864	159,679
Finance expense	(24,936)	(2,703)	(27,639)
Finance income	698	-	698
Profit before tax	133,577	(839)	132,738
Income tax expense	(24,149)	(1,047)	(25,196)
Profit after tax for the financial period	109,428	(1,886)	107,542

15. Goodwill

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 disposal of the Traditional Merchanting Business in Great Britain has resulted in a movement of £126.3 million in the year ended 31 December 2021. There were no indications of impairment during the period (2020: £Nil).

	Goodwill £'000
Net Book Value	
As at 1 January 2021	704,064
Disposal of Group businesses (Note 14)	(126,291)
Arising on acquisition (Note 14)	40,725
Currency translation adjustment	(18,688)
As at 31 December 2021	599,810

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships & Technology £'000	Total £'000
Net Book Value				
As at 1 January 2021	32,946	11,157	71,802	115,905
Additions	827	-	-	827
Amortisation	(2,496)	(2,928)	(11,760)	(17,184)
Arising on acquisition (Note 14)	388	23,172	55,534	79,094
Disposal of Group businesses (Note 14)	(27,522)	(222)	(2,083)	(29,827)
Currency translation adjustment	(142)	(764)	(3,582)	(4,488)
As at 31 December 2021	4,001	30,415	109,911	144,327

The computer software asset of £4.0 million at 31 December 2021 (December 2020: £32.9 million) primarily reflects the cost of the Group's investment on upgrading the IT systems and infrastructure.

The amortisation expense of £17.2 million (2020: £14.1 million) has been charged in 'operating costs' in the income statement. Amortisation on intangible assets arising on acquisitions amounted to £14.7 million (2020: £8.9 million).

17. Taxation

The income tax expense of £43.0 million (2020: £24.1 million) is equivalent to an effective tax rate of 17.2 per cent on profit from continuing operations (2020: 18.1 per cent). This is a blended rate of corporation tax on profits in the four jurisdictions where the Group operates. The charge includes a once-off increase in deferred tax arising from the UK tax rate increasing to 25 per cent from 19 per cent which is effective from 1 April 2023. This change was enacted in UK legislation in May 2021, and it adds 1.3 per cent to the tax rate on profits in the Group's continuing operations.

Certain items of expenditure charged in arriving at profit before tax, including depreciation on buildings, are not eligible for a tax deduction. This factor increased the rate of tax payable on profits above the headline rates that apply in the UK, Ireland, the Netherlands and Finland.

The liability shown for current taxation includes a liability for 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.

Accounting estimates and judgements

Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Group is party to transactions for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice.

If the final determination of these matters is different from the amounts that were initially recorded such differences could materially impact the income tax and deferred tax liabilities and assets in the period in which the determination was made.

Deferred tax

At 31 December 2021, there were unrecognised deferred tax assets in relation to capital losses of £3.1 million (2020: £1.7 million), trading losses of £1.1 million (2020: £2.0 million) and deductible temporary differences of £8.5 million (2020: £7.7 million).

17. Taxation (continued)

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 historic losses and the Directors believe that it is not probable there will be sufficient taxable profits in the particular entities against which they can be utilised. Separately, the Directors believe that it is not probable the deductible temporary differences will be utilised.

18. Related Party Transactions

There were no changes in related parties from those described in the 2020 Annual Report, other than those arising through acquisitions, and no change in transactions with related parties that materially affect the financial position or the performance of the Group during the year to 31 December 2021.

19. Grafton Group plc Long Term Incentive Plan (LTIP)

LTIP awards were made over 683,694 Grafton Units on 17 May 2021. The fair value of the awards of £7.4 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. The 2020 Annual Report discloses details of the LTIP scheme.

20. Issue of Shares

During the year 82,675 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2018 grants. A further 453,388 Grafton Units were issued under the Group's Savings Related Share Option Scheme (SAYE) to eligible UK employees.

21. Events after the Balance Sheet Date

There have been no material events subsequent to 31 December 2021 that would require adjustment to or disclosure in this report.

22. Board Approval

This announcement was approved by the Board of Grafton Group plc on 23 February 2022.

Supplementary Financial Information

Alternative Performance Measures

Certain financial information set out in this consolidated 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 Alternative Performance Measures (“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 2020 are available in the 2020 Annual Report and the 2020 Half Year Report, subject to restatement for discontinued operations and acquisition related items.

The term “Adjusted” means before exceptional items and acquisition related items. These items do not relate to the underlying operating performance of the business and therefore to enhance comparability between reporting periods and businesses, management do not take these items into account when assessing the underlying profitability of the Group.

Acquisition related items comprise deferred consideration payments relating to the retention of former owners of businesses acquired, transaction costs and expenses, professional fees, adjustments to previously estimated earn outs, customer relationships asset impairment charges and goodwill impairment charges. Customer relationships, technology and brands amortisation, acquisition related items and any associated tax are considered by management to form part of the total spend on acquisitions or are non-cash items resulting from acquisitions and therefore are also included as adjusting items. The adjustment of acquisition related items is a change on previous years and thus the 2020 comparative APMs have been restated to conform to current year presentation.

Note: *The Traditional Merchanting Business in Great Britain is now classified as discontinued operations for the year ended 31 December 2021. In the computation of APMs below the revenue and operating profit of the disposed business are excluded from the Group. Revenue and the operating result are reflected in the profit/(loss) after tax from discontinued operations. Prior year comparatives have been updated to conform to the current year presentation.*

APM	Description
Adjusted operating profit/EBITA	Profit before acquisition related items, exceptional items, net finance expense and income tax expense.
Operating profit margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Adjusted operating profit/EBITA before property profit	Profit before profit on the disposal of Group properties, acquisition related items, 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 acquisition related items, exceptional items and income tax expense.
Adjusted profit after tax	Profit before acquisition related items 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.
EBITDA	Profit before exceptional items, net finance expense, income tax expense, depreciation and acquisition related items.
EBITDA Interest Cover	EBITDA divided by net bank/loan note interest.
Gearing	The Group net (cash)/debt divided by the total equity attributable to owners of the Parent times 100, expressed as a percentage.
Like-for-like revenue	Changes in 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.
Return on Capital Employed	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, expressed as a percentage.
Adjusted Earnings Per Share	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 Operating Profit/EBITA before Property Profit and Margin

	2021 Reported £'m	2020 Restated £'m
Revenue - continuing	2,109.9	1,679.2
Operating profit	269.2	157.8
Property profit/loss	(16.7)	0.1
Exceptional items	-	2.5
Amortisation of intangible assets arising on acquisitions	14.7	8.9
Other acquisition related items	4.1	1.4
Adjusted operating profit/EBITA before property profit	<u>271.2</u>	<u>170.7</u>
Adjusted operating profit/EBITA margin before property profit	<u>12.9%</u>	<u>10.2%</u>

Operating Profit Margin

	2021 Reported £'m	2020 Restated £'m
Revenue - continuing	2,109.9	1,679.2
Operating profit	269.2	157.8
Operating profit/EBITA margin	<u>12.8%</u>	<u>9.4%</u>

Adjusted Operating Profit/EBITA and Margin

	2021 Reported £'m	2020 Restated £'m
Revenue - continuing	2,109.9	1,679.2
Operating profit	269.2	157.8
Exceptional items	-	2.5
Amortisation of intangible assets arising on acquisitions	14.7	8.9
Other acquisition related items	4.1	1.4
Adjusted operating profit/EBITA	<u>288.0</u>	<u>170.6</u>
Adjusted operating profit/EBITA margin	<u>13.6%</u>	<u>10.2%</u>

Adjusted Profit before Tax

	2021 Reported £'m	2020 Restated £'m
Profit before tax	249.8	133.6
Amortisation of intangible assets arising on acquisitions	14.7	8.9
Other acquisition related items	4.1	1.4
Exceptional items	-	2.5
Adjusted profit before tax	<u>268.6</u>	<u>146.4</u>

Adjusted Profit after Tax

	2021 Reported £'m	2020 Restated £'m
Profit after tax	206.8	109.4
Exceptional items	-	2.5
Related tax on disposal (profit only)	-	(0.4)
Amortisation of intangible assets arising on acquisitions	14.7	8.9
Related tax on amortisation of intangible assets arising on acquisitions	(3.2)	(2.0)
Other acquisition related items	4.1	1.4
Tax on other acquisition related items	(0.1)	(0.0)
Adjusted profit after tax	<u>222.4</u>	<u>119.8</u>

Reconciliation of Profit to EBITDA – Continuing Operations

	2021 Reported £'m	2020 Restated £'m
Profit after tax	206.8	109.4
Exceptional items	-	2.5
Other acquisition related items	4.1	1.4
Net finance expense	19.4	24.2
Income tax expense	43.0	24.1
Depreciation	84.8	79.6
Intangible asset amortisation	15.3	9.4
EBITDA – continuing operations	<u>373.4</u>	<u>250.6</u>

Net (Cash)/Debt to EBITDA

	2021 Reported £'m	2020 Restated £'m
EBITDA	373.4	250.6
Net (cash)/debt	<u>(139.0)</u>	<u>355.0</u>
Net (cash)/debt to EBITDA – times	<u>(0.37)</u>	<u>1.42</u>

EBITDA Interest Cover (including interest on lease liabilities)

	2021 Reported £'m	2020 Restated £'m
EBITDA	373.4	250.6
Net bank/loan note interest including interest on lease liabilities	<u>20.7</u>	<u>23.1</u>
EBITDA interest cover – times	<u>18.0</u>	<u>10.9</u>

EBITDA Interest Cover (excluding interest on lease liabilities)

	2021 Reported £'m	2020 Restated £'m
EBITDA	373.4	250.6
Net bank/loan note interest excluding interest on lease liabilities	<u>6.1</u>	<u>7.5</u>
EBITDA interest cover – times	<u>61.7</u>	<u>33.4</u>

Gearing

	2021 Reported £'m	2020 Reported £'m
Total equity	1,719.6	1,467.0
Net debt	<u>(139.0)</u>	<u>355.0</u>
Gearing	<u>(8%)</u>	<u>24%</u>

Return on Capital Employed – Continuing Operations

	2021 Reported £'m	2020 Restated £'m
Operating profit	269.2	157.8
Exceptional items	-	2.5
Other acquisition related items	4.1	1.4
Amortisation of intangible assets arising on acquisitions - continuing	14.4	8.4
Adjusted operating profit	<u>287.7</u>	<u>170.1</u>
Total equity – current period end	1,719.6	1,467.0
Disposal of Group businesses adjustment	-	115.4
Net debt current period end	(139.0)	355.0
Disposal of Group businesses adjustment	-	(545.0)
Capital employed – current period end	<u>1,580.6</u>	<u>1,392.4</u>
Total equity – prior period end	1,467.0	1,362.7
Disposal of Group businesses adjustment	115.4	115.4
Net debt – prior period end	355.0	533.8
Disposal of Group businesses adjustment	(545.0)	(545.0)
Capital employed – prior period end	<u>1,392.4</u>	<u>1,466.9</u>
Average capital employed	1,486.5	1,429.6
Return on capital employed	<u>19.4%</u>	<u>11.9%</u>

Capital Turn

	2021 Reported £'m	2020 Restated £'m
Revenue	2,109.9	1,679.2
Average capital employed	<u>1,486.5</u>	<u>1,429.6</u>
Capital turn - times	<u>1.4</u>	<u>1.2</u>

Liquidity

	2021 Reported £'m	2020 Reported £'m
Cash and cash equivalents	844.7	456.0
Less: cash held against letter of credit	(4.0)	(4.0)
Accessible cash	<u>840.7</u>	<u>452.0</u>
Undrawn revolving bank facilities	394.7	359.2
Liquidity	<u>1,235.4</u>	<u>811.2</u>

Net Cash – before IFRS 16 Leases

	2021 Reported £'m	2020 Reported £'m
Net cash/(debt) - after IFRS 16 Leases	139.0	(355.0)
IFRS 16 Lease Liability	<u>449.0</u>	<u>536.9</u>
Net cash – before IFRS 16 Leases	<u>588.0</u>	<u>181.9</u>

Like-for-Like Revenue

	2021 £'m	2020 £'m
2020/2019 revenue (restated)	1,679.2	1,643.6
Organic growth	337.8	(57.8)
Organic growth – new branches	9.0	9.1
Total organic growth	<u>346.8</u>	<u>(48.7)</u>
Acquisitions	120.9	69.8
Foreign exchange	(37.0)	14.5
2021/2020 revenue	<u>2,109.9</u>	<u>1,679.2</u>
Like-for-like movement (organic growth, excluding new branches, as % of prior year revenue)	<u>20.1%</u>	<u>(3.5%)</u>

The Impact of IFRS 16 “Leases” on APM's

Reconciliation of Profit to EBITDA – pre-IFRS 16 (Continuing)

	2021 Reported £'m	2020 Restated £'m
Profit after tax	208.2	112.0
Exceptional items	-	2.5
Acquisition related items	4.1	1.4
Net finance expense	4.7	8.9
Income tax expense	43.2	24.9
Depreciation	30.3	27.8
Intangible asset amortisation	15.3	9.9
EBITDA	<u>305.8</u>	<u>187.4</u>

EBITDA Interest Cover – pre-IFRS 16 (excluding interest on lease liabilities)

	2021 Reported £'m	2020 Restated £'m
EBITDA	305.8	187.4
Net bank/loan note interest excluding interest on lease liabilities	6.1	7.5
EBITDA interest cover – times	<u>50.5</u>	<u>24.9</u>

