Grafton Group plc
Final Results
For the Year Ended 31 December 2017

Grafton Group plc

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Strong Set of Results with Growth in Profitability in all Segments and Geographies

Grafton Group plc ("the Group"), the international builders merchanting and DIY Group, announces its final results for the year ended 31 December 2017.

£m*	2017	2016	Change
Revenue**	**2,716**	2,496	+9%
Adjusted* **			
Operating profit before property profit	**160.9**	137.1	+17%
Operating profit	**163.7**	142.0	+15%
Profit before tax	**157.2**	136.2	+15%
Earnings per share – basic	**54.9p**	47.7p	+15%
Statutory results			
Operating profit	**160.9**	120.1	+34%
Profit before tax	**154.5**	114.2	+35%
Earnings per share – basic	**54.0p**	39.6p	+36%
Dividend	**15.50p**	13.75p	+13%
Net debt	**62.9**	96.3	(£33.4m)
Gearing	**5%**	9%	(400bps)
Adjusted operating margin before property profit	**5.9%**	5.5%	+40bps
Return on capital employed	**13.6%**	12.5%	+110bps

**Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 31 to 34.*
***2016 revenue has been updated to reflect a change in the presentation of rebates payable to customers and the segmental presentation has also been updated. There was no impact on operating profit as a result of this change.*
****The term "adjusted" means before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7 million in 2016.*

Highlights

- Record revenue reflects strong organic growth
- Adjusted Group operating profit before property profit up 17%
- Growth in profitability in all segments and geographies:
    - Strong organic growth in Irish Merchanting, Woodie's DIY and Mortar Manufacturing
    - Acquisitions and organic growth increase scale and profitability of Dutch merchanting business
    - Continued investment in Selco with a record number of branch openings
    - Traditional UK Merchanting business benefits from growth and prior year restructuring
- Record cash from operations of £210.7 million (2016: £168.6 million) finances investment and strengthens balance sheet
- Investment of £119.1 million (2016: £72.3 million) on capital expenditure and acquisitions
- Progressive dividend policy - growth of 121% over the past five years

Gavin Slark, Chief Executive Officer commented:

"2017 was a very good year for Grafton that saw all segments and geographies contribute to strong revenue growth and a 15% increase in adjusted profit before tax and earnings per share. Our expectations are positive for the current year and we remain confident about the potential to take advantage of opportunities that create value for shareholders."

Webcast Details

An analysts and investors results presentation will be hosted by Gavin Slark and David Arnold at 10.00am (GMT) today 1 March 2018 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. A live webcast will be available on www.graftonplc.com/webcastfy17/ 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 2017

Group Results

Grafton achieved a strong set of results for the year driven principally by organic growth, an improvement in the Group's gross margin and good cost control, all of which combined to produce a further improvement in financial performance. The Group also benefitted from its exposure to multiple geographic markets and a well diversified customer base.

The **UK** merchanting business made good progress and saw operating profit exceed £100 million as it benefitted from internal initiatives and the restructuring undertaken in 2016 which delivered in line with the Group's expectations. Selco had its most active year ever on the development front with the opening of twelve branches. The traditional UK merchanting brands had a successful year and reported good progress in growing profitability.

The market leading merchanting business in **Ireland** continued to be an important and consistent growth engine for Grafton delivering double digit revenue growth and a strong increase in profitability for the fourth successive year. The operating profit margin before property profit increased by 70 basis points to 8.5 per cent.

Good organic growth in a favourable market together with the completion of three acquisitions substantially increased the scale and profitability of the **Netherlands** business in what was only the Group's second full year of trading in that market. The business is now established as a significant contributor to Group profitability and a sound platform for future growth.

The **Belgian** merchanting business responded positively to the actions taken in recent years and returned to profitability.

The **Woodie's** DIY, Home and Garden retailing business in Ireland delivered high levels of growth in revenue and profit that reflected the success in repositioning the business and the positive response from customers to the store upgrade programme. The operating profit margin progression was very strong increasing by 150 basis points to 6.2 per cent.

CPI EuroMix, the market leading UK mortar business, reported an excellent set of results for the year and the segment operating margin increased by 220 basis points to 22.9 per cent.

Cash generation from operations was very strong at a record £210.7 million (2016: £168.6 million). These funds were used to invest in future growth through organic initiatives and selective acquisitions, increase the dividend, reduce net debt to its lowest level in almost two decades and strengthen the Group's investment grade credit rating.

Dividend

A second interim dividend of 10.25p (2016: 9.0p) was approved to give a total dividend for the year of 15.50p. This represents an increase of 13 per cent on total dividends of 13.75p paid for 2016. The increase reflects the Board's policy which is based on increasing dividends in line with increases in earnings. Dividend cover remained constant at 3.5 times.

Outlook

We anticipate that overall conditions in the UK merchanting market are likely to remain relatively flat and that further progress in 2018 will continue to be dependent on realising benefits from self-help and other opportunities. Activity levels in the UK housing RMI market are expected to remain subdued and sensitive to changes in housing transactions and consumer confidence and spending. House building is expected to remain strong supported by good underlying demand, the availability of mortgages and the Help to Buy scheme.

The outlook for the Group's businesses in Ireland is favourable with balanced growth forecast to continue albeit at a more moderate rate than experienced in recent years. Demand in the merchanting and DIY markets should continue to benefit from increased consumer spending and investment in residential RMI, house building and non-residential construction.

The prospects for the Dutch economy are positive with broadly based growth forecast to continue boosted by international trade and increased public spending. Demand in the secondary and new housing markets is expected to continue to exceed supply.

The Belgian merchanting business should continue to benefit from internal initiatives and the modest recovery in the economy.

Total revenue growth in the period from 1 January 2018 to 18 February 2018 was 6.8%. Average daily like-for-like revenue increased by 3.8 per cent in the overall Group, 1.0 per cent in the UK merchanting business, 5.6 per cent in the Irish merchanting business, 11.0 per cent in the Dutch merchanting business and 7.2 per cent in the Belgium merchanting business. Like-for-like revenue was ahead by 17.0 per cent in the retailing business in Ireland and by 25.7 per cent in the manufacturing business.

We remain confident about the prospects for growth in the current year and in our capacity to take advantage of future opportunities to create value for shareholders.

Operating Review

Merchanting Segment (91% of Group Revenue)

	2017 £'m	2016 £'m	Actual Change
Revenue	2,469.4	2,280.6	+8.3%
Adjusted operating profit before property profit	148.9	130.3	+14.3%
Adjusted operating profit margin before property profit	6.0%	5.7%	+30bps
Adjusted operating profit	151.6	135.2	+12.1%
Adjusted operating profit margin	6.1%	5.9%	+20bps

Merchanting is a core business and competence of Grafton accounting for 91 per cent of revenue from businesses in the UK, Ireland, the Netherlands and Belgium. The businesses in each of these countries, all of which have leading market positions, reported increased revenue and adjusted operating profit before property profit for the year.

UK Merchanting

	2017 £'m	2016 £'m	Actual Change
Revenue	1,845.1	1,762.3	+4.7%
Adjusted operating profit before property profit	100.9	94.8	+6.5%
Adjusted operating profit margin before property profit	5.5%	5.4%	+10bps
Adjusted operating profit	102.6	99.7	+2.9%
Adjusted operating profit margin	5.6%	5.7%	(10bps)

The UK Merchanting business delivered a good performance despite relatively weak growth in the UK economy. The business traded against the backdrop of low volume growth in the residential RMI market and a significant pick-up in the rate of building materials price inflation. Mixed trading conditions were influenced by general economic and household uncertainty and a competitive pricing environment. The pace of growth in house prices slowed and the number of housing transactions, a driver of RMI spending, was flat at 1.2 million for the fourth successive year. Against this challenging backdrop, average daily like-for-like revenue grew by 4.5 per cent comprising volume growth of 2.0 per cent and inflation of 2.5 per cent.

Revenue growth in the like-for-like business was £70.8 million and new branches and developments generated revenue of £56.5 million. These gains were partly offset by a revenue decline of £44.7 million due to the closure of 47 Plumbase and Contracts branches in the last fourth quarter of 2016.

An increase in the gross margin by 30 basis points was due to a favourable change in mix related to increased revenue in Selco.

The adjusted operating profit margin before property profit advanced by 10 basis points after absorbing an increase of £3.0 million in Selco store opening costs.

Selco Builders Warehouse, the retail style merchanting model for trade and business customers, expanded its branch network organically at the fastest rate in its history. Reported revenue growth of 15 per cent for the year came principally from the opening of new branches.

Average daily like-for-like revenue growth moderated in the Greater London Area, which accounted for three quarters of revenue, following a sustained period of outperformance. Like-for-like revenue growth was also influenced by the transfer of revenue from a number of long established branches, that were trading at record levels of activity and with limited spare capacity, to a number of new branches that were opened over the past eighteen months. There was a significant increase in market coverage with the opening of five branches in the first half and seven in the second half of the year. The business traded from 59 branches at the year end.

Selco continued to implement a clear and well-focused strategy that is based on an opportunity to grow revenue and the scale of the business. This involved increased investment and a step-up in the number of branch openings and is supported by a very successful operating model. Selco increased its high level of operating profit before store opening costs which were ahead of the prior year by £3.0 million.

Selco plans to open seven new branches this year and to relocate its sizeable long established branch at Cricklewood to a new store nearby.

Development of Selco's multi-channel offering continued with the launch of a new on-line platform with enhanced click and collect functionality and a new App that allows customers to prepare lists of building materials required for individual projects, receive quotes and place orders through their smartphones or other devices.

Buildbase performed well despite mixed market conditions that saw weak volume growth in the residential RMI market and stronger house building activity. Commercial initiatives drove like-for-like volume growth in revenue and the business recovered significant supplier price increases related to the effects of sterling exchange rate weakness and increased commodity prices.

The gross margin was maintained in a competitive market aided by procurement gains, a more favourable product mix and targeted price adjustments. Overall, Buildbase recorded an improvement in operating profit and margin in the year.

The process of upgrading the Buildbase legacy trading and back office systems is at an advanced stage following two years of planning and development activity. The trading system recently entered the parallel pilot phase of testing in a number of branches with rollout to the branch estate expected to commence towards the end of this year. The expected incremental costs of implementation and user training in the current year is circa £3.0 million and the annual amortisation charge following full deployment across the branch network will be circa £3.2 million per annum.

Plumbase profitability was substantially improved from a low base despite revenue being lower due to branch closures in 2016. Management were successful in growing like-for-like revenue and in maintaining gross margin discipline in a very competitive market environment. Actions were taken to improve the customer mix and the initiatives taken over the past eighteen months started to deliver benefits. The bathroom distribution business continued to deliver a strong level of operating profit and a good operating margin.

Buildbase Civils, a distributor of heavyside building materials, made good progress under new management increasing revenue and operating profit. The business benefitted from the branch consolidation and restructuring undertaken last year and from positive trading conditions in the new housing and infrastructure markets. The branches in Scotland, that trade under the PDM brand, successfully responded to the completion of a number of major hydro electric projects with new business wins for the supply of materials to groundworks projects and reported a good outcome for the year in a more challenging trading environment.

T.G. Lynes, a leading distributor of pipes and fittings to commercial heating, plumbing and mechanical services contractors delivered strong revenue and profit growth. The business leveraged its selling and logistics capability and realised significant economies of scale from its single site facility in Enfield that services customers operating primarily within the M25 Motorway. The small network of **Plumbase Industrial** branches, that also trade in this market, achieved a significantly improved result.

MacBlair, the Northern Ireland merchanting business, realised good revenue and profit growth in its provincial branch network and made an encouraging start to realising gains from investment in the branch infrastructure in the Greater Belfast Area which represents a future growth opportunity.

Irish Merchanting

	2017 £'m	2016 £'m	Actual Change	Constant Currency Change
Revenue	403.6	347.3	+16.2%	+8.9%
Operating profit before property profit	34.5	27.1	+27.3%	+19.7%
Operating profit margin before property profit	8.5%	7.8%	+70bps	
Operating profit	35.5	27.1	+31.2%	+23.3%
Operating profit margin	8.8%	7.8%	+100bps	

2017 was another year of consistent market outperformance by the Irish Merchanting business and the fourth consecutive year to report double digit like-for-like revenue growth. The business continued to achieve excellent growth in operating profit.

Management used the increased scale and operational leverage of the business to achieve procurement gains and efficiencies across the branch network resulting in an increase in the pre-property operating profit margin by 70 basis points to 8.5 per cent.

The Irish Merchanting business used the benefits of national scale to continue developing close relationships with customers supported by competitive pricing and great service. Initiatives to increase the gross profit margin were successful and more than offset the adverse impact of a change in the mix of business related to increased revenue from residential and commercial new build projects.

Some of the gains from increased revenue were reinvested in the businesses to support the higher level of activity in the branch network and to provide for further progress in a market that offers significant growth potential. This involved creating 60 new roles that will allow the business to continue to leverage its leadership position as the market returns to a more normalised level of activity over the coming years.

Overall activity in the construction sector increased during the year although growth was uneven across the industry. Recently published Government statistics show that just 10,283 new build homes were sold last year, an increase of 42 per cent on 2016 but well short of the estimated 30,000 new homes required to meet long term annual demand. This points to a more sustained but measured increase in new builds over the coming years.

Home owners opted to renovate their existing homes as transactions in the secondary housing market remained low due to a lack of supply. A pick-up in non-residential construction was concentrated in the office, retail and hotel sectors in the Dublin Area. Although the civils and infrastructure sector was softer in 2017 following the completion of a number of major projects in 2016, prospects for 2018 are very encouraging due the current pipeline of projects.

The opening of three branches in Dublin, that provide convenient collection points for customers, increased the branch network to 49 nationally including 20 in the Greater Dublin Area. We also continued to invest in customer service related opportunities with the opening of three small plant and tool hire implants and the introduction of a range of commercial plumbing products.

Netherlands Merchanting

	2017 £'m	2016 £'m	Actual Change	Constant Currency Change
Revenue	131.0	87.7	+49.4%	+39.8%
Adjusted operating profit	12.6	9.1	+38.1%	+29.3%
Adjusted operating profit margin	9.6%	10.4%	(80bps)	

The Netherlands business delivered revenue growth of 49.4 per cent, increased adjusted operating profit by 38.1 per cent and expanded the branch network by 19 to 58 with the completion of three acquisitions. The business has significantly evolved, under a strong management team, since the Group entered the Netherlands market at the end of 2015 with the acquisition of **Isero**. A leadership position and strong presence has been established in the tools, ironmongery and fixing segment of the merchanting market which has a significant addressable market and opportunities to make bolt-on acquisitions.

Like-for-like revenue grew by 5.4 per cent in the Isero business. Strong growth in the branch network, driven by an increased focus on smaller projects that generate higher returns, was partly offset by lower revenue from larger projects.

The like-for-like gross margin improved due to positive mix effects and procurement gains. Growth in operating profit and in the operating margin in the Isero business was partly offset by operating costs incurred on a new on-line platform and on the planned relocation of the central distribution facility to support recent and anticipated growth in the branch network.

The 14 branch Amsterdam based **Gunters en Meuser** business acquired on 5 January 2017 traded ahead of expectations and made a strong operating profit contribution for the year. The business is primarily focused on the maintenance of private and public sector housing and public sector non-residential properties.

The small single branch business acquired in Wijchen, Eastern Netherlands was fully integrated and improved its market position in the town.

Scholte & de Vries – Estoppey, a third generation family business, trading from four branches located primarily in the Greater Amsterdam Area, was acquired in November 2017.

Belgium Merchanting

	2017 £'m	2016 £'m	Actual Change	Constant Currency Change
Revenue	89.6	83.4	+7.5%	+0.5%
Operating profit/(loss)	0.9	(0.7)	+234.4%	+220.0%
Operating profit margin	1.0%	(0.8%)	+180bps	

Like-for-like constant currency revenue increased by 1.4 per cent in a more stable market that saw a return to modest growth in the second quarter that continued through to the year end. The customer base was reoriented towards a small to medium sized trade customer collected business model that led to a reduction in distribution costs. New procurement arrangements and cost reduction initiatives also contributed to the improvement in performance.

Prior to the year end, the Group acquired the 35 per cent shareholding in **YouBuild** that it did not already own. YouBuild trades from 11 branches that are located mainly in the Flanders region and accounts for over half of the Belgian revenue. The Central Brussels branch was recently relocated to a new purpose built facility on an adjoining site significantly expanding the range of products on offer and improving branch merchandising and logistics.

Retail Segment (7% of Group Revenue)

	2017 £'m	2016 £'m	Actual Change	Constant Currency Change
Revenue	180.4	157.1	+14.8%	+7.4%
Operating profit	11.2	7.3	+53.1%	+44.3%
Operating profit margin	6.2%	4.7%	+150bps	

Woodie's Ireland's number one retailer for DIY, Home & Garden products, expanded its market position with like-for-like revenue growth of 9.1 per cent. The strong performance for the year reflected the positive response from customers to the transformation programme implemented in recent years. This programme sought to build a business for the future to meet the evolving needs of customers while recognising the unique heritage of Woodie's in the Irish retail market. Woodie's traded strongly though the year in a favourable economy and achieved above market growth from improved and extended product ranges and initiatives in the Seasonal, Kitchens and DIY categories.

Eight stores were upgraded taking the number completed to twenty by the year-end representing two-thirds of revenue. Woodie's online presence, which allows customers the convenience to shop at any time using the direct delivery service or to click-and-collect from stores, was enhanced with a new website and on-line revenue doubled.

Woodie's retained its Great Place to Work status and almost one third of colleagues completed accredited educational programmes which are important to continuing to deliver a market leading service and a good shopping experience for customers.

The benefit of increased revenue was optimised by tight control of costs and operating profit increased by 53.1 per cent. The operating profit margin advanced by 150 basis points to 6.2 per cent and has grown by 360 basis points over the past two years.

Manufacturing Segment (2% of Group Revenue)

	2017 £'m	2016 £'m	Actual Change	Constant Currency Change
Revenue	66.1	58.7	+12.5%	+12.0%
Operating profit	15.1	12.1	+24.5%	+23.9%
Operating profit margin	22.9%	20.7%	+220bps	

CPI EuroMix consolidated its market leadership position in the dry mortar market in Britain where it operates from ten plants. The business had another successful year under an excellent management team that is focused on industry leading standards and continuous performance improvement.

Revenue growth was driven by increased volumes in a strong house building market, product innovation, customer service initiatives that differentiate the business in the market place and recovery of raw material price increases. There was significant growth in revenue from EuroMix pre-mixed bagged products and concrete in a competitive pricing environment.

The gross margin was stable and overheads were down despite the increase in volumes. Operating profit increased by 24.5 per cent and the operating profit margin was up by 220 basis points and has increased by 410 basis points over the past two years.

Financial Review

Our three strategic pillars are based on increasing revenue, operating margin and capital turn. The Group reported revenue of £1.8 billion, an operating margin of 3.4 per cent and capital turn of 1.8 times for 2012 and since then has achieved strong increases in each of these metrics such that, in the financial period just ended, revenue had grown by 54 per cent to £2.7 billion, the adjusted operating margin was 260 basis points higher at 6.0 per cent and capital turn improved to 2.3 times. As a consequence, adjusted earnings per share has increased by 263 per cent from 15.1 pence to 54.9 pence and return on capital employed has grown from 6.1 per cent to 13.6 per cent.

Significant improvement in the Group's financial returns have been made over the last five years and the Group retains its medium term objective of achieving a Group operating margin of seven per cent and a return on capital employed of fifteen per cent.

Revenue

Group revenue increased by 8.8 per cent to £2.7 billion (2016: £2.5 billion) and by 6.8 per cent in constant currency. Volume and price growth of 5.3 per cent in the like-for-like business increased revenue by £131.4 million. Acquisitions and new branches contributed revenue of £92.9 million which was partially offset by a revenue decline of £52.3 million from branch closures and divestments. A favourable currency translation gain, due to the strengthening of the euro, increased sterling revenue by £47.4 million.

Adjusted Operating Profit

Adjusted operating profit of £163.7 million (2016: £142.0 million) increased by 15.2 per cent driven principally by strong growth in the like-for-like business. The profit contribution from development activity reflected a good contribution from the Gunters en Meuser acquisition that was partially offset by increased store opening costs in Selco. Operating profit before property profit increased by 17.4 per cent to £160.9 million (2016: £137.1 million). Property profit declined to £2.7 million from £4.9 million.

Growth in the adjusted operating margin by 30 basis points to 6.0 per cent and by 40 basis points to 5.9 per cent excluding property profit was due to volume growth and efficiencies across the businesses including a focus on tight control of overheads in the like-for-like business and benefits from successfully restructuring the UK Plumbing, Heating and Contracts businesses in the last quarter of 2016.

Net Finance Income and Expense

The net finance expense increased to £6.4 million (2016: £5.9 million). The net bank interest payable declined to £4.2 million (2016: £4.7 million). The benefit of lower average net debt and an easing of market rates for the euro was partially offset by the adverse impact on translation of interest payable on the Group's euro denominated debt. The net cost of defined benefit pension scheme obligations increased to £0.7 million (2016: £0.5 million). There was a net foreign exchange loss of £1.0 million (2016: £0.2 million) that arose primarily on the translation of Euro and US dollar denominated cash and overdrafts.

Taxation

The income tax expense of £26.6 million (2016: £21.1 million) was equivalent to an effective tax rate of 17.2 per cent (2016: 18.5 per cent). The underlying rate for the year was 18.5 per cent (2016: 19.0 per cent). Non-recurring tax deductions accounted for the difference between the effective rate and underlying rate of 18.5 per cent. The underlying tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The underlying tax rate for the Group is most sensitive to changes in the UK rate of corporation tax which declined by one per cent to 19 per cent with effect from 1 April 2017. A further two percentage point reduction to 17 per cent will take effect on 1 April 2020. Our current expectation is for the 2018 underlying tax rate to remain at 18.5 per cent.

Capital Expenditure and Investment in Intangible Assets

Gross capital expenditure was £73.7 million (2016: £50.1 million) and there was expenditure of £7.7 million (2016: £10.3 million) on intangible assets. Proceeds of £8.8 million (2016: £10.0 million) were received on disposal of fixed assets. The net investment on capital expenditure and intangible assets was £72.6 million (2016: £50.4 million).

Development expenditure of £41.6 million (2016: £27.2 million) was concentrated on new Selco branches, the purchase of freehold interests in two merchanting branches in Ireland, increasing the merchanting network in Dublin, branch upgrades across the Group's estate and other projects to grow future profitability. Asset replacement expenditure of £32.1 million (2016: £22.9 million), which compares to the depreciation charge of £39.5 million, related to the distribution fleet that supports delivered revenue, replacing equipment, plant and tools that are hired to customers and other assets required to operate the Group's network of 649 branches.

An investment of £7.7 million (2016: £10.3 million) was made on the new IT platform in Buildbase and in other software development projects across the Group.

In 2018, development and replacement expenditure is anticipated to be approximately twice the level of depreciation excluding acquisitions.

Pensions

The Group's main pension arrangements are operated through defined contribution schemes which apply to over 90 per cent of colleagues. The net deficit on the defined benefit pensions schemes declined by £7.8 million to £23.5 million (31 December 2016: £31.3 million). The schemes, which are closed to new members, have 900 current and 1,800 deferred members and pensioners.

The reduction in the deficit was mainly attributed to good returns on scheme assets which were valued at £239.4 million at the year end. Updated mortality assumptions and a fall in expectations for future inflation reduced scheme liabilities and the deficit in the UK schemes. These gains were partially offset by a decline of 30 basis points to 2.6 per cent in bond yields used to discount UK scheme liabilities.

Net Debt

Year-end net debt declined by £33.4 million to £62.9 million (31 December 2016: £96.3 million). The translation of euro denominated debt at the year-end sterling-euro exchange rate increased the Group's net debt by £9.5 million. The Group's gross debt is drawn in euros and provides a hedge against exchange rate risk on euro assets invested in the Group's businesses in Ireland, the Netherlands and Belgium.

The gearing ratio declined to five per cent (31 December 2016: nine per cent). The Group remains in a very strong financial position with EBITDA interest cover of 48.4 times (31 December 2016: 37.9 times) and net debt of 0.31 times EBITDA (31 December 2016: 0.54 times). The Group's leverage policy is to maintain its current investment grade credit rating.

Financing

The Group had bilateral loan facilities of £528.3 million with six relationship banks at the year end. In March 2017, an option was exercised to extend facilities of £430.7 million with five banks for a further year to March 2022. The average maturity of committed facilities of £528.3 million, including a facility of £97.6 million maturing in March 2021, was 4.0 years at 31 December 2017. A further one-year extension option was exercised in February 2018 for facilities of £430.7 million with five of the Group's six relationship banks.

The Group's key financing objective is to ensure that it has the necessary liquidity and resources to support the long term funding of the business.

At 31 December 2017 the Group had undrawn bank facilities of £213.1 million (31 December 2016: £217.6 million) and cash balances and deposits of £253.7 million which together with strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, replacement assets and development activity including acquisitions.

Shareholders' Equity

Shareholders' equity increased by £112.5 million in the year to £1.2 billion. The effect of profit after tax of £127.7 million less dividend payments of £33.7 million increased equity by £94.0 million. Equity increased by £6.4 million due to a remeasurement gain on pension schemes and by £4.1million due to a currency translation gain on euro denominated net assets.

Return on Capital Employed and Asset Turn

Return on Capital Employed (ROCE) increased by 110 basis points to 13.6 per cent (year to December 2016: 12.5 per cent) and capital turn increased to 2.3 times from 2.2 times in 2016. The generation of increased returns on capital employed is a key financial metric in the creation of shareholder value and was achieved through increasing profitability in existing businesses and allocating development capital to acquisitions and organic developments that meet a demanding hurdle rate of return on capital employed.

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 16 to 19 of the 2016 Annual Report and will be updated in the 2017 Annual Report.

Grafton Group plc

Group Income Statement
For the year ended 31 December 2017

Continuing activities	**Notes**	**2017 £'000**	2016 £'000
Revenue	**2**	**2,715,830**	2,507,276
Operating costs – before exceptional items		**(2,557,654)**	(2,372,349)
Property profits	**3**	**2,722**	4,923
Operating profit - before exceptional items		**160,898**	139,850
Exceptional items	**3**	**-**	(19,713)
Operating profit	**3**	**160,898**	120,137
Finance expense	**4**	**(7,122)**	(7,166)
Finance income	**4**	**675**	1,276
Profit before tax		**154,451**	114,247
Income tax expense	**17**	**(26,622)**	(21,128)
Profit after tax for the financial year		**127,829**	93,119
Profit attributable to:			
Owners of the Company		**127,719**	93,347
Non-controlling interests	**8**	**110**	(228)
Profit after tax for the financial year		**127,829**	93,119
Earnings per ordinary share - basic	**5**	**53.95p**	39.56p
Earnings per ordinary share - diluted	**5**	**53.80p**	39.44p

Grafton Group plc

Group Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Profit after tax for the financial year		**127,829**	93,119
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**4,146**	20,374
- on foreign currency borrowings designated as net investment hedges		**-**	1,221
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**(202)**	(461)
- net change in fair value of cash flow hedges transferred from equity		**336**	258
Deferred tax on cash flow hedges		**(30)**	26
		4,250	21,418
Items that will not be reclassified to the income statement			
Remeasurement gain/(loss) on Group defined benefit pension schemes	**13**	**7,438**	(13,810)
Deferred tax on Group defined benefit pension schemes		**(1,069)**	2,102
		6,369	(11,708)
Total other comprehensive income		**10,619**	9,710
Total comprehensive income for the financial year		**138,448**	102,829
Total comprehensive income attributable to:			
Owners of the Company		**138,338**	103,057
Non-controlling interests	**8**	**110**	(228)
Total comprehensive income for the financial year		**138,448**	102,829

Grafton Group plc

Group Balance Sheet as at 31 December 2017

	Notes	31 Dec 2017	31 Dec 2016
ASSETS		**£'000**	£'000
Non-current assets			
Goodwill	**15**	**591,746**	566,237
Intangible assets	**16**	**54,340**	44,584
Property, plant and equipment	**9**	**504,412**	461,660
Investment properties	**9**	**22,056**	21,749
Deferred tax assets		**11,867**	15,718
Retirement benefit assets	**13**	**1,527**	796
Other financial assets		**126**	125
Total non-current assets		**1,186,074**	1,110,869
Current assets			
Properties held for sale	**9**	**5,055**	8,407
Inventories	**10**	**328,525**	292,681
Trade and other receivables	**10**	**413,095**	397,689
Cash and cash equivalents	**11**	**253,659**	205,857
Total current assets		**1,000,334**	904,634
Total assets		**2,186,408**	2,015,503
EQUITY			
Equity share capital		**8,494**	8,449
Share premium account		**212,167**	210,271
Capital redemption reserve		**621**	621
Revaluation reserve		**13,327**	13,507
Shares to be issued reserve		**8,744**	8,446
Cash flow hedge reserve		**(427)**	(531)
Foreign currency translation reserve		**77,505**	73,359
Retained earnings		**858,053**	751,842
Treasury shares held		**(3,897)**	(3,897)
Equity attributable to owners of the Parent		**1,174,587**	1,062,067
Non-controlling interests	**8**	**-**	3,122
Total equity		**1,174,587**	1,065,189
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	**11**	**315,165**	300,426
Provisions		**21,888**	22,385
Retirement benefit obligations	**13**	**25,006**	32,081
Derivative financial instruments	**11**	**484**	675
Deferred tax liabilities	**17**	**37,986**	36,429
Total non-current liabilities		**400,529**	391,996
Current liabilities			
Interest-bearing loans and borrowings	**11**	**916**	1,051
Trade and other payables	**10**	**572,130**	523,700
Current income tax liabilities	**17**	**27,613**	21,224
Provisions		**10,633**	12,343
Total current liabilities		**611,292**	558,318
Total liabilities		**1,011,821**	950,314
Total equity and liabilities		**2,186,408**	2,015,503

Grafton Group plc

Group Cash Flow Statement

For the year ended 31 December 2017

	Notes	31 Dec 2017 £'000	31 Dec 2016 £'000
Profit before taxation		**154,451**	114,247
Finance income		**(675)**	(1,276)
Finance expense		**7,122**	7,166
Operating profit		**160,898**	120,137
Depreciation	**9**	**39,455**	34,929
Amortisation of intangible assets	**16**	**4,032**	3,121
Share-based payments charge		**4,908**	3,232
Movement in provisions		**(3,094)**	5,802
Asset impairment and fair value gains/losses	**9**	**329**	4,383
(Profit)/loss on sale of property, plant and equipment		**(737)**	19
Property profit		**(2,722)**	(4,923)
Loss on disposal of Group businesses		**3**	392
Contributions to pension schemes in excess of IAS 19 charge		**(1,840)**	(1,516)
Decrease in working capital	**10**	**9,506**	3,010
Cash generated from operations		**210,738**	168,586
Interest paid		**(6,438)**	(6,936)
Income taxes paid		**(18,157)**	(16,269)
Cash flows from operating activities		**186,143**	145,381
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**3,100**	1,740
Proceeds from sales of properties held for sale	**9**	**5,708**	8,251
Proceeds from sale of group businesses (net)		**512**	881
Interest received		**675**	1,276
		9,995	12,148
Outflows			
Acquisition of subsidiary undertakings and businesses (net of cash)	**14**	**(37,732)**	(11,859)
Investment in intangible asset – computer software	**16**	**(7,687)**	(10,343)
Purchase of property, plant and equipment	**9**	**(73,729)**	(50,101)
		(119,148)	(72,303)
Cash flows from investing activities		**(109,153)**	(60,155)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,941**	505
Proceeds from borrowings		**34,355**	77,842
		36,296	78,347
Outflows			
Repayment of borrowings		**(31,439)**	(145,577)
Dividends paid	**6**	**(33,708)**	(30,048)
Acquisition of non-controlling interest		**(2,630)**	-
Payment on finance lease liabilities		**(439)**	(409)
		(68,216)	(176,034)
Cash flows from financing activities		**(31,920)**	(97,687)
Net increase/(decrease) in cash and cash equivalents		**45,070**	(12,461)
Cash and cash equivalents at 1 January		**205,857**	211,565
Effect of exchange rate fluctuations on cash held		**2,732**	6,753
Cash and cash equivalents at the end of the year		**253,659**	205,857
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**253,659**	205,857

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 2017												
At 1 January 2017	**8,449**	**210,271**	**621**	**13,507**	**8,446**	**(531)**	**73,359**	**751,842**	**(3,897)**	**1,062,067**	**3,122**	**1,065,189**
Profit after tax for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**127,719**	**-**	**127,719**	**110**	**127,829**
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,369**	**-**	**6,369**	**-**	**6,369**
Movement in cash flow hedge reserve (net of tax)	**-**	**-**	**-**	**-**	**-**	**104**	**-**	**-**	**-**	**104**	**-**	**104**
Currency translation effect on foreign currency net investments	**-**	**-**	**-**	**-**	**-**	**-**	**4,146**	**-**	**-**	**4,146**	**-**	**4,146**
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**104**	**4,146**	**6,369**	**-**	**10,619**	**-**	**10,619**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**104**	**4,146**	**134,088**	**-**	**138,338**	**110**	**138,448**
Transactions with owners of the Company recognised directly in equity												
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(33,708)**	**-**	**(33,708)**	**-**	**(33,708)**
Issue of Grafton Units	**45**	**1,896**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,941**	**-**	**1,941**
Share based payments charge	**-**	**-**	**-**	**-**	**4,908**	**-**	**-**	**-**	**-**	**4,908**	**-**	**4,908**
Tax on share based payments	**-**	**-**	**-**	**-**	**439**	**-**	**-**	**-**	**-**	**439**	**-**	**439**
Transfer from shares to be issued reserve	**-**	**-**	**-**	**-**	**(5,049)**	**-**	**-**	**5,049**	**-**	**-**	**-**	**-**
Acquisition of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**602**		**602**	**(3,232)**	**(2,630)**
Transfer from revaluation reserve	**-**	**-**	**-**	**(180)**	**-**	**-**	**-**	**180**	**-**	**-**	**-**	**-**
	45	**1,896**	**-**	**(180)**	**298**	**-**	**-**	**(27,877)**	**-**	**(25,818)**	**(3,232)**	**(29,050)**
At 31 December 2017	**8,494**	**212,167**	**621**	**13,327**	**8,744**	**(427)**	**77,505**	**858,053**	**(3,897)**	**1,174,587**	**-**	**1,174,587**
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

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 Great 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.

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 2016 have been filed with the Irish Registrar of Companies. The audit report on those statutory financial statements was unqualified.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group 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 2016 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 2016. There are no new IFRS standards effective from 1 January 2017 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.

(b) Estimates

In preparing the Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016. 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.

	2017	2016
	£'000	£'000
Revenue		
Merchanting	**2,469,350**	2,290,568
Retailing	**180,391**	157,090
Manufacturing	**78,009**	74,358
Less: Inter-segment revenue - manufacturing	**(11,920)**	(14,740)
	2,715,830	2,507,276
Segment operating profit before exceptional items and intangible assets amortisation arising on acquisitions		
Merchanting	**148,877**	130,264
Retailing	**11,179**	7,304
Manufacturing	**15,125**	12,149
	175,181	149,717
Reconciliation to consolidated operating profit		
Central activities	**(14,249)**	(12,592)
	160,932	137,125
Property profits	**2,722**	4,923
Operating profit before exceptional items and intangible assets amortisation arising on acquisitions	**163,654**	142,048
Exceptional items	**-**	(19,713)
Amortisation of intangible assets arising on acquisitions	**(2,756)**	(2,198)
Operating profit	**160,898**	120,137
Finance expense	**(7,122)**	(7,166)
Finance income	**675**	1,276
Profit before tax	**154,451**	114,247
Income tax expense	**(26,622)**	(21,128)
Profit after tax for the financial year	**127,829**	93,119

The amount of revenue by geographic area is as follows:

	2017	2016
	£'000	£'000
Revenue		
United Kingdom	**1,907,159**	1,827,028
Ireland*	**588,030**	509,074
Belgium	**89,613**	83,462
Netherlands	**131,028**	87,712
	2,715,830	2,507,276

*Includes Poland in 2016 which is immaterial

2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	31 Dec 2017 £'000	31 Dec 2016 £'000
Segment assets		
Merchanting	**1,816,532**	1,695,668
Retailing	**59,348**	55,570
Manufacturing	**43,349**	41,769
	1,919,229	1,793,007
Unallocated assets		
Deferred tax assets	**11,867**	15,718
Retirement benefit assets	**1,527**	796
Other financial assets	**126**	125
Cash and cash equivalents	**253,659**	205,857
Total assets	**2,186,408**	2,015,503

Operating segment liabilities are analysed below:

	31 Dec 2017 £'000	31 Dec 2016 £'000
Segment liabilities		
Merchanting	**545,941**	502,871
Retailing	**43,657**	41,451
Manufacturing	**15,053**	14,106
	604,651	558,428
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**316,081**	301,477
Retirement benefit obligations	**25,006**	32,081
Deferred tax liabilities	**37,986**	36,429
Current income tax liabilities	**27,613**	21,224
Derivative financial instruments (current and non-current)	**484**	675
Total liabilities	**1,011,821**	950,314

3. Operating Profit

The property profit of £2.7 million (2016: £4.9 million) relates to the disposal of 11 UK properties and one Irish property (2016: ten UK properties).

Exceptional items of £19.7 million in 2016 million relate to branch closures in the traditional UK Merchanting business of £16.1 million, an increase in the onerous lease provision of £3.2 million and other rationalisation costs of £0.4 million. There is no similar charge in 2017.

In 2017, the Group incurred acquisition costs of £0.7 million (2016: £0.7 million) and recognised amortisation costs on acquired intangibles of £2.8 million (2016: £2.2 million).

4. Finance Expense and Finance Income

	2017 £'000		2016 £'000	
Finance expense				
Interest on bank loans and overdrafts	**(4,902)**	*	(5,975)	*
Net change in fair value of cash flow hedges transferred from equity	**(336)**		(258)	
Interest on finance leases	**(188)**		(208)	
Net finance cost on pension scheme obligations	**(721)**		(510)	
Foreign exchange loss	**(975)**		(215)	
	(7,122)		(7,166)	
Finance income				
Interest income on bank deposits	**675**	*	1,276	*
	675		1,276	
Net finance expense	**(6,447)**		(5,890)	

* Net bank/loan note interest of £4.2 million (2016: £4.7 million).

5. Earnings per Share

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

	Year Ended 31 Dec 2017 £'000	Year Ended 31 Dec 2016 £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**127,829**	93,119
Non-controlling interest	**(110)**	228
Numerator for basic and diluted earnings per share	**127,719**	93,347
Amortisation of intangible assets arising on acquisitions	**2,756**	2,198
Tax relating to amortisation of intangible assets arising on acquisitions	**(618)**	(564)
Exceptional items	**-**	19,713
Tax relating to exceptional items	**-**	(2,231)
Numerator for adjusted earnings per share	**129,857**	112,463
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**236,746,881**	235,942,078
Dilutive effect of options and awards	**662,760**	726,245
Denominator for diluted earnings per share	**237,409,641**	236,668,323
Earnings per share (pence)		
- Basic	**53.95**	39.56
- Diluted	**53.80**	39.44
Adjusted earnings per share (pence)		
- Basic	**54.85**	47.67
- Diluted	**54.70**	47.52

6. Dividends

The payment in 2017 of a second interim dividend for 2016 of 9.0 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £21.3 million. A 2017 interim dividend of 5.25 pence per share was paid on 6 October 2017 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £12.4 million.

A second interim dividend for 2017 of 10.25 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 9 March 2018 (the 'Record Date'). The dividend will be paid on 6 April 2018. A liability in respect of this second interim dividend has not been recognised at 31 December 2017, 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 2017 was Stg87.67p (year to 31 December 2016: Stg81.95p). The sterling/euro exchange rate at 31 December 2017 was Stg88.72p (31 December 2016: Stg85.62p).

8. Non-Controlling Interests

In December 2017, the Group acquired the non-controlling interest of YouBuild NV (formerly BMC Groep NV). This is now accounted for as a 100% subsidiary undertaking.

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 2017	**461,660**	**8,407**	**21,749**
Additions	73,729	-	-
Acquisitions (note 14)	5,585	-	-
Depreciation	(39,455)	-	-
Disposals	(2,363)	(2,986)	-
Disposal of Group businesses	(1)	-	-
Impairments & property revaluations	(300)	-	(29)
Transfer to properties held for sale	(214)	214	-
Transfer to investment properties	-	(157)	157
Transfers to property, plant and equipment	883	(497)	(386)
Currency translation adjustment	4,888	74	565
As at 31 December 2017	**504,412**	**5,055**	**22,056**

10. Movement in Working Capital

	Inventories £'000	**Trade and other receivables £'000**	**Trade and other payables £'000**	**Total £'000**
At 1 January 2017	**292,681**	**397,689**	**(523,700)**	**166,670**
Currency translation adjustment	**4,008**	**3,631**	**(5,752)**	**1,887**
Disposal of Group businesses	**(342)**	**(245)**	**161**	**(426)**
Acquisitions through business combinations (note 14)	**7,697**	**6,667**	**(3,499)**	**10,865**
Movement in 2017	**24,481**	**5,353**	**(39,340)**	**(9,506)**
At 31 December 2017	**328,525**	**413,095**	**(572,130)**	**169,490**

11. Interest-Bearing Loans, Borrowings and Net debt

	31 Dec 2017 £'000	31 Dec 2016 £'000
Non-current liabilities		
Bank loans	**312,980**	297,870
Finance leases	**2,185**	2,556
Total non-current interest-bearing loans and borrowings	**315,165**	300,426
Current liabilities		
Bank loans	**478**	645
Finance leases	**438**	406
Total current interest-bearing loans and borrowings	**916**	1,051
Derivatives-non current		
Included in non-current liabilities	**484**	675
Total derivatives	**484**	675
Cash and cash equivalents	**(253,659)**	(205,857)
Net debt	**62,906**	96,295

The following table shows the fair value of financial assets and liabilities including their level in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 Dec 2017 £'000	31 Dec 2016 £'000
Liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps (Level 2)	**484**	675
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**313,458**	298,515
Finance leases	**2,623**	2,962
	316,081	301,477

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 year end financial statements, approximate to their fair values.

Financial assets and liabilities carried at fair value

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 period. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

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

	31 Dec 2017 £'000	31 Dec 2016 £'000
Net increase/(decrease) in cash and cash equivalents	**45,070**	(12,461)
Net movement in derivative financial instruments	**264**	(203)
Cash-flow from movement in debt and lease financing	**(2,477)**	68,144
Change in net debt resulting from cash flows	**42,857**	55,480
Currency translation adjustment	**(9,468)**	(38,217)
Movement in net debt in the year	**33,389**	17,263
Net debt at 1 January	**(96,295)**	(113,558)
Net debt at end of the year	**(62,906)**	(96,295)
Gearing	**5%**	9%

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 2017 %	At 31 Dec 2016 %	**At 31 Dec 2017 %**	At 31 Dec 2016 %
Rate of increase in salaries	**2.65%** *	2.50%*	**0.00%** **	0.00%**
Rate of increase of pensions in payment	**-**	-	**3.10%**	3.10%
Discount rate	**1.85%**	1.80%	**2.60%**	2.90%
Inflation	**1.45%**	1.30%	**2.10%** ***	2.20%***

*2.65% applies from 2 January 2019 (31 December 2016: 2.5% 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)

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 2017	Year to 31 Dec 2016	**Year to 31 Dec 2017**	Year to 31 Dec 2016	**Year to 31 Dec 2017**	Year to 31 Dec 2016
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**221,966**	186,807	**(253,251)**	(203,430)	**(31,285)**	(16,623)
Acquired in year	**-**	-	**(198)**	-	**(198)**	-
Interest income on plan assets	**5,296**	6,235	**-**	-	**5,296**	6,235
Contributions by employer	**4,193**	3,610	**-**	-	**4,193**	3,610
Contributions by members	**688**	731	**(688)**	(731)	**-**	-
Benefit payments	**(8,179)**	(6,942)	**8,179**	6,942	**-**	-
Transfer in of assets/(liabilities)	**-**	1,162	**-**	(1,162)	**-**	-
Current service cost	**-**	-	**(2,677)**	(2,411)	**(2,677)**	(2,411)
Other long term benefit (expense)/ gain	**-**	-	**(56)**	148	**(56)**	148
Past service credit	**-**	-	**282**	-	**282**	-
Settlement gain	**-**	-	**98**	-	**98**	-
Curtailment gain	**-**	-	**-**	169	**-**	169
Interest cost on scheme liabilities	**-**	-	**(6,017)**	(6,745)	**(6,017)**	(6,745)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**183**	(2,196)	**183**	(2,196)
-financial assumptions	**-**	-	**(6,216)**	(29,364)	**(6,216)**	(29,364)
-demographic assumptions	**-**	-	**1,900**	1,450	**1,900**	1,450
Return on plan assets excluding interest income	**11,571**	16,300	**-**	-	**11,571**	16,300
Translation adjustment	**3,828**	14,063	**(4,381)**	(15,921)	**(553)**	(1,858)
At 31 December	**239,363**	221,966	**(262,842)**	(253,251)	**(23,479)**	(31,285)
Related deferred tax asset (net)					**3,581**	4,699
Net pension liability					**(19,898)**	(26,586)

The net pension scheme deficit of £23.5 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £25.0 million and retirement benefit assets (non-current assets) of £1.5 million. £13.0 million of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £12.0 million relates to one UK scheme. £1.0 million of the retirement benefit asset relates to a second UK scheme and £0.5 million to one scheme in Ireland.

13. Retirement Benefits (continued)

The 2016 net pension scheme deficit of £31.3 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £32.1 million and retirement benefit assets (non-current assets) of £0.8 million. £17.3 million relates to the schemes in Ireland, Belgium and the Netherlands and £14.8 million relates to one UK scheme. £0.5 million of the retirement benefit asset relates to a second UK scheme and £0.3 million to a scheme in Ireland.

14. Acquisitions

On 5 January 2017, the Group completed the acquisition of 100 per cent of the issued share capital of Gunters en Meuser B.V. ("G&M"), the market leader in the distribution of ironmongery, tools and fixings in the Greater Amsterdam Area. G&M trades from 14 branches. In April 2017, a small single branch business was acquired in Wijchen, Eastern Netherlands which provides a good platform to develop a strong market position in the town. On 21 November 2017, 100% of the issued share capital of Scholte & de Vries – Estoppey B.V. ("SV-E") was also acquired. SV-E is a third generation family business that distributes ironmongery, tools and fixings from four branches located primarily in the Greater Amsterdam Area. These acquisitions will strengthen and complement the market position of the Group's existing businesses in the Netherlands ironmongery, tools and fixings markets. All businesses are incorporated in the merchanting segment and were strategic acquisitions to grow the business in the Netherlands. Details of the acquisitions made in 2016 are disclosed in the Group's 2016 Annual Report.

The provisional fair value of assets and liabilities acquired in 2017 are set out below:

	Total £'000
Property, plant and equipment	**5,585**
Intangible assets – customer relationships	**4,883**
Intangible assets – trade names	**534**
Intangible assets – computer software	**91**
Inventories	**7,697**
Trade and other receivables	**6,667**
Trade and other payables	**(3,499)**
Retirement benefit liabilities	**(198)**
Deferred tax (liability)	**(1,970)**
Deferred tax asset	**271**
Cash acquired	**51**
Net assets acquired	**20,112**
Goodwill	**17,671**
Consideration	**37,783**
Satisfied by:	
Cash paid	**37,783**

Net cash outflow – arising on acquisitions

Cash consideration	**37,783**
Less: cash and cash equivalents acquired	**(51)**
	37,732

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 2017 contributed revenues of £32.3 million and operating profit of £3.0 million for the period from the date of acquisition until the year end. Acquisitions would have contributed revenue of £45.5 million and operating profit of £3.1 million in the year ended 31 December 2017 on the assumption that they had been acquired on 1 January. The Group incurred acquisition costs of £0.7 million (2016: £0.7 million) which are 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. The Board is satisfied that the carrying value of goodwill has not been impaired.

	Goodwill £'000
Net Book Value	
As at 1 January 2017	**566,237**
Arising on acquisitions (note 14)	**17,671**
Disposal of Group businesses	**(89)**
Currency translation adjustment	**7,927**
As at 31 December 2017	**591,746**

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
Net Book Value				
As at 1 January 2017	**24,735**	**2,471**	**17,378**	**44,584**
Additions	**7,687**	**-**	**-**	**7,687**
Arising on acquisitions (note 14)	**91**	**534**	**4,883**	**5,508**
Amortisation	**(1,276)**	**(336)**	**(2,420)**	**(4,032)**
Currency translation adjustment	**(4)**	**74**	**523**	**593**
As at 31 December 2017	**31,233**	**2,743**	**20,364**	**54,340**

The computer software asset of £31.2 million at 31 December 2017 (2016: £24.7 million) 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 £4.0 million (2016: £3.1 million) has been charged in 'operating costs' in the income statement. Amortisation on acquired intangibles amounted to £2.8 million (2016: £2.2 million).

17. Taxation

The income tax expense of £26.6 million (2016: £21.1 million) was equivalent to an effective tax rate of 17.2 per cent (2016: 18.5 per cent). The underlying rate for the year was 18.5 per cent (2016: 19.0 per cent). Non-recurring tax deductions accounted for the difference between the effective and underlying rate of 18.5 per cent. The underlying rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland, the Netherlands and Belgium. The underlying tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The underlying tax rate for the Group is most sensitive to changes in the UK rate of corporation tax which declined by one per cent to 19 per cent with effect from 1 April 2017. A further two percentage point reduction to 17 per cent will take effect on 1 April 2020.

17. Taxation (continued)

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 2017, there were unrecognised deferred tax assets in relation to capital losses of £0.6 million (31 December 2016: £1.2 million), trading losses of £3.4 million (31 December 2016: £3.2 million) and deductible temporary differences of £nil (31 December 2016: £2.6 million). Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits 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. There were no other changes in related parties from those described in the 2016 Annual Report that materially affected the financial position or the performance of the Group during the year to 31 December 2017, except for the resignation of two directors during the year.

19. Events after the Balance Sheet Date

On 16 February 2018, the Group completed the acquisition of LSDM Limited ("Leyland SDM"). Leyland SDM is regarded as one of the most recognisable and trusted decorating and DIY brands in Central London selling paint, tools, ironmongery and accessories. The Leyland SDM "small box" convenience trading format is a proven business model in Central London that complements the Group's larger Selco branches located in Greater London. Leyland SDM trades from 21 branches. The total consideration payable was £82.4 million on a debt-free, cash-free basis and was funded from the Group's cash and debt facilities.

There have been no other material events subsequent to 31 December 2017 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 1 March 2018.

Supplementary Financial Information
Alternative Performance Measures

Certain financial information set out in this consolidated half year 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 2016 are available in the 2016 Annual Report.

APM	Description
Adjusted operating profit/EBITA	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted operating profit/EBITA before property profit	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted operating profit/EBITA margin before property profit	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
Adjusted profit before tax	Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense.
Adjusted profit after tax	Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense.
Capital Turn	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
Constant Currency	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
Dividend Cover	Group earnings per share divided by the total dividend per share for the Group.
EBITA	Earnings before exceptional items, net finance expense, income tax expense and amortisation of intangible assets arising on acquisitions.
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 attributable to owners of the Parent times 100.
Like-for-like revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating profit/EBITA 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

	2017	2016
	£'m	£'m
Revenue	**2,715.8**	2,507.3
Operating profit	**160.9**	120.1
Property profit	**(2.7)**	(4.9)
Exceptional items charged in operating profit	**-**	19.7
Amortisation of intangible assets arising on acquisitions	**2.8**	2.2
Adjusted operating profit/EBITA before property profit	**160.9**	137.1
Adjusted operating profit/EBITA margin before property profit	**5.9%**	5.5%

Operating Profit/EBITA Margin

	2017	2016
	£'m	£'m
Revenue	**2,715.8**	2,507.3
Operating profit	**160.9**	120.1
Operating profit margin	**5.9%**	4.8%

Adjusted Operating Profit/EBITA & Margin

	2017	2016
	£'m	£'m
Operating profit	**160.9**	120.1
Exceptional items charged in operating profit	**-**	19.7
Amortisation of intangible assets arising on acquisitions	**2.8**	2.2
Adjusted operating profit	**163.7**	142.0
Adjusted operating profit/EBITA margin	**6.0%**	5.7%

Adjusted Profit before Tax

	2017	2016
	£'m	£'m
Profit before tax	**154.5**	114.2
Exceptional items charged in operating profit	**-**	19.7
Amortisation of intangible assets arising on acquisitions	**2.8**	2.2
Adjusted profit before tax	**157.2**	136.2

Adjusted Profit after Tax

	2017	2016
	£'m	£'m
Profit after tax for the financial year	**127.8**	93.1
Exceptional items charged in operating profit	**-**	19.7
Tax on exceptional items	**-**	(2.2)
Amortisation of intangible assets arising on acquisitions	**2.8**	2.2
Tax on amortisation of intangible assets arising on acquisitions	**(0.6)**	(0.6)
Adjusted profit after tax	**130.0**	112.2

Reconciliation of Profit to EBITDA

	2017	2016
	£'m	£'m
Profit after tax for the financial year	**127.8**	93.1
Exceptional items charged in operating profit	**-**	19.7
Net finance expense	**6.4**	5.9
Income tax expense	**26.6**	21.1
Depreciation	**39.5**	34.9
Intangible asset amortisation	**4.0**	3.1
EBITDA	**204.4**	177.9

Net debt to EBITDA

	2017	2016
	£'m	£'m
EBITDA	**204.4**	177.9
Net debt	**62.9**	96.3
Net debt to EBITDA - times	**0.31**	0.54

EBITDA Interest Cover

	2017	2016
	£'m	£'m
EBITDA	**204.4**	177.9
Net bank/loan note interest	**4.2**	4.7
EBITDA interest cover - times	**48.4**	37.9

Gearing

	2017	2016
	£'m	£'m
Total equity attributable to owners of the Parent	**1,174.6**	1,062.1
Group net debt	**62.9**	96.3
Gearing	**5%**	9%

Return on Capital Employed

	2017	2016
	£'m	£'m
Operating profit	**160.9**	120.1
Exceptional items charged in operating profit	**-**	19.7
Amortisation of intangible assets arising on acquisitions	**2.8**	2.2
Adjusted operating profit	**163.7**	142.0
Total equity - current period end	**1,174.6**	1,065.2
Net debt - current period end	**62.9**	96.3
Capital employed - current period end	**1,237.5**	1,161.5
Total equity - prior period end	**1,065.2**	989.0
Net debt - prior period end	**96.3**	113.6
Capital employed - prior period end	**1,161.5**	1,102.6
Average capital employed	**1,199.5**	1,132.0
Return on capital employed	**13.6%**	12.5%

Capital Turn

	2017	2016
	£'m	£'m
Revenue	**2,715.8**	2,507.3
Average capital employed	**1,199.5**	1,132.0
Capital turn – times	**2.3**	2.2

Dividend Cover

	2017	2016
Group adjusted EPS – basic (pence)	**54.85**	47.67
Group dividend (pence)	**15.50**	13.75
Group dividend cover - times	**3.5**	3.5