Grafton Group plc
Final Results
For the Year Ended 31 December 2016

GRAFTON GROUP PLC
FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Grafton Group plc ("the Group"), the international builders merchanting and DIY Group, announces its final results for the year ended 31 December 2016.

£m*	2016	2015	Change
Revenue	**2,507**	2,212	13%
Adjusted**			
Operating profit	**142.0**	127.3	12%
Operating profit before property profit	**137.1**	120.6	14%
Profit before tax	**136.2**	119.4	14%
Earnings per share – basic	**47.7p**	41.2p	16%
Statutory results			
Operating profit	**120.1**	128.2	(6%)
Profit before tax	**114.2**	120.3	(5%)
Earnings per share – basic	**39.6p**	41.6p	(5%)
Dividend	**13.75p**	12.50p	10%
Net debt	**96.3**	113.6	(£17.3m)
EBITA margin before property profit	**5.5%**	5.5%	-
Return on capital employed	**12.5%**	12.2%	30bps

*Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 31 to 34.
**The term "adjusted" means before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7 million in 2016 and non-recurring items in 2015.

Highlights

- Revenue up 13% to a record £2.5 billion – 10% increase in constant currency, broadly split between organic growth and acquisitions
- Adjusted Group operating profit growth of 12% to £142.0m (2015: £127.3m)
- Strong organic growth in the Irish Merchanting, Woodie's DIY and Manufacturing businesses
- Isero acquisition in the Netherlands contributed £9.1 million to operating profit, an EBITA margin of 10.4% and is a strong platform for expansion
- Continued successful investment in Selco with the opening of seven branches and the planned opening of at least ten branches in 2017
- Strong cash generation from operations of £168.6 million (2015: £139.3 million) resulting in net debt reduction by £17.3 million and year-end gearing of just 9%
- Investment of £72.3 million on acquisitions and capital expenditure to support future growth
- 10% increase in dividend in line with progressive dividend policy

Gavin Slark, Chief Executive Officer commented:

"2016 represented an overall strong financial performance despite challenging trading conditions in the traditional UK merchanting market. These results demonstrate the resilience of the Group's spread of businesses, with strong market positions and exposure to multiple geographies. While uncertainties remain about the UK economy, the recovery in the Irish and Netherlands markets is forecast to continue. The Group's very cash generative operations and strong balance sheet leave it well positioned to invest in areas where we see good opportunities for growth."

Webcast Details

An analysts and investors results presentation will be hosted by Gavin Slark and David Arnold at 9.30am (GMT) today 7 March 2017 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. A live webcast will be available on www.graftonplc.com/webcast/ and we recommend you register in advance. A recording of this webcast will also be available to replay later in the day. The results presentation can be viewed/downloaded at http://www.graftonplc.com

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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 2016

Group Results

Grafton delivered good growth for the seventh successive year and benefitted from its strong market positions and exposure to multiple geographic markets.

The UK merchanting business ended the year on a stronger note with good revenue growth in the last quarter following two quarters of weaker demand due to subdued activity in the housing market. Selco achieved good revenue gains and also expanded its branch network. While the traditional merchanting business experienced margin pressure in competitive markets, the restructuring plan announced at the half year was successfully implemented and the business ended the year with a lower cost base.

The management team in the merchanting business in Ireland capitalised on a recovering construction market and reported a significant increase in profitability for the third successive year that was driven principally by growth in housing repair, maintenance and improvement ("RMI") projects. House building and non-residential construction activity increased, particularly in the Greater Dublin Area. The operating profit margin was ahead by almost 100 basis points to 7.8 per cent.

The Isero business, acquired at the end of 2015 as a growth platform in the Netherlands merchanting market, had an excellent first year under Grafton ownership reporting a strong set of results supported by a recovering economy and housing market.

Woodie's, the Irish retailing business, delivered a substantial improvement in profit driven by increased consumer spending and an enhanced in-store experience. The operating profit margin in the period increased by over 200 basis points to 4.7 per cent.

CPI EuroMix, the UK Mortar business reported strong growth in profitability on the back of management initiatives and increased demand from its house builder customer base.

The Group opened seven Selco branches and completed two bolt-on acquisitions in the UK. In the Netherlands, it agreed to acquire Gunters en Meuser, the market leader in the ironmongery and tools market in the Greater Amsterdam Area, a transaction that completed in January 2017.

The organisational restructuring announced at the half year led to an exceptional charge of £19.7 million. This related mainly to 47 branch closures in the UK Plumbing and Heating and Contracts businesses. The financial benefits from this reorganisation are expected to accrue from 2017 onwards.

The Group continued to be strongly cash generative and ended the year with low net debt and shareholders' funds of £1.1 billion.

Dividend

A second interim dividend of 9.0p (2015: 8.0p) was approved to give a total dividend for the year of 13.75p. This represents an increase of 10.0 per cent on total dividends of 12.5p paid for 2015. 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 low level of year-end net debt. The dividend cover increased to 3.5 times from 3.3 times.

Outlook

The UK economy was resilient during 2016 and growth is forecast to moderate a little this year as disposable incomes tighten, due to the inflationary impact of a fall in sterling, with a potential knock on effect on consumer confidence and spending. A modest increase in activity in the new housing market is forecast. Although spending in the housing RMI market may remain subdued due to wider economic uncertainty, the recent rise in mortgage approvals and increase in house prices is encouraging for volumes. An important focus of our development capital will be the continued expansion of the Selco branch network with the planned opening of at least ten new branches in 2017.

In Ireland, overall economic growth is forecast to remain strong albeit to moderate towards its long term sustainable level. Demand in the merchanting and DIY market should continue to be underpinned by gains in employment and increased disposable income. The outlook for investment in the construction sector is favourable with forward looking indicators pointing to an increase in house building and non-residential construction.

The outlook for the Netherlands economy and housing market continues to be positive although some moderation in the pace of growth is anticipated. The Belgium economy and housing market is expected to remain weak.

January and February average daily like-for-like revenue increased by 4.7 per cent in the overall Group, 4.0 per cent in the UK merchanting business, 13.9 per cent in Irish merchanting business and 2.9 per cent in the Netherlands merchanting business. A decline in like-for-like revenue by 12.3 per cent in the Belgium merchanting business reflected very poor trading in January and a recovery in February. Like-for-like revenue was ahead by 5.7 per cent in the retailing business in Ireland and was down by 3.5 per cent in the manufacturing segment.

The Group will continue to invest in areas where it sees good opportunities for growth. It will also continue to focus on internal initiatives that provide a sustainable improvement in performance.

Overall prospects for the current year remain favourable with continued growth in Ireland and the Netherlands expected to support an increase in profit in the year ahead. In the Group's UK markets, macro indicators suggest modest volume growth although markets are expected to remain competitive against an inflationary backdrop which is likely to have a bearing on margins.

Board

As previously announced, Mr. Michael Roney succeeded Mr. Michael Chadwick as Chairman with effect from 1 January 2017.

Mr. Roderick Ryan, Senior Independent Director and Chairman of the Nomination Committee, and Mr. Charles Fisher, Chairman of the Remuneration Committee, have indicated that they will not be offering themselves for re-election as Non-Executive Directors at the Annual General Meeting of the Company to be held on 9 May 2017. This will conclude 11 years of service with the Board for Mr. Ryan and eight years for Mr. Fisher. The Board would like to thank Mr. Ryan and Mr. Fisher for their exceptional contribution to the work of the Board and wish them the very best for the future.

Mr. Ryan will be succeeded as Senior Independent Director by Mr. Paul Hampden Smith who has been a Non-Executive Director since 2015 and by Mr. Roney as Chairman of the Nomination Committee. Mr. Fisher will be succeeded as Chairman of the Remuneration Committee by Ms. Susan Murray who joined the Board in October 2016. These changes will take effect on 9 May 2017.

Merchanting Segment (92% of Group Revenue)

	2016 £'m	2015 £'m	Actual Change
Revenue	2,290.6	2,027.7	+13.0%
Operating profit*	135.2	124.8	+8.3%
Operating profit margin*	5.9%	6.2%	(30bps)

*Before amortisation of intangible assets on acquisitions and exceptional items

The Group's merchanting businesses are located in the UK, Ireland, the Netherlands and Belgium. Overall average daily like-for-like revenue increased by 3.9 per cent.

UK Merchanting

	2016 £'m	2015 £'m	Actual Change
Revenue	1,771.7	1,662.0	+6.6%
Operating profit*	99.7	105.9	(5.9%)
Operating profit margin*	5.6%	6.4%	(80bps)
Operating profit before property profit*	94.8	99.2	(4.5%)
Operating profit margin before property profit*	5.4%	6.0%	(60bps)

*Before amortisation of intangible assets on acquisitions and exceptional items

Average daily like-for-like revenue increased by 2.9 per cent for the year. The business had a strong start to the year however experienced an easing of growth in the second quarter due to uncertainty over the near term outlook for the UK economy. Like-for-like revenue was relatively flat in the third quarter and growth picked up in the fourth quarter. Declines in activity and confidence over the summer months reversed in the final quarter.

The UK economy continued to grow at a steady pace during 2016. Increased household spending was driven by strong growth in real incomes and employment growth with the unemployment rate down to 4.8 per cent. Activity in the housing market was relatively subdued. Housing transactions increased marginally over the year with monthly trends influenced by some transactions being brought forward and completing ahead of a rise in stamp duty land tax in April 2016. House price inflation eased over much of the year but picked up in the final quarter as consumer confidence recovered.

Building materials price deflation is estimated at 1.3 per cent and volumes grew by circa 4.2 per cent. The opening of new Selco branches, acquisitions and branch rationalisation accounted for net revenue growth of 3.7 per cent. The gross margin declined by 70 basis points due to intense pricing pressure and a very competitive trading environment in the traditional merchanting business during a period of price deflation in the sector.

Selco Builders Warehouse, the retail style product and service model for trade customers, outperformed the market with good like-for-like revenue growth and significant revenue gains in new branches. Selco strengthened its position as the UK's fourth largest builders merchant after Buildbase with strong demand led by activity in the residential RMI market. The rate of growth in like-for-like revenue softened during the summer months due to the uncertainty surrounding the outlook for the UK economy before picking up in the last quarter.

There was good like-for-like growth in the London area branches which contributed three quarters of revenue. The strongest revenue gains were experienced in regional cities and towns which supports the Group's strategic ambition to increase Selco's geographic footprint in the UK. Average transaction values were lower due to price deflation with increased transactions driving volume growth in a competitive market. Revenue growth was also driven by new product initiatives to gain share and further differentiate the business in the market place.

The roll out of a small plant hire facility in all branches was completed and the division showed good growth in revenue and pricing. The 'Click and Collect' and Selco Direct on-line services launched last year continued to grow revenue.

Operating profit and operating margin in the like-for-like business was ahead of the prior year despite incurring significant investment to support the next phase of branch development. Overall operating profit was in line with the prior year after incurring increased branch opening costs.

Organic development of the Selco branch network continued with the opening of seven branches of which five are located in Greater London (Chessington, South Croydon, Mitcham, Wembley and Watford), one on the South Coast (Portsmouth) and one in the West Midlands (Wolverhampton). The business traded from 47 branches at the year end and plans are in place to open at least ten new branches in the current year reflecting the success of the Selco model that services the more resilient residential RMI segment of the UK merchanting market. Selco opened its first new branch of the year in Beckton, East London in February.

Buildbase like-for-like revenue growth was strong in the first and fourth quarters and moderate for the overall year. The gross margin was lower against the backdrop of competitive pressure on selling prices. The business continued to focus on purchasing, logistics and pricing initiatives. Operating costs increased reflecting investment to upgrade the trading and back office IT systems, investment in Electricbase and Hirebase implants and new Partnering contracts. Whilst Buildbase experienced a tough year and reported a decline in operating profit, the business entered 2017 better placed to respond to competitive markets with improved pricing processes.

Market coverage was extended with the acquisition of T. Brewer, a specialist timber business trading from three branches in London, and Allsands, a general builders merchant located in Larkfield, Kent. Both businesses made good profit contributions in line with pre-acquisition expectations. The 80 Electricbase implants in Buildbase branches that supply a range of electrical products recorded a strong improvement in revenue and profitability. The Hirebase division had a good year with increased revenue and operating profit following the development in recent years of tool, plant and equipment hire implants in Buildbase branches.

Buildbase Civils, a distributor of heavyside building materials to the residential new build and infrastructure markets, faced difficult trading conditions during the year. Volumes were higher but pricing was intensely competitive and a lower gross margin contributed to a fall in operating profit. The Scottish business proved more resilient and delivered an improvement in operating profit. The focus in this difficult trading environment was on tighter cost control and a number of branches were consolidated onto Buildbase branch properties.

Plumbase showed modest growth in like-for-like revenue and a marginal decline in total revenue due to the closure of 28 branches following a rigorous strategic and financial analysis of the branch network. The business will in future focus on supporting its professional domestic installer customer base through a smaller network of branches that offer a better platform for improving long term profitability and increasing returns on capital employed.

There was tough competition in the residential heating market due to excess capacity leading to pressure on gross margins. Branches were operated efficiently and controls on costs remained very tight. With weak volume growth and pricing pressure, the operating profit outcome was lower than the prior year. The bathroom distribution business registered solid revenue gains and continued to deliver strong results and Plumbworld, the on-line retailer of bathroom products, achieved revenue gains in core products.

T.G. Lynes, one of the leading distributors to the mechanical services market in London and the South East, performed strongly and ahead of pre-acquisition expectations in its first full year in the Group. The business provides a good platform for developing a stronger presence in this segment of the merchanting market in conjunction with Plumbase Industrial which is now focused on organic growth through a small network of branches located primarily in London and the South East.

MacBlair, the Northern Ireland merchanting business experienced a mixed market backdrop during the year. The business registered modest sales growth and reported a lower level of operating profit measured against a very strong prior year result. A strong performance in the general merchanting branches was more than offset by lower volumes in the specialist doors and ironmongery division. A major refurbishment of the flagship branch in Belfast was completed during the year and since the year end the Lisburn branch was relocated to a new purpose built facility in the city.

Irish Merchanting

	2016 £'m	2015 £'m	Actual Change	Constant Currency Change
Revenue	347.7	274.5	+26.7%	+11.9%
Operating profit	27.1	18.7	+44.6%	+27.0%
Operating margin	7.8%	6.8%	+100bps	

The Group's market leading merchanting business in Ireland continued to outperform in a market that is still in the relatively early stages of recovery reporting double digit revenue growth for the third successive year. Average daily like-for-like revenue increased by 11.6 per cent in constant currency. The business delivered a very good performance with a strong advance in profit and a 100 basis point improvement in the operating profit margin.

The merchant market benefitted from the relatively strong performance of the Irish economy. Increased consumer spending was driven by gains in employment, with the number of people at work at its highest level for eight years, and growth in disposable incomes. Revenue growth was primarily stimulated by strong demand in the residential RMI market despite a decline in housing transactions to two per cent of the housing stock. This is estimated to be half the level expected in a properly functioning market. House prices increased by 8 per cent in a tight market.

Demand from the house building sector improved as the supply of houses increased to an estimated 15,000 units from 12,700 units in 2015. Supply however remained a long way short of the estimated 25,000 – 30,000 units required to meet pent-up demand due to a shortage of owner occupied, social housing and rental properties. The Government's new Help-to-Buy scheme, which provides a tax rebate to first time buyers of five per cent of the purchase price of a new home, and relaxation of mortgage lending rules by the Central Bank are expected to stimulate growth in house building.

Non-residential new build and RMI activity improved from a low base following a long period of under investment. There was a pick-up in demand across most end-use segments of the market including technology, energy, infrastructure, hotels, agriculture and offices.

Revenue growth was broadly based across the branch network as the recovery gained momentum outside of Dublin and provincial cities. There was a slight decline in the gross margin due to a change in product mix in an otherwise competitive market. During 2016 significant investment was made in people with the creation of 66 additional roles to accommodate the next phase of growth following the sharp increase in revenue over the past three years.

Expansion of the branch network recommenced with the opening of a Chadwicks Express branch in Central Dublin. A further three branches that are scheduled to open in Dublin in the first quarter will increase the branch network in the Republic of Ireland to 47 including 20 in the Dublin Area. This investment is focused on urban areas set to benefit most from an expected increase in construction activity and will create easier access and delivery for contractors operating to demanding timelines in congested locations.

The five branch **In-House** kitchen business benefitted from increased consumer spending and the reorganisation implemented in the prior year. Operating profit showed significant growth from a low base. In view of the increasingly trade operated customer base and change in reporting lines, the In-House business was transferred from the retail segment to the merchanting segment with effect from 1 January 2016 and the prior year comparative results have been updated to reflect the change of reporting segment.

Netherlands Merchanting

	2016 £'m	2015 £'m
Revenue	87.7	8.5
Operating profit*	9.1	0.5
Operating margin*	10.4%	5.4%

*Before amortisation of intangible assets on acquisitions

Grafton entered the Netherlands Merchanting market in November 2015 with the acquisition of Isero, a specialist merchanting business trading from 38 branches under the Gerritse, Breur Ceintuurbaan and Van der Winkel brands.

Isero distributes a broad range of tools, ironmongery and fixings to the attractive RMI and new housing markets. The business performed strongly and in line with pre-acquisition expectations. The positive economic backdrop and recovery in the housing market supported good revenue growth compared to the pre-acquisition level.

The Dutch economy performed strongly in 2016 driven by improved consumer sentiment, employment gains and growth in real disposable incomes which led to increased spending by households. The upturn in the economy, availability of mortgages at low interest rates and pent up demand contributed to growth in housing transactions by an estimated 20 per cent. The stock of housing properties for sale fell sharply during the year. The supply of new housing increased from a historically low level but was well short of potential demand.

Commercial initiatives undertaken by management included expanding the provision of value added services and securing procurement gains which protected the gross margin in a competitive market. A strengthening central support function contributed to more efficient management of working capital.

A new branch was opened in North Amsterdam in August. The acquisition of **Gunters en Meuser**, a distributor of tools, fixings and ironmongery from 14 branches in the Greater Amsterdam Area, was completed on 5 January 2017. Gunter en Meuser is a business that is synonymous with the ironmongery market in Amsterdam where it has traded for 190 years. This was an important step in the Group's development strategy in the Netherlands where it now has strong positions in the country's five largest cities. The enlarged business trades from 53 branches and is the market leader in the Netherlands tools, fixings and ironmongery market.

In 2017, the business will focus on the integration of Gunters en Meuser and on better supporting customers through ecommerce and logistics solutions. The fragmented nature of the markets offers the potential to take advantage of consolidation opportunities complemented by opening new branches.

Belgium Merchanting

	2016 £'m	2015 £'m	Actual Change	Constant Currency Change
Revenue	83.5	82.8	+0.9%	(10.6%)
Operating loss*	(0.7)	(0.3)	(130.9%)	(149.9%)
Operating margin*	(0.8%)	(0.4%)	(40bps)	

** Before exceptional and non-recurring items*

The decline in constant currency revenue by 10.6 per cent was attributed to a fall of 6.4 per cent in the like-for-like business and to the disposal of the non-core readymix operation in June 2015.

The economic environment continued to be weak and the business experienced difficult trading conditions in its residential and non-residential end-use markets. The smaller RMI orientated branches were more resilient. A number of the larger branches experienced sharp volume declines due to lower demand and a reorientation of the customer base towards lower volume, higher margin collected business through a more diversified customer base.

Retail Segment (6% of Group Revenue)

	2016 £'m	2015 £'m	Actual Change	Constant Currency Change
Revenue	157.1	131.4	+19.5%	+5.6%
Operating profit	7.3	3.3	+119.2%	+90.9%
Operating margin	4.6%	2.5%	+210bps	

Woodie's increased average daily like-for-like and total revenue by 5.6 per cent in constant currency. The business delivered significant profit growth for the second successive year in a recovering retail market in Ireland. Woodie's also benefitted from a positive response by customers to the progress made in recent years to improve the shopping experience through the roll-out of a new store format and improved standards across all aspects of the business.

Good growth in consumer spending and retail sales in Ireland during 2016 was driven by strong growth in employment and moderate growth in incomes supported by relatively high consumer sentiment.

Woodie's capitalised on its strong brand and heritage in the Irish DIY market growing revenue ahead of the market. An increase in the gross margin was driven by procurement gains and improved stock turn on seasonal lines. Operating costs were tightly controlled despite upward pressure from investment in the business and improving customer service. A key focus during the year was improving the operation of stores and customer service proposition through investing in colleagues including a management development programme for store managers and the introduction of "*Great Place to Work*" initiatives which have seen significant growth in colleague engagement.

Woodie's continued to develop its kitchens business and now has a dedicated kitchen sales area in almost half of its estate. The on-shelf availability of Woodie's top 1,000 lines was improved through better merchandising and supply chain management. There was also an ongoing focus on upgrading key ranges and on product innovation and differentiation.

The Woodies.ie website was upgraded in line with evolving technology and retail trends and now offers improved functionality, enhanced product images and access to over 30,000 products. Social media is now an integral part of ongoing marketing programmes. The business has over 75,000 Facebook likes and almost 6,000 Twitter followers. The use of social media is enabling Woodie's to engage with customers and gain insights into their shopping habits and preferences.

The store upgrade programme was rolled out to a further eight stores following a successful trial of the new layout and merchandising concept which showed outperformance compared to the remainder of the estate. This took the number of branches completed to twelve by the year-end representing 45 per cent of total revenue. The results to date provided the confidence to continue the roll-out in a further eight stores in 2017 increasing coverage on completion to 65 per cent of total revenue. The newly formatted stores will deliver an improved shopping environment, enhance performance and protect Woodie's strong market leadership position.

Manufacturing Segment (2% of Group Revenue)

	2016 £'m	2015 £'m	Actual Change	Constant Currency Change
Revenue*	59.6	52.8	+12.8%	+11.9%
Operating profit	12.2	9.8	+24.6%	+22.0%
Operating margin	20.4%	18.5%	+190bps	

**excluding inter-segment revenue*

CPI EuroMix is the market leader in the dry mortar market in the UK where it operates from nine plants in England and one in Scotland. Good first quarter growth, supported by favourable conditions in the new housing market, was followed by a period of uncertainty, leading to overall modest like-for-like revenue growth in the first half.

Demand from the house builder and bricklaying contractor customer base recovered strongly in the second half resulting in mid-single digit like-for-like revenue growth for the year. Strong consumer demand for new housing was sustained by a positive labour market, low interest rates, the availability of competitive mortgages and the Government's Help to Buy scheme.

The management team delivered strong gains in operating profit and margin for the year driven by volume growth and investment in commercial initiatives that included converting the sand drying system in all plants from oil to LPG. This development reduced costs, increased production efficiency and improved emissions. Distribution costs were reduced due to economies of scale achieved from investment in bulk delivery vehicles that have increased capacity.

Carlton, the packaged mortar products business acquired in 2015, was successfully integrated and targeted synergies and efficiencies were realised.

MFP, the Dublin based manufacturer of PVC drainage and roofline products, increased revenue by 19 per cent benefitting from the recovering residential RMI market, new infrastructure projects and the groundworks phase of residential and commercial new build construction which gathered pace during the year.

Financial Review

The Group delivered good growth in revenue, adjusted operating profit and cashflow from operations in 2016 and ended the year in a position of financial strength with low net debt and shareholders' equity of over £1.1 billion.

Property

The Group's balance sheet includes the asset backing of a portfolio of freehold property, the majority of which is used for trading purposes. Cashflow continued to be realised from the sale of properties not in use for trading purposes. A profit of £4.9 million was realised from the sale of ten UK properties and the proceeds of £8.3 million were redeployed elsewhere in the business. The current expectation is that profit from property disposals in 2017 will be lower than the level achieved in 2016.

Pensions

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

Despite high returns on plan assets, the IAS 19 pre-tax deficit on the defined benefit pension schemes increased by £14.7 million to £31.3 million (31 December 2015: £16.6 million). Changes in financial assumptions increased scheme liabilities by £29.4 million. A fall in the rates used to discount liabilities, which declined in line with changes in corporate bond yields, increased scheme liabilities by £32.0 million. UK scheme liabilities were discounted at 2.9 per cent, a decline of 105 basis points and Irish scheme liabilities were discounted at 1.8 per cent, a decline of 55 basis points. There was a decline in scheme liabilities of £2.7 million due to lower inflation and salary growth assumptions.

Experience losses of £2.2 million were mainly due to a higher rate of members transferring from defined benefit to defined contribution schemes. The return on plan assets was £22.5 million, a return of 11.0 per cent. There was a reduction in the deficit by £1.2 million due to contributions paid to the schemes exceeding the current service cost for the year.

Net Finance Income and Expense

The net finance charge for the year was £5.9 million (2015: £7.9 million). Net bank and loan note interest declined to £4.7 million from £5.9 million due to the benefits of the refinancing of bank debt completed in March 2016, lower average net debt and a decline in money market interest rates. The net finance cost on defined benefit pension scheme obligations fell to £0.5 million from £0.9 million. There was a net foreign exchange charge of £0.2 million for the year which compares to a charge of £0.8 million in the prior year.

Taxation

The tax charge for the year of £21.1 million on profit of £114.3 million was equivalent to an effective rate of 18.5 per cent. The tax charge for the year before exceptional items was £23.4 million on profit of £134.0 million, an effective rate of 17.4 per cent. This was lower than the underlying rate of 19 per cent due to the use of a previously unrecognised deferred tax asset to partially offset a taxable profit of £4.9 million arising on the disposal of properties in the UK and agreement of a claim with the UK Revenue that related to historic capital allowances.

The underlying tax rate of 19 per cent reflected the blended rates of corporation tax on profits in the UK, Ireland and the Netherlands and the disallowance of a tax deduction for certain overheads charged in arriving at profit before tax including depreciation on property. There will be a reduction in the UK rate of corporation tax from 20 per cent at present to 19 per cent with effect from 1 April 2017 and a further reduction in the rate to 17 per cent with effect from 1 April 2020. The Group's forecast tax charge for 2017 is 18.50 per cent.

Capital Expenditure and Intangible Assets

Capital expenditure of £50.1 million (2015: £41.6 million) was incurred on property, plant and equipment. This expenditure compares to a depreciation charge of £34.9 million (2015: £32.2 million) and reflects continued investment in the future growth of the Group. Development expenditure was £27.2 million (2015: £21.5 million) and asset replacement expenditure amounted to £22.9 million (2015: £20.1 million).

Development expenditure was focused on projects that provide a platform for the future profitable growth of the Group including a spend of £17.4 million on new Selco branches. Other development projects concerned branch upgrades and investment in Electricbase and Hirebase branch implants. Asset replacement expenditure primarily related to distribution vehicles required to support delivered revenue and replacement of tool, plant and equipment assets that are hired to customers.

An investment of £10.3 million (2015: £10.0 million) was made in intangible software assets to upgrade the trading and back-office systems in the traditional UK merchanting business, principally Buildbase.

Shareholders' Equity and Net Debt

Shareholders' equity increased by £76.4 million to £1.1 billion at 31 December 2016 (31 December 2015: £985.7 million).

Strong cash conversion translated into a lower level of net debt at 31 December 2016 of £96.3 million, a decline of £17.3 million from £113.6 million at 31 December 2015. The Group's debt is principally denominated in euros to provide a hedge for its euro denominated assets. Weakness in the sterling exchange rate increased euro denominated net debt by £38.2 million on translation into sterling at the end of the year. The Group remains in a very strong financial position with gearing ratio declining to 9 per cent (31 December 2015: 12 per cent). EBITDA interest cover was 37.9 times (31 December 2015: 27.3 times) and net debt was 0.54 times EBITDA (31 December 2015: 0.70 times).

Financing

The level of undrawn facilities at 31 December 2016 was £217.6 million (31 December 2015: £115.7 million) which together with the Group's surplus cash balances and deposits of £205.9 million (31 December 2015: £211.6 million) and strong cash flow from operations provide significant funding headroom and financing flexibility. The Group loan facilities of £518 million are with six relationship banks. The earliest maturity is in March 2021.

Profit after tax increased equity by £93.1 million and dividend payments reduced equity by £30.1 million. The increase in the defined benefit pension scheme deficit net of tax reduced shareholders equity by £11.7 million. There was a positive currency translation effect (gain) of £21.6 million on conversion of euro denominated assets, net of related euro debt, into sterling at the year end Sterling/Euro exchange rate of Stg85.62p (31 December 2015: Stg73.40p).

Return on Capital Employed and Asset Turn

Return on Capital Employed (ROCE) increased by 30 basis points to 12.5% (2015: 12.2%) and capital turn increased to 2.2 times (2015: 2.1 times). The Group is committed to achieving increased returns for shareholders and has set a medium term target of 15 per cent 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 to generate higher returns.

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group over the remainder of the year are set out on pages 56 to 58 of the 2015 Annual Report.

Since publication of the 2015 Annual Report, the UK vote to leave the European Union (EU) has created significant uncertainty about the near term outlook and prospects for the UK economy. As noted in the outlook above, it is still too early to assess the likely impact on the UK economy of the vote to leave the European Union or the extent to which any possible fall in investment and a potentially softer housing market could impact employment and household spending.

The final timeframe for the UK's ultimate exit from the EU remains unclear. It could take up to two years or possibly longer. The uncertainty during this period could negatively impact the UK economy, reduce demand in the Group's markets and adversely affect the financial performance of the Group. The Board and management will continue to consider the impact on the Group's businesses, monitor developments on an ongoing basis and take appropriate action to help mitigate the consequences of any decline in demand in its markets.

Grafton Group plc

Group Income Statement
For the year ended 31 December 2016

Continuing activities	**Notes**	**2016 £'000**	2015 £'000
Revenue	**2**	**2,507,276**	2,211,990
Operating costs – before exceptional items		**(2,372,349)**	(2,090,471)
Property profits	**3**	**4,923**	6,692
Operating profit - before exceptional items		**139,850**	128,211
Exceptional items	**3**	**(19,713)**	-
Operating profit	**3**	**120,137**	128,211
Finance expense	**4**	**(7,166)**	(8,932)
Finance income	**4**	**1,276**	1,050
Profit before tax		**114,247**	120,329
Income tax expense	**17**	**(21,128)**	(23,827)
Profit after tax for the financial year		**93,119**	96,502
Profit attributable to:			
Owners of the Company		**93,347**	97,179
Non-controlling interests	**8**	**(228)**	(677)
Profit after tax for the financial year		**93,119**	96,502
Earnings per ordinary share - basic	**5**	**39.56p**	41.62p
Earnings per ordinary share - diluted	**5**	**39.44p**	41.30p

Grafton Group plc

Group Statement of Comprehensive Income
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Profit after tax for the financial year		**93,119**	96,502
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**20,374**	(5,362)
- on foreign currency borrowings designated as net investment hedges		**1,221**	(879)
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**(461)**	(442)
- net change in fair value of cash flow hedges transferred from equity		**258**	82
Deferred tax on cash flow hedges		**26**	42
		21,418	(6,559)
Items that will not be reclassified to the income statement			
Remeasurement (loss)/gain on Group defined benefit pension schemes	**13**	**(13,810)**	13,142
Deferred tax on Group defined benefit pension schemes	**13**	**2,102**	(1,992)
		(11,708)	11,150
Total other comprehensive income		**9,710**	4,591
Total comprehensive income for the financial year		**102,829**	101,093
Total comprehensive income attributable to:			
Owners of the Company		**103,057**	101,770
Non-controlling interests	**8**	**(228)**	(677)
Total comprehensive income for the financial year		**102,829**	101,093

Grafton Group plc

Group Balance Sheet as at 31 December 2016

	Notes	31 Dec 2016	31 Dec 2015
ASSETS		**£'000**	£'000
Non-current assets			
Goodwill	**15**	**566,237**	521,521
Intangible assets	**16**	**44,584**	32,640
Property, plant and equipment	**9**	**461,660**	430,116
Investment properties	**9**	**21,749**	17,797
Deferred tax assets		**15,718**	17,905
Retirement benefit assets	**13**	**796**	744
Other financial assets		**125**	122
Total non-current assets		**1,110,869**	1,020,845
Current assets			
Properties held for sale	**9**	**8,407**	10,805
Inventories	**10**	**292,681**	276,229
Trade and other receivables	**10**	**397,689**	355,752
Cash and cash equivalents	**11**	**205,857**	211,565
Total current assets		**904,634**	854,351
Total assets		**2,015,503**	1,875,196
EQUITY			
Equity share capital		**8,449**	8,405
Share premium account		**210,271**	209,810
Capital redemption reserve		**621**	621
Revaluation reserve		**13,507**	13,674
Shares to be issued reserve		**8,446**	9,168
Cash flow hedge reserve		**(531)**	(354)
Foreign currency translation reserve		**73,359**	51,764
Retained earnings		**751,842**	696,479
Treasury shares held		**(3,897)**	(3,897)
Equity attributable to owners of the Parent		**1,062,067**	985,670
Non-controlling interests	**8**	**3,122**	3,350
Total equity		**1,065,189**	989,020
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	**11**	**300,426**	323,393
Provisions		**22,385**	17,875
Retirement benefit obligations	**13**	**32,081**	17,367
Derivative financial instruments	**11**	**675**	404
Deferred tax liabilities	**17**	**36,429**	32,670
Total non-current liabilities		**391,996**	391,709
Current liabilities			
Interest-bearing loans and borrowings	**11**	**1,051**	1,326
Trade and other payables	**10**	**523,700**	465,914
Current income tax liabilities	**17**	**21,224**	19,640
Provisions		**12,343**	7,587
Total current liabilities		**558,318**	494,467
Total liabilities		**950,314**	886,176
Total equity and liabilities		**2,015,503**	1,875,196

Grafton Group plc
Group Cash Flow Statement
For the year ended 31 December 2016

	Notes	**31 Dec 2016**	31 Dec 2015
		£'000	£'000
Profit before taxation		**114,247**	120,329
Finance income		**(1,276)**	(1,050)
Finance expense		**7,166**	8,932
Operating profit		**120,137**	128,211
Depreciation	**9**	**34,929**	32,211
Amortisation of intangible assets	**16**	**3,121**	911
Share-based payments charge		**3,232**	4,461
Movement in provisions		**5,802**	(1,548)
Asset impairment and fair value gains/losses		**4,383**	-
Loss/(profit) on sale of property, plant and equipment		**19**	(220)
Property profit		**(4,923)**	(6,692)
Loss/(profit) on sale of group businesses		**392**	(785)
Contributions to pension schemes in excess of IAS 19 charge		**(1,516)**	(3,408)
Decrease/(increase) in working capital	**10**	**3,010**	(13,828)
Cash generated from operations		**168,586**	139,313
Interest paid		**(6,936)**	(7,463)
Income taxes paid		**(16,269)**	(19,305)
Cash flows from operating activities		**145,381**	112,545
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**1,740**	2,779
Proceeds from sales of properties held for sale	**9**	**8,251**	8,543
Proceeds from sale of group businesses (net)		**881**	2,617
Interest received		**1,276**	1,025
		12,148	14,964
Outflows			
Acquisition of subsidiary undertakings and businesses (net of cash)	**14**	**(11,859)**	(98,641)
Investment in intangible asset – computer software	**16**	**(10,343)**	(9,988)
Purchase of property, plant and equipment	**9**	**(50,101)**	(41,592)
		(72,303)	(150,221)
Cash flows from investing activities		**(60,155)**	(135,257)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**505**	3,309
Proceeds from borrowings		**77,842**	95,097
		78,347	98,406
Outflows			
Repayment of borrowings		**(145,577)**	(2,917)
Dividends paid	**6**	**(30,048)**	(26,797)
Payment on finance lease liabilities		**(409)**	(565)
Redemption of loan notes payable net of derivatives		**-**	(11,649)
		(176,034)	(41,928)
Cash flows from financing activities		**(97,687)**	56,478
Net (decrease)/increase in cash and cash equivalents		**(12,461)**	33,766
Cash and cash equivalents at 1 January		**211,565**	182,360
Effect of exchange rate fluctuations on cash held		**6,753**	(4,561)
Cash and cash equivalents at the end of the year		**205,857**	211,565
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**205,857**	211,565

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 £'000	Non-Controlling Interests £'000	Total equity £'000
Year to 31 December 2016												
At 1 January 2016	8,405	209,810	621	13,674	9,168	(354)	51,764	696,479	(3,897)	985,670	3,350	989,020
Profit after tax for the financial year	-	-	-	-	-	-	-	93,347	-	93,347	(228)	93,119
Total other comprehensive income												
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(11,708)	-	(11,708)	-	(11,708)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(177)	-	-	-	(177)	-	(177)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	20,374	-	-	20,374	-	20,374
Currency translation effect on foreign currency borrowings designated as net investment hedges	-	-	-	-	-	-	1,221	-	-	1,221	-	1,221
Total other comprehensive income	-	-	-	-	-	(177)	21,595	(11,708)	-	9,710	-	9,710
Total comprehensive income	-	-	-	-	-	(177)	21,595	81,639	-	103,057	(228)	102,829
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(30,048)	-	(30,048)	-	(30,048)
Issue of Grafton Units	44	461	-	-	-	-	-	-	-	505	-	505
Share based payments charge	-	-	-	-	3,232	-	-	-	-	3,232	-	3,232
Tax on share based payments	-	-	-	-	(349)	-	-	-	-	(349)	-	(349)
Transfer from shares to be issued reserve	-	-	-	-	(3,605)	-	-	3,605	-	-	-	-
Transfer from revaluation reserve	-	-	-	(167)	-	-	-	167	-	-	-	-
	44	461	-	(167)	(722)	-	-	(26,276)	-	(26,660)	-	(26,660)
At 31 December 2016	8,449	210,271	621	13,507	8,446	(531)	73,359	751,842	(3,897)	1,062,067	3,122	1,065,189
Year to 31 December 2015												
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 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	96	3,213	-	-	-	-	-	-	-	3,309	-	3,309
Share based payments charge	-	-	-	-	4,461	-	-	-	-	4,461	-	4,461
Tax 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

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 merchanting markets in the UK, Ireland, the Netherlands and Belgium. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in Britain.

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.

Basis of Preparation, Accounting Policies and Estimates

The consolidated financial statements of the Group are prepared 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.

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 2015 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 2015, except for the policy noted below which applies in the current year:

Property profits
Profits on the disposal of Group properties have been disclosed separately in the Group Income Statement.

There are no new IFRS standards effective from 1 January 2016 which had a material effect on the financial information included in this report.

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.

The financial information presented in this preliminary release does not constitute full statutory financial statements. The preliminary release 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. Full statutory financial statements for the year ended 31 December 2015 have been filed with the Irish Registrar of Companies. The audit report on those statutory financial statements was unqualified.

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 2015. Actual results may differ from estimates calculated using these judgements and assumptions.

2. Segmental Analysis

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

	Twelve months to 31 Dec 2016 £'000	Twelve months to 31 Dec 2015 £'000
Revenue		
Merchanting	**2,290,568**	2,027,740
Retailing	**157,090**	131,416
Manufacturing	**74,358**	63,059
Less: Inter-segment revenue - manufacturing	**(14,740)**	(10,225)
	2,507,276	2,211,990
Segment operating profit before exceptional items and intangible assets amortisation arising on acquisitions		
Merchanting	**130,264**	118,118
Retailing	**7,304**	3,332
Manufacturing	**12,149**	9,749
	149,717	131,199
Reconciliation to consolidated operating profit		
Central activities	**(12,592)**	(10,640)
	137,125	120,559
Property profits	**4,923**	6,692
Operating profit before exceptional items and intangible assets amortisation arising on acquisitions	**142,048**	127,251
Exceptional items & non-recurring items	**(19,713)**	1,425
Intangible assets amortisation arising on acquisitions	**(2,198)**	(465)
Operating profit	**120,137**	128,211
Finance expense	**(7,166)**	(8,932)
Finance income	**1,276**	1,050
Profit before tax	**114,247**	120,329
Income tax expense	**(21,128)**	(23,827)
Profit after tax for the financial year	**93,119**	96,502

The amount of revenue by geographic area is as follows:

	Twelve months to 31 Dec 2016 £'000	Twelve months to 31 Dec 2015 £'000
Revenue		
United Kingdom	**1,827,028**	1,711,650
Ireland*	**509,074**	409,040
Belgium	**83,462**	82,762
Netherlands	**87,712**	8,538
	2,507,276	2,211,990

*Includes Poland which is immaterial

Operating segment assets are analysed below:

	31 Dec 2016 £'000	31 Dec 2015 £'000
Segment assets		
Merchanting	**1,695,668**	1,562,237
Retailing	**55,570**	45,963
Manufacturing	**41,769**	36,660
	1,793,007	1,644,860
Unallocated assets		
Deferred tax assets	**15,718**	17,905
Retirement benefit assets	**796**	744
Other financial assets	**125**	122
Cash and cash equivalents	**205,857**	211,565
Total assets	**2,015,503**	1,875,196

Operating segment liabilities are analysed below:

	31 Dec 2016 £'000	31 Dec 2015 £'000
Segment liabilities		
Merchanting	**502,871**	449,105
Retailing	**41,451**	31,027
Manufacturing	**14,106**	11,244
	558,428	491,376
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**301,477**	324,719
Retirement benefit obligations	**32,081**	17,367
Deferred tax liabilities	**36,429**	32,670
Current income tax liabilities	**21,224**	19,640
Derivative financial instruments (current and non-current)	**675**	404
Total liabilities	**950,314**	886,176

In view of the increasingly trade nature of the customer base and change in reporting lines, the In-House kitchen business was transferred from retailing to merchanting with effect from 1 January 2016. The 2015 comparatives, where applicable, have been updated to reflect this transfer.

3. Operating profit

Included within operating profit in 2016 was a property profit of £4.9m (2015: £6.7m) relating to the disposal of ten UK properties (2015: seven UK properties). In 2015, a defined benefit pension scheme past service credit of £2.9m and an asset impairment charge of £1.5m in the Belgium business was also included.

Exceptional items of £19.7m (2015: £Nil) relate to branch closures in the traditional UK Merchanting business (£16.1 million), an increase in the onerous lease provision of £3.2 million and other rationalisation costs (£0.4 million).

In 2016, the Group incurred acquisition costs of £0.7m (2015: £1.3m) and recognised amortisation costs on acquired intangibles of £2.2m (2015: £0.5m).

4. Finance Expense and Finance Income

	Twelve months to 31 Dec 2016 £'000		Twelve months to 31 Dec 2015 £'000	
Finance expense				
Interest on bank loans and overdrafts	**(5,975)**	*	(6,839)	*
Interest on loan notes	**-**	*	(95)	*
Net change in fair value of cash flow hedges transferred from equity	**(258)**		(82)	
Interest on finance leases	**(208)**		(207)	
Net finance cost on pension scheme obligations	**(510)**		(897)	
Foreign exchange loss	**(215)**		(812)	
	(7,166)		(8,932)	
Finance income				
Fair value movement on derivatives (Cross Currency Interest Rate Swaps (CCIRS) not in hedging relationships)	**-**		25	
Interest income on bank deposits	**1,276**	*	1,025	*
	1,276		1,050	
Net finance expense	**(5,890)**		(7,882)	

* Net bank/loan note interest of £4.7 million (2015: £5.9 million).

5. Earnings per Share

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

	Year Ended 31 Dec 2016 £'000	Year Ended 31 Dec 2015 £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**93,119**	96,502
Non-controlling interest	**228**	677
Numerator for basic and diluted earnings per share	**93,347**	97,179
Exceptional items	**19,713**	-
Tax relating to exceptional items	**(2,231)**	-
Amortisation of intangible assets arising on acquisitions	**2,198**	465
Tax relating to amortisation of intangible assets arising on acquisitions	**(564)**	(93)
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	**112,463**	96,124
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**235,942,078**	233,477,908
Dilutive effect of options and awards	**726,245**	1,824,338
Denominator for diluted earnings per share	**236,668,323**	235,302,246
Earnings per share (pence)		
- Basic	**39.56**	41.62
- Diluted	**39.44**	41.30
Adjusted earnings per share (pence)		
- Basic	**47.67**	41.17
- Diluted	**47.52**	40.85

Adjusted EPS for 2015 has been restated to conform to current year which excludes amortisation of intangible assets arising on acquisitions. Adjusted EPS for 2015 was previously disclosed as 41.01p (basic) and 40.69p (diluted). The charge for 2015 was not material and therefore not adjusted for in arriving at adjusted EPS.

6. Dividends

The payment in 2016 of a second interim dividend for 2015 of 8.0 pence on the ‘C’ Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £18.8 million. A 2016 interim dividend of 4.75 pence per share was paid on 7 October 2016 on the ‘C’ Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £11.2 million.

A second interim dividend for 2016 of 9.0 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 17 March 2017 (the ‘Record Date’). The dividend will be paid on 13 April 2017. A liability in respect of this second interim dividend has not been recognised at 31 December 2016, 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 2016 was Stg81.95p (year to 31 December 2015: Stg72.59p). The sterling/euro exchange rate at 31 December 2016 was Stg85.62p (31 December 2015: Stg73.40p).

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 2016	**430,116**	**10,805**	**17,797**
Additions	50,101	-	-
Acquisitions (note 14)	5,800	-	-
Depreciation	(34,929)	-	-
Disposals	(2,025)	(3,328)	-
Impairments	(3,322)	(314)	-
Transfer to properties held for sale	(1,701)	1,701	-
Transfer to investment properties	(617)	(930)	1,547
Fair value gain	-	-	302
Currency translation adjustment	18,237	473	2,103
As at 31 December 2016	**461,660**	**8,407**	**21,749**

10. Movement in Working Capital

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2016	**276,229**	**355,752**	**(465,914)**	**166,067**
Currency translation adjustment	**13,980**	**13,084**	**(21,923)**	**5,141**
Disposal of group businesses	**(560)**	**(1,433)**	**1,040**	**(953)**
Acquisitions through business combinations (note 14)	**872**	**1,853**	**(3,300)**	**(575)**
Movement in 2016	**2,160**	**28,433**	**(33,603)**	**(3,010)**
At 31 December 2016	**292,681**	**397,689**	**(523,700)**	**166,670**

11. Interest-Bearing Loans, Borrowings and Net debt

	31 Dec 2016 £'000	31 Dec 2015 £'000
Non-current liabilities		
Bank loans	**297,870**	320,814
Finance leases	**2,556**	2,579
Total non-current interest-bearing loans and borrowings	**300,426**	323,393
Current liabilities		
Bank loans	**645**	977
Finance leases	**406**	349
Total current interest-bearing loans and borrowings	**1,051**	1,326
Derivatives-non current		
Included in non-current liabilities	**675**	404
Total derivatives	**675**	404
Cash and cash equivalents	**(205,857)**	(211,565)
Net debt	**96,295**	113,558

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

	31 Dec 2016 £'000	31 Dec 2015 £'000
Net (decrease)/increase in cash and cash equivalents	**(12,461)**	33,766
Net movement in derivative financial instruments	**(203)**	(245)
Loans disposed with group businesses	**-**	130
Cash-flow from movement in debt and lease financing	**68,144**	(79,966)
Change in net debt resulting from cash flows	**55,480**	(46,315)
Currency translation adjustment	**(38,217)**	8,073
Movement in net debt in the year	**17,263**	(38,242)
Net debt at 1 January	**(113,558)**	(75,316)
Net debt at end of the year	**(96,295)**	(113,558)
Gearing	**9%**	12%

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 2016 %	At 31 Dec 2015 %	**At 31 Dec 2016 %**	At 31 Dec 2015 %
Rate of increase in salaries	**2.50%** *	2.60%*	**0.00%** **	0.00%**
Rate of increase of pensions in payment	**-**	-	**3.10%**	3.35%
Discount rate	**1.80%**	2.35%	**2.90%**	3.95%
Inflation	**1.30%**	1.40%	**2.20%** ***	2.50%***

*2.5% applies from 2 January 2019 (31 December 2015: 2.6% from 2 January 2019)
** Pensionable salaries are not adjusted for inflation
*** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

The 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 2016	Year to 31 Dec 2015	**Year to 31 Dec 2016**	Year to 31 Dec 2015	**Year to 31 Dec 2016**	Year to 31 Dec 2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**186,807**	189,203	**(203,430)**	(222,163)	**(16,623)**	(32,960)
Acquired in year	**-**	-	**-**	(397)	**-**	(397)
Interest income on plan assets	**6,235**	5,394	**-**	-	**6,235**	5,394
Contributions by employer	**3,610**	2,787	**-**	-	**3,610**	2,787
Contributions by members	**731**	1,074	**(731)**	(1,074)	**-**	-
Benefit payments	**(6,942)**	(6,603)	**6,942**	6,603	**-**	-
Transfer in of assets/(liabilities)	**1,162**	-	**(1,162)**	-	**-**	-
Current service cost	**-**	-	**(2,411)**	(2,488)	**(2,411)**	(2,488)
Past service credit - non-recurring	**-**	-	**-**	2,945	**-**	2,945
Past service credit	**-**	-	**-**	128	**-**	128
Other long term benefit expense	**-**	-	**148**	-	**148**	-
Curtailment gain	**-**	-	**169**	-	**169**	-
Interest cost on scheme liabilities	**-**	-	**(6,745)**	(6,291)	**(6,745)**	(6,291)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**(2,196)**	2,491	**(2,196)**	2,491
-financial assumptions	**-**	-	**(29,364)**	10,041	**(29,364)**	10,041
-demographic assumptions	**-**	-	**1,450**	920	**1,450**	920
Return on plan assets excluding interest income	**16,300**	(310)	**-**	-	**16,300**	(310)
Translation adjustment	**14,063**	(4,738)	**(15,921)**	5,855	**(1,858)**	1,117
At 31 December	**221,966**	186,807	**(253,251)**	(203,430)	**(31,285)**	(16,623)
Related deferred tax asset (net)					**4,699**	2,599
Net pension liability					**(26,586)**	(14,024)

The net pension scheme deficit of £31,285,000 is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £32,081,000 of which £17,282,000 relates to the Euro schemes and £14,799,000 relates to one UK scheme and retirement benefit assets (non-current assets) of £796,000 relating to a second UK scheme (£449,000) and one Euro scheme (£347,000).

The 2015 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 is related to the Euro schemes and £7,242,000 to one UK scheme and retirement benefit assets (non-current assets) of £744,000 of which £216,000 is related to a Euro scheme and £528,000 to a UK scheme.

14. Acquisitions

On 5 January 2016, the Group completed the acquisition of the entire share capital (100%) of T Brewer & Co. Limited ("T Brewer"), a London based specialist timber business that trades from three branches in Clapham, Enfield and Amersham. The Group also acquired 100% of the share capital of Allsand Supplies Limited ("Allsands") on 1 February 2016. Allsands is a single branch general builders Merchanting business located in Larkfield, Kent. Both acquisitions were in the merchanting segment. Both acquisitions were strategic acquisitions to grow the merchanting business in the UK. Neither of these acquisitions are material for individual disclosure.

Details of the acquisitions made in 2015 are disclosed in the Group's 2015 Annual Report.

The provisional fair value of assets and liabilities acquired in 2016 are set out below:

	Total £'000
Property, plant and equipment	**5,800**
Intangible assets – customer relationships	**2,590**
Intangible assets – trade names	**225**
Inventories	**872**
Trade and other receivables	**1,853**
Trade and other payables	**(3,300)**
Corporation tax	**(291)**
Deferred tax (liability)	**(1,270)**
Cash acquired	**2,586**
Net assets acquired	**9,065**
Goodwill	**5,380**
Consideration	**14,445**
Satisfied by:	
Cash paid	**14,445**
Net cash outflow – arising on acquisitions	
Cash consideration	**14,445**
Less: cash and cash equivalents acquired	**(2,586)**
	11,859

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

Acquisitions completed in 2016 contributed revenue of £19.0 million and operating profit of £1.5 million for the periods between the dates of acquisition and 31 December 2016. If the acquisitions had occurred on 1 January 2016 they would have contributed revenue of £19.4 million and operating profit of £1.2 million in the year.

In 2016, the Group incurred acquisition costs of £0.7m (2015: £1.3m). These have been included in operating costs in the Group Income Statement.

15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. A measurement period adjustment on finalisation of the IFRS 3 Business Combination accounting for the Parkes Services acquisition, completed in 2015, resulted in a reduction in goodwill of £0.5m. In addition, the branch closures in the traditional UK merchanting business resulted in a write off of goodwill amounting to £0.5m. The Board is satisfied that the carrying value of goodwill has not been impaired.

	Goodwill £'000
Net Book Value	
As at 1 January 2016	**521,521**
Arising on acquisitions (note 14)	**5,380**
Measurement period adjustment	**(500)**
Disposal of group businesses	**(549)**
Currency translation adjustment	**40,385**
As at 31 December 2016	**566,237**

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
Net Book Value				
As at 1 January 2016	**15,299**	**2,277**	**15,064**	**32,640**
Additions	**10,343**	**-**	**-**	**10,343**
Arising on acquisitions (note 14)	**-**	**225**	**2,590**	**2,815**
Amortisation	**(923)**	**(274)**	**(1,924)**	**(3,121)**
Currency translation adjustment	**16**	**243**	**1,648**	**1,907**
As at 31 December 2016	**24,735**	**2,471**	**17,378**	**44,584**

The computer software asset of £24.7 million at 31 December 2016 (2015: £15.3m) 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. A number of these systems are not yet available for use in the business and are therefore not amortised.

The amortisation expense of £3.1m (2015: £0.9m) has been charged in 'operating costs' in the income statement. Amortisation on acquired intangibles amounted to £2.2m (2015: £0.5m).

17. Taxation

The headline rate of corporation tax is 18.5 per cent. Excluding exceptional items the tax rate reduces to 17.4 per cent. This 17.4 per cent is lower than the underlying tax rate of 19 per cent as (i) 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 2016 and (ii) a net tax credit has arisen from an historic capital allowance claim which was has now been agreed with UK Revenue. 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 19 per cent (2015: 21 per cent) reflects the mix of profits between the UK, Ireland, the Netherlands and Belgium 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 April 2015 and is due to drop further to 19% in April 2017 and to 17% in April 2020.

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.

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 2016, there were unrecognised deferred tax assets in relation to capital losses of £1.2 million (31 December 2015: £1.6 million), trading losses of £3.2 million (31 December 2015: £0.9 million) and deductible temporary differences of £2.6 million (31 December 2015: £3.8 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

Except for the appointment of three directors during the year, there have been no new related party transactions. There were no other changes in related parties from those described in the 2015 Annual Report that materially affected the financial position or the performance of the Group during the year to 31 December 2016.

19. Events after the Balance Sheet Date

On 5 January 2017, the Group completed the acquisition of Gunters en Meuser B.V. ("G&M"), the market leader in the distribution of tools, fixings and ironmongery in the Greater Amsterdam Area. G&M trades from 14 branches. The estimated net consideration is €36.2 million (£31.0 million).

There have been no other material events subsequent to 31 December 2016 that would require adjustment to or disclosure in this report.

20. Board Approval

This announcement was approved by the Board of Grafton Group plc on 6 March 2017.

Supplementary Financial Information
Alternative Performance Measures

Certain financial information set out in this consolidated year end financial statements is not defined under International Financial Reporting Standards ("IFRS"). These key Alternative Performance Measures ("APMs") represent additional measures in assessing performance and for reporting both internally and to shareholders and other external users. The Group believes that the presentation of these APMs provides useful supplemental information which, when viewed in conjunction with IFRS financial information, provides readers with a more meaningful understanding of the underlying financial and operating performance of the Group.

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS.

The key 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 2015 are available in the 2015 Annual Report.

APM	Description
Adjusted operating profit	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted operating profit/EBITA before property profit	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted operating profit/EBITA margin before property profit	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
Adjusted profit before tax	Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense.
Adjusted profit after tax	Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense.
Capital Turn	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
Constant Currency	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
Dividend Cover	Group earnings per share divided by the total dividend per share for the Group.
EBITDA	Earnings before exceptional items, net finance expense, income tax expense, depreciation and amortisation of intangible assets arising on acquisitions. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
EBITDA Interest Cover	EBITDA divided by net bank/loan note interest.

Gearing	The Group net debt divided by the total equity times 100.
Like-for-like revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating profit margin	Profit before net finance expense and income tax expense as a percentage of revenue.
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.

Adjusted Operating Profit/EBITA before Property Profit

	2016	2015
	£'m	£'m
Revenue	**2,507.3**	2,212.0
Operating profit	**120.1**	128.2
Property profit	**(4.9)**	(6.7)
Exceptional items charged in operating profit	**19.7**	-
Amortisation of intangible assets arising on acquisitions	**2.2**	0.5
Defined benefit pension scheme past service credit	**-**	(2.9)
Asset impairment charge in Belgian business	**-**	1.5
Adjusted operating profit/EBITA before property profit	**137.1**	120.6
Adjusted operating profit/EBITA margin before property profit	**5.5%**	5.5%

Operating Profit Margin

	2016	2015
	£'m	£'m
Revenue	**2,507.3**	2,212.0
Operating profit	**120.1**	128.2
Operating profit margin	**4.8%**	5.8%

Adjusted Operating Profit

	2016	2015
	£'m	£'m
Operating profit	**120.1**	128.2
Exceptional items charged in operating profit	**19.7**	-
Amortisation of intangible assets arising on acquisitions	**2.2**	0.5
Defined benefit pension scheme past service credit	**-**	(2.9)
Asset impairment charge in Belgian business	**-**	1.5
Adjusted operating profit	**142.0**	127.3

Adjusted Profit before Tax

	2016	2015
	£'m	£'m
Profit before tax	**114.2**	120.3
Exceptional items charged in operating profit	**19.7**	-
Amortisation of intangible assets arising on acquisitions	**2.2**	0.5
Defined benefit pension scheme past service credit	**-**	(2.9)
Asset impairment charge in Belgian business	**-**	1.5
Adjusted profit before tax	**136.2**	119.4

Adjusted Profit after Tax

	2016	2015
	£'m	£'m
Profit after tax for the financial year	**93.1**	96.5
Exceptional items charged in operating profit	**19.7**	-
Tax on exceptional items	**(2.2)**	-
Amortisation of intangible assets arising on acquisitions	**2.2**	0.5
Tax on amortisation of intangible assets arising on acquisitions	**(0.6)**	(0.1)
Defined benefit pension scheme past service credit	**-**	(2.9)
Tax on defined benefit pension scheme past service credit	**-**	0.5
Asset impairment charge in Belgian business	**-**	1.5
Tax on asset impairment charge in Belgian business	**-**	(0.5)
Adjusted profit after tax	**112.2**	95.5

Reconciliation of Profit to EBITDA

	2016	2015
	£'m	£'m
Profit after tax for the financial year	**93.1**	96.5
Exceptional items charged in operating profit	**19.7**	-
Net finance expense	**5.9**	7.9
Income tax expense	**21.1**	23.8
Depreciation	**34.9**	32.2
Intangible asset amortisation	**3.1**	0.9
EBITDA	**177.9**	161.3

Net debt to EBITDA

	2016	2015
	£'m	£'m
EBITDA	**177.9**	161.3
Net debt	**96.3**	113.6
Net debt to EBITDA - times	**0.54**	0.70

EBITDA Interest Cover

	2016	2015
	£'m	£'m
EBITDA	**177.9**	161.3
Net bank/loan note interest	**4.7**	5.9
EBITDA interest cover - times	**37.9**	27.3

Gearing

	2016	2015
	£'m	£'m
Total equity	**1,062.1**	985.7
Group net debt	**96.3**	113.6
Gearing	**9%**	12%

Return on Capital Employed

	2016	2015
	£'m	£'m
Operating profit	**120.1**	128.2
Exceptional items charged in operating profit	**19.7**	-
Non-recurring defined benefit pension credit	**-**	(2.9)
Non-recurring asset impairment charge in Belgian business	**-**	1.5
Amortisation of intangible assets arising on acquisitions	**2.2**	0.5
Adjusted operating profit	**142.0**	127.3
Total equity - current period end	**1,065.2**	989.0
Net debt - current period end	**96.3**	113.6
Capital employed - current period end	**1,161.5**	1,102.6
Total equity - prior period end	**989.0**	906.3
Net debt - prior period end	**113.6**	75.3
Capital employed - prior period end	**1,102.6**	981.6
Average capital employed	**1,132.0**	1,042.1
Return on capital employed	**12.5%**	12.2%

Capital Turn

	2016	2015
	£'m	£'m
Revenue	**2,507.3**	2,212.0
Average capital employed	**1,132.0**	1,042.1
Capital turn – times	**2.2**	2.1

Dividend Cover

	2016	2015
Group adjusted EPS – basic (pence)	**47.67**	41.17
Group dividend (pence)	**13.75**	12.50
Group dividend cover - times	**3.5**	3.3