Final Results
For the Year Ended 31 December 2019

Grafton Group plc
Final Results for the Year Ended 31 December 2019

£m[1]	2019[2]	Pre IFRS 16 2019	2018[3]	Change[4]
Revenue – total	**2,924**	**2,924**	2,953	(1%)
- Revenue – continuing operations	**2,672**	**2,672**	2,603	+3%
- Revenue – discontinued operations	**252**	**252**	350	(28%)
Adjusted[5]				
Operating profit – continuing operations	**204.8**	**194.3**	187.6	+4%
Operating profit – discontinued operations	**6.5**	**5.4**	6.9	(23%)
Operating profit – all operations	**211.3**	**199.7**	194.5	+3%
Earnings per share – basic (continuing operations)	**62.8p**	**66.0p**	63.7p	+4%
Statutory results				
Operating profit – continuing operations	**197.8**	**187.3**	180.5	+4%
Profit before tax – continuing operations	**172.6**	**181.8**	174.4	+4%
Earnings per share – basic (continuing operations)	**60.5p**	**63.7p**	60.9p	+5%
Dividend	**19.0p**	**19.0p**	18.0p	+6%
Net debt/(cash)	**533.8**	**(7.8)**	53.1	(£60.9m)
Adjusted operating margin pre property profit	**7.4%**	**7.0%**	7.0%	-
Adjusted operating profit margin	**7.7%**	**7.3%**	7.2%	+10bps
Return on capital employed	**12.7%**	**14.4%**	14.7%	(30bps)

[1] Supplementary financial information in relation to Alternative Performance Measures (APMs) is set out on pages 42 to 53.
[2] A bridge between the pre IFRS 16 and the related IFRS impact is set out within the APM's and detail is also in Note 20.
[3] 2018 has been restated as Plumbase and the Belgium Merchanting business are classified as discontinued operations. Details are set out in the APM's.
[4] Change relates to 2019 v 2018 pre any IFRS 16 "Leases" impact.
[5] The term "Adjusted" means before exceptional items and amortisation of intangible assets arising on acquisitions in both years.

Highlights

- Revenue in continuing operations up 3% to £2.7 billion - 2.9% growth in constant currency
- Operating profit in continuing operations up 4% to £194.3 million on a pre-IFRS 16 basis
- Strong organic growth in Merchanting and Retailing businesses in Ireland
- Significant growth in profitability in Netherlands business and increase in scale with Polvo acquisition
- Softer trading in UK merchanting business, particularly in H2 on weaker economy and RMI market
- Reshaped our portfolio with successful disposal of Plumbase and Belgian Merchanting business
- Strong pre-IFRS 16 cash flow from operations of £219.1 million (2018: £209.2 million) and net cash of £7.8m at year end
- 6% increase in total dividend to 19.00p is consistent with progressive dividend policy
- Implementation of IFRS 16 standard on accounting for leases has no economic impact on Group but has changed the measurement of many aspects of the Group's accounts

Gavin Slark, Chief Executive Officer commented:

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

"The outlook for 2020 is of continuing but moderating growth in Ireland and the Netherlands and while reduced uncertainty may lead to some uplift in the UK RMI market, we remain cautious about the speed of any recovery. Given the strength of our brands we look forward to another year of progress for Grafton and with a strong balance sheet and rigorous financial discipline we are well placed to capitalise on growth opportunities."

Webcast Details

An analysts and investors results presentation will be hosted by Gavin Slark and David Arnold at 8.30am (GMT) today 27 February 2020 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. A live webcast will be available on https://www.graftonplc.com/investors/grafton-group-final-results-2019/ 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

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

Murray + 353 1 498 0300
Pat Walsh

MHP Communications + 44 20 3128 8549
Tim Rowntree / Rachel Mann

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 2019

Group Results

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

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

Merchanting

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

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

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

Retailing

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

Manufacturing

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

Discontinued Operations

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

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

Property Profit

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

Cash Flow

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

Dividend

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

Board

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

Sustainability Strategy

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

Outlook

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

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

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

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

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

Operating Review – Continuing Operations

Merchanting Segment* (89% of Group Revenue)

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

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

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

UK Merchanting*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Irish Merchanting

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

** Change represents the movement pre IFRS 16 adjustments*

The merchanting business in Ireland continued to grow and extend its competitive advantage. The focus on organic growth and using the branch estate to leverage the structural growth opportunity that has been a feature of the market in recent years saw like-for-like revenue grow by 6.2 per cent in constant currency. The business performed very strongly in the first half with average daily like-for-like revenue growth of 8.3 per cent. While volumes recovered in the seasonally important month of November, international uncertainty saw a softening of trading and sentiment in the second half with like-for-like revenue growth of 4.2 per cent.

Revenue growth in 2019 benefitted from an increase in the supply of new housing with completions up 18 per cent to an estimated 21,200 units. Chadwicks branch network benefitted from strong growth in housing supply in the Midlands, the West and the Dublin commuter belt counties which alone account for a quarter of national housing building output. The construction of single homes and scheme houses grew by 13 per cent and accounted for over 80 per cent of units completed. This segment of the new build market generates greater demand through the merchanting market than apartment building which increased at a faster rate from a low base.

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

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

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

The rebranding is part of a programme of investment that will modernise and upgrade the branch network over a period of three years. Twelve branches were upgraded and rebranded during the year. A key first step in the rebranding was the successful migration in the first half of the entire branch network onto a single trading system from four discrete systems. This has provided customers with the flexibility to trade with all branches using a single account. This investment and modernisation programme is intended to provide a stronger platform to drive organic growth and increase the scale and competitive advantage of the business.

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

Netherlands Merchanting

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

** Change represents the movement pre IFRS 16 adjustments*

2019 was a transformative year for the Netherlands business, a market that Grafton entered in 2015. The acquisition of the 51 branch Polvo business was completed in July and in August Isero relocated to a new distribution centre that doubled capacity and strengthened its supply chain and logistics functions. Rollout of the Isero ERP system to the 14 branch Amsterdam based Gunters en Meuser commenced and is on track to be completed in the first quarter of 2020. These developments are in line with our strategy to generate long term value in a market leading business where we see further integration benefits from our increased scale and other growth opportunities.

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

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

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

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

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

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

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

Retail Segment (8% of Group Revenue)

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

** Change represents the movement pre IFRS 16 adjustments*

2019 was the fourth consecutive year of strong growth in revenue and profitability for the Woodie's DIY, Home and Garden business in Ireland. The business gained significant momentum over this period supported by investment in the branch network and the introduction of new product ranges. A multi-year programme of investment in colleagues helped to deliver great service and an improved shopping experience for customers. Woodie's is the clear market leader in its sector and it continued to improve its position over the year relative to competitors.

Revenue growth across the thirty-five-branch estate increased from 2.9 per cent in the first half to 6.4 per cent in the second half. The first half performance compared to growth of 13.4 per cent in the prior year driven by exceptional demand for seasonal products. The economic backdrop was generally positive despite some softening of consumer sentiment as the year progressed. A rise in disposable income was sustained by wage growth that became more broadly based across most sectors and regions of the Irish economy.

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

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

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

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

Woodie's improved its position in the Great Place to Work engagement survey for the fourth consecutive year making it one of Ireland's best workplaces benchmarked against major domestic and international businesses operating in Ireland. Woodie's also made a positive difference to the community raising €400,000 for four children's charities from running its "Heroes" campaign in stores across the country.

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

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

Manufacturing Segment (3% of Group Revenue)

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

**Change represents the movement pre IFRS 16 adjustments*

CPI EuroMix, the market leading mortar manufacturing business that operates nationally from ten plants in Great Britain, continued to benefit from its industry leading reputation for product quality and service in the dry mortar market. Mortar volumes supplied to the new housing market increased marginally while a small contraction in other segments of the market, from record levels of output in the prior year, was partly driven by the completion of a number of non-recurring projects.

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

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

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

Operating Review – Discontinued Operations

Belgium Merchanting & Plumbase Business

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

** Change represents the movement pre IFRS 16 adjustments*

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

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

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

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

Financial Review

The Group achieved a good set of results for the year supported by excellent cash generation. Pre-IFRS 16 cash flow from operations was £219.1 million (2018: £209.2 million) and the Group ended the year with pre-IFRS 16 net cash on the balance sheet of £7.8 million having started the year with net debt of £53.1 million.

Revenue

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

Adjusted Operating Profit

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

Property

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

Net Finance Income and Expense

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

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

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

Taxation

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

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

Capital Expenditure and Investment in Intangible Assets

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

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

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

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

Pensions

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

Net Debt

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

Financing

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

On initial application of IFRS 16, the Group recognised assets and liabilities for leases previously classified as operating leases under IAS 17. This resulted in the recognition of right-of-use assets of £561.7 million and lease liabilities of £574.9 million. Further details of the impact of the initial application of IFRS 16 on 1 January 2019 are disclosed in note 22.

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

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

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

Shareholders' Equity

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

Return on Capital Employed

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

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 48 to 51 of the 2018 Annual Report and will be updated in the 2019 Annual Report. These risks are expected to remain the same for the remainder of the year, subject to the comments in the outlook on Brexit.

Grafton Group plc

Group Income Statement
For the year ended 31 December 2019

	Notes	2019 £'000	2018 Restated £'000
Revenue	2	**2,672,281**	2,603,120
Operating costs		**(2,481,392)**	(2,427,445)
Property profits	3	**6,894**	4,854
Operating profit		**197,783**	180,529
Finance expense	4	**(27,391)**	(7,071)
Finance income	4	**2,249**	944
Profit before tax		**172,641**	174,402
Income tax expense	17	**(28,717)**	(29,619)
Profit after tax for the financial year from continuing operations		**143,924**	144,783
(Loss)/profit after tax from discontinued operations	14	**(24,692)**	5,620
Profit after tax for the financial year		**119,232**	150,403
Profit attributable to:			
Owners of the Company		**119,232**	150,403
Profit attributable to:			
Continuing operations		**143,924**	144,783
Discontinued operations		**(24,692)**	5,620
Earnings per ordinary share (continuing operations) - basic	5	**60.5p**	60.9p
Earnings per ordinary share (continuing operations) - diluted	5	**60.3p**	60.8p
Earnings per ordinary share (discontinued operations) - basic	5	**(10.4p)**	2.4p
Earnings per ordinary share (discontinued operations) - diluted	5	**(10.3p)**	2.4p
Earnings per ordinary share (total) - basic		**50.1p**	63.3p
Earnings per ordinary share (total) - diluted		**50.0p**	63.1p

Grafton Group plc

Group Statement of Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Profit after tax for the financial year		**119,232**	150,403
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**(8,474)**	1,775
- on disposal of Group businesses		**(664)**	-
		(9,138)	1,775
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**(90)**	92
- net change in fair value of cash flow hedges transferred from equity		**151**	337
Deferred tax on cash flow hedges		**(9)**	(45)
		(9,086)	2,159
Items that will not be reclassified to the income statement			
Remeasurement (loss)/gain on Group defined benefit pension schemes	13	**(1,291)**	1,205
Deferred tax on Group defined benefit pension schemes		**373**	(386)
		(918)	819
Total other comprehensive income		**(10,004)**	2,978
Total comprehensive income for the financial year		**109,228**	153,381
Total comprehensive income attributable to:			
Owners of the Company		**109,228**	153,381
Total comprehensive income for the financial year		**109,228**	153,381

Grafton Group plc - Group Balance Sheet as at 31 December 2019

	Notes	31 Dec 2019	31 Dec 2018
ASSETS		**£'000**	£'000
Non-current assets			
Goodwill	**15**	**657,845**	646,198
Intangible assets	**16**	**103,268**	79,809
Property, plant and equipment	**9**	**500,924**	521,631
Right-of-use asset	**8**	**522,245**	-
Investment properties	**9**	**12,526**	15,048
Deferred tax assets		**7,600**	9,395
Lease receivable	**10**	**2,417**	-
Retirement benefit assets	**13**	**756**	1,469
Other financial assets		**127**	123
Total non-current assets		**1,807,708**	1,273,673
Current assets			
Properties held for sale	**9**	**16,274**	11,595
Inventories	**10**	**317,632**	350,061
Trade and other receivables	**10**	**388,023**	451,245
Lease receivable	**10**	**297**	-
Cash and cash equivalents	**11**	**348,787**	222,984
Derivative financial instruments	**11**	**7**	49
Total current assets		**1,071,020**	1,035,934
Total assets		**2,878,728**	2,309,607
EQUITY			
Equity share capital		**8,516**	8,514
Share premium account		**213,719**	213,430
Capital redemption reserve		**621**	621
Revaluation reserve		**12,954**	13,146
Shares to be issued reserve		**12,889**	11,220
Cash flow hedge reserve		**9**	(43)
Foreign currency translation reserve		**70,142**	79,280
Retained earnings		**1,047,698**	974,271
Treasury shares held		**(3,897)**	(3,897)
Total equity attributable to owners of the Parent		**1,362,651**	1,296,542
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	**11**	**339,261**	273,476
Lease liabilities	**11**	**487,999**	1,774
Provisions		**15,785**	21,651
Retirement benefit obligations	**13**	**21,939**	21,632
Derivative financial instruments	**11**	**-**	-
Deferred tax liabilities		**47,109**	42,444
Total non-current liabilities		**912,093**	360,977
Current liabilities			
Interest-bearing loans and borrowings	**11**	**-**	332
Lease liabilities	**11**	**55,368**	435
Derivative financial instruments	**11**	**-**	103
Trade and other payables	**10**	**511,855**	608,659
Current income tax liabilities		**27,461**	33,036
Provisions		**9,300**	9,523
Total current liabilities		**603,984**	652,088
Total liabilities		**1,516,077**	1,013,065
Total equity and liabilities		**2,878,728**	2,309,607

Grafton Group plc - Group Cash Flow Statement
For the year ended 31 December 2019

	Notes	31 Dec 2019 £'000	31 Dec 2018 £'000
Profit before taxation from continuing operations		**173,084**	174,402
(Loss)/profit before taxation from discontinued operations		**(24,450)**	6,923
Profit before taxation		**148,634**	181,325
Finance income		**(2,249)**	(944)
Finance expense *(continuing and discontinued)*		**27,391**	7,071
Operating profit		**173,776**	187,452
Depreciation	**8,9**	**105,137**	41,875
Amortisation of intangible assets	**16**	**9,634**	7,118
Share-based payments charge		**6,171**	6,193
Movement in provisions		**4,876**	(1,525)
Asset impairment and fair value gains/losses		**2,425**	1,159
Goodwill written off on disposal of Group businesses		**-**	3,580
(Profit)/loss on sale of property, plant and equipment	**9**	**(672)**	577
Property profit	**9**	**(6,894)**	(4,854)
Loss on disposal of Group businesses	**14**	**19,828**	(1,649)
Contributions to pension schemes in excess of IAS 19 charge		**116**	(2,565)
(Increase) in working capital	**10**	**(23,261)**	(28,153)
Cash generated from operations		**291,136**	209,208
Interest paid		**(25,911)**	(6,628)
Income taxes paid		**(31,752)**	(24,299)
Cash flows from operating activities		**233,473**	178,281
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**2,651**	7,350
Proceeds from sale of properties held for sale	**9**	**14,705**	2,614
Proceeds from sale of investment properties	**9**	**-**	934
Proceeds from sale of Group businesses (net)	**14**	**66,513**	12,951
Interest received		**1,059**	944
		84,928	24,793
Outflows			
Acquisition of subsidiary undertakings (net of cash)	**14**	**(92,583)**	(73,815)
Investment in intangible asset – computer software	**16**	**(2,059)**	(6,859)
Purchase of property, plant and equipment	**9**	**(50,375)**	(66,713)
		(145,017)	(147,387)
Cash flows from investing activities		**(60,089)**	(122,594)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**291**	1,283
Proceeds from borrowings		**116,256**	244,910
		116,547	246,193
Outflows			
Repayment of borrowings		**(59,590)**	(294,233)
Dividends paid	**6**	**(43,986)**	(38,598)
Treasury shares purchased		**(6,080)**	-
Payment on lease liabilities		**(52,835)**	(433)
		(162,491)	(333,264)
Cash flows from financing activities		**(45,944)**	(87,071)
Net increase/(decrease) in cash and cash equivalents		**127,440**	(31,384)
Cash and cash equivalents at 1 January		**222,984**	253,659
Effect of exchange rate fluctuations on cash held		**(1,637)**	709
Cash and cash equivalents at the end of the year		**348,787**	222,984
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**348,787**	222,984

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
Year to 31 December 2019										
At 1 January 2019	8,514	213,430	621	13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542
Profit after tax for the financial year	-	-	-	-	-	-	-	119,232	-	119,232
Total other comprehensive income										
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(918)	-	(918)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	52	-	-	-	52
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(9,138)	-	-	(9,138)
Total other comprehensive income	-	-	-	-	-	52	(9,138)	(918)	-	(10,004)
Total comprehensive income	-	-	-	-	-	52	(9,138)	118,314	-	109,228
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(43,986)	-	(43,986)
Issue of Grafton Units	2	289	-	-	-	-	-	-	-	291
Share based payments charge	-	-	-	-	6,171	-	-	-	-	6,171
Tax on share based payments	-	-	-	-	485	-	-	-	-	485
Transfer from shares to be issued reserve	-	-	-	-	(4,987)	-	-	4,987	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(6,080)	(6,080)
Cancellation of treasury shares	-	-	-	-	-	-	-	(6,080)	6,080	-
Transfer from revaluation reserve	-	-	-	(192)	-	-	-	192	-	-
	2	289	-	(192)	1,669	-	-	(44,887)	-	(43,119)
At 31 December 2019	8,516	213,719	621	12,954	12,889	9	70,142	1,047,698	(3,897)	1,362,651
Year to 31 December 2018										
At 1 January 2018	8,494	212,167	621	13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587
Profit after tax for the financial year	-	-	-	-	-	-	-	150,403	-	150,403
Total other comprehensive income										
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	819	-	819
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	384	-	-	-	384
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	1,775	-	-	1,775
Total other comprehensive income	-	-	-	-	-	384	1,775	819	-	2,978
Total comprehensive income	-	-	-	-	-	384	1,775	151,222	-	153,381
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(38,598)	-	(38,598)
Issue of Grafton Units	20	1,263	-	-	-	-	-	-	-	1,283
Share based payments charge	-	-	-	-	6,193	-	-	-	-	6,193
Tax on share based payments	-	-	-	-	(304)	-	-	-	-	(304)
Transfer from shares to be issued reserve	-	-	-	-	(3,413)	-	-	3,413	-	-
Transfer from revaluation reserve	-	-	-	(181)	-	-	-	181	-	-
	20	1,263	-	(181)	2,476	-	-	(35,004)	-	(31,426)
At 31 December 2018	8,514	213,430	621	13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542

Grafton Group plc
Notes to Final Results for the year ended 31 December 2019

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 and the Netherlands. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in 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 Final Results Announcement was approved by the Board of Directors. The annual report and financial statements will be approved by the Board of Directors and reported on by the auditors in due course. Accordingly, the financial information is unaudited. The Annual Report for the year ended 31 December 2018 has been filed with the Irish Registrar of Companies. The audit report on those statutory financial statements was unqualified.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group 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 2018 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 2018, except for those noted below. 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 2018. Actual results may differ from estimates calculated using these judgements and assumptions.

1. General Information (continued)

Basis of Preparation, Accounting Policies and Estimates (continued)

Impacts of standards and interpretations in issue but not yet effective

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

Impacts of standards effective from 1 January 2019

IFRS 16 – Leases (effective date: financial year beginning 1 January 2019)

IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, with a practical expedient for short-term leases and leases of low value assets.

The Group has applied IFRS 16 using the modified retrospective approach from 1 January 2019, without restatement of the comparative information and the Group has elected to measure its right of use assets arising from leases using the approach set out in IFRS 16.C8(b)(ii).

The Group has a large number of property, vehicle and equipment leases as well as a small number of leases where the Group acts as a lessor. The standard has a material impact on the presentation of the Group's accounts with the recognition of lease liabilities and right of use assets. The overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years.

Further details on the impact of adopting IFRS 16 are set out in note 20 to these financial statements and in the bridges that are contained within the APM's.

Identification of leases

The identification of leases involves judgement as IFRS 16 defines a lease as a contract (or part of a contract) that, for a period of time in exchange for consideration, conveys the right to:

- control an identified asset;
- obtain substantially all economic benefits from use of the asset; and
- direct the use of the asset

The Group has availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

Lease term

The lease term is the non-cancellable period for which the Group has the right to use an underlying asset together with:

- periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

This assessment involves the exercise of judgement by the Group.

1. General Information (continued)

Impacts of standards effective from 1 January 2019 (continued)

IFRS 16 – Leases (effective date: financial year beginning 1 January 2019)

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable for the lease term, discounted using the incremental borrowing rate. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.5%.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments)
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees *(e.g. if the fair value of the asset at the end of the lease term is below an agreed amount, the lessee would pay to the lessor an amount equal to the difference between the fair value and agreed amount);*
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability does not include variable elements which are dependent on external factors, e.g. payments that are based on turnover. Instead, such variable elements are recognised directly in the income statement.

Judgements applied include determining the lease term for those leases with termination or extension options and the discount rate used which is based on the incremental borrowing rate. Such judgements could significantly impact the lease term, the resultant lease liability and right of use asset recognised.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. dilapidation costs, the Group recognises a provision for dilapidations under IAS 37 in its balance sheet.

Initial measurement of right of use asset

The right-of-use asset comprises the amount of the initial measurement of the lease liability, adjusted for:

- any lease payments made at or before the commencement date, less any lease incentives
- any initial direct costs incurred by the Group

In addition, where the Group subleases a headlease (or part thereof) to a third party and such sublease is deemed by the Group to be a finance sublease, the right of use asset relating to sublease is derecognised and a finance lease receivable is recognised.

Subsequent measurement of lease liability

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment concerning the exercise of an option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

1. General Information (continued)

Impacts of standards effective from 1 January 2019 (continued)

IFRS 16 – Leases (effective date: financial year beginning 1 January 2019)

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any material adjustments outlined above during the periods presented.

Subsequent measurement of right of use asset

After initial measurement, the right of use assets are measured at cost less accumulated depreciation, adjusted for:

- any impairment losses in accordance with IAS 36 Impairment of Assets
- any remeasurement of the lease liability.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset that reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Lease modifications

A lease modification is a change to the original terms and conditions of the lease. The effective date of the modification is deemed to be the date when both parties agree to a lease modification.

A lease modification is accounted for as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope of the lease.

If both criteria are met, the Group adopts this accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a change in the lease terms does not meet the test outlined above, the Group must modify the initially recognised components of the lease contract.

Sublease accounting

Where the Group acts as a lessor, the sublease is classified as a finance lease or an operating lease.

A lease is deemed to be a finance lease where the lease transfers substantially all the risks and rewards incidental to the ownership of the underlying asset. Otherwise, the lease is deemed to be an operating lease.

Where the Group subleases an asset, it accounts for its interests in the head lease and the sublease separately. If the head lease is not a short-term lease or low-value lease and the sublease is deemed to be a finance lease, the Group recognises a lease liability relating to the head lease but does not recognise a corresponding right of use asset. Instead, the Group recognises a finance lease debtor relating to the sublease.

1. General Information (continued)

Impacts of standards effective from 1 January 2019 (continued)

IFRIC 23 – Uncertainty over Income Tax Treatments (effective date: beginning 1 January 2019)

This IFRIC did not have a material impact on the Group in the current year.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement (effective date: beginning 1 January 2019)

This amendment did not have a material impact on the Group in the current year.

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. The impact of IFRS 16 "Leases" on the individual CGU's is set out in Note 22 and within the APM's.

	2019 **£'000**	2019 Pre-IFRS 16 £'000	2018 Restated £'000
Revenue			
UK merchanting	**1,710,829**	1,710,829	1,729,508
Ireland merchanting	**464,784**	464,784	441,106
Netherlands merchanting	**211,820**	211,820	155,519
Total merchanting – continuing	**2,387,433**	2,387,433	2,326,133
Retailing	**205,465**	205,465	198,174
Manufacturing	**92,362**	92,362	91,992
Less: inter-segment revenue – manufacturing	**(12,979)**	(12,979)	(13,179)
Total revenue from continuing operations	**2,672,281**	2,672,281	2,603,120
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK merchanting	**105,145**	98,047	104,004
Ireland merchanting	**43,051**	42,802	41,294
Netherlands merchanting	**19,915**	19,632	15,958
Total merchanting – continuing	**168,111**	160,481	161,256
Retailing	**22,641**	19,936	16,785
Manufacturing	**18,633**	18,590	19,248
	209,385	199,007	197,289
Reconciliation to consolidated operating profit			
Central activities	**(11,522)**	(11,594)	(14,588)
	197,863	187,413	182,701
Property profits	**6,894**	6,894	4,854
Operating profit before exceptional items and intangible amortisation arising on acquisitions	**204,757**	194,307	187,555
Profit on the disposal of Group businesses	-	-	1,649
Goodwill written off on disposal of Group businesses	-	-	(3,580)
Amortisation of intangible assets arising on acquisitions	**(6,974)**	(6,974)	(5,095)
Operating profit	**197,783**	187,333	180,529
Finance expense	**(27,391)**	(7,800)	(7,071)
Finance income	**2,249**	2,249	944
Profit before tax	**172,641**	181,782	174,402
Income tax expense	**(28,717)**	(30,245)	(29,619)
Profit after tax for the financial year from continuing operations	**143,924**	151,537	144,783
(Loss)/profit after tax from discontinued operations	**(24,692)**	(25,135)	5,620
Profit after tax for the financial year	**119,232**	126,402	150,403

2. Segmental Analysis

The amount of revenue by geographic area is as follows:

	2019 £'000	2018 Restated £'000
Revenue*		
United Kingdom	**1,785,451**	1,803,976
Ireland	**675,010**	643,625
Netherlands	**211,820**	155,519
Total revenue – continuing operations	**2,672,281**	2,603,120

*Service revenue, which is recognised over time, amounted to £35.9 million for the year (2018: £38.3 million)

Segment assets and liabilities for 2019 increased as a result of the adoption of IFRS 16 "Leases". Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities.

Operating segment assets are analysed below:

	31 Dec 2019 £'000	31 Dec 2018 £'000
Segment assets		
Merchanting	**2,259,418**	1,965,869
Retailing	**213,167**	64,260
Manufacturing	**48,866**	45,458
	2,521,451	2,075,587
Unallocated assets		
Deferred tax assets	**7,600**	9,395
Retirement benefit assets	**756**	1,469
Other financial assets	**127**	123
Derivative financial instruments (current and non-current)	**7**	49
Cash and cash equivalents	**348,787**	222,984
Total assets	**2,878,728**	2,309,607

Operating segment liabilities are analysed below:

	31 Dec 2019 £'000	31 Dec 2018 £'000
Segment liabilities		
Merchanting	**858,124**	574,209
Retailing	**203,684**	48,344
Manufacturing	**18,499**	17,280
	1,080,307	639,833
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**339,261**	273,808
Finance lease liabilities	**-**	2,209
Retirement benefit obligations	**21,939**	21,632
Deferred tax liabilities	**47,109**	42,444
Current income tax liabilities	**27,461**	33,036
Derivative financial instruments (current and non-current)	**-**	103
Total liabilities	**1,516,077**	1,013,065

3. Operating Profit

The property profit of £6.9 million (2018: £4.9 million) relates to the disposal of seven properties in the UK and three properties in Ireland (2018: seven UK properties and two Irish properties).

4. Finance Expense and Finance Income

	2019 £'000		2018 £'000	
Finance expense				
Interest on bank loans, US senior notes and overdrafts	**7,101**	*	5,865	*
Net change in fair value of cash flow hedges transferred from equity	**151**		337	
Interest on lease liabilities	**19,728**	*	-	*
Interest on obligations under finance leases	**-**	*	165	*
Net finance cost on pension scheme obligations	**411**		503	
Foreign exchange loss	**-**		201	
	27,391		7,071	
Finance income				
Interest income on bank deposits	**(1,059)**	*	(944)	*
Foreign exchange gain	**(1,190)**		-	
	(2,249)		(944)	
Net finance expense	**25,142**		6,127	

* Net bank/loan note interest of £6.0 million (2018: £4.9 million). Including interest on lease liabilities, this amounts to £25.8 million (2018: £5.1 million).

5. Earnings per Share

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

	Year Ended 31 Dec 2019 £'000	Year Ended 31 Dec 2018 Restated £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year from continuing operations	**143,924**	144,783
(Loss)/profit after tax for the financial year from discontinued operations	**(24,692)**	5,620
Numerator for basic and diluted earnings per share	**119,232**	150,403
Profit after tax for the financial year from continuing operations	**143,924**	144,783
Amortisation of intangible assets arising on acquisitions	**6,974**	5,095
Tax relating to amortisation of intangible assets arising on acquisitions	**(1,474)**	(1,025)
Goodwill written off on disposal of Group businesses	**-**	3,580
Profit on disposal of Group businesses	**-**	(1,649)
Tax relating to profit on disposal of Group businesses	**-**	488
Numerator for adjusted earnings per share	**149,424**	151,272

	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**237,785,154**	237,626,735
Dilutive effect of options and awards	**797,483**	664,353
Denominator for diluted earnings per share	**238,582,637**	238,291,088
Earnings per share (pence) – from total operations		
- Basic	**50.1**	63.3
- Diluted	**50.0**	63.1
Earnings per share (pence) – from continuing operations		
- Basic	**60.5**	60.9
- Diluted	**60.3**	60.8
Earnings per share (pence) – from discontinued operations		
- Basic	**(10.4)**	2.4
- Diluted	**(10.3)**	2.4
Adjusted earnings per share (pence) – from continuing operations		
- Basic	**62.8**	63.7
- Diluted	**62.6**	63.5

6. Dividends

The payment in 2019 of a second interim dividend for 2018 of 12.00 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £28.5 million. A 2019 interim dividend of 6.50 pence per share was paid on 11 October 2019 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £15.5 million.

A second interim dividend for 2019 of 12.50 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 6 March 2020 (the 'Record Date'). The dividend will be paid on 6 April 2020. A liability in respect of this second interim dividend has not been recognised at 31 December 2019, as there was no present obligation to pay the dividend at the year-end.

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 2019 was Stg87.78p (2018: Stg88.47p). The sterling/euro exchange rate at 31 December 2019 was Stg85.08p (2018: Stg89.45p).

8. Right-Of-Use Asset

	Right-of-use asset £'000
Recognised at 1 January 2019	**561,684**
Additions	**40,787**
Acquisitions (Note 14)	**17,782**
Depreciation	**(60,974)**
Disposal of Group businesses (Note 14)	**(23,916)**
Disposals	**(36)**
Currency translation adjustment	**(13,082)**
As at 31 December 2019	**522,245**

Initial guidance indicated that the opening right-of-use asset would be within the range of £565 million to £585 million at transition. The variance to the above opening position relates principally to the offset of the opening onerous lease provisions (£8.2 million) and a net £3.1 million in respect of the opening prepayments and accruals.

Further detail on the impact of IFRS 16 "Leases" is set in within the APM's and also in Note 20.

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 2019	521,631	11,595	15,048
Derecognition of finance lease assets	(2,541)	-	-
At 1 January 2019 (revised)	519,090	11,595	15,048
Additions	50,375	-	-
Acquisitions (note 14)	15,704	-	-
Depreciation	(44,163)	-	-
Disposals	(1,718)	(8,072)	-
Disposal of Group businesses (note 14)	(16,527)	-	-
Impairments & property revaluations	(2,874)	-	-
Transfer to properties held for sale	(11,094)	13,189	(2,095)
Transfer to investment properties	-	-	-
Currency translation adjustment	(7,869)	(438)	(427)
As at 31 December 2019	500,924	16,274	12,526

10. Movement in Working Capital

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2019	350,061	451,245	(608,659)	192,647
IFRS 16 impact on opening balances	-	(7,869)	10,992	3,123
At 1 January 2019 (revised)	350,061	443,376	(597,667)	195,770
Currency translation adjustment/other	(7,764)	(7,831)	11,269	(4,326)
Consideration receivable on disposals (note 14)	-	1,953	-	1,953
Disposal of Group businesses (note 14)	(49,819)	(60,881)	63,041	(47,659)
Acquisitions (note 14)	18,415	19,532	(13,146)	24,801
Working capital movement in 2019	6,739	(8,126)	24,648	23,261
At 31 December 2019	317,632	388,023	(511,855)	193,800
Lease receivable under IFRS 16				
Included in current assets	-	297	-	297
Included in non-current assets	-	2,417	-	2,417
At 31 December 2019	-	2,714	-	2,714

11. Interest-Bearing Loans, Borrowings and Net debt

	31 Dec 2019 £'000	31 Dec 2018 £'000
Non-current liabilities		
Bank loans	**203,814**	131,138
US senior notes	**135,447**	142,338
Total non-current interest-bearing loans and borrowings	**339,261**	273,476
Current liabilities		
Bank loans	**-**	332
Total current interest-bearing loans and borrowings	**-**	332
Leases		
Included in non-current liabilities	**487,999**	1,774
Included in current liabilities	**55,368**	435
Total non-current interest-bearing loans and borrowings	**543,367**	2,209
Derivatives		
Included in current assets	**(7)**	(49)
Included in current liabilities	**-**	103
Total derivatives	**(7)**	54
Cash and cash equivalents	**(348,787)**	(222,984)
Net debt	**533,834**	53,087

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 2019 £'000	31 Dec 2018 £'000
Assets/liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps and other derivatives (Level 2)	**(7)**	54
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**205,295**	133,911
US senior notes	**136,128**	143,120
Leases	**543,367**	2,209
	884,790	279,240

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 year. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of interest rate swaps 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

The impact of IFRS 16 on net debt is also set out within the APM's.

	31 Dec 2019 £'000	31 Dec 2018 £'000
Net increase/(decrease) in cash and cash equivalents	**127,440**	(31,384)
Net movement in derivative financial instruments	**61**	430
Bank loans and loan notes acquired with subsidiaries (note 14)	**(27,420)**	(7,386)
Bank loans and loan notes disposed (note 14)	**1,177**	-
Movement in debt and lease financing	**(597,924)**	49,756
Change in net debt resulting from cash flows	**(496,666)**	11,416
Currency translation adjustment	**15,919**	(1,597)
Movement in net debt in the year	**(480,747)**	9,819
Net debt at 1 January	**(53,087)**	(62,906)
Net debt at end of the year	**(533,834)**	(53,087)
Gearing	**(39%)**	4%

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 2019	At 31 Dec 2018 %	**At 31 Dec 2019**	At 31 Dec 2018 %
Rate of increase in salaries	**2.30%** *	2.40% *	**0.00%** **	0.00% **
Rate of increase of pensions in payment	**-**	-	**2.90%**	3.10%
Discount rate	**1.05%**	1.80%	**2.10%**	2.90%
Inflation	**1.10%**	1.20%	**1.90%** ***	2.10% ***

*2.30% applies from 2 January 2020 (31 December 2018: 2.40% from 2 January 2019)
** Pensionable salaries are not adjusted for inflation
*** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

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 2019	Year to 31 Dec 2018	**Year to 31 Dec 2019**	Year to 31 Dec 2018	**Year to 31 Dec 2019**	Year to 31 Dec 2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**230,671**	239,363	**(250,834)**	(262,842)	**(20,163)**	(23,479)
Acquired in year	**-**	-	**(227)**	-	**(227)**	-
Disposed in year	**(1,575)**	-	**1,998**	-	**423**	-
Interest income on plan assets	**5,352**	5,328	**-**	-	**5,352**	5,328
Contributions by employer	**2,956**	5,499	**-**	-	**2,956**	5,499
Contributions by members	**621**	651	**(621)**	(651)	**-**	-
Benefit payments	**(11,376)**	(8,399)	**11,376**	8,399	**-**	-
Current service cost	**-**	-	**(2,443)**	(2,764)	**(2,443)**	(2,764)
Other long term benefit expense	**-**	-	**(49)**	(33)	**(49)**	(33)
Past service credit	**-**	-	**-**	34	**-**	34
Settlement cost	**-**	-	**(580)**	-	**(580)**	-
Interest cost on scheme liabilities	**-**	-	**(5,763)**	(5,831)	**(5,763)**	(5,831)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**1,579**	6,270	**1,579**	6,270
-financial assumptions	**-**	-	**(31,178)**	7,848	**(31,178)**	7,848
-demographic assumptions	**-**	-	**(1,048)**	(244)	**(1,048)**	(244)
Return on plan assets excluding interest income	**29,356**	(12,669)	**-**	-	**29,356**	(12,669)
Translation adjustment	**(6,072)**	898	**6,674**	(1,020)	**602**	(122)
At 31 December	**249,933**	230,671	**(271,116)**	(250,834)	**(21,183)**	(20,163)
Related deferred tax asset (net)					**3,228**	2,926
Net pension liability					**(17,955)**	(17,237)

The net pension scheme deficit of £21.2 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £21.9 million and retirement benefit assets (non-current assets) of £0.7 million. £10.8 million of the retirement benefit obligations relates to schemes in Ireland and the Netherlands and £11.1 million relates to one UK scheme. £0.3 million of the retirement benefit asset relates to a second UK scheme and £0.4 million to one scheme in Ireland.

The 2018 net pension scheme deficit of £20.2 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £21.6 million and retirement benefit assets (non-current assets) of £1.4 million. £14.9 million of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £6.7 million relates to one UK scheme. £1.0 million of the retirement benefit asset relates to a second UK scheme and £0.4 million to one scheme in Ireland.

14. Acquisitions and Discontinued Operations

Acquisitions

On 1 July 2019, the Group acquired the entire share capital (100%) of Polvo BV ("Polvo"). Polvo is a distributor of ironmongery, tools, fixings and related products that trades from 51 branches in the Netherlands. The business is incorporated in the merchanting segment.

On 25 November 2019, the Group acquired 100% of Schooning Schipol ("Schooning"), a single branch specialist merchant in the Netherlands. The business is incorporated in the merchanting segment.

Details of the acquisitions made in 2018 are disclosed in the Group's 2018 Annual Report.

The provisional fair value of assets and liabilities acquired in 2019 are set out below:

	Polvo £'000	Other £'000	Total £'000
Property, plant and equipment	15,671	33	15,704
Right-of-use asset	17,782	-	17,782
Intangible assets – customer relationships	31,124	-	31,124
Intangible assets – trade names	2,202	-	2,202
Inventories	18,097	318	18,415
Trade and other receivables	18,998	534	19,532
Trade and other payables	(12,928)	(218)	(13,146)
Lease liability	(17,782)	-	(17,782)
Employee benefits	(227)	-	(227)
Corporation tax asset/(liability)	16	(6)	10
Deferred tax (liability)	(7,315)	-	(7,315)
Deferred tax asset	390	51	441
(Debt) acquired	(27,206)	(214)	(27,420)
Cash acquired	192	59	251
Net assets acquired	39,014	557	39,571
Goodwill	52,636	627	53,263
Consideration	91,650	1,184	92,834
Satisfied by:			
Cash paid	91,650	1,184	92,834
Net cash outflow – arising on acquisitions			
Cash consideration	91,650	1,184	92,834
Less: cash and cash equivalents acquired	(192)	(59)	(251)
	91,458	1,125	92,583

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 contributed revenue of £52.8 million and operating profit of £3.8 million for the period from the date of acquisition to 31 December 2019. If both acquisitions had occurred on 1 January 2019, they would have contributed revenue of £114.7 million and operating profit of £8.9 million in the year. The Group incurred acquisition costs of £0.5 million in 2019 (2018: £0.7 million) which are included in operating costs in the Group Income Statement.

14. Acquisitions and Discontinued Operations (continued)

Discontinued Operations – Belgium Merchanting & Plumbase Limited

The Group conducted a strategic review of its operations in Belgium in the context of its allocation and reallocation of capital. This resulted in a decision to divest of the business and a process was initiated to dispose of the operations. The Group completed the disposal of the Belgian merchanting business on 4 October 2019. The Belgium Group has been reported as a discontinued operation. The related goodwill allocated to the Belgium Group has been written off in the year.

On 1 October 2019 the Group completed the disposal of Plumbase, its specialist UK plumbing and heating business, to Plumbing and Heating Investments Limited ("PHIL"), a UK company engaged in the distribution of plumbing and heating products, for an enterprise value of £66.75 million. After allowing for adjustments for debt-like items and working capital, net cash proceeds of £60.5m were received on completion with an additional £2.0 million due to the Group. The disposal of Plumbase is in line with the Group's strategy of orientating towards higher returning businesses with good long-term growth prospects. Plumbase has been reported as a discontinued operation. The related goodwill allocated to the Plumbase has been written off in the year.

The carrying value of assets and liabilities disposed are set out below:

	Belgium £'000	Plumbase £'000	Total £'000
Property, plant and equipment	4,076	12,451	16,527
Right-of-use asset	9,728	14,188	23,916
Inventories	14,017	35,802	49,819
Trade and other receivables	15,839	45,042	60,881
Trade and other payables	(14,992)	(48,049)	(63,041)
Lease liability	(9,712)	(13,761)	(23,473)
Provisions	-	(1,753)	(1,753)
Employee benefits	(423)	-	(423)
Corporation tax asset/(liability)	25	(527)	(502)
Deferred tax asset	1,161	-	1,161
Deferred tax (liability)	(1,698)	(56)	(1,754)
(Debt) disposed	(1,177)	-	(1,177)
Cash disposed	2,185	8,236	10,421
Goodwill disposed	9,113	19,000	28,113
Net assets disposed	28,142	70,573	98,715
Consideration received	(8,167)	(68,767)	(76,934)
Consideration receivable	-	(1,953)	(1,953)
Loss/(profit) on disposal of Group businesses	**19,975**	**(147)**	**19,828**

Net cash movement on disposal of Group businesses

	£'000	£'000	£'000
Proceeds on disposal	8,167	68,767	76,934
Cash and cash equivalents	(2,185)	(8,236)	(10,421)
Total cash flow movement	**5,982**	**60,531**	**66,513**

Amounts recognised in the year within discontinued operations

	£'000	£'000	£'000
Loss/(profit) on disposal of Group businesses	19,975	(147)	19,828
Foreign currency reserve on disposed businesses	664	-	664
Result for the year from discontinued operations	(813)	(3,852)	(4,665)
Disposal costs*	4,892	3,973	8,865
Total amount recognised as discontinued operations	**24,718**	**(26)**	**24,692**

*Disposal costs include professional fees of £4.5 million, asset impairments of £1.0 million, future lease commitment costs of £0.9 million, property registration costs of £1.2 million and other costs related to the divested businesses of £1.3 million.

14. Acquisitions and Discontinued Operations (continued)

Results from discontinued operations

	31 December 2019 (incl IFRS 16) (unaudited) £'000	31 December 2019 (unaudited) £'000	31 December 2018 (unaudited) Reported £'000
Revenue	**251,792**	**251,792**	349,623
Operating costs	**(245,297)**	**(246,442)**	(342,700)
Operating profit pre exceptional items	**6,495**	**5,350**	6,923
Exceptional items (see above)	**(29,357)**	**(29,357)**	-
Operating (loss)/profit	**(22,862)**	**(24,007)**	6,923
Net finance costs	**(702)**	**-**	-
(Loss)/profit before tax	**(23,564)**	**(24,007)**	6,923
Income tax	**(1,128)**	**(1,128)**	(1,303)
(Loss)/profit after tax for the financial year	**(24,692)**	**(25,135)**	5,620

Impact on Group Income Statement - 2018

	31 December 2018 Continuing (unaudited) £'000	31 December 2018 Discontinued (unaudited) £'000	31 December 2018 Total (audited) £'000
Revenue	2,603,120	349,623	2,952,743
Operating costs	(2,427,445)	(342,700)	(2,770,145)
Operating profit before property profits	175,675	6,923	182,598
Property profits	4,854	-	4,854
Operating profit	180,529	6,923	187,452
Net finance costs	(6,127)	-	(6,127)
Profit before tax	174,402	6,923	181,325
Income tax	(29,619)	(1,303)	(30,922)
Profit after tax for the financial year	144,783	5,620	150,403

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 2019	**646,198**
Arising on acquisitions (note 14)	**53,263**
Disposal of Group businesses (note 14)	**(28,113)**
Currency translation adjustment	**(13,503)**
As at 31 December 2019	**657,845**

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
Net Book Value				
As at 1 January 2019	**36,766**	**4,129**	**38,914**	**79,809**
Additions	**2,059**	**-**	**-**	**2,059**
Arising on acquisitions (note 14)	**-**	**2,202**	**31,124**	**33,326**
Amortisation	**(2,660)**	**(638)**	**(6,336)**	**(9,634)**
Currency translation adjustment	**30**	**(186)**	**(2,136)**	**(2,292)**
As at 31 December 2019	**36,195**	**5,507**	**61,566**	**103,268**

The computer software asset of £36.2 million at 31 December 2019 (2018: £36.8 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 £9.6 million (2018: £7.1 million) has been charged in 'operating costs' in the Group Income Statement. Amortisation on acquired intangibles amounted to £7.0 million (2018: £5.1 million).

17. Taxation

The income tax expense of £28.7 million (2018: £29.6 million) was equivalent to an effective tax rate of 16.6 per cent on profit from continuing operations (2018: 17.0 per cent). The rate is lower than the 17.7 per cent guided at the time of our Interim Results due to higher than anticipated reliefs and allowances in the UK. The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland and the Netherlands. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax which is currently 19 per cent as the highest proportion of Group profits are earned in the UK. In 2016 legislation was passed to reduce this rate by two percent to 17 per cent with effect from 1 April 2020. This reduction is now expected to be put on hold and the 2016 legislation will have to be amended to maintain the rate at its current level of 19 per cent.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors' estimate of (i) the most likely amount; or (ii) the expected value of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

Accounting estimates and judgements

Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Group is party to transactions for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences could materially impact the income tax and deferred tax liabilities and assets in the period in which the determination was made.

Deferred tax

At 31 December 2019, there were unrecognised deferred tax assets in relation to capital losses of £1.6 million (31 December 2018: £1.9 million), trading losses of £1.9 million (31 December 2018: £3.3 million) and deductible temporary differences of £2.2 million (31 December 2018: £2.6 million).

17. Taxation (continued)

Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits. The Directors believe that it is not probable that such profits will arise in the foreseeable future. The trading losses arose in entities that have incurred losses in recent years and the Directors believe that it is not probable there will be sufficient taxable profits in the relevant entities against which they can be utilised. Separately, the Directors believe that it is not probable the deductible temporary differences will be utilised.

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 2018 Annual Report that materially affected the financial position or the performance of the Group during the year to 31 December 2019.

19. Events after the Balance Sheet Date

There have been no other material events subsequent to 31 December 2019 that would require adjustment to or disclosure in this report.

20. Transition to IFRS 16 "Leases"

Summary

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right of use assets arising from property leases using the approach set out in IFRS 16.C8(b)(ii). Under IFRS 16.C8(b)(ii) right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

Impact of IFRS 16 - As a lessee

On initial application of IFRS 16 for operating leases, right-of-use assets were generally measured at the present value of the future lease payments. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.5%.

As part of the Group's adoption of IFRS 16 the Group has elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- accounting for short-term leases (leases less than 12 month) or low value asset leases (i.e. where the value of the underlying asset when new is less than £4,000) by recognising the lease payments as an operating expense on a straight-line basis over the term of the lease;
- right-of-use asset has been reduced by the carrying amount of the onerous lease provision at 31 December 2018 instead of performing impairment reviews under IAS 36; and
- hindsight has been used in determining the lease term.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis over the life of the lease.

20. Transition to IFRS 16 “Leases” (continued)

Under IFRS 16:

- right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.
- the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the Group Income Statement. Under IAS 17, operating leases previously gave rise to a straight-line expense in the Group Income Statement.
- the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and an interest portion (presented within operating activities) in the Group Cash Flow Statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Contracts that qualified as leases as defined by IFRS 16 related primarily to property, motor vehicles and office equipment. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of £561.7 million and lease liabilities of £574.9 million.

Impact of IFRS 16 - As a lessor

The Group was only required to make adjustments on transition to IFRS 16 for leases where it subleases a headlease. At the date of initial application, the Group reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. The Group concluded that the subleases in existence require classification as finance leases under IFRS 16 and as a result £2.7 million was recognised as finance lease receivables.

Impact of IFRS 16 – Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have an effect on the Group’s Financial Statements.

20. Transition to IFRS 16 “Leases” (continued)

Financial Impact – Opening balance sheet

The table below reconciles the relevant assets and liabilities under IAS 17 at 31 December 2018 to those under IFRS 16 at 1 January 2019:

	31 December 2018 (Audited) Pre-IFRS 16 Impact	1 January 2019 (Unaudited) IFRS 16 Impact	1 January 2019 (Unaudited) Post-IFRS 16 Impact
ASSETS	**£’000**	**£’000**	**£’000**
Non-current assets			
Property, plant and equipment	521,631	(2,541)	519,090
Right-of-use asset*	-	563,916	563,916
Total non-current assets	521,631	561,375	1,083,006
Current assets			
Trade and other receivables	451,245	(7,869)	443,379
Total current assets	451,245	(7,869)	443,379
Total assets	972,876	553,506	1,526,385
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	275,250	(1,774)	273,476
Lease liabilities	-	525,495	525,495
Provisions	21,651	(6,521)	15,131
Total non-current liabilities	296,901	517,200	814,102
Current liabilities			
Interest-bearing loans and borrowings	767	(435)	332
Lease liabilities	-	49,387	49,387
Trade and other payables	608,659	(10,992)	597,667
Provisions	9,523	(1,654)	7,870
Total current liabilities	618,949	36,306	655,256
Total liabilities	915,850	553,506	1,469,358

**Right-of-use asset IFRS 16 impact reflects £561.7 million plus £2.2 million right-of-use asset which is subsequently derecognised as a finance lease receivable*

Of the total right-of-use assets of £561.7 million recognised at 1 January 2019 is comprised as follows:

	£’000
Property and land leases	546,497
Vehicles	14,604
Other assets	583
Total right-of-use asset recognised at 1 Jan 2019	**561,684**

20. Transition to IFRS 16 "Leases" (continued)

Financial Impact – Reconciliation of operating lease commitments at 31 December 2018

The table below reconciles the Group's operating lease obligations at 31 December 2018 to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

	£'000
Operating lease commitments at 31 December 2018	**718,414**
Additional operating leases identified at 31 December 2018	19,793
Difference due to extensions, terminations etc.	16,463
Other adjustments to operating lease commitments	(756)
Restated 31 December 2018 operating lease commitments	**753,914**
Impact of discounting on leases	(181,241)
Discounted operating leases	**572,673**
Finance lease liability at 31 December 2018	2,209
IFRS 16 lease liability at 1 January 2019	**574,882**

21. Board Approval

This announcement was approved by the Board of Grafton Group plc on 26 February 2020.

Supplementary Financial Information

Alternative Performance Measures

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

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS. The key Alternative Performance Measures ("APMs") of the Group are set out below. As amounts are reflected in £'m some non-material rounding differences may arise. Numbers that refer to 2018 are available in the 2018 Annual Report.

Note: *Plumbase and the Belgium Merchanting business are now classified as discontinued operations. The revenue and operating profit of both businesses are excluded from the Group. Revenue and the operating result is reflected in the (loss)/profit after tax from discontinued operations. The prior year comparatives have been updated to conform to the current year presentation.*

APM	Description
Adjusted operating profit/EBITA	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
EBITA	Profit before exceptional items, net finance expense, income tax expense and amortisation of intangible assets arising on acquisitions.
Operating profit/EBITA margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Adjusted operating profit/EBITA before property profit	Profit before profit on the disposal of Group properties, 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	Profit 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, expressed as a percentage.
Like-for-like revenue	Changes in like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Return on Capital Employed	Operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100, expressed as a percentage.

Adjusted Operating Profit/EBITA before Property Profit

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Revenue - continuing	2,672.3	2,672.3	2,603.1
Operating profit	197.8	187.3	180.5
Property profit	(6.9)	(6.9)	(4.9)
Goodwill written off/profit on disposal of Group businesses	-	-	1.9
Amortisation of intangible assets arising on acquisitions	7.0	7.0	5.1
Adjusted operating profit/EBITA before property profit	197.9	187.4	182.7
Adjusted operating profit/EBITA margin before property profit	7.4%	7.0%	7.0%

Operating Profit/EBITA Margin

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Revenue - continuing	2,672.3	2,672.3	2,603.1
Operating profit	197.8	187.3	180.5
Operating profit/EBITA margin	7.4%	7.0%	6.9%

Adjusted Operating Profit/EBITA

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Revenue - continuing	2,672.3	2,672.3	2,603.1
Operating profit	197.8	187.3	180.5
Goodwill written off/profit on disposal of Group businesses	-	-	1.9
Amortisation of intangible assets arising on acquisitions	7.0	7.0	5.1
Adjusted operating profit/EBITA	204.8	194.3	187.6
Adjusted operating profit/EBITA margin	7.7%	7.3%	7.2%

Adjusted Profit before Tax

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Profit before tax	172.6	181.8	174.4
Goodwill written off/profit on disposal of Group businesses	-	-	1.9
Amortisation of intangible assets arising on acquisitions	7.0	7.0	5.1
Adjusted profit before tax	179.6	188.8	181.4

Adjusted Profit after Tax

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Profit after tax	143.9	151.5	144.8
Goodwill written off/profit on disposal of Group businesses	-	-	1.9
Tax on profit on disposal of Group businesses	-	-	0.5
Amortisation of intangible assets arising on acquisitions	7.0	7.0	5.1
Related tax on amortisation of intangible assets arising on acquisitions	(1.5)	(1.5)	(1.0)
Adjusted profit after tax	149.4	157.0	151.3

Reconciliation of Profit to EBITDA

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Profit after tax	143.9	151.5	144.8
Net finance expense	25.1	5.6	6.1
Income tax expense	28.7	30.2	29.6
Depreciation	105.1	44.2	41.9
Intangible asset amortisation	9.6	9.6	7.1

EBITDA	312.6	241.1	229.5

Net Debt to EBITDA

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
EBITDA (rolling 12 months)	312.6	241.1	229.5
Net debt/(cash)	533.8	(7.8)	53.1
Net debt to EBITDA – times	1.71	-	0.23

EBITDA Interest Cover

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
EBITDA	312.6	241.1	229.5
Net bank/loan note interest	25.8	6.0	4.9
EBITDA interest cover – times	12.1	39.9	46.6

Gearing

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Total equity	1,362.7	1,369.6	1,296.5
Group net debt/(cash)	533.8	(7.8)	53.1
Gearing	39%	(1%)	4%

Return on Capital Employed

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Operating profit	197.8	187.3	180.5
Goodwill written off/profit on disposal of Group businesses	-	-	1.9
Amortisation of intangible assets arising on acquisitions	7.0	7.0	5.1
Adjusted operating profit	204.8	194.3	187.6
Total equity – current period end (continuing operations)	1,362.7	1,369.6	1,276.7
Net debt/(cash) – current period end	533.8	(7.8)	53.1
Capital employed – current period end	1,896.5	1,361.8	1,329.8
Total equity – prior period end (continuing operations)	1,276.7	1,276.7	1,154.8
Net debt – prior period end	53.1	53.1	62.9
Capital employed – prior period end	1,329.8	1,329.8	1,217.7
Average capital employed	1,613.1	1,345.8	1,273.7
Return on capital employed	12.7%	14.4%	14.7%

Capital Turn

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Total revenue for previous 12 months	2,672.3	2,672.3	2,603.1
Average capital employed	1,613.1	1,345.8	1,273.7
Capital turn - times	1.7	2.0	2.0

Dividend Cover

	2019 Reported £'000	2019 Pre IFRS 16 Impact £'000	2018 Restated £'000
Group adjusted EPS – basic (pence)	62.8	66.0	63.7
Group dividend (pence)	19.00	19.00	18.00
Group dividend cover - times	3.3	3.5	3.5

Supplementary Financial Information

Alternative Performance Measures

Impact of IFRS 16 "Leases" & Discontinued Operations on the Group Income Statement

	2019 (Unaudited) Pre adjusted	2019 (Unaudited) Discontinued operations	2019 (Unaudited) Continuing	2019 (Unaudited) IFRS 16 *(see below)*	2019 (Unaudited) Reported
	£'000	£'000	£'000	£'000	£'000
Revenue	2,924,073	(251,792)	2,672,281	-	**2,672,281**
Operating costs	(2,738,284)	246,442	(2,491,842)	10,450	**(2,481,392)**
Operating profit before property profits	185,789	(5,350)	180,439	10,450	**190,889**
Property profits	6,894	-	6,894	-	**6,894**
Operating profit before exceptional items	192,683	(5,350)	187,333	10,450	**197,783**
Exceptional items	(29,357)	29,357	-	-	**-**
Operating profit	163,326	24,007	187,333	10,450	**197,783**
Finance expense	(7,800)	-	(7,800)	(19,591)	**(27,391)**
Finance income	2,249	-	2,249	-	**2,249**
Profit before tax	157,775	24,007	181,782	(9,141)	**172,641**
Income tax expense	(31,373)	1,128	(30,245)	1,528	**(28,717)**
Profit after tax for the financial year from continuing operations	126,402	25,135	151,537	(7,613)	**143,924**
Result from discontinued operations	-	(25,135)	(25,135)	443	**(24,692)**
Profit after tax for the financial year	126,402	-	126,402	(7,170)	**119,232**

Supplementary Financial Information

Alternative Performance Measures

Overall impact of IFRS 16 "Leases"

Group Income Statement
For the year ended 31 December 2019

	2019 (Unaudited) Pre IFRS 16 Impact £'000	2019 (Unaudited) IFRS 16 Impact £'000	2019 (Unaudited) Reported £'000
Revenue	2,672,281	-	**2,672,281**
Operating costs	(2,491,842)	10,450	**(2,481,392)**
Operating profit before property profits	180,439	10,450	**190,889**
Property profits	6,894	-	**6,894**
Operating profit	187,333	10,450	**197,783**
Finance expense	(7,800)	(19,591)	**(27,391)**
Finance income	2,249	-	**2,249**
Profit before tax	181,782	(9,141)	**172,641**
Income tax expense	(30,245)	1,528	**(28,717)**
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
Result from discontinued operations	(25,135)	443	**(24,692)**
Profit after tax for the financial year	126,402	(7,170)	**119,232**
Profit attributable to:			
Owners of the Company – continuing operations	151,537	(7,613)	**143,924**
Earnings per ordinary share - basic	63.7p	(3.2p)	**60.5p**
Earnings per ordinary share - diluted	63.5p	(3.2p)	**60.3p**

Group Balance Sheet as at 31 December 2019

	2019 (Unaudited) Pre IFRS 16 Impact	2019 (Unaudited) IFRS 16 Impact	2019 (Unaudited) Reported
ASSETS	**£'000**	**£'000**	**£'000**
Non-current assets			
Goodwill	657,845	-	**657,845**
Intangible assets	103,268	-	**103,268**
Property, plant and equipment	503,094	(2,170)	**500,924**
Right-of-use asset	-	522,245	**522,245**
Investment properties	12,526	-	**12,526**
Deferred tax assets	7,007	593	**7,600**
Lease receivable	-	2,417	**2,417**
Retirement benefit assets	756	-	**756**
Other financial assets	127	-	**127**
Total non-current assets	1,284,623	523,085	**1,807,708**
Current assets			
Properties held for sale	16,274	-	**16,274**
Inventories	317,632	-	**317,632**
Trade and other receivables	396,345	(8,322)	**388,023**
Lease receivable	-	297	**297**
Derivative financial instruments	7	-	**7**
Cash and cash equivalents	348,787	-	**348,787**
Total current assets	1,079,045	(8,025)	**1,071,020**
Total assets	2,363,668	515,060	**2,878,728**
EQUITY			
Equity share capital	8,516	-	**8,516**
Share premium account	213,719	-	**213,719**
Capital redemption reserve	621	-	**621**
Revaluation reserve	12,954	-	**12,954**
Shares to be issued reserve	12,889	-	**12,889**
Cash flow hedge reserve	9	-	**9**
Foreign currency translation reserve	69,962	180	**70,142**
Retained earnings (prior years)	974,271	-	**974,271**
Retained earnings (current year)	80,597	(7,170)	**73,427**
Treasury shares held	(3,897)	-	**(3,897)**
Total equity	1,369,641	(6,990)	**1,362,651**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	339,261	-	**339,261**
Lease liabilities	1,272	486,727	**487,999**
Provisions	20,985	(5,200)	**15,785**
Retirement benefit obligations	21,939	-	**21,939**
Deferred tax liabilities	47,109	-	**47,109**
Total non-current liabilities	430,566	481,527	**912,093**
Current liabilities			
Lease liabilities	438	54,930	**55,368**
Trade and other payables	523,381	(11,526)	**511,855**
Current income tax liabilities	28,396	(935)	**27,461**
Provisions	11,246	(1,946)	**9,300**
Total current liabilities	563,461	40,523	**603,984**
Total liabilities	994,027	522,050	**1,516,077**
Total equity and liabilities	2,363,668	515,060	**2,878,728**

Group Cash Flow Statement

	2019 (Unaudited) Pre IFRS 16 £'000	2019 (Unaudited) IFRS 16 Impact £'000	2019 (Unaudited) Reported £'000
Profit before taxation from continuing operations	181,782	(8,698)	**173,084**
(Loss) before taxation from discontinued operations	(24,007)	(443)	**(24,450)**
Profit before taxation	157,775	(9,141)	**148,634**
Finance income	(2,249)	-	**(2,249)**
Finance expense *(continuing and discontinued)*	7,800	19,591	**27,391**
Operating profit	163,326	10,450	**173,776**
Depreciation	44,163	60,974	**105,137**
Amortisation of intangible assets	9,634	-	**9,634**
Share-based payments charge	6,171	-	**6,171**
Movement in provisions	4,186	690	**4,876**
Asset impairment / fair value adjustments	2,874	(449)	**2,425**
Profit on sale of property, plant and equipment	(672)	-	**(672)**
Property profit	(6,894)	-	**(6,894)**
Loss on disposal of Group businesses	19,385	443	**19,828**
Contributions to pension schemes in excess of IAS 19 charge	116	-	**116**
(Increase) in working capital	(23,180)	(81)	**(23,261)**
Cash generated from operations	219,109	72,027	**291,136**
Interest paid *(continuing and discontinued)*	(6,320)	(19,591)	**(25,911)**
Income taxes paid	(31,752)	-	**(31,752)**
Cash flows from operating activities	181,037	52,436	**233,473**
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	2,651	-	**2,651**
Proceeds from sales of properties held for sale	14,705	-	**14,705**
Proceeds from sale of Group businesses (net)	66,513	-	**66,513**
Interest received	1,059	-	**1,059**
	84,928	-	**84,928**
Outflows			
Acquisition of subsidiary undertakings (net of cash)	(92,583)	-	**(92,583)**
Investment in intangible asset – computer software	(2,059)	-	**(2,059)**
Purchase of property, plant and equipment	(50,375)	-	**(50,375)**
	(145,017)	-	**(145,017)**
Cash flows from investing activities	(60,089)	-	**(60,089)**
Financing activities			
Inflows			
Proceeds from the issue of share capital	291	-	**291**
Proceeds from borrowings	116,256	-	**116,256**
	116,547	-	**116,547**
Outflows			
Repayment of borrowings	(59,590)	-	**(59,590)**
Dividends paid	(43,986)	-	**(43,986)**
Treasury shares purchased	(6,080)	-	**(6,080)**
Payment on lease liabilities	(399)	(52,436)	**(52,835)**
	(110,055)	(52,436)	**(162,491)**
Cash flows from financing activities	6,492	(52,436)	**(45,944)**
Net increase in cash and cash equivalents	127,440	-	**127,440**
Cash and cash equivalents at 1 January	222,984	-	**222,984**
Effect of exchange rate fluctuations on cash held	(1,637)	-	**(1,637)**

Cash and cash equivalents at the end of the year	348,787	-	**348,787**

Reconciliation of Net Cash Flow to Movement in Net Debt

	2019 (Unaudited) Pre IFRS 16 Impact £'000	**2019 (Unaudited) IFRS 16 Impact £'000**	**2019 (Unaudited) Reported £'000**
Net increase in cash and cash equivalents	127,440	-	**127,440**
Bank loans and loan notes acquired	(27,420)	-	**(27,420)**
Bank loans and loan notes disposed	1,177	-	**1,177**
Net movement in derivative financial instruments	61	-	**61**
Movement in debt and lease financing	(56,267)	(541,657)	**(597,924)**
Change in net debt resulting from cash flows	44,991	(541,657)	**(496,666)**
Currency translation adjustment	15,919	-	**15,919**
Movement in net debt in the year	60,910	(541,657)	**(480,747)**
Net debt at 1 January	(53,087)	-	**(53,087)**
Net cash/(debt) at end of the year	7,823	(541,657)	**(533,834)**

Segmental Analysis

	2019 (Unaudited) Pre IFRS 16 Impact £'000	2019 (Unaudited) IFRS 16 Impact £'000	2019 (Unaudited) Reported £'000
Revenue			
UK merchanting	1,710,829	-	**1,710,829**
Ireland merchanting	464,784	-	**464,784**
Netherlands merchanting	211,820	-	**211,820**
Total merchanting	2,387,433	-	**2,387,433**
Retailing	205,465	-	**205,465**
Manufacturing	92,362	-	**92,362**
Less: Inter-segment revenue - manufacturing	(12,979)	-	**(12,979)**
Total revenue	2,672,281	-	**2,672,281**
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK merchanting	98,047	7,098	**105,145**
Ireland merchanting	42,802	249	**43,051**
Netherlands merchanting	19,632	283	**19,915**
Total merchanting	160,481	7,630	**168,111**
Retailing	19,936	2,705	**22,641**
Manufacturing	18,590	43	**18,633**
	199,007	10,378	**209,385**
Reconciliation to consolidated operating profit			
Central activities	(11,594)	72	**(11,522)**
	187,413	10,450	**197,863**
Property profits	6,894	-	**6,894**
Operating profit before exceptional items and intangible amortisation arising on acquisitions	194,307	10,450	**204,757**
Amortisation of intangible assets arising on acquisitions	(6,974)	-	**(6,974)**
Operating profit	187,333	10,450	**197,783**
Finance expense	(7,800)	(19,591)	**(27,391)**
Finance income	2,249	-	**2,249**
Profit before tax	181,782	(9,141)	**172,641**
Income tax expense	(30,245)	1,528	**(28,717)**
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
Result from discontinued operations	(25,135)	443	**(24,692)**
Profit after tax for the financial year	126,402	(7,170)	**119,232**

Earnings per Share

	2019 (Unaudited) Pre IFRS 16 Impact £'000	2019 (Unaudited) IFRS 16 Impact £'000	2019 (Unaudited) Reported £'000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
(Loss) after tax for the financial year from discontinued operations	(25,135)	443	**(24,692)**
Numerator for basic and diluted earnings per share	126,402	(7,170)	**119,232**
Profit after tax for the financial year from continuing operations	151,537	(7,613)	**143,924**
Amortisation of intangible assets arising on acquisitions	6,974	-	**6,974**
Tax relating to amortisation of intangible assets arising on acquisitions	(1,474)	-	**(1,474)**
Numerator for adjusted earnings per share - continuing	157,037	(7,613)	**149,424**
	Number of Grafton Units	**Number of Grafton Units**	**Number of Grafton Units**
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	237,785,154	237,785,154	**237,785,154**
Dilutive effect of options and awards	797,483	797,483	**797,483**
Denominator for diluted earnings per share	238,582,637	238,582,637	**238,582,637**
Earnings per share (pence) – from continuing operations			
- Basic	63.7	(3.2)	**60.5**
- Diluted	63.5	(3.2)	**60.3**
Earnings per share (pence) – from discontinued operations			
- Basic	(10.6)	0.2	**(10.4)**
- Diluted	(10.5)	0.2	**(10.3)**
Adjusted earnings per share (pence) – from continuing operations			
- Basic	66.0	(3.2)	**62.8**
- Diluted	65.8	(3.2)	**62.6**