Grafton Group plc

Final Results for the Year Ended 31 December 2015

GRAFTON GROUP PLC
FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

Grafton Group plc ("the Group"), the builders merchanting and DIY Group with operations in the UK, Ireland, Belgium and the Netherlands, announces its final results for the year ended 31 December 2015.

Financial Highlights

- Revenue up 6% to a record £2.21 billion (8.9% in constant currency)
- Adjusted Group operating profit* up 15% to £126.8 million from £110.1 million
- Adjusted Group operating profit margin* increased by 40 basis points to 5.7% from 5.3%
- Adjusted Group profit before taxation* up 17% to £118.9 million from £101.2 million
- Adjusted basic earnings per share up 19% to 41.0p
- 16% dividend increase reflects strong improvement in profitability
- Strong cash generation from operations of £139.3 million and year-end gearing of 12%
- Return on capital employed increased by 110 basis points to 12.2%

Operating Highlights

- UK merchanting business continued to generate good revenue and profit growth
- Selco performed particularly strongly and opened five new branches
- Significant improvement in Irish merchanting business supported by improving economic and construction trends
- DIY business in Ireland back on a growth path
- Successful entry into the Netherlands merchanting market on completion of Isero acquisition

	2015	2014	
	£'m	£'m	% change
Revenue	**2,212**	2,082	+6%
Adjusted*			
Operating profit	**126.8**	110.1	+15%
Operating profit before property profit	**120.1**	107.9	+11%
Profit before tax	**118.9**	101.2	+17%
Profit after tax	**95.1**	80.0	+19%
Adjusted earnings per share – basic	**41.0p**	34.4p	+19%
Statutory			
Operating profit	**128.2**	110.1	+16%
Profit before tax	**120.3**	101.2	+19%
Profit after tax	**96.5**	80.0	+21%
Earnings per share – basic	**41.6p**	34.4p	+21%
Dividend	**12.50p**	10.75p	+16%
Net debt	**113.6**	75.3	+51%
Total equity	**989.0**	906.3	+9%
Adjusted operating margin	**5.7%**	5.3%	+40 bp
Return on capital employed	**12.2%**	11.1%	+1.1% pts

*Before defined benefit pension scheme past service credit of £2.95 million and an asset impairment charge of £1.52million in the Belgium business.

Gavin Slark, Chief Executive Officer commented:

"Grafton made continuing progress in 2015 producing record revenue and solid growth in operating profit. We continued to invest in organic growth initiatives and selective acquisitions, most notably Isero in the Netherlands. We are confident about the overall prospects for the Group and expect to deliver organic growth in the year ahead and to also benefit from recent development activity as well as exposure to the strengthening economies in Ireland and the Netherlands."

Webcast Details

A results presentation hosted by Gavin Slark and David Arnold for analysts and investors will be held today 8 March 2016 at 9.30am GMT.

The web address to access the live webcast is as follows;
www.graftonplc.com/webcast

Replay
The webcast will be available to watch later in the day.

The results presentation can be viewed/downloaded at http://www.graftonplc.com

For further information please contact:

Grafton Group plc + 353 1 216 0600
Gavin Slark, Chief Executive Officer
David Arnold, Chief Financial Officer

Murray + 353 1 498 0300
Pat Walsh

MHP Communications + 44 20 3128 8100
James White

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 2015

Group Results

Grafton made continuing progress in 2015 producing record revenue and solid growth in operating profit that reflected both organic growth and contributions from acquisitions. It was a year of significant development activity with the acquisition of Isero which gave the Group a presence in the Netherlands for the first time, the completion of a number of bolt-on acquisitions in the UK merchanting market and the opening of five new Selco branches.

The UK merchanting business, which accounted for three quarters of Group revenue, reported record revenue and continued to grow operating profit albeit at a more moderate rate than in recent years. Overall trading conditions were broadly positive although the UK economy slowed and margin pressure was a feature of trading in the traditional merchanting business.

The merchanting business in Ireland reported a significant increase in revenue and operating profit for the second successive year against the backdrop of a strong recovery in the economy and generally good but competitive market conditions.

The Isero business, acquired as a growth platform in the Netherlands merchanting market, had only a minimal impact on the results for the year as it was acquired in late November.

The Irish retailing business benefitted from an acceleration in consumer spending which extended into the DIY sector in the second half of the year leading to increased revenue and operating profit in the Woodie's business.

The UK Mortar business reported a strong increase in operating profit despite weaker market conditions in the second half of the year.

Dividend

A second interim dividend of 8.0p (2014: 7.0p) was approved to give a total dividend for the year of 12.50p. This represents an increase of 16.3 per cent on total dividends of 10.75p paid for 2014. The increase is in line with the Board's policy of increasing dividends as earnings increase and reflects both the strong cashflow from operations and relatively low level of year-end net debt. The dividend cover increased to 3.3 times from 3.2 times.

Outlook

Growth in UK domestic demand was resilient in 2015 supported by rising employment, growth in real incomes, consumer confidence at near record highs and historically low interest rates. While these trends are expected to continue there are downside risks that the weaker outlook for the global economy, volatility in financial markets and a UK referendum on continued membership of the European Union could weigh on UK consumer confidence and demand. Activity in the housing RMI market is however expected to be sustained by strong market fundamentals, a resumption of growth in housing transactions in the second half of 2015 following a decline in the first half of the year and survey evidence that customers remain disposed to spending on big ticket items.

The overall outlook in Ireland is favourable as growth in employment and incomes in a low inflation and low interest rate environment should support the ongoing improvement in the economy. Both residential and non-residential construction should benefit from the improving economy. The gradual recovery in house building is expected to continue but at a much lower level than required to meet ongoing demand. A good pipeline of commercial projects at the planning stage or under construction should see a continuation of the growth in activity that started from a very low base during 2015. The recovery in retail sales which gathered momentum in 2015 should continue to be positive for the DIY market.

January and February average daily like-for-like revenue increased by 5.8 per cent in the UK merchanting business, 11.5 per cent in Irish merchanting business and 1.5 per cent in the Belgian merchanting business. Like-for-like revenue growth in the Netherlands business was 6.1 per cent compared to the pre-acquisition performance for January/February 2015. Revenue grew by 7.1 per cent in the retailing business in Ireland and by 13.0 per cent in the manufacturing segment.

The Group is confident about its overall prospects and expects to deliver organic growth in operating profit in the year ahead and to also benefit from the development initiatives undertaken during 2015 and earlier this year. This should enable further progress towards the delivery of the medium term growth targets of a 7 per cent operating profit margin and a return on capital employed of 15 per cent.

Operating Review

Merchanting Segment (91% of Group Revenue)

Group Merchanting revenue increased by 7.3 per cent to £2.01 billion (2014: £1.88 billion). Operating profit, before an exceptional pension scheme credit of £2.95 million and an asset impairment charge in the Belgian business of £1.52 million, was up by 12.9 per cent to £124.20 million (2014: £110.04 million). The operating profit margin was up by 30 basis points to 6.2 per cent.

UK Merchanting revenue increased by 8.9 per cent to £1.66 billion (2014: £1.53 billion) and operating profit, including property profit and excluding an exceptional pension credit, was up by 13.8 per cent to £105.58 million (2014: £92.78 million). The operating profit margin increased by 30 basis points to 6.4 per cent. Operating profit, before property profit and before an exceptional pension credit, grew by 8.5 per cent to £98.89 million (2014: £91.16 million). The UK Merchanting operating profit margin, before property profit and before an exceptional pension credit, was unchanged at 6.0 per cent.

Growth of 3.9 per cent in average daily like-for-like revenue was driven by increased activity in the residential RMI and new build markets. Price inflation was estimated at one per cent for the year and like-for-like merchanting volumes increased by circa 3.0 per cent. New branches, implants, acquisitions and branch consolidations contributed revenue growth of 5.0 per cent.

The overall gross margin increased by ten basis points due to favourable mix changes relating to Selco and acquisitions that more than offset competitive pricing pressure in the traditional merchanting business, principally in Plumbase.

It was a more difficult year for the traditional merchanting business as the benefit of like-for-like revenue growth was more than offset by a decline in the gross margin and increased costs incurred in the ordinary course of business, upgrading legacy IT systems and strategic development initiatives.

Selco Builders Warehouse had an excellent year achieving significant success in growing revenue and operating profit and delivering a further improvement in operating margin. Strong like-for-like revenue growth was largely influenced by demand from trade and business customers operating in the residential RMI market and by an increase in average transaction values and footfall. Expansion of the branch network in recent years improved operating leverage through economies of scale in procurement and marketing while enabling the business to provide a superior customer service that differentiates it in the market place.

2015 was a year of significant development activity for Selco with the opening of five new branches including three in the last quarter. Market coverage in the South East was enhanced with the opening of branches in Redhill, New Southgate and Weybridge. Selco continued to build on its organic growth strategy by expanding its regional market position with the successful opening of branches in Coventry and Southampton. The programme of branch openings increased the network to 40 including 24 in London and the South East. A similar number of branch openings are planned for 2016.

Selco's retail style trade format evolved during the year with the launch of a Click & Collect service in all branches. Customers who order on-line can collect products purchased within one trading hour of placing an order. Selco Direct, a service that enables customers in the UK to purchase 5,000 products on-line for next day delivery, was also launched during the year.

Buildbase delivered positive results increasing revenue, operating profit and operating margin supported by organic growth from solid demand in the residential RMI and new build markets and good contributions from the ten branches acquired in the second half of last year. The benefit of increased demand in the like-for-like business and an improvement in the gross margin was partially offset by increased costs related to strategic initiatives. The overall business showed a healthy increase in revenue and profit and Buildbase increased its share of a competitive market.

The Hirebase implants posted strong results and continued to develop its market position following the opening of 22 new implants in 2014 and 15 in 2015. The Electricbase strategic initiative made significant progress performing ahead of expectations and reporting an operating profit. A range of electrical products are now available through implants in 80 Buildbase branches including 23 that were opened in 2015.

In November, Buildbase acquired Wollens, a general merchanting business trading from two branches in Glastonbury and Cannington. Since the year-end, coverage of the merchanting market was enhanced with the purchase of T. Brewer, a specialist timber business trading from three branches in London and Allsands, a general builders merchanting business located in Larkfield, Kent.

Plumbase showed a modest decline in revenue against the background of a softer residential heating market. The gross margin was lower due to intense price competition for lower volumes in the domestic heating market. The deterioration in market conditions led to a significant decline in operating profit for the year. A range of measures were implemented including the closure of eleven branches and six further branches were consolidated into properties that are shared with other Group businesses in response to the weaker market over the past year. Management continued to focus on securing procurement gains, tight cost control, growing revenue and tightly controlling working capital. The specialist bathroom products distribution business had another good year.

The **Contracts** business comprises **Buildbase Civils** and a number of specialist distribution businesses where demand is mainly influenced by activity in the residential, infrastructure and commercial new build markets. Revenue increased but operating profit was reduced due to gross margin pressure in a competitive market.

Plumbase Industrial, a distributor of mechanical engineering products to the commercial, public sector, residential and industrial process markets was launched in late 2013. It continued to grow its market position organically and through the TG Lynes and Parkes Services acquisitions completed during the year. The acquisition of TG Lynes, with a strong position in the mechanical services market in London and the South East, was a significant step forward for the business. TG Lynes outperformed both pre-acquisition expectations and the prior year since the acquisition in late February 2015. The acquisition of Parkes Services in August 2015 expanded market coverage into the Bristol area.

Macnaughton Blair, the Northern Ireland Merchanting business, benefitted from a steady recovery in the local economy supported by private sector employment growth, an improvement in customer confidence and spending and increased business investment. The recovery in construction activity continued to be fragile. Housing transactions showed marginal growth and house prices returned to 2005 levels. There were signs of a tentative recovery in house building with housing starts up by 17 per cent to one-third of pre-recession volumes. Revenue growth combined with a successful focus on cost efficiency helped to drive a significant improvement in both operating profit and margin. A strong performance in the specialist ironmongery division contributed to the improved performance. The contract scaffolding business, a small non-core business, was sold in June 2015.

Irish Merchanting reported revenue was marginally lower at £257.32 million (2014: £257.55 million) although local currency revenue was up strongly by 10.9 per cent to €354.51 million (2014: €319.49 million). Operating profit increased by 13.2 per cent to £18.58 million (2014: £16.42 million) and by 25.7 per cent to €25.60 million (2014: €20.37 million) in local currency. The operating profit margin increased by 80 basis points to 7.2 per cent.

The business continued to benefit from its superior service quality, a key differentiator that saw it outperform a recovering market, increasing like-for-like revenue by 10.1 per cent. Despite competitive pricing pressure in the early months of the year, the gross margin recovered in the second half and was higher for the year with the benefit of procurement and other commercial initiatives. Revenue growth of almost a quarter over the past two years in a strengthening market together with the development of attractive market segments including heating products required additional manpower investment to maintain superior levels of customer service and provide capacity for further growth.

Residential property transactions, a key driver of demand in the residential RMI market, continued to trend upward in 2015 and were equivalent to 2.2 per cent of the housing stock. This was half the level of transactions anticipated in a normalised market. House price growth nationally eased in 2015 to 6.6 per cent following growth of 16.3 per cent in 2014 as the introduction of tighter rules on mortgage lending led to a cooling of the market.

There was a modest increase in house building as completions increased to an estimated 12,000 units from 11,000 units in 2014. This was less than half the level of estimated output required to meet demand on the basis of demographic trends. Forward looking indicators point to growth in house building but the level of supply is likely to continue to lag growth in household formation for some time.

The national network of merchanting branches used its instinctive knowledge of local markets and breadth of products distributed in Ireland to take advantage of improving economic and market conditions to increase profitability. The primary driver of growth was increased volumes in the residential RMI market. Infrastructure projects, refurbishment of commercial properties and the agricultural sector were other important end-use markets that showed the strongest gains in revenue. A subdued recovery in house building from a low base was focused on the construction of single dwellings in provincial locations and on small in-fill housing developments in Dublin.

Netherlands Merchanting reported revenue was £8.54 million for the period from completion of the acquisition of **Isero BV** on 18 November 2015 and operating profit was £0.32 million before charging acquisition costs and amortisation. Local currency revenue was €11.76 million and operating profit before acquisition costs and amortisation was €0.45 million. This was in line with pre-acquisition expectations and ahead of the prior year.

Isero is a leading specialist distributor of tools and fixings trading from 38 branches in the Netherlands under the Gerritse, Breur Ceintuurbaan and Van der Winkel brands. It operates a small store format model with a strong focus on customer service and stock availability. The business trades in a fragmented segment of the merchanting market where there are opportunities to grow the branch network organically and by acquisition under an established management team that has a good track record.

Belgium Merchanting reported revenue declined by 9.6 per cent to £82.76 million (2014: £91.56 million) and was up by 0.4 per cent in local currency to €114.09 million (2014: €113.67 million). An operating loss of £1.81 million was reported for the year (2014: profit of £0.85 million).

The business was adversely affected by very challenging economic and market conditions which saw overall like-for-like revenue decline by 0.3 per cent and competitive pressure on gross margins in the YouBuild business. In the first quarter, the Group completed the appointment of a new senior management team to run the Belgian business. This experienced team devoted significant time to improving the operating and control environment in YouBuild and their focus in 2016 will be on a margin improvement programme.

The **MPRO** business, which accounts for almost half of Belgian revenue and trades from two branches in Brussels and four in the Walloon region, was resilient despite facing difficult trading conditions in the residential new build and RMI markets. While like-for-like revenue was broadly unchanged, operating profit was ahead of the prior year due to the benefit of procurement gains.

The 65 per cent owned **YouBuild** business, which is fully accounted for as a subsidiary undertaking with a non-controlling interest, experienced a significant decline in performance. The 11 branches located in Flanders faced very difficult trading conditions. Trading was intensely competitive and a decline in gross margin led to an underlying trading loss in the period.

The YouBuild back office functions were integrated into the MPRO shared services centre in Brussels. There was a non-recurring inventory asset impairment charge of £1.52 million reflected in the result for the year. The readymix operation, a small non-core business and the Group's only involvement in this market, was sold in June 2015.

Retail Segment (7% of Group Revenue)

Revenue declined by 6.1 per cent to £148.56 million (2014: £158.24 million) and was up 4.4 per cent in local currency to €205.10 million (2014: €196.52 million). Like-for-like revenue increased by 4.4 per cent. Operating profit increased to £3.48 million from £2.38 million in 2014. Operating profit in local currency increased by 62.2 per cent to €4.80 million (2014: €2.96 million).

The marked improvement in consumer sentiment in Ireland evident in recent years continued at a steady rate through 2015. Employment growth, rising earnings and reduced taxes, during a period of very low inflation, translated into growth of 5 per cent in retail sales. The pace and stage of the recovery was more advanced in the Greater Dublin Area and provincial cities than elsewhere in the country. Despite the strong economic recovery consumers remained cautious and discounting was a feature of the retail sales environment during the year.

Like-for-like revenue growth of 1.8 per cent in the first half was influenced by lower demand for seasonal products over the key trading periods of Easter and the public holiday weekends. Second half like-for-like revenue growth of 7.0 per cent benefited from the recovery in retail sales extending into the DIY sector and promotional activity including discounting of seasonal products.

Improving the value proposition in certain product categories and promotional activity led to a marginal reduction in the gross margin. Overheads were tightly managed and were unchanged for the year. The refurbishment of three stores in the Dublin area and one in Cork city has been well received by customers and should accelerate revenue growth as the market recovers and improved returns are achieved.

The seven store **In-House** kitchens business benefitted from the recovery in the housing RMI market and from increased volumes supplied to Selco and Woodie's and returned to profitability. In view of the increasingly trade nature of the customer base and change in reporting lines this business was transferred to the merchanting segment with effect from 1 January 2016.

Manufacturing Segment (2% of Group Revenue)

Revenue increased by 8.5 per cent to £52.84 million (2014: £48.71 million) and by 9.2 per cent in local currency. Operating profit increased by 23.3 per cent to £9.75 million (2014: £7.91 million) and the operating profit margin increased by 2.3 percentage points to 18.5 per cent.

CPI EuroMix, the market leader in the supply of dry mortar from a network of eight manufacturing plants in England and one in Scotland, increased revenue by 9.8 per cent to £49.67 million (2014: £45.25 million). The business continued to benefit from growth in house building across the country.

Favourable market conditions were driven by strong consumer demand which saw the market for new homes strengthen. The availability of mortgages at low interest rates, as competition among lenders intensified, and the Help to Buy equity loan scheme enabled improved access to the housing market for first-time buyers and home movers.

A marginal decline in second half like-for-like revenue reflected a softening in the level of housing starts over the course of the year and a reduction in infrastructural concrete volumes supplied to Crossrail projects in London. Housing registrations, a lead indicator of activity in the new housing market, increased by 7 per cent in 2015, to a level last exceeded in 2007. Medium term demand for housing is also expected to be supported by UK Government policies to improve planning and the starter home scheme.

Volume growth, positive pricing trends, investment in plant operating efficiencies and cost control contributed increased profit and margin expansion.

Carlton, a leading manufacturer of concrete and mortar products produced in waterproof and recyclable packaging, was acquired in July. This acquisition expands the portfolio of packaged products, customer base and end-use markets and has a residential RMI focus. It also increased bagging capacity in the enlarged business from the Carlton plant in Rotherham.

MFP, a manufacturer of PVC drainage and roofline products based in Dublin, increased volumes supplied to the Group's merchanting businesses in Ireland in a strengthening market. Expansion of the Selco branch network in the UK contributed to an increase in the supply of roofline products.

Financial Review

Grafton used its strong cash flow from operations and its balance sheet capacity to fund a significant development and capital programme that curtailed incremental net debt to £38.24 million, despite a £150.22 investment on acquisitions and capital projects.

Property

A particular strength of the Group's balance sheet is the asset backing of its freehold property most of which is carried at fair value at the time of acquisition or at historic cost. The majority of the portfolio is used for trading purposes and provides a platform to expand and develop the branch network. The Group has historically earned a stream of profits and cash flows from the disposal of surplus property and this trend continued in 2015. A profit of £6.69 million was realised on the disposal of a number of UK properties for £9.49 million, including £6.24 million received following the disposal of a small branch property in Stoke Newington, London.

The year-end carrying value of properties held for resale and actively marketed and properties held with a view to enhancing their development potential or pending a recovery in values in Ireland was £28.60 million.

Pensions

Defined contribution style funding arrangements apply to over 90 per cent of the Group's employees. Defined benefit pensions schemes have 800 current employees and 1,700 deferred members and pensioners.

The IAS 19 pre-tax deficit on the defined benefit pension schemes declined by £16.34 million to £16.62 million (31 December 2014: £32.96 million). This was primarily due to a fall in the present value of scheme liabilities as the rates used to discount scheme liabilities increased in line with movements in corporate bond yields. UK Scheme liabilities were discounted at 3.95 per cent, an increase of 35 basis points and Irish scheme liabilities were discounted at 2.35 per cent, an increase of 25 basis points. Experience gains related to a lower rate of inflation than anticipated and changes to life expectancy also contributed to the deficit decline. The income statement includes a past service credit of £2.95 million arising from the change in the basis for increasing pensions to CPI from RPI.

Net Finance Income and Expense

The net finance charge for the year was £7.88 million (2014: £8.86 million). This incorporated a reduction in net bank and loan rate interest of £1.44 million to £5.91 million (2014: £7.35 million) due to the refinancing of bank debt completed in May 2014, lower average net debt for the year and a decline in money market interest rates. The net finance cost of defined benefit pension scheme obligations increased by £0.66 million to £0.90 million (2014: £0.24 million).

Taxation

The tax charge for the year of £23.83 million is equivalent to an effective rate of 19.8 per cent. This was lower than the underlying rate of 21 per cent due to the use of a previously unrecognised deferred tax asset to offset a taxable profit arising on the disposal of properties in the UK during the year. The underlying effective rate of 21 per cent reflected the blended rate of corporation tax on profits in the UK and Ireland and the disallowance of a tax deduction for certain overheads charged in arriving at profit before tax including depreciation on property. There was a reduction in the UK rate of corporation tax to 20 per cent with effect from 1 April 2015 and a further reduction in this rate takes effect in two stages, to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020. The forecast tax charge for 2016 is 20 per cent.

Capital Expenditure and Intangible Assets

Capital and development expenditure amounted to £51.58 million (2014: £46.86 million). The focus of development expenditure of £31.44 million (2014: £26.80 million) was on delivering organic performance improvements in existing businesses and on optimising benefits from growth opportunities in businesses that have a sustainable competitive advantage. Resources required to fund the long-term growth of the Selco business with the opening of five new branches, development of hire and the launch of Click & Collect and Selco Direct to support on-line as a growth channel, amounted to £11.54 million. An investment of £9.99 million was made as part of the multi-year programme to upgrade the Group's IT systems and infrastructure that supports a number of UK businesses including Buildbase. This expenditure recognises the role of information technology in trading efficiently and achieving commercial benefits.

Asset replacement expenditure of £20.14 million mainly related to the distribution fleet, refurbishment of branches and replacement of plant and equipment hired to customers.

Net Debt

Net debt at 31 December 2015 was £113.56 million, an increase of £38.24 million. The increase was attributable to a spend of £150.22 million on acquisitions and capital expenditure that was primarily funded from cashflow from operations.

Cash held on deposit and in current accounts was £211.57 million at the year-end (31 December 2014: £182.36 million). The year-end gearing ratio was 12% (31 December 2014: 8 per cent). EBITDA interest cover was 27.3 times (2014: 19.4 times) and year end debt was 0.70 times EBITDA (2014: 0.53 times).

In October DBRS, the international credit rating agency, restored the Group's investment grade credit rating. This development recognised the improvement in operating performance and credit metrics achieved over recent years.

Financing

The level of undrawn facilities at the year-end was £115.70 million (31 December 2014: £207.50 million) which, together with the Group's cash deposits and balances, provide appropriate funding headroom and financing flexibility. Earlier this month the Group completed an amendment and extension of its loan facilities to improve terms and refresh the maturity date. Bilateral loan facilities for £434 million with five existing relationship banks now have an extended five year maturity of March 2021 plus two one-year extension options. The new arrangements were timed to take advantage of more favourable market conditions for pricing on drawn and undrawn facilities and will reduce finance costs. The Group also entered into a revolving loan facility for £58 million on similar terms with a new relationship bank. These arrangements provide certainty of finance over a longer period on competitive terms.

Shareholders' Equity

Shareholders' equity increased by £83.42 million to £985.67 million at 31 December 2015 (31 December 2014: £902.25 million). Profit after tax increased equity by £96.50 million and dividend payments reduced equity by £26.80 million. The after tax decline in the defined benefit pensions scheme deficit increased shareholders equity by £11.15 million. There was a currency loss of £6.24 million on conversion of euro denominated assets, net of related euro debt, into sterling at the year-end Euro/Sterling exchange rate of 73.40p (31 December 2014: 77.89p). Proceeds received from the issue of shares under the UK SAYE scheme were £3.31 million.

Return on Capital Employed and Asset Turn

Return on Capital Employed (ROCE) increased 1.1 percentage points to 12.2% (2014: 11.1 %) and capital turn was 2.1 times (2014: 2.1 times). The Group is committed to achieving increased returns for shareholders as demonstrated by setting a new medium term target of 15 % for return on capital employed. This target is based on a combination of an improvement in operating performance and the more efficient deployment of capital including realising cash from surplus property that can be reinvested in the business to generate higher returns.

Grafton Group plc

Group Condensed Income Statement
For the year ended 31 December 2015

Continuing activities	Notes	2015 £'000	2014 £'000
Revenue	**2**	**2,211,990**	2,081,686
Operating costs	**3**	**(2,083,779)**	(1,971,581)
Operating profit		**128,211**	110,105
Finance expense	**4**	**(8,932)**	(9,857)
Finance income	**4**	**1,050**	997
Profit before tax		**120,329**	101,245
Income tax	**17**	**(23,827)**	(21,223)
Profit after tax for the financial year		**96,502**	80,022
Profit attributable to:			
Owners of the Company		**97,179**	80,046
Non-controlling interests	**8**	**(677)**	(24)
Profit after tax for the financial year		**96,502**	80,022
Earnings per ordinary share - basic	**5**	**41.62p**	34.42p
Earnings per ordinary share - diluted	**5**	**41.30p**	33.99p

Grafton Group plc

Group Condensed Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Profit after tax for the financial year		**96,502**	80,022
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**(5,362)**	(6,707)
- on foreign currency borrowings designated as net investment hedges		**(879)**	(1,634)
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**(442)**	(241)
- net change in fair value of cash flow hedges transferred from equity		**82**	109
Deferred tax on cash flow hedges		**42**	(2)
		(6,559)	(8,475)
Items that will not be reclassified to the income statement			
Remeasurement gain/(loss) on Group defined benefit pension schemes	**13**	**13,142**	(28,054)
Deferred tax on Group defined benefit pension schemes	**13**	**(1,992)**	4,728
		11,150	(23,326)
Total other comprehensive income		**4,591**	(31,801)
Total comprehensive income for the financial year		**101,093**	48,221
Total comprehensive income attributable to:			
Owners of the Company		**101,770**	48,245
Non-controlling interests	**8**	**(677)**	(24)
Total comprehensive income for the financial year		**101,093**	48,221

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Group Condensed Balance Sheet as at 31 December 2015

	Notes	31 Dec 2015 (Audited) £'000	31 Dec 2014 (Audited) £'000
ASSETS			
Non-current assets			
Goodwill	15	521,521	480,157
Intangible assets	16	32,640	5,757
Property, plant and equipment	9	430,116	423,411
Investment properties	9	17,797	20,473
Deferred tax assets		17,905	23,452
Retirement benefit assets	13	744	125
Other financial assets		122	123
Total non-current assets		1,020,845	953,498
Current assets			
Properties held for sale	9	10,805	9,581
Inventories	10	276,229	249,906
Trade and other receivables	10	355,752	302,871
Derivative financial instruments	11	-	1,095
Cash and cash equivalents	11	211,565	182,360
Total current assets		854,351	745,813
Total assets		1,875,196	1,699,311
EQUITY			
Equity share capital		8,405	8,309
Share premium account		209,810	206,597
Capital redemption reserve		621	621
Revaluation reserve		13,674	13,822
Shares to be issued reserve		9,168	7,834
Cash flow hedge reserve		(354)	(36)
Foreign currency translation reserve		51,764	58,005
Retained earnings		696,479	610,998
Treasury shares held		(3,897)	(3,897)
Equity attributable to owners of the Company		985,670	902,253
Non-controlling interests	8	3,350	4,027
Total equity		989,020	906,280
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	11	323,393	244,305
Provisions		17,875	20,855
Retirement benefit obligations	13	17,367	33,085
Derivative financial instruments	11	404	44
Deferred tax liabilities	17	32,670	30,758
Total non-current liabilities		391,709	329,047
Current liabilities			
Interest-bearing loans and borrowings	11	1,326	14,422
Trade and other payables	10	465,914	425,696
Current income tax liabilities	17	19,640	17,334
Provisions		7,587	6,532
Total current liabilities		494,467	463,984
Total liabilities		886,176	793,031
Total equity and liabilities		1,875,196	1,699,311

Grafton Group plc
Group Condensed Cash Flow Statement
For the year ended 31 December 2015

	Notes	**31 Dec 2015 (Audited) £'000**	31 Dec 2014 (Audited) £'000
Profit before taxation		**120,329**	101,245
Finance income		**(1,050)**	(997)
Finance expense		**8,932**	9,857
Operating profit		**128,211**	110,105
Depreciation	**9**	**32,211**	32,392
Amortisation of intangible assets	**16**	**911**	124
Share-based payments charge		**4,461**	3,679
Non-cash movement in operating provisions		**2,224**	2,670
Claims paid on insurance and other provisions		**(3,772)**	(6,774)
Non-cash movement on asset impairment/revaluation		**-**	246
Profit on sale of property, plant and equipment		**(6,912)**	(2,345)
Profit on sale of group businesses		**(785)**	-
Contributions to pension schemes in excess of IAS 19 charge		**(3,408)**	(1,862)
(Increase)/decrease in working capital	**10**	**(13,828)**	21,804
Cash generated from operations		**139,313**	160,039
Interest paid		**(7,463)**	(8,963)
Income taxes paid		**(19,305)**	(10,445)
Cash flows from operating activities		**112,545**	140,631
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**11,322**	5,155
Proceeds from sale of group businesses (net)		**2,617**	-
Interest received		**1,025**	699
		14,964	5,854
Outflows			
Acquisition of subsidiary undertakings and businesses	**14**	**(85,139)**	(34,835)
Net cash acquired with subsidiary undertakings	**14**	**7,619**	1,728
Net (debt) acquired with subsidiary undertakings	**14**	**(21,121)**	-
Investment in intangible asset – computer software	**16**	**(9,988)**	(5,881)
Purchase of property, plant and equipment	**9**	**(41,592)**	(40,974)
		(150,221)	(79,962)
Cash flows from investing activities		**(135,257)**	(74,108)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**3,309**	50
Proceeds from borrowings		**95,097**	56,454
		98,406	56,504
Outflows			
Repayment of borrowings		**(2,917)**	(57,316)
Dividends paid	**6**	**(26,797)**	(21,501)
Movement on finance lease liabilities		**(565)**	(721)
Redemption of loan notes payable net of derivatives		**(11,649)**	(11,408)
		(41,928)	(90,946)
Cash flows from financing activities		**56,478**	(34,442)
Net increase in cash and cash equivalents		**33,766**	32,081
Cash and cash equivalents at 1 January		**182,360**	151,099
Effect of exchange rate fluctuations on cash held		**(4,561)**	(820)
Cash and cash equivalents at the end of the year		**211,565**	182,360

Grafton Group plc

Group Condensed 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 £'000	Non-Controlling Interests £'000	Total equity £'000
Year to 31 December 2015 (Audited)												
At 1 January 2015	8,309	206,597	621	13,822	7,834	(36)	58,005	610,998	(3,897)	902,253	4,027	906,280
Profit after tax for the financial year	-	-	-	-	-	-	-	97,179	-	97,179	(677)	96,502
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	11,150	-	11,150	-	11,150
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(318)	-	-	-	(318)	-	(318)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(5,362)	-	-	(5,362)	-	(5,362)
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(879)	-	-	(879)	-	(879)
Total other comprehensive income	-	-	-	-	-	(318)	(6,241)	11,150	-	4,591	-	4,591
Total comprehensive income	-	-	-	-	-	(318)	(6,241)	108,329	-	101,770	(677)	101,093
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(26,797)	-	(26,797)	-	(26,797)
Issue of Grafton Units (net of issue expenses)	96	3,213	-	-	-	-	-	-	-	3,309	-	3,309
Share based payments charge	-	-	-	-	4,461	-	-	-	-	4,461	-	4,461
Deferred tax asset on share based payments	-	-	-	-	674	-	-	-	-	674	-	674
Transfer from shares to be issued reserve	-	-	-	-	(3,801)	-	-	3,801	-	-	-	-
Transfer from revaluation reserve	-	-	-	(148)	-	-	-	148	-	-	-	-
	96	3,213	-	(148)	1,334	-	-	(22,848)	-	(18,353)	-	(18,353))
At 31 December 2015	8,405	209,810	621	13,674	9,168	(354)	51,764	696,479	(3,897)	985,670	3,350	989,020
Year to 31 December 2014 (Audited)												
At 1 January 2014	8,302	206,554	621	13,978	2,875	98	66,346	575,419	(3,897)	870,296	4,051	874,347
Profit after tax for the financial year	-	-	-	-	-	-	-	80,046	-	80,046	(24)	80,022
Total other comprehensive income												
Remeasurement (loss) on pensions (net of tax)	-	-	-	-	-	-	-	(23,326)	-	(23,326)	-	(23,326)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(134)	-	-	-	(134)	-	(134)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(6,707)	-	-	(6,707)	-	(6,707)
Currency translation effect on foreign currency borrowings and derivatives designated as net investment hedges	-	-	-	-	-	-	(1,634)	-	-	(1,634)	-	(1,634)
Total other comprehensive income	-	-	-	-	-	(134)	(8,341)	(23,326)	-	(31,801)	-	(31,801)
Total comprehensive income	-	-	-	-	-	(134)	(8,341)	56,720	-	48,245	(24)	48,221
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(21,501)	-	(21,501)	-	(21,501)
Issue of Grafton Units (net of issue expenses)	7	43	-	-	-	-	-	-	-	50	-	50
Share based payments charge	-	-	-	-	3,679	-	-	-	-	3,679	-	3,679
Deferred tax asset on share based payments	-	-	-	-	1,484	-	-	-	-	1,484	-	1,484
Transfer from shares to be issued reserve	-	-	-	-	(204)	-	-	204	-	-	-	-
Transfer from revaluation reserve	-	-	-	(156)	-	-	-	156	-	-	-	-
	7	43	-	(156)	4,959	-	-	(21,141)	-	(16,288)	-	(16,288)
At 31 December 2014	8,309	206,597	621	13,822	7,834	(36)	58,005	610,998	(3,897)	902,253	4,027	906,280

1. General Information

The financial information presented in this report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union and as set out in the Group's annual financial statements in respect of the year ended 31 December 2014 except as noted below. The financial information does not include all the information and disclosures required in the annual financial statements. The Annual Report will be distributed to shareholders and made available on the Company's website www.graftonplc.com in due course. It will also be filed with the Company's Annual Return in the Companies Registration Office. The auditors have reported on the financial statements for the year ended 31 December 2015 and their report was unqualified and did not contain any matters to which attention was drawn by way of emphasis. The comparative financial information for the year ended 31 December 2014 represents an abbreviated version of the Group's statutory financial statements on which an unqualified audit report was issued and which have been filed with the Companies Registration Office.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The accounting policies applied by the Group in these condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2014 except for the policy noted below which applies in the current year:

Intangible Assets (Other than Goodwill and Computer Software)
Intangible assets are amortised on a straight-line basis. In general, definite-lived intangible assets are amortised over periods ranging from one to twenty years, depending on the nature of the intangible asset. Intangible assets with indefinite lives are not amortised but are reviewed annually for impairment.

The adoption of other new standards and interpretations (as set out in the 2014 Annual Report) that became effective for the Group's financial statements for the year ended 31 December 2015 did not have any significant impact on the results or financial position of the Group.

The following standards and interpretations are effective for the Group from 1 January 2015 but do not have a material effect on the results or financial position of the Group.

Annual Improvements to IFRS 2011-2013 Cycle:

The Annual Improvements to IFRSs include a number of minor changes to standards as noted below:

- IFRS 1 First-time adoption of IFRS: meaning of 'effective IFRSs'.

- IFRS 3 Business Combinations: scope exceptions for joint ventures.

  This amendment to IFRS 3 excludes the formation of all types of joint arrangements from its scope and clarifies that the scope exclusion is the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. This standard has not had any significant impact on the Group's financial statements.

- IFRS 13 Fair Value Measurement: scope of paragraph 52 (portfolio exception).

  This amendment to IFRS 13 confirms that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the 'portfolio exception') includes all contracts within the scope of, and accounted for, in accordance with IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. This standard has not had any significant impact on the Group's financial statements.

Basis of Preparation, Accounting Policies and Estimates (Continued)

(a) Basis of Preparation and Accounting Policies (continued)

- IAS 40 Investment Property: clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

  The amendment to IAS 40 confirms that an entity that acquires investment property has to determine whether the acquisition meets both the definition of a business combination as well as investment property. This standard has not had any significant impact on the Group's financial statements.

The adoption of other new standards, interpretations and amendments that become effective for the year ended 31 December 2015 also did not have any significant impact on the results or financial position of the Group.

(b) Estimates

The preparation of the condensed Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these 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 consolidated financial statements as at and for the year ended 31 December 2014.

2. Segmental Analysis

The amount of revenue and operating profit under the Group's operating segments of Merchanting, Retailing and Manufacturing is as follows:

	Twelve months to 31 Dec 2015 (Audited) £'000	Twelve months to 31 Dec 2014 (Audited) £'000
Revenue		
Merchanting	**2,010,598**	1,874,739
Retailing	**148,558**	158,238
Manufacturing	**63,059**	58,119
Less: Inter-segment revenue - manufacturing	**(10,225)**	(9,410)
	2,211,990	2,081,686
Segment operating profit		
Merchanting	**125,621**	110,041
Retailing	**3,481**	2,383
Manufacturing	**9,749**	7,906
	138,851	120,330
Reconciliation to consolidated operating profit		
Central activities	**(10,640)**	(10,225)
Operating profit	**128,211**	110,105
Finance expense	**(8,932)**	(9,857)
Finance income	**1,050**	997
Profit before tax	**120,329**	101,245
Income tax	**(23,827)**	(21,223)
Profit after tax for the financial year	**96,502**	80,022

The amount of revenue by geographic area is as follows:

	Twelve months to 31 Dec 2015 (Audited) £'000	Twelve months to 31 Dec 2014 (Audited) £'000
Revenue		
United Kingdom	**1,711,650**	1,570,875
Ireland*	**409,040**	419,247
Belgium	**82,762**	91,564
Netherlands	**8,538**	-
	2,211,990	**2,081,686**

*Includes Poland which is immaterial

Operating segment assets are analysed below:

	31 Dec 2015 (Audited) £'000	31 Dec 2014 (Audited) £'000
Segment assets		
Merchanting	**1,551,155**	1,399,331
Retailing	**57,045**	52,882
Manufacturing	**36,660**	39,943
	1,644,860	1,492,156
Unallocated assets		
Deferred tax assets	**17,905**	23,452
Retirement benefit assets	**744**	125
Other financial assets	**122**	123
Derivative financial instruments	**-**	1,095
Cash and cash equivalents	**211,565**	182,360
Total assets	**1,875,196**	1,699,311

2. Segmental Analysis (continued)

Operating segment liabilities are analysed below:

	31 Dec 2015 (Audited) £'000	31 Dec 2014 (Audited) £'000
Segment liabilities		
Merchanting	**443,707**	404,381
Retailing	**36,425**	38,854
Manufacturing	**11,244**	9,848
	491,376	453,083
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**324,719**	258,727
Retirement benefit obligations	**17,367**	33,085
Deferred tax liabilities	**32,670**	30,758
Current income tax liabilities	**19,640**	17,334
Derivative financial instruments (current and non-current)	**404**	44
Total liabilities	**886,176**	793,031

3. Operating Costs

Included within operating costs in 2015 was a property profit of £6.7m (2014: £2.2m) relating to the disposal of seven UK properties (2014: four UK properties). A defined benefit pension scheme past service credit of £2.95m and an asset impairment charge of £1.52m in the Belgium business is also included. In 2015, the Group incurred acquisition costs of £1.31m and recognised amortisation costs on intangibles of £0.9m.

4. Finance Expense and Finance Income

	Twelve months to 31 Dec 2015 (Audited) £'000		Twelve months to 31 Dec 2014 (Audited) £'000	
Finance expense				
Interest on bank loans and overdrafts	**(6,839)**	*	(7,809)	*
Interest on loan notes	**(95)**	*	(239)	*
Net change in fair value of cash flow hedges transferred from equity	**(82)**		(109)	
Interest on finance leases	**(207)**		(246)	
Net finance cost on pension scheme obligations	**(897)**		(244)	
Foreign exchange loss	**(812)**		(1,210)	
	(8,932)		(9,857)	
Finance income				
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	**25**		298	
Interest income on bank deposits	**1,025**	*	699	*
	1,050		997	
Net finance expense	**(7,882)**		(8,860)	

* Net bank/loan note interest of £5.9 million (2014: £7.3 million).

5. Earnings per Share

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

	Year Ended 31 Dec 2015 (Audited) £'000	Year Ended 31 Dec 2014 (Audited) £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**96,502**	80,022
Non-controlling interest	**677**	24
Numerator for basic and diluted earnings per share	**97,179**	80,046
Non-recurring defined benefit pension credit	**(2,945)**	-
Tax relating to non-recurring defined benefit pension credit	**530**	-
Non-recurring costs incurred in Belgium business	**1,520**	-
Tax relating to non-recurring costs incurred in Belgium business	**(532)**	-
Numerator for adjusted earnings per share	**95,752**	80,046

	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**233,477,908**	232,522,970
Effect of potential dilutive Grafton Units	**1,824,338**	2,973,005
Denominator for diluted earnings per share	**235,302,246**	235,495,975
Earnings per share (pence)		
- Basic	**41.62**	34.42
- Diluted	**41.30**	33.99
Adjusted earnings per share (pence)		
- Basic	**41.01**	34.42
- Diluted	**40.69**	33.99

6. Dividends

The payment in 2015 of a second interim dividend for 2014 of 7.0 pence on the ‘C’ Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £16.3 million. A 2015 interim dividend of 4.5 pence per share was paid on 9 October 2015 on the ‘C’ Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £10.5 million.

A second interim dividend for 2015 of 8.0 pence per share will be paid on the ‘C’ Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company’s Register of Members at the close of business on 18 March 2016 (the ‘Record Date’). The dividend will be paid on 15 April 2016. A liability in respect of this second interim dividend has not been recognised at 31 December 2015, as there was no present obligation to pay the dividend at the year-end.

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 2015 was Stg72.59p (year to 31 December 2014: Stg80.61p). The sterling/euro exchange rate at 31 December 2015 was Stg73.40p (31 December 2014: Stg77.89p).

8. Non-Controlling Interests

The Group holds a controlling interest in YouBuild NV (formerly BMC Groep NV) that is accounted for as a subsidiary undertaking with a non-controlling interest.

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 2015	**423,411**	**9,581**	**20,473**
Additions	41,592	-	-
Acquisitions (note 14)	8,487	-	-
Depreciation	(32,211)	-	-
Disposals	(2,841)	(1,569)	-
Disposal of group businesses	(718)	-	-
Transfer to properties held for sale	(1,056)	2,914	(1,858)
Currency translation adjustment	(6,548)	(121)	(818)
As at 31 December 2015	**430,116**	**10,805**	**17,797**

There was no material change in the fair value of investment properties or properties held for sale following an internal review undertaken by the Group Property Director. The determination of fair value and the valuation techniques used, including significant unobservable inputs, at 31 December 2015, are similar to those disclosed in the 2014 Annual Report.

Two properties in the UK and one property in Ireland were transferred out of investment properties to properties held for sale during 2015. The total number of investment properties at 31 December 2015 is 19 (2014:22) of which 4 (2014: 6) are located in the United Kingdom and 15 in Ireland (2014: 16).

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

There were four disposals of UK properties held for sale during 2015. There were 4 transfers in of properties from property, plant and equipment and also 3 properties were transferred in from investment properties during the year. This leaves 26 (2014: 23) held for sale properties of which 23 (2014: 22) are located in the United Kingdom, 2 (2014:1) in Ireland and 1 (2014: Nil) in Belgium.

10. Movement in Working Capital

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2015	**249,906**	**302,871**	**(425,696)**	**127,081**
Currency translation adjustment	(3,399)	(3,165)	7,291	727
Interest accrual and other movements	-	387	(437)	(50)
Disposal of group businesses	(240)	(2,287)	1,527	(1,000)
Acquisitions through business combinations (note 14)	16,742	24,986	(16,247)	25,481
Movement in 2015	13,220	32,960	(32,352)	13,828
At 31 December 2015	**276,229**	**355,752**	**(465,914)**	**166,067**

11. Interest-Bearing Loans, Borrowings and Net debt

	31 Dec 2015 £'000	31 Dec 2014 £'000
Non-current liabilities		
Bank loans	**320,814**	241,208
Loan notes	**-**	-
Finance leases	**2,579**	3,097
Total non-current interest-bearing loans and borrowings	**323,393**	244,305
Current liabilities		
Bank loans	**977**	1,190
Loan notes	**-**	12,861
Finance leases	**349**	371
Total current interest-bearing loans and borrowings	**1,326**	14,422
Derivatives-non current		
Included in non-current assets	**-**	-
Included in non-current liabilities	**404**	44
Derivatives-current		
Included in current assets	**-**	(1,095)
Included in current liabilities	**-**	-
Total derivatives	**404**	(1,051)
Cash and cash equivalents	**(211,565)**	(182,360)
Net debt	**113,558**	75,316

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

The fair value of financial assets and liabilities including their level in the fair value hierarchy is shown in the table below:

	31 December 2015 Total Level 2 £'000	31 December 2014 Total Level 2 £'000
Assets measured at fair value		
At fair value through profit or loss		
Cross currency interest rate swaps	**-**	(1,095)
Liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps	**404**	44
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**321,791**	242,398
Finance leases	**2,928**	3,468
2005 unsecured senior US dollar loan notes	**-**	12,714
	324,719	258,580

Financial assets and liabilities recognised at amortised cost

Except as detailed above, it is considered that the carrying amounts of financial assets and liabilities including trade payables, trade receivables, net debt 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

Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined in Note 20 to the Group's 2014 Annual Report together with the method for determining the fair value of financial assets and liabilities. All of the Group's financial assets and liabilities 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.

Investment properties and properties held for sale

Investment properties of £17.8 million which are separately classified in non-current assets are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions recently completed or similar properties currently listed on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields and consultations with external agents who have knowledge of local property markets.

The carrying value of properties held for sale of £10.8 million are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Eight properties are included at a fair value of £4.9 million and have been valued on the basis set out in the foregoing paragraph.

12. Reconciliation of Net Cash Flow to Movement in Net Debt

	31 Dec 2015 £'000	31 Dec 2014 £'000
Net increase in cash and cash equivalents	**33,766**	32,081
Net movement in derivative financial instruments	**(245)**	309
Loans disposed with group businesses	**130**	-
Cash-flow from movement in debt and lease financing	**(79,966)**	12,991
Change in net debt resulting from cash flows	**(46,315)**	45,381
Currency translation adjustment	**8,073**	13,040
Movement in net debt in the year	**(38,242)**	58,421
Net debt at 1 January	**(75,316)**	(133,737)
Net debt at end of the year	**(113,558)**	(75,316)
Gearing	**12%**	8%

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 2015	At 31 Dec 2014	**At 31 Dec 2015**	At 31 Dec 2014
	%	%	**%**	%
Rate of increase in salaries	**2.60%***	2.50%*	**0.00%****	0.00%**
Rate of increase of pensions in payment	**-**	-	**3.35%**	3.30%
Discount rate	**2.35%**	2.10%	**3.95%**	3.60%
Inflation	**1.40%**	1.30%	**3.40%*****	3.30%***

*2.60% applies from 2 January 2019 (31 December 2014: 2.5% from 2 January 2019)

** Pensionable salaries are not adjusted for inflation

*** The inflation assumption shown for the UK is based on 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 2015 £'000	Year to 31 Dec 2014 £'000	**Year to 31 Dec 2015 £'000**	Year to 31 Dec 2014 £'000	**Year to 31 Dec 2015 £'000**	Year to 31 Dec 2014 £'000
At 1 January	**189,203**	180,663	**(222,163)**	(187,785)	**(32,960)**	(7,122)
Acquired in year	**-**	223	**(397)**	(490)	**(397)**	(267)
Interest income on plan assets	**5,394**	7,503	**-**	-	**5,394**	7,503
Contributions by employer	**2,787**	3,023	**-**	-	**2,787**	3,023
Contributions by members	**1,074**	1,199	**(1,074)**	(1,199)	**-**	-
Benefit payments	**(6,603)**	(5,549)	**6,603**	5,549	**-**	-
Current service cost	**-**	-	**(2,488)**	(1,703)	**(2,488)**	(1,703)
Past service credit - non-recurring	**-**	-	**-**	-	**-**	-
Past service credit	**-**	-	**3,073**	542	**3,073**	542
Settlement gain - non-recurring	**-**	-	**-**	-	**-**	-
Settlement gain - other	**-**	-	**-**	-	**-**	-
Curtailment loss	**-**	-	**-**	-	**-**	-
Interest cost on scheme liabilities	**-**	-	**(6,291)**	(7,747)	**(6,291)**	(7,747)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**2,491**	(86)	**2,491**	(86)
-financial assumptions	**-**	-	**10,041**	(38,859)	**10,041**	(38,859)
-demographic assumptions	**-**	-	**920**	3,271	**920**	3,271
Return on plan assets excluding interest income	**(310)**	7,620	**-**	-	**(310)**	7,620
Translation adjustment	**(4,738)**	(5,479)	**5,855**	6,344	**1,117**	865
At 31 Dec	**186,807**	189,203	**(203,430)**	(222,163)	**(16,623)**	(32,960)
Related deferred tax asset (net)					**2,599**	5,345
Net pension liability					**(14,024)**	(27,615)

The net pension scheme deficit of £16,623,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £17,367,000 of which £10,125,000 relates to the Euro schemes and £7,242,000 relates to one UK scheme and retirement benefit assets (non-current assets) of £744,000 relating to a second UK scheme (£528,000) and one Euro scheme (£216,000).

14. Acquisitions

In 2015 the Group completed a number of strategic acquisitions. On 27 February 2015 the Group acquired TG Lynes Limited, a leading distributor of mechanical engineering products for use in commercial and public sector buildings, apartments and industrial processes. The business trades from a purpose built distribution facility in Enfield, North London. The Group acquired Carlton Manufacturing Limited on 17 July 2015, a Rotherham based manufacturer of a range of concrete and mortar products. The acquisition complements the Groups UK mortar manufacturing business. On 10 August 2015 the Group acquired Parkes Services Limited, a supplier of pipeline and mechanical engineering products to contractors operating in the heating and plumbing industries. The Group acquired Wollens Limited on 6 November 2015, a general merchanting business trading from two branches in Glastonbury and Cannington. On 18 November 2015 Grafton acquired Isero BV, the leading specialist distributor of tools and fixings in the Netherlands, which gives the Group its first presence in the Dutch market.

Details of the acquisitions made in 2014 are disclosed in the Group's 2014 Annual Report.

The provisional fair value of assets and liabilities acquired in 2015 are set out below:

	Other £'000	**Isero BV £'000**	**Total £'000**
Property, plant and equipment	6,415	2,072	**8,487**
Inventories	4,783	11,959	**16,742**
Trade and other receivables	11,769	13,217	**24,986**
Trade and other payables	(7,924)	(8,323)	**(16,247)**
Provisions	-	(523)	**(523)**
Retirement benefit obligations	-	(397)	**(397)**
Corporation tax	(700)	(153)	**(853)**
Deferred tax (liability)	(1,203)	(2,831)	**(4,034)**
Deferred tax asset	-	350	**350**
Cash acquired	5,629	1,990	**7,619**
(Debt) acquired	-	(21,121)	**(21,121)**
Net assets/(liabilities) acquired	18,769	(3,760)*	**15,009**
Goodwill	18,825	34,429	**53,254**
Intangible assets – trade names	814	1,460	**2,274**
Intangible assets – customer relationships	5,136	9,866	**15,002**
Consideration	43,544	41,995	**85,539**
Satisfied by:			
Cash paid	43,144	41,995	**85,139**
Net cash outflow	43,144	41,995	**85,139**
Deferred acquisition consideration	400	-	**400**
	43,544	41,995	**85,539**

* A deferred tax liability of £2.8m was recognised on the intangible assets which arose on the acquisition of Isero BV.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group. Intangible assets capitalised as part of the acquisition consideration are shown above and relate to trade names £2.3m and customer relationships £15.0m.

Acquisitions completed in 2015 contributed revenue of £32.2 million and operating profit of £3.3 million for the periods between the dates of acquisition and 31 December 2015. If the acquisitions had occurred on 1 January 2015 they would have contributed revenue of £114.9 million and operating profit of £12.7 million in the year.

15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. There were no indicators of impairment during the year. The Board is satisfied that the carrying value of goodwill has not been impaired.

	Goodwill £'000
Net Book Value	
As at 1 January 2015	**480,157**
Arising on acquisitions (note 14)	53,254
Disposal of group businesses	(641)
Currency translation adjustment	(11,249)
As at 31 December 2015	**521,521**

16. Intangible Assets

	Computer Software £'000	**Trade Names £'000**	**Customer Relationships £'000**	**Total £'000**
Net Book Value				
As at 1 January 2015	**5,757**	**-**	**-**	**5,757**
Additions	9,988	-	-	9,988
Arising on acquisitions (note 14)	-	2,274	15,002	17,276
Amortisation	(446)	(66)	(399)	(911)
Currency translation adjustment	-	69	461	530
As at 31 December 2015	**15,299**	**2,277**	**15,064**	**32,640**

The computer software asset of £15.3 million at 31 December 2015 (2014: £5.8m) reflects the cost of the Group's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment.

The amortisation expense of £0.9m (2014: £0.1m) has been charged in 'operating costs' in the income statement.

17. Taxation

The effective tax rate of 19.8 per cent is lower than the underlying tax rate of 21 per cent as a previously unrecognised deferred tax asset has been utilised against a UK taxable profit arising on the disposal of properties during the year ended 31 December 2015. This underlying tax rate reflects the cash tax payable and a non-cash charge due to the unwinding of deferred tax assets. The underlying tax rate of 21 per cent (2014: 21 per cent) reflects the mix of profits between the UK, Ireland, Belgium and the Netherlands and the disallowance of a tax deduction for certain overheads charged in arriving at profit including depreciation on buildings. The UK corporation tax rate reduced from 21 per cent to 20 per cent from 1 April 2015. The UK rate will be reduced further in two stages to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020 which has been substantially enacted at 31 December 2015.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors best probability weighted estimate 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.

17. Taxation (continued)

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 provisions and assets in the period in which the determination was made.

Deferred tax

At 31 December 2015, there were unrecognised deferred tax assets in relation to capital losses of £1.6 million (31 December 2014: £3.4 million), trading losses of £0.9 million (31 December 2014: £1.1 million) and deductible temporary differences of £3.8 million (31 December 2014: £4.5 million). Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future with reasonable certainty. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

18. Related Party Transactions

There have been no new related party transactions or changes in related parties from those described in the 2014 Annual Report that materially affected the financial position or the performance of the Group during the year to 31 December 2015.

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

LTIP awards were made over 707,588 Grafton Units on 17 April 2015. The fair value of the awards is £5.2 million and this will be charged to the income statement over the vesting period of three years. The 2014 Annual Report discloses details of the LTIP scheme.

20. Issue of Shares and SAYE Scheme

During the year 1,052,430 Grafton Units were issued under the Grafton Group plc 2011 Long Term Incentive Plan (LTIP) on the vesting of the 2012 grant. A further 1,578,367 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 2015 that would require adjustment to or disclosure in this report except that on 5 January 2016, the Group acquired T Brewer & Co Limited ("T Brewer"), a London based specialist timber business that trades from 3 branches in Clapham, Enfield and Amersham. T Brewer, which generated revenue of approximately £14.0m in the year to 31 December 2015, extends coverage of the merchanting market in the London area.

The Group also acquired Allsand Supplies Limited ("Allsands") on 1 February 2016. Allsands is a single branch general builders merchanting business located in Larkfield, Kent. Allsands reported revenue of £6.0 million in the year to 31 March 2015. This bolt-on acquisition enhances market coverage and complements the existing branch network in the South East of England.

22. Board Approval

This announcement was approved by the Board of Grafton Group plc on 7 March 2016.