



Grafton Group plc

Annual  
Report

2016

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## Grafton at a Glance

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

Grafton trades from 631 branches and has in the region of 12,000 employees.

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 Group reported revenue of £2.5 billion and adjusted profit before tax of £136.2m million for 2016.



Further investor and shareholder information is available at

[www.graftonplc.com](http://www.graftonplc.com)



### Merchandising

The Merchandising segment distributes building materials from 585 branches in the UK, Ireland, the Netherlands and Belgium.

▲ Merchandising revenue up 13% to £2.3bn  
(up 10.3% in constant currency)

**BUILDBASE**

**CHADWICKS**  
“The Home of Building Materials”

**Heiton Buckley**  
BUILDERS MERCHANTS

**ISERO**  
UZEMWYRSTROOP

**GUNTERS en MEUSER**  
IJZERWAREN - GEREEDSCHAPPEN

**The Panelling Centre**  
kitchens appliances wardrobes

**MacBlair**  
Your LOCAL Builders' Merchant

**selco** BUILDERS WAREHOUSE

**PRO**

**PLUMBASE**

**YouBuild**  
de Singapore

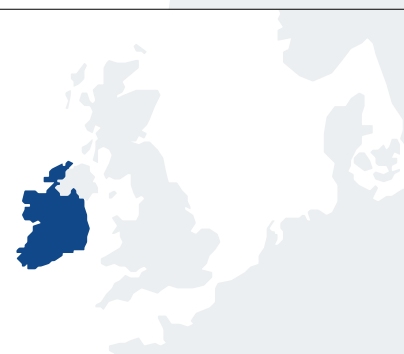


### Retailing

The Group is the largest DIY retailer in Ireland trading nationally from 35 stores.

▲ Retailing revenue up 19.5% to £157.1m  
(up 5.6% in constant currency)

**Woodie's**



### Manufacturing

The Manufacturing segment operates the market leading dry mortar business in Britain from 10 plants and a plastics manufacturing facility in Dublin.

▲ Manufacturing revenue up 12.8% to £59.6m  
(up 11.9% in constant currency)

**EuroMix**

**MFP**



## 2016 Highlights

### Revenue

£2.5bn



### Adjusted Group Operating Profit

£142.0m



### EBITA Margin before Property Profit

5.5%



### Cash Generation from Operations

£168.6m



### Dividend

13.75p



### Net Debt

£96.3m



### Return on Capital Employed

12.5%



### Adjusted Earnings Per Share

47.7p



### Financial Summary<sup>1</sup>

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

1. Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 166 to 169.

2. The term "adjusted" means before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7 million in 2016 and a net non-recurring credit of £1.4m in 2015.

- ▶ Strong organic growth in the Irish Merchanting, Woodie's DIY and Manufacturing businesses
- ▶ Isero acquisition in the Netherlands contributed £9.1 million to operating profit, an EBITA margin of 10.4% and is a strong platform for expansion
- ▶ Continued successful investment in Selco with the opening of seven branches in 2016 and the planned opening of at least ten branches in 2017
- ▶ Strong cash generation from operations of £168.6 million (2015: £139.3 million) resulting in net debt reduction by £17.3 million and year-end gearing of just 9%
- ▶ Investment of £72.3 million on acquisitions and capital expenditure to support future growth
- ▶ 10% increase in dividend in line with progressive dividend policy

read more:

**Sectoral Review - UK Merchanting**  
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# Strategic Report

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# Chairman's Statement

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Dear Shareholder,

I am pleased to present my first Chairman's Statement to shareholders and to report that 2016 was another year of growth and development. The executive management team, led by Group CEO Gavin Slark, made good progress during the year responding to a challenging market backdrop in the traditional UK merchanting market while continuing to implement strategic growth initiatives that strengthened the position of the Selco merchanting model. The Group continued to build on its strong leadership positions in the merchanting and DIY markets in Ireland and completed a successful first full year of trading in the Netherlands merchanting market.

## Results

The Group reported a strong financial performance for 2016. Revenue grew by 13 per cent to £2.5 billion (2015: £2.2 billion) and by 10 per cent in constant currency. Adjusted operating profit increased by 12 per cent to £142.0 million (2015: £127.3 million) and adjusted profit before tax was ahead by 14 per cent to £136.2 million (2015: £119.4 million). Adjusted earnings per share increased by 16 per cent to 47.7p (2015: 41.2p).

## Dividend

A second interim dividend of 9.0p (2015: 8.0p) was approved to give a total dividend for the year of 13.75p. This represents an increase of 10 per cent on total dividends of 12.5p paid for 2015. The increase is in line with the Board's policy of increasing dividends as earnings increase and reflects both the strong cashflow from operations and relatively low level of year-end net debt. The dividend cover increased to 3.5 times from 3.3 times.

## Strategy


Significant progress was made during the year by the Group CEO and senior management in developing and implementing the Group's medium term strategy as agreed by the Board. The acquisition of Isero at the end of 2015 represented a significant opportunity for the Group to enter the merchanting market in

the Netherlands at an attractive stage in the economic cycle. This move was complemented by the recently completed acquisition of Gunters en Meuser which provides Isero with a market leadership position in the Amsterdam market and the overall business with a strong presence in the country's top five cities.

The growth of Selco organically continued to be the primary focus of development capital in the UK merchanting market and this was complemented by two bolt-on acquisitions in the traditional merchanting market. Strong growth in Ireland continued to be driven by leveraging our market leading brands from branch networks that provide national coverage.

The Board's broad strategy for the development of Grafton is based on strengthening existing market positions in the merchanting markets in the UK and Ireland, continuing to build on the recent successful entry into the Netherlands merchanting market and returning the Belgian business to profitability. The creation of a more balanced portfolio of businesses internationally by seeking growth opportunities in new geographic markets is also a strategic priority for the Board. The Group has a strong balance sheet and excellent cash generation from operations to support its strategic growth ambitions.

- ▶ **The acquisition of Isero at the end of 2015 represented a significant opportunity for the Group to enter the merchanting market in the Netherlands at an attractive stage in the economic cycle.**

 read more: **Strategy** (page 10)

### Board Composition and Renewal

Mr. Michael Chadwick retired as Non-Executive Director and Chairman on 31 December 2016.

Mr. Chadwick joined Grafton in 1975, was appointed to the Board in 1979 and served as Executive Chairman from 1985 to 2011 when he was appointed Non-Executive Chairman. Mr. Chadwick continued a long tradition of family association with the management and share ownership of Grafton that dates back to the origins of the Group in 1902, when a cement and plaster distribution business was established in Dublin. His entrepreneurial leadership of Grafton through a remarkable phase of growth and development enabled the Group to evolve into a major international building materials business. On behalf of the Board, I would like to wish Michael continued success in the future and thank him sincerely for his remarkable contribution and legacy to Grafton over a 41 year career and also for his excellent stewardship of the Board as Non-Executive Chairman over the past five and a half years.

Mr. Roderick Ryan, Senior Independent Director and Chairman of the Nomination Committee, has indicated that he will not be offering himself for re-election at the 2017 AGM and will retire from the Board at the conclusion of the AGM. This will conclude over 11 years of very distinguished service as a Non-Executive Director of Grafton. The Group has benefitted greatly from his international experience in business and finance. On behalf of the Board, I would like to thank Roddy for his invaluable contribution to the Board as Senior Independent Director and as Chairman of the Nomination and Audit and Risk Committees.

Mr. Charles Fisher, who joined the Board in 2009, has also indicated that he will not be offering himself for re-election at the 2017 AGM. His deep knowledge of the merchanting industry in the UK prior to joining the Board and his experience as a Director of publicly quoted and private companies enabled him to make an invaluable and unique contribution to the Board's deliberations. On behalf of the Board, I would also like to thank Charles for his service as Non-Executive Director and Chair of the Remuneration Committee.

Mr. Ryan will be succeeded as Senior Independent Director by Mr. Paul Hampden Smith and by myself as Chairman of the

Nomination Committee. Mr. Fisher will be succeeded as Chairman of the Remuneration Committee by Mrs. Susan Murray. These changes will take effect on 9 May 2017.

Following the retirement of Mr. Ryan and Mr. Fisher, the Board will be comprised of two Executive Directors, Gavin Slark and David Arnold, four Independent Non-Executive Directors and myself as Non-Executive Chairman. Mr. Frank van Zanten and Mr. Paul Hampden Smith joined the Board as Non-Executive Directors in 2013 and 2015 respectively. The Board was very pleased to announce the appointment of Mrs. Susan Murray and Mr. Vincent Crowley as Non-Executive Directors in October 2016. Both Susan and Vincent have distinguished track records managing international businesses and we look forward to working with them in the years ahead. Their biographical details are set out on page 41.

### Board Evaluation

An evaluation of the Board, its Committees and individual Directors was conducted by the Senior Independent Director having been externally facilitated by the Institute of Directors in Ireland during 2015. Each Director completed a questionnaire that covered a range of factors that fall within the remit of the Board including corporate strategy and business principles, internal controls and risk management and the effectiveness of

the Board and its Committees. The report noted that the Board continued to function effectively and operate to a high standard of governance.

### Annual General Meeting

In line with the policy adopted in recent years, all Directors, with the exception of Mr. Ryan and Mr. Fisher as noted above, will retire and seek re-election/election at the 2017 AGM. Each Director performs effectively and has demonstrated a strong commitment to the role. I strongly recommend that it is in the interests of shareholders and the Board for each of the Directors going forward to be re-elected at the Annual General Meeting.

### Colleagues

On behalf of the Board, I would like to extend our appreciation to Gavin Slark and all of our colleagues for their contribution and commitment to the progress made by the Group during 2016.

### Outlook

The Board is positive about the Group's overall prospects and looks to 2017 as a year of further progress.

### Michael Roney

*Chairman*



## Chief Executive Officer's Review

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

### Group Results

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

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

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

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

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

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

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

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

► **The Group opened seven Selco branches and completed two bolt-on acquisitions in the UK.**

 read more:

**Key Performance Indicators**  
(page 12)



from this reorganisation are expected to accrue from 2017 onwards.

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

### Outlook

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

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

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

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

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

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

**Gavin Slark**  
*Chief Executive Officer*

► **Overall prospects for the current year remain favourable with continued growth in Ireland and the Netherlands expected to support an increase in profit in the year ahead.**

[read more:](#)  
**Sectoral & Strategic Review**  
(page 20)



# Business Model

## Creating value for our stakeholders

### Inputs

The continued success of the Group is based on

Strong partnerships with our customers.

The contribution and commitment of our colleagues.

An efficient network of trusted suppliers.

A strong financial base to fund ongoing development and acquisition activity.

Recognising our responsibility as a member of the communities where our branches are located.

### Business Activities

We add value by building on our strengths and leading market positions

#### Key Strengths

Leading market positions and brands in each of the countries in which the Group operates.

A portfolio of highly cash generative and profitable businesses.

Sound financial metrics based on excellent cash generation, a strong balance sheet and the financial resources to fund ongoing development activity.

A geographically diversified network of 631 branches with opportunities for further growth through acquisition and organic development.

A customer service orientated culture and the scale and breadth of operations to create a competitive advantage in local markets.

Strong, capable, highly motivated and experienced management teams.

Skills and experience in acquiring and integrating businesses.

#### Operating Segments

##### Merchandising

Merchandising in the UK, Ireland, the Netherlands and Belgium



**92% of Group revenue** (2015: 92%)

##### Retailing

DIY Retailing in Ireland



**6% of Group revenue** (2015: 6%)

##### Manufacturing

Dry Mortar Manufacturing in the UK and Plastics Manufacturing in Ireland



**2% of Group revenue** (2015: 2%)

#### Market Positions

Grafton is the third largest builders merchant and fourth largest plumbers merchant in the UK. In Ireland, it is the number one builders and plumbers merchant and is also the market leader in DIY Retailing. In the Netherlands, it holds a market leading position in the ironmongery, tools and fixings segment of the merchandising market. The Group also has a leading position in the merchandising market in Belgium.

Grafton is an international trade focused, multi-channel distributor of construction products.

The success of the business is based on the quality of the products it distributes and the quality of the service it provides to its customers. The Group aims to build on its leading market positions in the UK, Ireland, the Netherlands and Belgium and to grow internationally in merchandising and related markets.

Trading Locations

	Merchandising	Retailing	Manufacturing	Total
<b>UK</b> 73% of Group revenue	484	-	10	494
<b>Ireland</b> 20% of Group revenue	46	35	1	82
<b>Netherlands</b> 4% of Group revenue	39	-	-	39
<b>Belgium</b> 3% of Group revenue	16	-	-	16
	<b>585</b>	<b>35</b>	<b>11</b>	<b>631</b>



**3rd**  
Builders merchandising

**4th**  
Plumbers merchandising

**1st**  
Mortar manufacturing



**1st**  
Builders and plumbers merchandising

**1st**  
DIY retailing



**1st**  
Ironmongery, tools and fixings segment of merchandising



**1st**  
Merchandising market

Outputs

Growing our business internationally

Revenue  
**£2.5bn**

Adjusted Group Operating Profit  
**£142.0m**

**Almost 12,000**  
colleagues in 631 branches

**2% reduction**  
in CO2e Emissions

**Over £500,000**  
raised for charities

Outcomes

And sharing the resulting value with our stakeholders

**Shareholders**  
Increasing profitability and earnings

**Customers**  
Being brilliant for our customers

**Colleagues**  
Retaining a loyal, engaged and well trained workforce

**Suppliers**  
Building relationships to grow each of our businesses

**Communities**  
Engaging with local communities

# Strategy

## Our overall objective is to be an international distributor of building materials and related activities.

This objective is supported by our five strategic priorities.

### Strategic Priorities

#### A Strong Financial Base



- Maximising long term returns for shareholders supported by three financial pillars:
  - Revenue growth in new and existing markets;
  - Operating profit margin growth; and
  - Optimising capital turn and return on capital employed.

#### Excellence in Service



- Being the first choice supplier to our customers.
- Developing an innovative and efficient multi-specialist and multi-channel business.
- Refining and developing the range of products and services offered.
- Increasing e-commerce capabilities.
- Being a focused supplier of building materials.

#### Organic Growth and Acquisitions



- Deploying mature acquisition and integration skills to complete transactions and realise synergies.
- Increasing market coverage where the Group is currently under-represented.
- Moving into new territories where opportunities exist to achieve good returns on capital invested, achieve leading market positions in national and regional markets and add value to familiar business models operating in unconsolidated markets.

#### A Supportive Organisational Structure and Management



- Operating a decentralised organisational structure that confers significant autonomy on local management teams within a tight Group accounting, risk management and control environment.
- Maximising returns on capital employed from the existing branch network.
- Utilising the Board and the Group Headquarters in Ireland to implement the strategy of the Group.
- Employing high calibre management teams with an appropriate mix of operational and management experience.

#### Ethics and Integrity



- Conducting business to a high standard of integrity for the benefit of all stakeholders and in a responsible way that involves a commitment to achieving the highest practical standards of health and safety for colleagues, customers and visitors to Group locations.

### Progress in 2016

Continued focus on operational and commercial performance across the Group's businesses during the year resulted in Group revenue growth of 13 per cent.

2016 saw the introduction of a number of new trading initiatives and innovations in the Group's merchanting businesses.


The expansion of the Selco Branch network continued during the year with the opening of seven new branches.

The acquisitions of T. Brewer and Allsands represented a further strengthening of market coverage in the traditional UK builders merchanting market.

During 2016 the Group appointed Ms. Paula Harvey as Group Head of HR with a particular focus on improving talent management, succession planning and development.

In recognition of the critical part that talent management and succession planning play in the growth of the Group, a talent review was conducted during the year. The results of the review will feed into the Group's succession planning strategy and assist with the recognition and development of top talent.

A number of additional Group policies were implemented during the year to build on the existing Group Code of Business Conduct and Ethics and previously published Group Ethics policies. New policies issued in 2016 included an Anti-Fraud and Theft Policy, an Employee Purchasing Policy and an Anti-Money Laundering Policy.

 read more:

### Key Performance Indicators

(page 12)

 read more:

### Risk Management

(page 14)

#### Progress in 2016 (continued)

Adjusted EBITA margin before property profit remained constant at 5.5 per cent.

Capital turn increased from 2.1 to 2.2 times and return on capital employed increased by 30 basis points to 12.5 per cent.

Developments in the Irish retail sector included the continuation of the Woodie's store upgrade programme to provide an improved customer experience and ensure that it retains its strong market leadership position.

The acquisition of Gunters en Meuser, completed in early 2017, continued the Group's strategic progress in the Netherlands ironmongery, tools and fixings market following on from the acquisition of Isero in late 2015.

The Group also maintained its focus on leadership development with training programmes operating across a number of Business Units.

The Group published a statement on its obligations under the UK Modern Slavery Act 2015 which is available on its website [www.graftonplc.com](http://www.graftonplc.com). The Group also implemented a process to ensure that its businesses do not deal with suppliers that are subject to international sanctions.

#### Priorities for 2017

The Group's key priority for 2017 is to grow like-for-like revenue in its markets and focus on gross margin in the UK merchanting business.

The Group will invest in areas of its business which provide good long term growth prospects and the opportunity to improve operating margin and return on capital employed.

The Group will continue to pursue opportunities for innovative customer propositions and routes to market. The maintenance of a customer service-focused approach to branch operations will remain a priority.

Grafton will continue to pursue organic growth.

The Group will continue to allocate capital for new stores in strategic locations and acquisition opportunities that complement existing branch locations.

The Group will continue to focus on the development of the Group's management teams.

The maintenance of high ethical standards for the benefit of all stakeholders remains an integral part of the Group's strategy.

The Group will continue to roll out its ethics training programme to all Group employees during 2017. Online modules will be refreshed and updated.

#### Link to Risk

- Macro-Economic Conditions
- Competition
- Acquisition and Integration of New Businesses
- Credit Risk Relating to Customers

- Competition
- Colleagues
- IT Systems & Infrastructure
- Health & Safety

- Competition
- Acquisition and Integration of New Businesses
- Macro-Economic Conditions

- Colleagues


- Health & Safety
- Colleagues
- IT Systems and Infrastructure


## Key Performance Indicators

The Key Performance Indicators (“KPIs”) below are used to track performance and increase value for shareholders.

Key Performance Indicator	Definition and Relevance	Performance Trend					2016 Performance	Link to Risks	Link to Strategy
		2012	2013	2014	2015	2016			
<b>Revenue</b>	Group revenue for the year is a measure of the overall growth of the Group's business.	£1.8bn	£1.9bn	£2.1bn	£2.2bn	£2.5bn	Group Revenue for 2016 was a record £2.5 billion, an increase of 13 per cent on 2015 and represented the fourth successive year of growth.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Organic Growth and Acquisitions</li> <li>Excellence in Service</li> <li>Organisational Structure &amp; Management</li> </ul>
<b>Adjusted EBITA Margin before Property Profit</b>	Adjusted EBITA before profit on disposal of Group properties as a percentage of revenue provides a good measure of the performance of the Group's businesses.	3.5%	4.1%	5.3%	5.5%	5.5%	EBITA margin before property profit remained constant in 2016 at 5.5 per cent (The term “adjusted” means before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7 million in 2016 and a net non-recurring credit of £1.4m in 2015).	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>IT Systems and Infrastructure</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Organic Growth and Acquisitions</li> <li>Excellence in Service</li> </ul>
<b>Adjusted EBITA Margin after Property Profit</b>		3.5%	4.1%	5.3%	5.8%	5.7%	Down 10 basis points due to a decline in property profit.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>IT Systems and Infrastructure</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Organic Growth and Acquisitions</li> <li>Excellence in Service</li> </ul>
<b>Capital Turn</b>	Revenue divided by average capital employed where capital employed is the sum of total equity and net debt at each period end.	1.8	1.9	2.1	2.1	2.2	Capital turn increased to 2.2 times from 2.1 times.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Organisational Structure &amp; Management</li> </ul>
<b>Adjusted EBITA</b>	Profit before intangible asset amortisation on acquisitions, exceptional items, net finance expense and income tax expense.	£61.0m	£77.2m	£110.1m	£127.3m	£142.0m	The Group delivered growth in adjusted operating profit for the seventh successive year.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Organic Growth and Acquisitions</li> <li>Excellence in Service</li> </ul>

Certain KPIs are used as financial measures to incentivise executives. For 2016 these were Adjusted Earnings per Share, Return on Capital Employed and Free Cash Flow which are identified below with the symbol **R**

 read more: **Strategy** (page 10)

 read more: **Risk Management** (page 14)

Key Performance Indicator	Definition and Relevance	Performance Trend					2016 Performance	Link to Risks	Link to Strategy
		2012	2013	2014	2015	2016			
<b>Free Cash Flow <b>R</b></b>	Cash generated from operations less interest, tax and replacement capital expenditure net of disposal proceeds. Free cash flow provides a good measure of the cash generating capacity of the Group's businesses.	£59.7m	£66.3m	£126.4m	£104.7m	£133.8m	Free Cash Flow was up £29.1m or 28 per cent in 2016.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Organisational Structure &amp; Management</li> </ul>
<b>Adjusted Earnings Per Share <b>R</b></b>	A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares.	15.1p	22.3p	34.4p	41.2p	47.7p	Adjusted EPS increased by 16 per cent to 47.7 pence in 2016. Adjusted EPS for 2015 (previously disclosed as 41.01p) has been updated to exclude amortisation of intangible assets arising on acquisitions.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Excellence in Service</li> <li>Organisational Structure &amp; Management</li> </ul>
<b>ROCE <b>R</b></b>	A measure of the Group's profitability and the efficiency of its capital employed. Adjusted operating profit is divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.	6.1%	7.8%	11.1%	12.2%	12.5%	Return on Capital Employed (ROCE) increased by 30 basis points to 12.5 per cent.	<ul style="list-style-type: none"> <li>Macro-Economic Conditions</li> <li>Competition</li> </ul>	<ul style="list-style-type: none"> <li>Strong Financial Base</li> <li>Excellence in Service</li> <li>Organisational Structure &amp; Management</li> </ul>
<b>Lost Time Accident Frequency Rate</b>	A measure of the number of lost time incidents per 100,000 hours worked.	1.34	1.35	1.62	1.50	1.55	Lost Time Accident Frequency Rate increased slightly during the year.	<ul style="list-style-type: none"> <li>Health &amp; Safety</li> </ul>	<ul style="list-style-type: none"> <li>Ethics &amp; Integrity</li> <li>Organisational Structure &amp; Management</li> </ul>

# Risk Management

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The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Directors recognise that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has established a risk management process to ensure effective and timely identification, reporting and management of risk events that could materially impact upon the achievement of Grafton's strategic objectives or financial targets. The risk management process is closely aligned with the overall strategic development of the Group which is influenced by economic growth, organic growth through implants, new formats and greenfield expansion and acquisition related growth. Strategic projects are risk-assessed in conjunction with extensive commercial, financial and legal due diligence.

The Group's risk management framework, as described in further detail below, is designed to facilitate the development, maintenance, operation and review of risk management controls that fulfil the Board's corporate governance obligations and supports the Group's strategic objectives. The Board is responsible for establishing and maintaining risk management controls and for evaluating their effectiveness. The Audit and Risk Committee oversees the effectiveness of the risk management procedures in place and the steps being taken to mitigate the Group's risks.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the Guidance for Directors in the 2014 Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, has been in place throughout the accounting period and up to the date the financial statements were approved. These risks are reviewed by the Audit and Risk Committee and the Board. Executive management is responsible for implementing

strategy and for the continued development of the Group's businesses within parameters set down by the Board. Similarly, day to day management of the Group's businesses is devolved to operational management within clearly defined authority limits and subject to very tight reporting of financial performance. Group and operating company management are responsible for internal control including the identification and evaluation of significant risks and for implementation of appropriate internal controls to manage such risks. Group management reports to the Board on key risks and internal control issues including the way in which these issues are managed.

## Internal Control System

The key features of the Group's system of internal control and risk management include:

- Review, discussion and approval of the Group's strategy by the Board;
- Defined structures and authority limits for the operational and financial management of the Group and its businesses;
- A comprehensive system of reporting on trading, on operational issues and on financial performance incorporating monthly results, cash flows, working capital management, return on capital employed and other relevant measures of performance;
- Written reports from the Chief Executive Officer and the Chief Financial Officer that form part of the papers considered by the Board at every board meeting;
- Review and approval by the Board of annual budgets incorporating operating performance and cash flows;

- Board approval of major capital expenditure proposals and all acquisition proposals. Capital expenditure proposals below Board level are delegated to the Management Committee comprising the CEO, CFO and Group Financial Controller/Company Secretary; and
- Review by senior management and the Audit and Risk Committee of the Internal Audit Report findings, recommendations and follow up actions.

The preparation and issue of financial reports, including the Group's annual and interim results is managed by the Group Finance team based in Grafton's Head Office in Dublin. The Group's financial reporting process is controlled using accounting policies and reporting formats issued by Group Finance to all reporting entities (including subsidiaries) in advance of each reporting period end. Group Finance supports all reporting entities with guidance in the preparation of financial information. The process is conducted by finance professionals throughout the Group, who have responsibility and accountability to provide information in compliance with written policies and procedures. The financial information for each entity is reviewed on an ongoing basis by the Group's senior management.



**Group Risk Committee**

The Group has established a Group Risk Committee (“GRC”) whose membership reflects a range of executive functions, skills, expertise, experience and levels within the Group. The GRC is responsible for the identification, reporting and oversight of risk management. The GRC prepares an annual report of its activities and identifies areas for improvement and changes in the risk profile of the Group and presents it to the Audit and Risk Committee.

The GRC is chaired by the Group CFO and reports to the Audit and Risk Committee. The Committee meets four times per year and is responsible for maintaining and monitoring the Corporate Risk Register, which records the Group’s material risks and the actions and controls, both in place and required, to manage each to an acceptable level of risk consistent with the Group’s risk appetite. Each of the Group’s Business Units are required to maintain a register of key business risks and report them quarterly to the GRC. The GRC initiates Group-wide actions to manage risks.

Recent GRC initiatives included the implementation of a number of new Group policies including an Anti-Fraud and Theft Policy, an Employee Purchasing Policy and an Anti-Money Laundering Policy, and the ongoing development and roll-out of the online Ethical Training Programme and Business Continuity Planning arrangements.

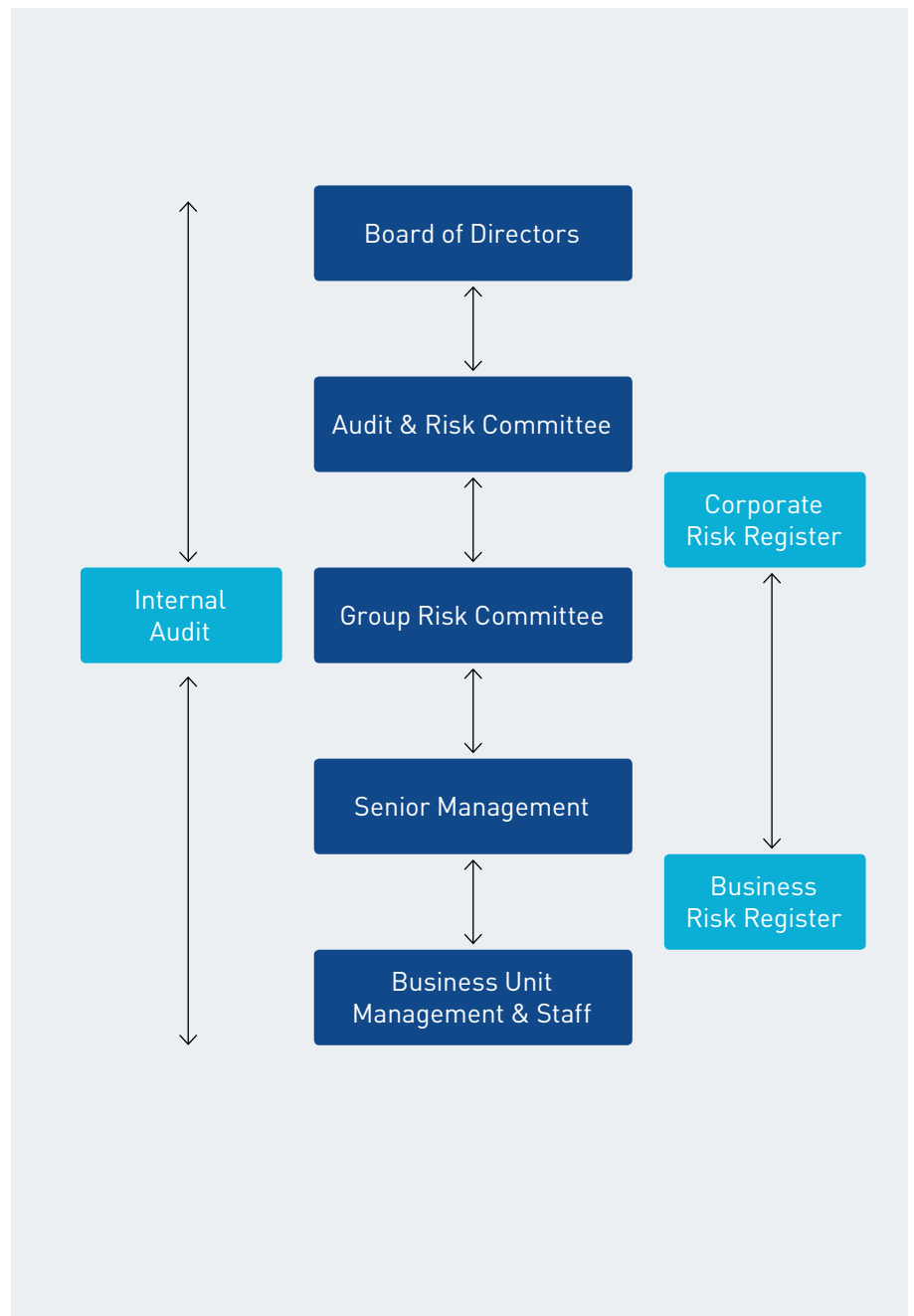
**Internal Audit**

The Group internal audit function focuses on areas of greatest risk to the Group. It monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit and Risk Committee reviews Internal Audit Reports and meets with the Group Internal Audit and Business Risk Director in order to satisfy itself on the adequacy of the Group’s risk management and internal control systems. In addition, the Audit and Risk Committee reviews Management Letter points raised by the external auditor and meets with the external auditor to discuss the nature of the points raised. The Chairman of the Audit and Risk Committee reports to the Board on all significant matters considered by the Committee.

The Risk Management Framework diagram below illustrates the key responsibilities within the Group’s risk management structure.

In the Board’s view, the ongoing information it receives is sufficient to enable it to review the effectiveness of the Company’s system of internal control. The Directors confirm that they have reviewed the effectiveness of internal control. In particular, during the year they have considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.

[read more:](#)  
**Audit & Risk Committee Report**  
(page 47)



## Key Risks

The Audit and Risk Committee and the Board have carried out a robust assessment of the principal risks facing the Group. It is not practical to document every risk that could affect the Group in this report. The risks identified below are those that could have a material adverse effect on the Group's business model, future performance, solvency or liquidity. The actions taken to mitigate the risks cannot provide assurance that other risks will not materialise and adversely affect the operating results and financial position of the Group.

### Macro-Economic Conditions in the UK, Ireland, the Netherlands and Belgium



#### Risk Description

Trading in the Group's businesses is influenced by macro-economic conditions in the UK, Ireland, the Netherlands and Belgium. The Group's markets are cyclical in nature and a proportion of revenue is dependent on the willingness of households to incur discretionary expenditure on home improvement projects. Investments of this nature closely correlate with general economic conditions. A deterioration in economic conditions in the UK, Ireland, the Netherlands or Belgium could result in lower demand in the Group's businesses.

The Group's customers are mainly professional trades people engaged in residential, commercial and industrial maintenance and new-build projects. These markets are affected by trends in improvements, remodelling and maintenance and construction. Demand in these markets is also influenced by economic factors including interest rates, the availability of credit, inflation, changes in property values, demographic trends, tax policy, employment levels and gross domestic product. Any negative movement in one or more of these factors could adversely affect demand in the Group's business.

The result of the UK referendum to leave the European Union ("EU") has created significant uncertainty about the near term outlook and prospects for the UK economy. It is still too early to assess the likely impact on the UK economy of the UK leaving the EU or the extent to which any possible fall in investment and a potentially softer housing market could impact employment and household spending. It is expected to take two years to conclude negotiations on the UK's exit from the EU. The uncertainty during this period and beyond could negatively impact the UK economy, reduce demand in the Group's markets and adversely affect the financial performance of the Group.

#### Mitigation

The Group has taken significant action in previous years in response to the downturn in its markets to increase the operating efficiency of its business which leaves it well positioned to benefit from the continuing recovery. Exposure to the more resilient and less cyclical Repair, Maintenance and Improvement ("RMI") market has increased through ongoing expansion of the network of Selco stores particularly in the Greater London Area.

The merchanting branches in Ireland were refocused on the residential RMI market during the downturn but are equally well positioned to respond to an increase in the new house build markets. Branch showrooms have been upgraded and the product portfolio expanded to meet the needs of customers engaged in residential RMI projects which currently account for a higher proportion of revenue.

A highly cost efficient branch implant route to market model has been used to increase revenues through the existing branch network supported by an enhanced service to customers. Buildbase provides a plant, tool and equipment hire service to its customers. Electricbase implants supply a range of electrical products. Plumb Centre implants provide a full range of plumbing and heating products in the Chadwicks and Heiton Buckley branches in Ireland.

The mitigation strategy also incorporates proactive cost control in response to changes in market conditions. An assessment of macro-economic, construction and residential market conditions informs the allocation of capital resources to new projects.

The Group will continue to consider the impact of the UK vote to leave the EU on its businesses, monitor developments on an ongoing basis and will take appropriate action to help mitigate the consequences of any future decline in demand in its markets.

**Risk Movement**

- New
- Unchanged
- ▲ Increased
- ▼ Decreased

**Link to Strategy**

- Strong Financial Base
- Excellence in Service
- Organic Growth and Acquisitions
- Organisational Structure & Management
- Ethics and Integrity

### Competition in Merchancing, DIY and Mortar Markets

**Risk Description**

Grafton faces volume and price competition in its markets. The Group competes with builders merchants and retailers of varying sizes, and faces competition from existing general and specialist merchants including the national builders merchancing chains in the UK together with retailers, regional merchants and independents. The Group also faces the risk of new entrants to its markets, for example, by way of competition from on-line operators. Actions taken by the Group's competitors, as well as actions taken by the Group to maintain its own competitiveness and reputation for value for money, may exert pressure on product pricing, margins and profitability. Some of the Group's competitors may have access to greater financial resources, greater purchasing economies and a lower cost base, any of which may confer a competitive advantage that could adversely impact the Group's revenues, profits and margins.

**Mitigation**

The Group's businesses monitor gross margins and, where possible, develop appropriate tactical and trading responses to changes in the competitive and pricing environment. Mitigation of this risk is achieved through ensuring a value proposition for customers through the review of customer pricing metrics, monitoring pricing developments in the market place and the active management of pricing. Promotional and marketing activity is also a feature of revenue and margin management. Procurement strategies are focused on reducing costs through supplier consolidation and sourcing, when appropriate, through overseas markets. The Group maintains an open dialogue with suppliers in order to mitigate the impact on customers and Group profitability from commodity related cost pressures. The Group's businesses conduct surveys and review feedback from customers in order to improve the quality of the overall product and service proposition and to ensure that customer expectations are met.

### Colleague Recruitment, Engagement, Retention and Skills

**Risk Description**

The Group has almost 12,000 colleagues engaged in the operations and management of its portfolio of businesses. Employees are fundamental to the long term success and development of the business. Attracting and retaining employees with the relevant skills and experience and investing in training and development is essential to sustaining the existing operations and providing a platform for the longer term development of the Group.

The Group is dependent on the successful recruitment, development and retention of talented executives to run the overall Group and its businesses.




In addition, the Group's ability to continue to identify and develop opportunities is influenced by management's knowledge of and expertise in its markets.

**Mitigation**




The Group and its individual businesses are committed to high standards of employment practice and are recognised as good employers in the UK, Ireland, the Netherlands and Belgium. Remuneration and benefits are regularly reviewed and are designed to be competitive with other companies in the sectors that the Group operates in and with market practice generally.

Significant resources and time are devoted to training and development. This includes programmes that are organised internally by Group businesses and also in conjunction with external bodies. Employee turnover is closely monitored and processes are in place to provide career development opportunities and actively manage succession planning throughout the business. The Group made a number of appointments in recent years in planning for the succession of key executives and to support its longer term development.






## Key Risks (continued)

<p><b>IT Systems and Infrastructure</b></p> 	<p><b>Risk Description</b></p> <p>The Group's businesses are dependent on IT systems and supporting infrastructure to trade. Either the failure of key systems or the inability to compete through up to date trading platforms could have a serious impact on the business and could potentially result in the loss of revenue and reduced profitability.</p> <p>The rate and scale of IT change is increasing as the Group undertakes a programme to replace a number of heritage systems. These changes have the potential to disrupt operations.</p> <p><b>Mitigation</b></p> <p>Back-up facilities and Business Continuity Plans are in place and tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access.</p> <p>The replacement and updating of systems and technologies is supported by a full strategy and business case analysis and planning and risk analysis for each project. Implementation is supported by subject matter experts and colleagues from a cross section of functions to ensure that projects are managed to deliver technical, functional and business solutions within an appropriate cost and timeframe. Regular progress reports are made to the Board and planning and implementation is subject to review by Group Internal Audit.</p>
<p><b>Cyber Security</b></p> 	<p><b>Risk Description</b></p> <p>Increased levels of cybercrime represent a threat to the Group's businesses and may lead to business disruption or loss of data. The Group is exposed to the risk of external parties gaining access to Group systems to deliberately disrupt business, steal information or commit fraud. Theft of data relating to employees, business partners or customers may result in a regulatory breach and impact the reputation of the Group.</p> <p><b>Mitigation</b></p> <p>The Group has a number of IT security controls in place including gateway firewalls, intrusion prevention systems and virus scanning. The Group has also introduced a suite of information security policies. Regular IT audits are carried out in the Group's businesses. The Group Risk Committee has also established an Information Security Steering committee to develop and deliver the Information Security Programme. An Information Security Governance Committee has also been established to set priorities and strategic direction for the Information Security Programme.</p>
<p><b>Health and Safety</b></p> 	<p><b>Risk Description</b></p> <p>The prevention of injury or loss of life to colleagues, customers and third parties is an absolute priority for the Board and executive management. Health and safety risks in branch locations concern the manual handling of products, slips, trips and falls and incidents involving fork lift trucks and delivery vehicles. Outside of the branch locations the main health and safety risks relate to vehicles engaged in transferring building materials from branch locations to customers' sites.</p> <p><b>Mitigation</b></p> <p>Health and safety forms part of the agenda at all board meetings and statistics covering accident frequency rates, lost time, management of risks and the cost of accidents and incidents are reviewed by the Board on a regular basis. The individual businesses invest significant resources in health and safety management and actively work to minimise health and safety risks. Accidents are monitored and corrective action taken when appropriate to reduce or eliminate the risk of recurrence. The Group has recruited additional health and safety expertise to facilitate an improvement in the management of health and safety risks.</p>

**Risk Movement**

-  New
-  Unchanged
-  Increased
-  Decreased

**Link to Strategy**

-  Strong Financial Base
-  Excellence in Service
-  Organic Growth and Acquisitions
-  Organisational Structure & Management
-  Ethics and Integrity

### Acquisition and Integration of New Businesses

**Risk Description**

Growth through acquisition has historically been a key element in the Group's development strategy. The Group may not be able to continue to grow if it is unable to identify attractive targets, execute full and proper due diligence, raise funds on acceptable terms, complete acquisition transactions, integrate the operations of the acquired businesses and realise the anticipated levels of profitability, cash flows and return on invested capital.

**Mitigation**

Acquisitions are made in the context of the Group's overall strategy. The Group has a long established, experienced and skilled acquisition capability that has significant relevant experience in all aspects of acquisition transactions and in managing post acquisition integration. This process is underpinned by strategic and financial acquisition criteria and the close monitoring of performance post acquisition including one and three year post acquisition reviews by Group Internal Audit.

### Defined Benefit Pension Schemes

**Risk Description**

Retirement benefits are principally provided under defined contribution style pension arrangements. The Group also operates a number of defined benefit pension schemes in the UK and Ireland. The assets and liabilities of these schemes may exhibit significant volatility attributable primarily to changes in asset valuations, changes in bond yields and longevity of scheme members. In addition to future service contributions, significant cash contributions may be required to eliminate past service deficits.

**Mitigation**

An investment strategy is in place under the stewardship of the pension scheme trustees, in consultation with the Group to protect scheme assets and optimise returns.

The Group's defined benefit pension schemes were restructured during 2013 following consultations between the Group, the Trustees and active members. The arrangements agreed were based on sharing the cost of funding scheme deficits and providing for more sustainable future benefits at an affordable cost while also materially reducing the financial risks of the schemes to the Group's businesses.

### Credit Risk Relating to Customers

**Risk Description**

The Group is exposed to the risk of default by customers who purchase products on credit. One of the key features of customer service in merchanting is the provision of short-term credit to customers, with the Group carrying the associated credit risk.

**Mitigation**

The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by Business Unit credit control teams. Credit insurance is in place to cover major exposures in the UK merchanting business. Past-due receivables are monitored and actively managed on an on-going basis and bad debt provisions are made as required.

## Sectoral & Strategic Review

# Merchanting Segment

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

\* Before amortisation of intangible assets on acquisitions and exceptional items

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



## UK Merchanting

The UK Merchanting segment trades from 484 branches, principally under the Selco, Buildbase and Plumbase brands in the South East, Midlands and North of England, and under the MacBlair brand in Northern Ireland.

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

\* Before amortisation of intangible assets on acquisitions and exceptional items

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

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

Building materials price deflation is estimated at 1.3 per cent and volumes grew by circa 4.2 per cent. The opening of new Selco branches,

acquisitions and branch rationalisation accounted for net revenue growth of 3.7 per cent. The gross margin declined by 70 basis points due to intense pricing pressure and a very competitive trading environment in the traditional merchanting business during a period of price deflation in the sector.

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

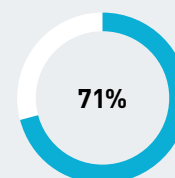
There was good like-for-like growth in the London area branches which contributed three quarters of revenue. The strongest revenue gains were experienced in regional cities and towns which supports the Group's strategic ambition to increase Selco's geographic footprint in the UK. Average transaction

### Market Positions

Builders Merchanting **No. 3**

Plumbers Merchanting **No. 4**

### Proportion of Group Revenue



### Key Brands



values were lower due to price deflation with increased transactions driving volume growth in a competitive market. Revenue growth was also driven by new product initiatives to gain share and further differentiate the business in the market place.

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

## UK Merchenting (continued)



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

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

**Plumbbase** showed modest growth in like-for-like revenue and a marginal decline in total revenue due to the closure of 28 branches following a rigorous strategic and financial analysis of the branch network. The business will in future focus on supporting its professional domestic installer customer base through a smaller network of branches that

offer a better platform for improving long term profitability and increasing returns on capital employed.

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

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

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





## UK Merchancing Strategy in Action

### The key elements of the Group's UK merchancing strategy are:

- ▶ **Focusing on the Repairs, Maintenance and Improvement (RMI) segment which has attractive market dynamics including greater through-the-cycle resilience;**
- ▶ **Focusing on three financial pillars of revenue growth, improving the operating profit margin and increasing capital turn by utilising spare capacity and creating greater efficiency in the existing branch network;**
- ▶ **Continuing to extract efficiencies and synergies from current market leading positions;**
- ▶ **Developing Buildbase and Selco brands in areas of the market where they currently do not have a presence or are under-represented;**
- ▶ **Selectively participating in consolidation of UK merchancing market as a preferred buyer;**
- ▶ **Developing sustainable position in the electrical distribution market through the use of a low cost implant route to market model that leverages off existing merchancing assets and infrastructure;**
- ▶ **Growing hire centre revenue in builders merchancing branches; and**
- ▶ **Expanding selectively in complementary product markets.**



During 2016 this strategy was implemented through organic development of the Selco branch network, with seven new branches opened during the year, of which five are located in Greater London (Chessington, South Croydon, Mitcham, Wembley and Watford), one on the South Coast (Portsmouth) and one in the West Midlands (Wolverhampton). The business traded from 47 branches at the year end and plans are in place to open at least ten new branches in 2017 reflecting the success of the Selco model that services the more resilient residential RMI segment of the UK merchancing market. Selco opened its first new branch of 2017 in Beckton, East London in February.

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

The acquisition of T. Brewer, a specialist timber business trading from three branches in

London, strengthened the traditional UK merchancing business. This acquisition was in line with the UK merchancing strategy of selectively acquiring businesses that offer the prospect of good returns on invested capital. It follows the acquisition of Beaumont Forest Products in June 2014 which provided a platform for the growth of timber revenues. Allsands, a general builders merchant located in Larkfield, Kent, was also acquired. Both businesses made good profit contributions in line with pre-acquisition expectations.

The 80 Electricbase implants in Buildbase branches that supply a range of electrical products recorded a strong improvement in revenue and profitability. The Hirebase division had a good year with increased revenue and operating profit following the development in recent years of tool, plant and equipment hire implants in Buildbase branches.

## Irish Merchancing

The Irish merchancing segment trades mainly under the Chadwicks and Heiton Buckley brands in the Republic of Ireland.

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

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

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

Demand from the house building sector improved as the supply of houses increased to an estimated 15,000 units from 12,700 units in 2015. Supply however remained a long way short of the estimated 25,000 - 30,000 units

required to meet pent-up demand due to a shortage of owner occupied, social housing and rental properties. The Government's new Help-to-Buy scheme, which provides a tax rebate to first time buyers of five per cent of the purchase price of a new home, and relaxation of mortgage lending rules by the Central Bank are expected to stimulate growth in house building.

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

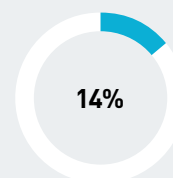
Revenue growth was broadly based across the branch network as the recovery gained momentum outside of Dublin and provincial cities. There was a slight decline in the gross margin due to a change in product mix in an otherwise competitive market. During 2016 significant investment was made in people with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

The five branch In-House kitchen business benefitted from increased consumer spending and the reorganisation implemented in the

### Market Position

Builders Merchancing	<b>No. 1</b>
Plumbers Merchancing	<b>No. 1</b>
Steel Stock Holding	<b>No. 1</b>

### Proportion of Group Revenue



### Key Brands



prior year. Operating profit showed significant growth from a low base. In view of the increasingly trade operated customer base and change in reporting lines, the In-House business was transferred from the retail segment to the merchancing segment with effect from 1 January 2016 and the prior year comparative results have been updated to reflect the change of reporting segment.





## Irish Merchanding Strategy in Action

### The Group's Irish merchanding strategy is focused on:

- ▶ **Strengthening its market leadership position;**
- ▶ **Utilising spare capacity in the branch network, as market conditions improve, to increase revenue, operating margin and return on capital employed;**
- ▶ **Developing a complementary presence in adjacent product categories; and**
- ▶ **In-filling geographic coverage through greenfield development.**

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

## Netherlands Merchenting

Grafton trades under the Isero and Gunters en Meuser brands in the Netherlands.

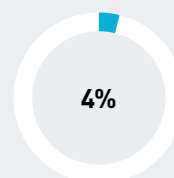
	2016 €'m	2015 €'m
Revenue	<b>87.7</b>	8.5
Operating profit*	<b>9.1</b>	0.5
Operating margin*	<b>10.4%</b>	5.4%

\*Before amortisation of intangible assets on acquisitions

### Market Position

Builders Merchenting  
(ironmongery, tools and fixings) **No. 1**

### Proportion of Group Revenue



### Key Brands



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

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

good revenue growth compared to the pre-acquisition level.

The Dutch economy performed strongly in 2016 driven by improved consumer sentiment, employment gains and growth in real disposable incomes which led to increased spending by households. The upturn in the economy, availability of mortgages at low interest rates and pent up demand contributed to growth in housing transactions by an estimated 20 per cent. The stock of housing properties for sale

fell sharply during the year. The supply of new housing increased from a historically low level but was well short of potential demand.

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



## Netherlands Merchating Strategy in Action

### The Group's strategy in the Netherlands Merchating market is focused on:

- ▶ Utilising the acquisition of Isero to provide a development platform in a recovering economy and market;
- ▶ In-filling geographic coverage of the ironmongery, tools and fixings market through organic development and acquisitions;
- ▶ Identifying opportunities to invest in other attractive segments of the merchating market; and
- ▶ Using Group scale and expertise to enhance product ranges in existing branch network.

The Isero business trades in a fragmented segment of the merchating market where there are opportunities to grow the branch network organically and by acquisition under an established management team that has a good track record. A new branch was opened in North Amsterdam in August. The acquisition of **Gunters en Meuser**, a distributor of ironmongery, tools and fixings from 14 branches in the Greater Amsterdam Area was completed on 5 January 2017. Gunters en Meuser is a business that is synonymous with the ironmongery market in Amsterdam where it has traded for 190 years. This was an important step in the Group's development

strategy in the Netherlands where it now has strong positions in the country's five largest cities. The enlarged business trades from 53 branches and is the market leader in the Netherlands ironmongery, tools and fixings market.

The business will focus in 2017 on the integration of Gunters en Meuser and on better supporting customers through on-line and logistics solutions. The fragmented nature of the market is expected to present acquisition opportunities over the coming years.

## Belgium Merchating

Grafton trades under the YouBuild and MPRO brands in Belgium.

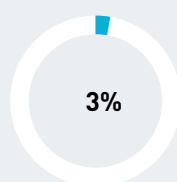
	2016 €'m	2015 €'m	Actual Change	Constant Currency Change
Revenue	<b>83.5</b>	82.8	+0.9%	(10.6%)
Operating loss*	<b>(0.7)</b>	(0.3)	(130.9%)	(149.9%)
Operating margin*	<b>(0.8%)</b>	(0.4%)	(40bps)	

\* Before exceptional and non-recurring items

### Market Position

Merchating Market **No. 1**

### Proportion of Group Revenue



### Key Brands



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

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

## Belgium Merchating Strategy in Action

### The Group's Belgium Merchating strategy focuses on:

- ▶ Returning the businesses to profitability;
- ▶ Extracting scale related synergies as market position develops;
- ▶ Leveraging off best practice and know-how in merchating businesses in the UK and Ireland; and
- ▶ Expanding branch coverage through organic growth or acquisitions if the projected returns meet the Group's hurdle rates.



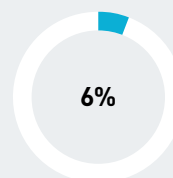
## Retailing

The Group is the largest DIY retailer in Ireland trading from 35 stores nationally under the Woodie's brand.

### Market Position

DIY Retailing Ireland **No. 1**

### Proportion of Group Revenue



### Key Brand



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

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

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

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



introduction of "Great Place to Work" initiatives which have seen significant growth in colleague engagement.

Woodie's continued to develop its kitchen business and now has a dedicated kitchen sales area in almost half of its estate. The on-

shelf availability of Woodie's top 1,000 lines was improved through better merchandising and supply chain management. There was also an ongoing focus on upgrading key ranges and on product innovation and differentiation.



## Retailing Strategy in Action

### The Group's retail strategy is based on:

- ▶ **Maintaining Woodie's clear market leadership position and strong brand recognition;**
- ▶ **Focusing on core strengths in the DIY, Home and Garden categories; and**
- ▶ **Utilising spare capacity in the branch network to increase revenue, operating margin and return on capital employed.**

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

The store upgrade programme was rolled out to a further eight stores following a successful trial of the new layout and

merchandising concept which showed outperformance compared to the remainder of the estate. This took the number of branches completed to 12 by the year-end representing 45 per cent of total revenue. The results to date provided the confidence to continue the roll-out in a further eight stores in 2017, increasing coverage on completion to 65 per cent of total revenue. The newly formatted stores will deliver an improved shopping environment, enhance performance and protect Woodie's strong market leadership position.



## Manufacturing

CPI EuroMix is the market leader in the dry mortar market in the UK where it operates from nine plants in England and one in Scotland. MFP is a manufacturer of drainage and roofline products operating from a facility based in Dublin.

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

\*excluding inter-segment revenue

Good first quarter growth in **CPI EuroMix**, supported by favourable conditions in the new housing market, was followed by a period of uncertainty, leading to overall modest like-for-like revenue growth in the first half. Demand from the house builder and bricklaying contractor customer base recovered strongly in the second half resulting in mid-single digit like-for-like revenue growth for the year. Strong consumer demand for new housing was sustained by a positive labour market, low interest rates, the availability of competitive mortgages and the Government's Help to Buy scheme.

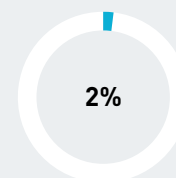
The management team delivered strong gains in operating profit and margin for the year driven by volume growth and investment in commercial initiatives that included converting the sand drying system in all plants from oil to LPG. This development reduced costs, increased production efficiency and improved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

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

### Market Position

Mortar Manufacturing UK **No. 1**

### Proportion of Group Revenue



### Key Brands

**EuroMix**

**MFP**



### Manufacturing Strategy in Action

The manufacturing segment strategy is based on:

- ▶ **Maintaining our clear market leadership position in the UK mortar market; and**
- ▶ **Leveraging scale and expertise in the UK mortar market to expand into related products and markets.**

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





## Financial Review

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

### Property

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

### Pensions

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

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

discounted at 1.8 per cent, a decline of 55 basis points. There was a decline in scheme liabilities of £2.7 million due to lower inflation and salary growth assumptions.

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

### Net Finance Income and Expense

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

- ▶ **The Group is committed to achieving increased returns for shareholders and has set a medium term target of 15 per cent for return on capital employed.**

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**Financial Statements**  
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## Taxation

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

The underlying tax rate of 19 per cent reflected the blended rates of corporation tax on profits in the UK, Ireland and the Netherlands and the disallowance of a tax deduction for certain overheads charged in arriving at profit before tax including depreciation on property. There will be a reduction in the UK rate of corporation tax from 20 per cent at present to 19 per cent with effect from 1 April 2017 and a further reduction in the rate to 17 per cent with effect from 1 April 2020. The Group's forecast tax charge for 2017 is 18.5 per cent.

## Capital Expenditure and Intangible Assets

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

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

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

## Shareholders' Equity and Net Debt

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

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

## Financing

The level of undrawn facilities at 31 December 2016 was £217.6 million (31 December 2015: £115.7 million), which together with the Group's surplus cash balances and deposits of £205.9 million (31 December 2015: £211.6

million) and strong cash flow from operations, provide significant funding headroom and financing flexibility. The Group's loan facilities of £518 million are with six relationship banks. The earliest maturity is in March 2021.

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

## Return on Capital Employed and Asset Turn

Return on Capital Employed (ROCE) increased by 30 basis points to 12.5 per cent (2015: 12.2 per cent) and capital turn increased to 2.2 times (2015: 2.1 times). The Group is committed to achieving increased returns for shareholders and has set a medium term target of 15 per cent for return on capital employed. This target is based on a combination of an improvement in operating performance and the more efficient deployment of capital to generate higher returns.

**David Arnold**  
Chief Financial Officer



# Corporate Social Responsibility

Grafton is committed to conducting its business in a socially responsible manner. This is demonstrated in the way it engages with its colleagues, customers, suppliers and with the communities in which it trades. The Group is also committed to taking a balanced view on economic, social and environmental issues when making business decisions.

The Group increasingly recognises the importance of a strategic, coordinated approach to the many aspects of its corporate social responsibility ("CSR"). 2016 saw further development in a number of areas of the Group's broader CSR strategy. Various key policies were issued or updated and practical approaches to implementation continue to develop.

The Group's core values listed below help to ensure that its CSR strategy is focused and relevant.



Be brilliant for our customers



Value our people



Ambitious



Trustworthy



Entrepreneurial and empowering

The Group's approach to CSR is built on the following key themes, around which policy, strategy and activity are focused.

## Corporate Governance and Ethical Business



During 2015 the Group issued a Group Code of Business Conduct and Ethics setting out the basic standards of behaviour which all employees (including contractors, agents and business partners) of the Group are expected to follow. During 2016 the Group issued a number of additional related policies for adoption by its businesses concerning ethics and regulatory compliance including an Anti-Fraud and Theft Policy, an Anti-Money Laundering Policy and an Employee Purchasing Policy. Online ethical training modules have been developed and rolled out for completion by all Group employees in order to ensure that the Group's principles of ethical behaviour are embedded across all Business Units.

## Community and Charity Support



The Group recognises its responsibility as a member of the communities where it conducts business and is committed to developing links to those communities through a range of community and charitable initiatives supported by local staff and management. In addition, the Group, through its branch networks, also supports a range of charitable causes mainly at a local level. In 2016, Grafton businesses raised over £500,000 in support of charities.

Woodie's raised a total of £220,000 through the very successful "Woodie's Heroes" campaign, which ran for four weeks across all stores and was advertised nationally. Funds raised were donated to children's charities Make A Wish Ireland, Temple Street Children's Hospital, Irish Autism Action and Jack and Jill Foundation.

The Irish merchanting business supported a number of charitable initiatives during the year including a 140km charity cycle

to raise funds for the Friends of the Rotunda Hospital, and the Barnardos Food & Toy appeal. The business also celebrated its thirteenth year of partnership with Moyle Park College, Clondalkin where colleagues facilitated CV and interview skills workshops for local students under the "Business in the Community" initiative.

Grafton Merchanting GB continued its support of Cancer Research UK ("CRUK") with a number of fundraising events held throughout the year raising £145,000. "Donation Stations" were set up at various branch locations enabling items to be donated to CRUK shops.

In June 2016, Grafton Group plc sponsored its fifth consecutive cycle challenge. The four day challenge covered over 300 miles from the Atlantic to the Mediterranean. A team of senior executives completed the challenge and raised over £17,000 for the Foundation of Light, the registered charity of Sunderland AFC. The Foundation uses the power of football

to inspire, involve and educate children, families and adults across the North East of England and engages with more than 40,000 people every year.

Selco continued its ongoing fundraising support for MacMillan Cancer Support, raising £175,000 in 2016 and £365,000 to date through a variety of sporting events and community initiatives.

The Isero business continues to sponsor the 'Beursvloer Woerden', a trade fair which provides for the sharing of information and skills between local businesses and social organisations. Other sponsorships included sports events to raise funds for the Dutch Cancer Society.

The Belgian merchanting business ran initiatives throughout the year raising funds for a number of children's charities.

## Products and Supply Chain



Grafton recognises the increasingly significant role that effective environmental management has to play in its business and acknowledges its corporate responsibilities in this field.

The UK merchanting and manufacturing operations continued to maintain accreditation to the ISO 14001 environmental management standard. This accreditation is seen as vital in helping to focus on environmental risk management initiatives.

CPI Mortars has maintained the Construction Products Certification (CPC) BES 6001 accreditation for product and supply chain sustainability and ethics.

The Group recognises the increasing importance of supplying renewable and sustainable products. Product ranges

designed to provide sustainable building solutions have been introduced in a number of businesses. These ranges include Solar Thermal and Solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems. The Woodie's DIY business offers a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. The merchanting branches sell condensing boilers which reduce demand for fossil fuels, energy-saving insulation materials and controlled ventilation systems.

### Transparent Timber Sourcing

Buildbase holds an internationally recognised environmental certificate for the PEFC (Programme for the Endorsement of Forest Certification) scheme. It is Buildbase policy

that its natural timber products are FSC/PEFC accredited. The entire operation is independently audited. Buildbase has adopted the Timber Trades Federation 'Responsible Purchasing Policy'. This demonstrates that the business is committed to sourcing timber and timber products from legal and well-managed forests. The Irish merchanting business sources timber from suppliers that are FSC/PEFC certified.

### Modern Slavery Act

The Group issued a Modern Slavery Policy Statement in respect of the year ended 31 December 2016, which is available on its website [www.graftonplc.com](http://www.graftonplc.com). This describes Grafton's policy on forced or involuntary labour and describes the safeguards that the Group has in place to mitigate against the risk of modern slavery in its businesses or supply chains.

## Key CSR Themes (continued)

### Carbon Footprint and Energy Reduction



#### Greenhouse Gas Emissions

##### CO2e Emissions by Sector (Tonnes of CO2e)

Merchandising and Retail	Manufacturing	Group Total
69,195	18,153	<b>87,348</b>

Total emissions are calculated from the following:

- **Buildings** - electricity, gas and fuel oil
- **Transport** - petrol, diesel and red diesel
- **Processing** - fuel oil

Overall group CO2e output decreased by 2.1 per cent in 2016. CPI Mortars, the Group's mortar manufacturing business, achieved a 20 per cent reduction in CO2 emissions from manufacturing operations by switching from gas oil to LPG fuel for its sand drying processes. The opening of a number of new Selco stores and the inclusion of previously unmeasured fuel use in part of the Irish operations led to an increase in reported emissions in the merchandising and retail segments.

#### Energy Efficiency

Buildbase is a Green Deal provider. Sponsored by the Department of Energy and Climate Change (DECC), the Green Deal is an initiative to encourage home and business owners to improve the energy efficiency of their properties. It provides a platform to enable customers to engage in an initiative that provides finance to property owners for the installation of energy efficient products.

Considerable work has been carried out in the Republic of Ireland operations to reduce energy consumption through changes to lighting; the most significant area of energy demand in branch locations. The merchandising businesses in Belgium and Northern Ireland also substantially reduced energy consumption by installing LED lights in a number of branches.

### Pollution and Waste



As a supplier of building materials and related products, Grafton strives to reduce the quantity of waste sent to landfill by implementing recycling measures across its businesses. The Group's Irish businesses are members of Repak and the UK businesses are members of Biffpack.

The Group has also focused on operational efficiencies and reductions in energy usage through on-going energy audit programmes and the replacement of old appliances. The Group's Irish merchandising business works closely with the Environmental Protection

Agency to implement best practice solutions for the treatment and preservation of timber.

In the UK, Grafton has worked hard with its suppliers to improve the accuracy of data collection on recycling rates. As a consequence of improvements in waste management data collection, reported recycling rates reduced from 80 per cent to 77.1 per cent.

### Our Values



Be brilliant for our customers



Value our people



Ambitious



Trustworthy



Entrepreneurial and empowering

- ▶ **CPI Mortars, the Group's mortar manufacturing business, achieved a 20 per cent reduction in CO2 emissions from manufacturing operations by switching from gas oil to LPG fuel for its sand drying processes.**

## Colleagues



The success of the Group is dependent on the contribution and commitment of its employees. The Group's decentralised structure, which is appropriately supported at Group level, gives colleagues the autonomy to maximise their experience, expertise and skills both for their own career development and for the success of the Group. The Group recognises that talent management and succession planning are critical for future growth and as a result an annual talent review is conducted and people risks are strategically managed.

Grafton is committed to high standards of employment practice across its businesses and aims to reward colleagues fairly by reference to skills, performance, peers and market conditions. Where appropriate, the Group provide incentives to employees through remuneration policies that promote commitment and reward achievement.

The Group has put in place an Equality and Diversity Policy which states that Grafton will not tolerate harassment and discriminatory practices based on age, ancestry, colour, marital status, medical condition, disability (both mental and physical), national origin, race, religion, political affiliation, sex, sexual orientation or gender identity, or any other factor as established by law or best practice. The Group believes that monitoring the pay between men and women is an important step to ensuring all colleagues are fairly rewarded for their work and their contribution to the business. During 2017 gender pay information will be published on the websites of UK businesses that are within the scope of the UK gender pay gap reporting regulations.

Grafton is committed to offering equal opportunities to all individuals in their recruitment, training and career development having regard to their particular aptitudes and abilities. Training and development programmes are important to the business. Significant attention and resources are devoted to this area. Training programmes are organised internally by Group businesses and also in conjunction with external bodies, including the Builders Merchant

Federation in the UK. These programmes cover sales development, customer service, product training, health and safety and leadership skills. They help to ensure that the Group can develop, retain and attract the best talent at all levels in the business. The Group aims to support career progression by filling vacancies through internal promotions and to complement internal appointments with recruitment from outside of the organisation.

The Irish merchanting business redesigned its Management Development Programme during the year with a view to developing and retaining strong leadership talent. The programme comprises a 24-module "Development Road Map" based on key leadership competencies including emotional intelligence, decision making, conflict management, entrepreneurship and interpersonal skills. Successful participants are conferred with a City & Guilds Diploma.

Woodie's operate a range of learning and development programmes including the externally accredited Seeds to Success Programme, Leadership Development Training and a Retail Degree Programme. The Isero business in the Netherlands operates an in-house business academy to train apprentice customer service representatives. Buildbase and Plumbase offer a wide range of training courses through the 'My Learning' e-learning, an application which complements the Business Fundamentals, Core and Advanced Management Development Programmes used to develop talent in the business.

A number of Group businesses took part in employee engagement surveys during the year. The results of all surveys across the Group demonstrated ongoing improvements in both participation rates and employee engagement scores.

Employing companies in the UK will be in scope for the Apprenticeship Levy from April 2017 whereby a proportion of payroll costs will be withheld and used to pay for apprenticeship training and development of future talent. The Group is committed to the development of early careers and has over 40 apprentices on

the existing apprenticeship scheme but this number is expected to increase in future.

The Group has invested in a cloud based HR solution which allows colleagues in Business Units in the UK and Ireland to access and update their employee records from a range of devices. In the UK, colleagues have access to "Reward Gateway", an online benefits and communications web platform which provides access to company communications and information on discounts available from a range of high street retailers. Since launching the platform in 2013, employees have spent over £2.5m through the website. Selco operates a funded health plan for all employees which enables them to claim money back for basic health costs including dentistry and eye glasses.

The Group operates a Revenue-approved Save As You Earn Scheme (SAYE) that enables eligible UK colleagues to share in the success of the overall Group. A scheme launched in 2014 will mature in 2017. Participating employees have the option on maturity to purchase Grafton Units at a discount to the market price of the shares at the time the options were granted. Colleagues can benefit from any increase in the share price over the three year savings period.

"Speak-Up", the group-wide confidential reporting service established during 2014, continued to provide an effective channel for employees to raise concerns to an independent third party regarding practices or conduct in their businesses including possible instances of fraud, theft, serious health and safety issues and other risks. All reports are logged by the third party and passed to the Group Internal Audit team for investigation. The individual making the report is kept appropriately informed of the progress of the investigation and its outcome through the reporting service. All concerns raised through this channel and the outcomes of investigations are reported to the Audit and Risk Committee. While Group policy encourages colleagues to raise any concerns with their manager in the first instance, this service provides an alternative reporting route if required.

## Key CSR Themes (continued)

### Health and Safety



The Group is committed to achieving the best practicable standard of health and safety for its colleagues, customers and visitors to trading locations. It considers health and safety to be an important element in the overall management of the businesses and is an agenda item for all meetings of the Grafton Group plc Board and at review meetings of Business Units. Effective health and safety management is driven by Directors and senior management. Management across the businesses continued to demonstrate their commitment, involvement and leadership through active monitoring of performance, challenging unacceptable standards and promoting effective safety management as a priority. The contribution of all colleagues across the Group is critical to preventing accidents and protecting staff, customers and visitors to Group locations.

There was a continued focus during 2016 on ensuring that the Group's health and safety specialists work closely with management teams to promote responsibility for health and safety and implement improved practices. Each of the Group's businesses have put in place agreed annual Health and Safety improvement plans which will allow for the measurement of future performance against agreed improvement objectives. A Group Health and Safety Policy has also been put in place which sets out the key responsibilities for health and safety management and enforcement across the group. Every employee is expected to fulfil their responsibilities as effectively as possible and to raise any concerns about safety within our business.

There was continuing activity across the Group's businesses to improve the quality, clarity and standard of safety management systems and procedures and to drive effective implementation of change. The ongoing objective is to ensure that all colleagues

are aware of the Group's health and safety standards and understand their roles in observing these standards.

The Group's training programmes develop knowledge, understanding, capability and commitment among colleagues. Programmes of practical and specialist training continued with the objective of ensuring that colleagues have the requisite skills and competence to operate in areas that give rise to particular health and safety considerations. The introduction of a new manual handling training programme in late 2015 yielded a 25 per cent reduction in manual-handling related lost time incidents in the UK merchanting business.

There was a move to a more coordinated strategy for health and safety management across the whole of the Group with the aim of facilitating the transfer of best practice and the development of common standards. A feature of this strategy was the development of more effective communication and enabling key safety information and messages to be delivered in a clear, coordinated and structured way. The Group has also invested in a tailored electronic health and safety management system which will provide a platform for performance monitoring, audit management and dissemination of relevant information to drive further improvements.

Lost Time Accident Frequency Rate (LTAFR) increased slightly to 1.55 lost time incidents per 100,000 hours worked (2015: 1.50).

### Our Values



Be brilliant for our customers



Value our people



Ambitious



Trustworthy



Entrepreneurial and empowering

- ▶ **Each of the Group's businesses have put in place agreed annual Health and Safety improvement plans which will allow for the measurement of future performance against agreed improvement objectives.**



# Corporate Governance



## Board of Directors and Secretary



**Michael J. Roney** (USA), MBA  
Non-Executive Chairman

Michael Roney was appointed to the Board as Non-Executive Director, Deputy Chairman and Chairman Designate on 1 May 2016 and assumed the role of Chairman on 1 January 2017. He was Chief Executive of Bunzl plc from 2005 until his retirement in April 2016. Prior to joining Bunzl he was Chief Executive Officer of Goodyear Dunlop Tires Europe having previously been President of Goodyear's Eastern European, African and Middle Eastern businesses. He was appointed Non-Executive Director, Deputy Chairman and Chairman Designate of Next plc, the FTSE 100 listed UK retailer, on 14 February 2017 and will take up the role of Non-Executive Chairman of Next plc on 1 August 2017. He is Non-Executive Director of Brown-Forman Corporation, the US based spirits business and of Azelis SA, a private company, and was formerly Non-Executive Director of Johnson Matthey Plc.

*Board Length of Service: 0.8 years*



**Gavin Slark** (UK)  
Chief Executive Officer

Gavin Slark joined the Group and the Board as Chief Executive Designate on 1 April 2011 and was appointed Chief Executive Officer on 1 July 2011. He is currently a Non-Executive Director of Galliford Try plc, a UK housebuilding and construction group. He was previously Group Chief Executive of BSS Group plc, a leading UK distributor to specialist trades including the plumbing, heating and construction sectors.

*Board Length of Service: 6.0 years*



**David Arnold** (UK), BSc, FCMA, FCT  
Chief Financial Officer

David Arnold joined the Group as Group Chief Financial Officer on 9 September 2013. He was Group Finance Director of Enterprise plc, the UK Maintenance and Support Services business, from 2010 to 2013 and Finance Director of Redrow plc, the house builder, from 2003 to 2010. He previously held senior financial positions with Six Continents plc, the hotels group and Tarmac plc, the building materials company.

*Board Length of Service: 3.5 years*



**Paul Hampden Smith** (UK), FCA  
Non-Executive Director

Paul Hampden Smith was appointed to the Board on 27 August 2015 and will be appointed Senior Independent Director with effect from 9 May 2017. He was Group Finance Director of Travis Perkins plc from 1996 until his retirement in February 2013. He joined the Travis Perkins Group in 1988 and has 25 years' senior level management experience in the UK merchanting industry. He is currently a Non-Executive Director, Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees of Bellway plc and Clipper Logistics plc. He is also Senior Independent Director of Clipper Logistics plc. He was previously a Non-Executive Director and Chairman of the Audit Committee of Pendragon plc, Redrow plc and DX Services plc.

*Board Length of Service: 1.6 years*



**Charles M. Fisher** (UK), MA  
Non-Executive Director

Charles Fisher was appointed to the Board on 1 May 2009. He was Chairman and Chief Executive of Sharpe & Fisher plc, the UK builders merchanting company, from 1989 to 1999. He was formerly Chairman of Garden Centre Property Development Trading plc and Mowlem plc and previously served as a director of a number of other public companies including Travis Perkins plc, Baggeridge Brick plc, South Western Electricity plc and Delta plc. Mr. Fisher has indicated that he will be stepping down from the Board following the 2017 AGM.

*Board Length of Service: 7.9 years*

### Legend

Audit and Risk Committee

Finance Committee

Nominations Committee

Remuneration Committee

Committee Chairman



**Frank van Zanten** (NL), MBA  
Non-Executive Director

Frank van Zanten was appointed to the Board on 13 May 2013. He is Chief Executive of Bunzl plc, the FTSE 100 UK international distribution and outsourcing Group with operations across the Americas, Europe and Australasia. He joined the Board of Bunzl on 1 February 2016 and assumed the role of Chief Executive on 20 April 2016. Prior to his appointment as CEO he was Managing Director of Bunzl's Continental Europe business area. He was previously Chief Executive of PontMeyer N.V., the Dutch Builders Merchants.

*Board Length of Service: 3.8 years*



**Susan Murray** (UK)  
Non-Executive Director

Susan Murray was appointed to the Board on 14 October 2016. She is currently a Non-Executive Director of 2 Sisters Food Group, a food manufacturing company. She is a former Chief Executive of Littlewoods Stores Limited and former Worldwide President and Chief Executive of The Pierre Smirnoff Company, part of Diageo plc. She is also a former Chairman of Farrow & Ball and a former Non-Executive Director of Compass Group plc, Pernod Ricard S.A., Imperial Tobacco plc, Enterprise Inns plc, Aberdeen Asset Management plc, SSL International plc and Wm Morrison Supermarkets plc.

*Board Length of Service: 0.4 years*



**Roderick Ryan** (IRL), B.Comm, FCA, AITI  
Non-Executive Director

Roderick Ryan joined the Board on 15 March 2006 and was appointed Senior Independent Director in May 2010. He is a Non-Executive Director of Glen Dimplex and other companies. Mr. Ryan is a former Managing Partner of Arthur Andersen in Ireland. Mr. Ryan has indicated that he will be stepping down from the Board following the 2017 AGM.

*Board Length of Service: 11.0 years*



**Vincent Crowley** (IRL), BA, FCA  
Non-Executive Director

Vincent Crowley was appointed to the Board on 14 October 2016. He is currently a Non-Executive Director of C&C Group plc, an international manufacturer and distributor of branded drinks, and Executive Chairman of Altas Investments plc, an Irish company that holds investments in infrastructure and related businesses. In the course of a 24 year career with Independent News & Media PLC, a leading Irish newspaper and media business, he held a number of leadership positions including Chief Executive Officer and Chief Operating Officer and was a member of the Board. Prior to joining Independent News & Media PLC, he held senior roles in KPMG and Arthur Andersen.

*Board Length of Service: 0.4 years*



**Charles Rinn**, MBA, FCCA  
Group Financial Controller & Secretary

#### Audit and Risk Committee

Membership	Length of Service
P. Hampden Smith (Chairman)	1.6 years
C. M. Fisher	1.3 years
F. van Zanten	3.6 years
V. Crowley	0.2 years

#### Remuneration Committee

Membership	Length of Service
C. M. Fisher (Chairman)	6.8 years
F. van Zanten	1.3 years
P. Hampden Smith	1.3 years
S. Murray	0.2 years

#### Nomination Committee

Membership	Length of Service
R. Ryan (Chairman)	6.8 years
M. Roney	0.8 years
C. Fisher	6.8 years
F. van Zanten	1.7 years
P. Hampden Smith	1.6 years
S. Murray	0.0 years*
V. Crowley	0.0 years*

\*appointed on 3 March 2017

#### Finance Committee

Membership	Length of Service
G. Slark (Chairman)	6.0 years
D. Arnold	3.5 years
C. Rinn	13.0 years

# Directors' Report on Corporate Governance

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## Compliance with the 2014 UK Corporate Governance Code

Grafton Group plc is incorporated in Ireland and is subject to Irish company law. Its Units (shares) are listed on the London Stock Exchange and the UK Corporate Governance Code ("the Code") sets out the standards for corporate governance to be applied by companies with a listing on the London Stock Exchange. This report describes how the Company has applied the main and supporting principles of the Code.

The Board believes that the Company has, throughout the accounting period, complied with all relevant provisions set out in the Code.

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## LEADERSHIP

### Role of the Board and Division of Responsibilities

The Board routinely meets eight times a year and additionally as required by time critical business needs. The Board met on eight occasions during 2016. There is also contact with the Board between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the business within a centralised reporting framework. The Board has a formal schedule of matters specifically reserved for its decision. The matters reserved by the Board for its decision cover all strategic decisions, risk management, acquisitions, approval of interim and final dividends and share purchases, changes to the capital structure, tax and treasury management, major items of capital expenditure, approval of half-yearly and annual financial statements, budgets and material matters currently or prospectively affecting the Group and its performance. The Board's responsibilities also include ensuring that appropriate management, development and succession plans are in place; reviewing the environmental and health and safety performance of the Group; approving the appointment of Directors and the Company Secretary; approving policies relating to Directors' remuneration and severance and ensuring that satisfactory dialogue takes place with shareholders. The Group has arranged appropriate insurance cover in respect of legal action against directors.

It is Board policy that no individual or small group of individuals can dominate its decision-making.

The roles of Chairman and Chief Executive Officer are split. There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The Chief Executive Officer is responsible for day-to-day management of the Group including implementing the

strategy agreed with the Board and reporting on the performance of the Group. He is accountable to the Board as Chief Executive Officer for all authority delegated to executive management. The Chairman is responsible for leading the Board and ensuring its effectiveness in all aspects of its role.

Non-Executive Directors act constructively to challenge management proposals and review the performance of the business and management. The Board has delegated some of its responsibilities to the Audit and Risk, Remuneration, Nomination and Finance Committees.

### Senior Independent Director

Mr. Roderick Ryan is the Senior Independent Director. He is available to act as a sounding board for the Chairman, and as an intermediary for the other Directors, if necessary. He is also available to shareholders who may have concerns that cannot be addressed through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer. Mr. Ryan has indicated that he will step down from the Board at the conclusion of the Annual General Meeting on 9 May 2017. Mr. Ryan will be succeeded as Senior Independent Director by Mr. Paul Hampden Smith.

### Company Secretary

The Directors have access to the advice and services of the Company Secretary, Charles Rinn, who advises the Board on governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board provide that the appointment or removal of the Company Secretary is a matter for the full Board.

## Attendance at Board and Board Committee Meetings during the Year Ended 31 December 2016

The number of board meetings and committee meetings held during the year and attended by each Director was as follows:

Number of Meetings	Board		Audit and Risk Committee		Finance Committee		Remuneration Committee		Nomination Committee	
	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended
M. Chadwick	8	8	-	-	-	-	-	-	2	2
G. Slark	8	8	-	-	11	11	-	-	-	-
D. Arnold	8	8	-	-	11	11	-	-	-	-
F. van Zanten	8	8	4	4	-	-	8	6	2	2
R. Ryan	8	8	-	-	-	-	-	-	2	2
C. M. Fisher	8	8	4	4	-	-	8	8	2	2
P. Hampden Smith	8	8	4	4	-	-	8	8	2	2
M. Roney	6	6	2	2	-	-	5	5	2	2
V. Crowley	1	1	-	-	-	-	-	-	-	-
S. Murray	1	1	-	-	-	-	-	-	-	-

The Board is assisted by Committees of Board members that focus on specific aspects of its responsibilities. The terms of reference of the Audit and Risk Committee, Remuneration Committee and Nomination Committee, which were approved by the Board and comply with the Code, are available from the Company and can also be found on the Group's website at [www.graftonplc.com](http://www.graftonplc.com). Membership of Board Committees is shown on page 41. Ms. Susan Lannigan, Deputy Company Secretary is Secretary to the Audit and Risk Committee. Ms. Paula Harvey, Group HR Director is Secretary to the Remuneration Committee and Mr. Charles Rinn is Secretary to the Nomination Committee.

### Finance Committee

The Finance Committee comprises Mr. Gavin Slark, Chairman, Mr. David Arnold, Chief Financial Officer and Mr. Charles Rinn, Secretary and Group Financial Controller. The committee considers the financing requirements of the Group and makes recommendations to the Board. It also considers amendments to the terms of existing bank facilities, approval of finance and operating leases, for assets other than property up to a specified level, and litigation matters.

The length of service of the members of the Finance Committee is set out on page 41.

## EFFECTIVENESS

### Board Composition

It is the Company's policy that the Board comprises a majority of Non-Executive Directors. At 31 December 2016, the Board of Directors was made up of ten members comprising the outgoing Non-Executive Chairman, the Non-Executive Chairman Designate, two Executive Directors and six independent Non-Executive Directors. Following the Group's AGM and assuming the election/re-election of those Directors going forward, the Group's Board will comprise seven Directors being the Non-Executive Chairman, two Executive Directors and four Non-Executive Directors. Directors' biographical details are set out on pages 40 to 41. The Board considers that its proposed size and structure following the AGM is appropriate to the scale, complexity and geographic spread of its operations.

The number of Non-Executive Directors is considered sufficient to enable the Board and its Committees to operate effectively without excessive reliance on any individual Non-Executive Director. The Board believes that Executive and Non-Executive Directors between them have the necessary skills, knowledge and experience, gained from a diverse range of industries and backgrounds, required to manage the Group. The skills, expertise and experience of the Board is used to review strategy, allocate capital, monitor financial performance and consider executive management's response to market developments and operational matters.

The terms and conditions of appointment of Non-Executive Directors, which include the time commitment expected from each Director, are available for inspection by any person at the Company's registered office during normal business hours and at the AGM for 15 minutes prior to the meeting and during the meeting.

### Directors' Independence and Board Balance

The six Non-Executive Directors, Mr. Roderick Ryan, Mr. Charles M. Fisher, Mr. Paul Hampden Smith, Mr. Frank van Zanten, Mr. Vincent Crowley and Mrs. Susan Murray are considered by the Board to be independent in character and free from any business or other relationship which could materially interfere with the exercise of independent judgement. The Board has determined that each of the Non-Executive Directors fulfilled this requirement and is independent. In reaching that conclusion, the Board considered the principles relating to independence contained in the Code.

Mr. Roderick Ryan was appointed to the Board in 2006 and, as the length of his service exceeds nine years, the Code provides that an explanation be made to shareholders concerning his continued independence. The Board believes that the integrity and independence of Mr. Ryan is beyond doubt. He is financially independent of the company and has other significant professional commitments. His professional experience and long-term perspective on the Group's business was important to the work of the

## EFFECTIVENESS (continued)

Board and the Nomination Committee during 2016. The Board believes that Mr. Ryan has demonstrated independence in his role and that he has made a very valuable contribution to the Board. Mr. Ryan has indicated that he will not seek re-election and that he will retire from the Board at the conclusion of the Annual General Meeting on 9 May 2017.

It is Board Policy that Non-Executive Directors are normally appointed for an initial period of three years, which is then reviewed. Mr. Charles Fisher has served two years of his third term of three years and he has indicated that he will retire from the Board at the conclusion of the Annual General Meeting on 9 May 2017. Mr. Frank van Zanten has completed his first year of his second term of three years and Mr. Paul Hampden Smith has completed half of his first term of three years. Mr. Vincent Crowley and Mrs. Susan Murray were both appointed during 2016 and will be subject to election to the Board at the 2017 AGM.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. Directors appointed since the last AGM are subject to election by shareholders at the next Annual General Meeting following their appointment. However, in accordance with the provisions of the Code, the Board has decided that all other Directors, with the exception of Mr. Ryan and Mr. Fisher who have indicated their intention to retire as set out above, should retire at the 2017 Annual General Meeting and offer themselves for re-election.

The Board undertakes a formal annual evaluation of the performance of its Directors and is satisfied that all Directors who are proposed for re-election continue to discharge their obligations as Directors and contribute effectively to the work of the Board and its Committees. Further details on the board evaluation is set out below.

The overall composition and balance of the Board is kept under review as detailed in the programme of work undertaken by the Nomination Committee, set out in its report on pages 52 to 53. The Board will continue to manage the orderly succession of Non-Executive Directors.

### Induction and Training

It is the policy of the Board that formal induction is offered to all Directors appointed to the Board. This includes on-site visits and meetings with Senior Management in the Group's businesses and briefings from the Chairman, Executive Directors and the Company Secretary. Mr. Mike Roney, Mr. Vincent Crowley and Mrs. Susan Murray, who were appointed during 2016, completed a comprehensive induction programme including extensive site visits. Induction covers matters such as the operations of the Group, the role of the Board and matters reserved for its decision, powers delegated to Board Committees, corporate governance policies and the performance of the Group. Directors are advised on appointment of their legal and other duties and of their obligations as Directors of a listed company. The training and development needs of the Directors were reviewed and agreed at meetings held during the year.

### Information and Support

Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. Reports and papers are circulated to Directors in preparation for Board and Committee meetings. All Directors receive monthly management accounts and board reports covering the Group's performance, its strategy and other matters to enable them to review and oversee the performance of the Group on an ongoing basis.

All Directors have access to independent professional advice at the Group's expense where they consider that advice is necessary to enable them to discharge their responsibilities as Directors.

The Board periodically holds meetings at Group locations and meets senior management in order to help Directors gain a deeper understanding of the Group's operations and markets.

### Evaluation of Board

A formal review of the performance of the Board, Board Committees and individual Directors is undertaken each year including an external evaluation every three years. The process is designed to ensure that the effectiveness of the Board is maintained and improved where possible.

An internal evaluation was conducted by the Senior Independent Director in respect of the year ended 31 December 2016, an externally facilitated evaluation having been conducted during 2015 by the Institute of Directors in Ireland, with whom the Group has no other connection. The internal evaluation involved each Director independently completing a self-assessment questionnaire that covered the running of an effective board, relationships with management, oversight of strategy and development, monitoring financial and operating performance and shareholder value creation. The Senior Independent Director collated the responses to the questionnaire and reported the results of the evaluation to the Board. The overall result of the evaluation was very positive with a high level of satisfaction among Directors concerning the matters covered by the evaluation. The Non-Executive Directors also met during the year without the Chairman present to appraise the chairman's performance.

The Board confirms that each Non-Executive and Executive Director continues to perform effectively and demonstrate a strong commitment to the role.

### Succession Planning

The Board's general policy is to keep the overall composition and balance of the Board under review and to manage the orderly succession of Non-Executive Directors without compromising the effectiveness and continuity of the Board and its Committees.

The Board plans for succession with the assistance of the Nomination Committee. The Board believes that it is necessary to have appropriate Executive Director and Non-Executive Director representation to provide Board balance and also to provide the Board with the breadth of experience required by the scale, geographic spread and complexity of the Group's operations.

The Nomination Committee takes account of the skills, knowledge and experience required by the Board, international business experience and diversity, including nationality and gender, in considering suitable candidates to serve as Non-Executive Directors as part of the ongoing process of Board renewal. The Committee also considers the need for an appropriately sized Board.

The Board considers senior management succession planning on a regular basis with a view to developing, over the coming years, a robust succession pipeline for key positions up to Executive Director level.

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## ACCOUNTABILITY

The Board is committed to providing a fair, balanced and understandable assessment of the Company's position and prospects.

Responsibility for reviewing the Group's internal controls, risk management and risk evaluation procedures has been delegated by the Board to the Audit & Risk Committee. Details of how these duties were discharged is set out in the Audit & Risk Committee Report on pages 47 to 51.

Following the updates to the UK Corporate Governance Code, in particular in relation to the risk management process and long term viability of the Group, an assessment of the viability of the Group over a three year period to December 2019 was carried out by the Board and details of this assessment are laid out below.

### Going Concern

The Directors, having made appropriate enquiries, believe that the Company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the financial statements and, for this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Viability Statement

The Directors have assessed the viability of the Group over a three-year period to December 2019, taking account of the Group's current position and prospects, the Group's strategy and the Group's principal risks and how they are managed as documented on pages 16 to 19. Based on this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019.

In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks and that realistically would be open to them in the circumstances. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three-year period to December 2019 is an appropriate period over which to provide its viability statement. The Group prepares five year plans as part of its annual budgeting process however, given the inherent uncertainties, the outer two years are more difficult to forecast. These two years are used mainly for scenario planning with the Board placing greater reliance on the initial three year period. In making their assessment, the Directors have taken account of the Group's low net debt to equity position of nine per cent, its strong financial position and headroom on loan facilities in place over the period, its key potential mitigating actions of reducing the Group's cost base, capital expenditure or dividend payments and the Group's ability to generate positive cash inflows in a scenario of falling revenue as working capital is unwound. These mitigating actions were tested during the downturn in the Group's businesses from 2008 to 2012 which highlighted the resilience of the Group's business model to a severe and protracted economic downturn.

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## REMUNERATION

The Board has adopted remuneration policies that are considered sufficient to attract, retain and motivate Directors of the quality required to manage the company successfully whilst ensuring that the performance related elements are both stretching and rigorously applied. The Board has established a Remuneration Committee comprising four independent Non-Executive Directors. Details of the

committee's key responsibilities and a description of its work during 2016 are contained in the Report of the Remuneration Committee on Directors' Remuneration on pages 54 to 70.

## RELATIONS WITH SHAREHOLDERS

### Communication with Shareholders

The Company recognises the importance of communication with shareholders. Meetings are held with existing and prospective institutional shareholders principally after the release of half-yearly and annual results. The Group also issues trading updates in January, May, July and November.

A presentation for analysts was held in London on 7 March 2017 following the announcement of the Final Results for 2016. The presentation by the Chief Executive Officer and the Chief Financial Officer was broadcast on [www.graftonplc.com/webcast](http://www.graftonplc.com/webcast) and can be viewed or downloaded at [www.graftonplc.com](http://www.graftonplc.com).

Any significant or noteworthy acquisitions are announced to the market. The Company's website [www.graftonplc.com](http://www.graftonplc.com) provides the full text of all announcements including the half-yearly and annual results and investor presentations.

While the Chairman takes overall responsibility for ensuring that the views of our shareholders are communicated to the Board as a whole, contact with major shareholders is principally maintained by the Chief Executive and the Chief Financial Officer. The Chairman is available to meet with shareholders if they have concerns which have not been resolved through the normal channels of Chief Executive Officer or Chief Financial Officer or where such contacts are not appropriate. The Board receives reports on feedback from investors and also receives analysts' reports on the Group. Non-Executive Directors are offered an opportunity to attend meetings with major shareholders.

### General Meetings

The Company's Annual General Meeting (AGM), which is held in Dublin, affords shareholders the opportunity to question the Chairman and the Board. The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 20 working days before the meeting. The AGM is normally attended by all Directors. Resolutions are voted on by either a show of hands of those shareholders attending, in person or by proxy, or, if validly requested, by way of a poll. In a poll, the votes of shareholders present and voting at the meeting are added to the proxy votes received in advance and the total number of votes for, against and withheld for each resolution are announced. This information is made available on the Company's website following the meeting.

All other general meetings are called Extraordinary General Meetings (EGMs). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice.

A quorum for a general meeting of the Company is constituted by four or more shareholders present in person and entitled to vote. The passing of resolutions at a meeting of the Company, other than special resolutions, requires a simple majority. A special resolution requires a majority of at least 75 per cent of the votes cast to be passed.

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies record dates for general meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the notice of a general meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the Notice convening the meeting. A shareholder, or a group of shareholders, holding at least 5 per cent of the issued share capital of the Company, has the right to requisition a general meeting. A shareholder, or a group of shareholders, holding at least 3 per cent of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion on the agenda of a general meeting, subject to any contrary provision in Irish company law.

### Memorandum and Articles of Association

The Company's Memorandum and Articles of Association set out the objects and purposes of the Company. The Articles detail the rights attaching to each share class; the method by which the Company's shares can be purchased or re-issued; the provisions which apply to the holding of and voting at general meetings; and the rules relating to the Directors, including their appointment, retirement, re-election, duties and powers.

The Company's Memorandum and Articles of Association may be amended by a Special Resolution passed by the shareholders at an AGM or EGM of the Company.



A copy of the Memorandum and Articles can be obtained from the Group's website, [www.graftonplc.com](http://www.graftonplc.com).



## Audit and Risk Committee Report

Dear Shareholder,

As Chairman of Grafton's Audit and Risk Committee ("the Committee"), I am pleased to present the report of the Committee for the year ended 31 December 2016.



This report describes how the Committee has fulfilled its responsibilities during the year under its Terms of Reference and under the relevant requirements of the UK Corporate Governance Code.

The Committee is satisfied that its role and authority include those matters envisaged by the UK Corporate Governance Code that should fall within its remit and that the Board has delegated authority to the Committee to address those tasks for which it has responsibility.

### Membership

The Committee currently comprises four Non-Executive Directors:

- Mr. Paul Hampden Smith, Chairman,
- Mr. Charles M. Fisher,
- Mr. Frank van Zanten and
- Mr. Vincent Crowley.

Mr. Michael Roney was appointed to the Committee on 9 May 2016 and in line with the provisions of the UK Corporate Governance Code, he ceased to be a member of the Committee on 31 December 2016 prior to assuming the role of Chairman on 1 January 2017. Mr. Vincent Crowley was appointed to the Committee on 19 January 2017.

All members of the Committee are determined by the Board to be independent Non-Executive Directors in accordance with provision B1.1 of the UK Corporate Governance Code. In accordance with the requirements of provision C.3.1 of the UK Corporate Governance Code, I am designated as the Committee member with recent and relevant financial experience. The biographical details on pages 40 to 41 demonstrate that members of the Committee have a wide range of financial, taxation, commercial and business experience relevant to the sector in which the Group operates.

### Key Duties

- ▶ **Monitoring the integrity of the Group's financial statements and announcements relating to the Group's performance;**
- ▶ **Advising the Board on whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy;**
- ▶ **Monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the External Auditor;**
- ▶ **Overseeing the relationship between the Group and the External Auditor including the terms of engagement and scope of audit;**
- ▶ **Reviewing the effectiveness of the Group's internal controls;**
- ▶ **Reviewing the scope, resourcing, findings and effectiveness of the Internal Audit function;**
- ▶ **Overseeing the effectiveness of the risk management procedures in place and the steps taken to mitigate the Group's risks; and**
- ▶ **Reporting to the Board on how the Committee has discharged its responsibilities.**



The full terms of reference of the Committee can be found on the Group's website [www.graftonplc.com](http://www.graftonplc.com).

## Meetings

The Committee met four times during the year and each meeting was attended by all Committee members as set out in the table on page 43.

Meetings are attended by the members of the Committee and others being principally the Chief Executive Officer, the Chief Financial Officer, the Group Financial Controller and Company Secretary and the Group Internal Audit and Business Risk Director, who attend by invitation. Other members of executive management may be invited to attend to provide insight or expertise in relation to specific matters.

The PwC Group Engagement Leader and other representatives of the External Auditor are also invited to attend certain Audit and Risk Committee meetings. The Committee also met privately with the External Auditor and the Group Internal Audit and Business Risk Director without executive management present. Ms. Susan Lannigan, Deputy Company Secretary, is Secretary to the Committee.

The Chairman of the Committee reports to the Board on the work of the Audit and Risk Committee and on its findings and recommendations.

## Key Areas of Activity During 2016

A summary of the key activities of the Committee during the year is set out below:

<b>Financial Reporting</b>	<p>The Committee reviewed the draft financial statements and draft half-yearly results before recommending their approval to the Board. As part of this review, the Committee considered significant accounting policies, estimates and significant judgements. The Committee reviewed the Half Year and Final Results announcements. The Committee also reviewed the significant management letter points on internal controls in the Group's individual businesses prepared by PwC as part of the audit process. The significant issues in relation to the financial statements considered by the Committee and how these were addressed are set out on pages 50 to 51.</p>
<b>Risk Management and Internal Control</b>	<p>The Board has delegated responsibility to the Committee for monitoring the effectiveness of the Group's system of risk management and internal control, which is set out in further detail in the Risk Management Report on pages 14 to 19. The Committee reviewed the Group's risk management process and the procedures established for identifying, evaluating and managing key risks, which included a review of performance against the objectives set in the prior year.</p>
<b>Internal Audit</b>	<p>The Committee considered reports and updates from the internal audit function which summarised the findings, recommendations and management responses to audits conducted during the year. These reports covered the work undertaken, findings, actions recommended and the response of executive management of the Group's businesses to recommendations made. The Committee considered and approved the programme of work to be undertaken by the Group's internal audit function in 2016. The Group Internal Audit and Business Risk Director reports to the Chief Financial Officer and also has direct access to the Audit and Risk Committee. The Committee met with the Group Internal Audit and Business Risk Director on four occasions during the year where he presented internal audit report findings and recommendations and updated the Committee on the actions taken to implement recommendations. The scope, authority and responsibility of the Internal Audit function are set out in the Internal Audit Charter which has been approved by the Committee.</p>
<b>IT Systems</b>	<p>As part of its review of principal risks, the Committee considered the adequacy of the governance structures and IT policies and procedures to support the ongoing programme of investment in systems and infrastructure that will result in the upgrading and consolidation of systems that support a number of businesses including the rollout of the AX trading platform in Buildbase.</p>

<b>External Auditor</b>	<p>As set out in the Report of the Committee for the year ended 31 December 2015, a formal tender process was carried out during 2015 for the external audit of the Group's financial statements for the year ended 31 December 2016 and subsequent years. Following the conclusion of this process, on the recommendation of the Committee, the Board approved the appointment of PwC as auditors to the Group. Full details of this process are set out on page 53 of the 2015 Annual Report.</p> <p>The Committee reviewed the External Auditor's overall audit plan for the 2016 audit of the Group and approved the remuneration and terms of engagement of the External Auditor. The Committee also considered the quality and effectiveness of the external audit process and the independence and objectivity of the Auditor.</p> <p>In order to ensure the independence of the External Auditor, the Committee received confirmation from the Auditors that they are independent of the Group under the requirements of the Auditing Practices Board's Ethical Standards for Auditors. The Auditors also confirmed that they were not aware of any relationships between the firm and the Group or between the firm and persons in financial reporting oversight roles in the Group that may affect its independence. The Committee considered and was satisfied that the relationships between the Auditor and the Group including those relating to the provision of non-audit services did not impair the Auditor's judgement or independence.</p>
<b>Non-Audit Services</b>	<p>The External Auditor is not prohibited from undertaking non-audit services that do not conflict with auditor independence provided the provision of the services does not impair the auditors objectivity or conflict with their role as auditor and subject to having the required skills and competence to provide the services. The Auditor is precluded from providing non-audit services that could compromise its independence or judgement.</p> <p>In January 2016 the Committee approved a policy on non-audit services. Under this policy the External Auditor will not be engaged for any non-audit services without the approval of the Audit &amp; Risk Committee. The External Auditor is precluded from providing certain services under Regulation (EU) No 537/2014, or from providing any non-audit services that have the potential to compromise its independence or judgement. With the exception of fees incurred in acquired businesses, fees for non-audit services in any financial year are targeted not to represent more than 20 per cent of the audit fee.</p> <p>The Committee monitors and reviews the nature of non-audit services provided by the Auditors. An analysis of non-audit services provided by PwC for 2016 is disclosed in Note 3 on page 104. The Committee has undertaken a review of non-audit services provided during 2016 and is satisfied that these services, which were limited in nature, were efficiently provided by the External Auditor with the benefit of their knowledge of the business and did not prejudice their independence and objectivity.</p>
<b>Whistleblowing and Fraud</b>	<p>A Group Anti-Fraud and Theft Policy was approved during 2016 setting out the Group's approach to all forms of fraud and theft, the responsibilities of Business Unit management in relation to prevention and detection procedures and controls, the appropriate reporting channels and the possible actions which may be taken by the Group in response to suspected fraud or theft. Instances of fraud or theft over a specified threshold are reported to the Committee.</p> <p>The Committee considers reports received periodically on matters raised through "Speak Up", a Group wide confidential reporting service run independently of the Group which allows colleagues to report any concerns they may have regarding certain practices or conduct in their businesses including possible instances of fraud and theft. All concerns raised through this channel and the outcomes of investigations are reported to the Committee.</p>

<b>Anti-Bribery and Corruption</b>	<p>The Group's Code of Business Conduct and Ethics sets out the ethical standards to which all Group employees are expected to adhere. A Group Anti-Bribery and Corruption Policy was approved during 2015 and sets out the core standards and procedures to be observed and practical guidance on dealing with bribery risk. An annual declaration of independence is signed by senior management and other individuals who are considered to be at higher risk of conflict of interest, including employees who have responsibility for contract negotiation with customers and suppliers.</p>
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## Estimates and Judgements

The Committee reviewed in detail the following areas of significant judgement, complexity and estimation in connection with the Financial Statements for 2016. The Committee considered a report from the external auditors on the audit work undertaken and conclusions reached as set out in their audit report on pages 77 to 84. The Committee also had an in-depth discussion on these matters with the external auditors.

<b>Goodwill</b>	<p>The Committee considered a report prepared by an international accounting and advisory firm in conjunction with Group management regarding the allocation of goodwill for impairment testing purposes to cash generating units (CGUs). The report concluded that the Group's expansion into new European markets, together with revisions to management reporting structures and the existence of Group purchasing synergies indicated the existence of seven CGU groups comprising Ireland Merchancing, Ireland Manufacturing, Ireland Retailing, UK Merchancing, UK Manufacturing, Belgium Merchancing and Netherlands Merchancing. The report recommendations were approved by the Committee and goodwill was allocated between the revised CGU groups.</p> <p>The Committee considered the goodwill impairment analysis provided by management and agreed with the conclusion reached that no impairment charge should be recognised in the year. In arriving at its decision, the Committee considered the impairment review conducted by management which involved comparing the recoverable amount and carrying amount of the CGUs. The review by management involved discounting the forecasted cash flows of each CGU based on the Group's pre-tax weighted average cost of capital adjusted to reflect issues associated with each CGU and carrying out sensitivity analysis on the key assumptions used in the calculations including the revenue growth rate, the gross margin, the discount rate and the long term growth rate. The Committee also considered reports on the medium term macro-economic environment, analysts' forecasts for the Group, the budget for 2017 and internal forecasts for 2018 to 2021 inclusive.</p> <p>The Committee noted the significant overall level of headroom in the value in use model prepared by management and considered the impact on the headroom of sensitivity analysis on the key assumptions used in the model. Of the CGUs which are not significant, the value-in-use of the Belgian merchancing CGU is the most sensitive to changes in key assumptions. The Committee also compared the year-end market capitalisation of the Group to its net asset position and noted that it was materially higher than the net asset value.</p>
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<b>Recognition of Supplier Rebates</b>	<p>Supplier rebates represent a significant source of income in the merchancing industry and is an area of risk due to the number, complexity and materiality of rebate arrangements. The Committee reviewed the basis used by management for calculating rebate income for the year and rebates receivable at the year end and was satisfied that the accounting treatment adopted was appropriate and that rebates receivable at the year-end were recoverable. In reaching its conclusion, the Committee reviewed information and reports prepared by the internal audit function which completed full year reviews across all significant Business Units with the primary objective of providing independent assurance on the adequacy of the design and operating effectiveness of the controls in place over supplier rebate management. These reviews included re-performing calculations on a sample of rebate income for 2016 and rebate receivable at year end by reference to agreements with individual suppliers and reports of purchases made from suppliers. The Committee also considered the value of rebates received after the year end relating to 2016.</p>
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<b>Valuation of Inventory</b>	The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow moving inventory. In arriving at its conclusion that the level of inventory provisioning was appropriate, the Committee received half year and full year updates from management on stock ageing and provisioning at Business Unit level. The Committee reviewed the basis for calculating the valuation of rebate attributable to inventory and was satisfied that inventory was appropriately valued and that a prudent approach for inventory provisioning was adopted.
<b>Exceptional Items</b>	The Committee reviewed the composition of the charge for Exceptional Items and was satisfied that while the classification of exceptional costs required the exercise of judgement, the charge was in line with the Group's accounting policy on Exceptional Items which seeks to highlight significant items in the income statement including significant restructuring and onerous lease provisions.
<b>IT Systems</b>	<p>As part of its review of principal risks, the Committee considered the adequacy of the governance structures, and IT policies and procedures to support a programme of investment in systems and infrastructure planned over a number of years that will result in the upgrading and consolidation of systems that support a number of businesses including the rollout of the AX trading platform in Buildbase and noted that there was a full strategy business case and risk analysis for each project. The Committee also assessed the AX Trading Platform and the quality of the processes in place in relation to its development and implementation.</p> <p>The Committee considered developments related to the implementation of the new system including reports by internal and external auditors on the transition to an automated supplier invoice matching system that is intended ultimately to replace the existing system.</p>

As Chairman of the Committee, I engaged with the Group CFO, the Group Internal Audit and Business Risk Director and the PwC Group Engagement Leader in preparation for Committee meetings. I also attend the Annual General Meeting and am available to respond to any questions that shareholders may have concerning the activities of the Committee.

**Paul Hampden Smith,**

*Chairman of the Audit and Risk Committee*

15 March 2017

# Nomination Committee Report

Dear Shareholder,

As Chairman of the Nomination Committee of Grafton Group plc (“the Committee”), I am pleased to present the report of the Committee for 2016 which outlines the work performed by the Committee during the year.



2016 was a year of significant change for the Board and a very active year for the Committee. In March 2016 the Group announced the retirement of Mr. Michael Chadwick as Chairman with effect from 31 December 2016 and the appointment of Mr. Michael Roney as his successor. Mr. Roney was appointed to the Board on 1 May 2016 as Non-Executive Director, Deputy Chairman and Chairman Designate and he assumed the role of Group Chairman on 1 January 2017.

On the recommendation of the Committee, two new Non-Executive Directors, Mrs. Susan Murray and Mr. Vincent Crowley, were appointed to the Board in October 2016.

## Membership

The Committee currently comprises the Chairman and six Non-Executive Directors:

- Mr. Roderick Ryan, Chairman,
- Mr. Michael Roney,
- Mr. Paul Hampden Smith,
- Mr. Charles M. Fisher,
- Mr. Frank van Zanten,
- Mrs. Susan Murray and
- Mr. Vincent Crowley.

The biographical details of each Committee member are set out on pages 40 to 41 and their length of service on the Committee is set out on page 41. All members of the Committee are determined by the Board to be independent Non-Executive Directors in accordance with provision B1.1 of the UK Corporate Governance Code.

## Key Duties of Committee

- ▶ **Evaluating the balance of skills, knowledge, experience and diversity of the Board and Committees and making recommendations to the Board with regard to any changes;**
- ▶ **Considering succession planning for Directors and other senior executives taking into account what skills and expertise are needed for the future;**
- ▶ **Regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board and its Committees;**
- ▶ **Identifying, and nominating for the approval of the Board, candidates for appointment as Directors and ensuring that there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board; and**
- ▶ **Considering the re-appointment of any Non-Executive Director at the conclusion of their specified term of office and making recommendations to the Board.**



The full terms of reference of the Committee can be found on the Group's website [www.graftonplc.com](http://www.graftonplc.com)

The Committee is satisfied that its role and authority include those matters envisaged by the UK Corporate Governance Code that should fall within its jurisdiction and that the Board has delegated authority to the Committee to address those tasks for which it has responsibility.

### Activities of the Committee During 2016

The Nomination Committee met formally on two occasions during the year and had significant interaction between meetings. The principal activities undertaken by the Committee during the year are set out below:

#### Appointment of a new Non-Executive Chairman

The Committee engaged Zygos Partnership, an external search firm with no connection to the Group, to assist with the search for new Non-Executive Chairman to succeed Mr. Michael Chadwick. A job specification was prepared, including an assessment of the time commitment expected for the role. An external search was undertaken and a short list of candidates was put forward for consideration by the Board. Board members also provided suggestions to the Committee of potential candidates to be considered for the role. On the recommendation of the Committee Mr. Michael Roney was appointed to the Board on 1 May 2016 as Non-Executive Director, Deputy Chairman and Chairman Designate, and assumed the role of Chairman on 1 January 2017. Mr. Roney was considered independent on appointment.

Mr. Roney was Chief Executive of Bunzl plc until May 2016 and during his ten and a half year tenure he led its global development across the Americas, Europe and Australasia. He had an outstanding track record as Chief Executive of the company consistently increasing profitability and creating shareholder value. Prior to joining Bunzl, Mr. Roney held the role of Chief Executive Officer of Goodyear Dunlop Tires Europe. He is a Non-Executive Director of Brown-Forman Corporation, one of the worlds' largest US based spirits businesses, and has recently been appointed Non-Executive Director and Chairman Designate of Next plc.

#### Appointment of Non-Executive Directors

The Committee identified the skills and experience to support the future strategic development of the Group and initiated a search for two Non-Executive Directors. It was agreed that gender and nationality were factors that would also be given careful attention in shortlisting candidates for appointment. Leaders Mores in Dublin and Zygos Partnership in London, two external search firms with no connection to the Group, were engaged to assist with the search. Following a shortlisting and interview process, Mrs. Susan Murray and Mr. Vincent Crowley were appointed to the Board on 14 October 2016.

Mrs. Murray brings strong business experience to the Board having held the role of Chief Executive of Littlewoods Stores Limited and the Pierre Smirnoff Company, and Non-Executive Director roles with Compass Group plc, Pernod Ricard S.A., Imperial Tobacco plc, Enterprise Inns plc, Aberdeen Asset Management plc, SSL

International plc and Wm Morrison Supermarkets plc. She is currently a Non-Executive Director of 2 Sisters Food Group, a food manufacturing company.

Mr. Crowley is currently a Non-Executive Director of C&C Group plc and Executive Chairman of Altas Investments plc. In the course of a 24 year career with Independent News & Media PLC, a leading Irish newspaper and media business, he held a number of leadership positions including Chief Executive Officer and Chief Operating Officer and was a member of the Board. Prior to joining Independent News & Media PLC, he held senior roles in KPMG and Arthur Andersen.

#### Committee changes

During the year, the Committee also reviewed and recommended changes to the composition of Board Committees. Mr. Michael Roney was appointed to the Audit and Risk, Remuneration and Nomination Committees on 9 May 2016. In line with best practice, Mr. Roney's membership of both the Audit and Risk and Remuneration Committees ceased on 31 December 2016 in advance of him assuming the role of Chairman on 1 January 2017. Mrs. Susan Murray was appointed to the Remuneration Committee on 19 January 2017 and Mr. Vincent Crowley was appointed to the Audit and Risk Committee on the same date. Both Mrs. Murray and Mr. Crowley were appointed to the Nomination Committee on 3 March 2017.

Details of the current membership of Board Committees is shown within each Committee report.

#### Diversity

The Group's policy is to promote equality and diversity across all areas of its business. While the Board will always seek to appoint the best candidates available and to appoint candidates on merit against objective criteria, the Committee and the Board recognise the benefits of greater diversity on the Board and diversity is actively considered when considering Board appointments.

#### Board Composition

Recent appointments to the Board, as set out above, were made in anticipation of planned retirements. The Committee considers the current size and composition of the Board, taking the recent announcement on Board changes that take effect at the end of the AGM into account, to be appropriate.

Finally, I will be stepping down from the Board at the end of the 2017 AGM and I would like to take the opportunity to say that it has been a pleasure to have served on the Board of Grafton Group plc for the last 11 years. I will be handing over Chairmanship of the Nomination Committee to Mr. Michael Roney.

#### **Roderick Ryan,**

*Chairman of the Nomination Committee*  
15 March 2017

# Report of the Remuneration Committee on Directors' Remuneration

## Chairman's Annual Statement

Dear Shareholder,

On behalf of the Board, I am pleased to present the Report of the Remuneration Committee ("the Committee") on Directors' Remuneration.



Although not required under the Irish Companies Act, the Committee has continued to prepare the Remuneration Report in accordance with the UK regulations governing the disclosure and approval of remuneration of the Directors. This remuneration report has been split into three parts - (i) the Chairman's Annual Statement, (ii) the proposed Remuneration Policy Report which sets out the Group's policy for remunerating Directors, and (iii) the Annual Report on Remuneration which sets out how Directors were remunerated in 2016 and how it is proposed to apply the proposed policy in 2017. This report also contains additional information on directors share interests.

### Approach to Remuneration

The Committee's approach to remuneration is to ensure that Executive Directors are incentivised to implement successfully the Board's strategy and that remuneration is aligned with the interests of shareholders over the longer term. The Committee seeks to achieve this by:

- Rewarding Executive Directors fairly and competitively for the delivery of strong performance;
- Taking into account the need to attract, retain and motivate executives of high calibre and to ensure that Executive Directors are provided with an appropriate mix of short term and long term incentives;
- Taking a range of factors into account including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individuals concerned and remuneration practices elsewhere in the Group; and
- Setting bonus targets that are stretching and Long Term Incentive Plan (LTIP) metrics that are challenging with full vesting of awards requiring exceptional performance.

### Performance Outcome for 2016

The key features of a good performance by the Group for 2016 are summarised as follows:

- ▶ Revenue up 13% to a record £2.5 billion – 10% increase in constant currency;
- ▶ Adjusted\* Group operating profit growth of 12% to £142.0m (2015: £127.3m);
- ▶ Adjusted\* Group profit before taxation up 14% to £136.2 million from £119.4 million;
- ▶ Adjusted basic earnings per share up 16% to 47.7p;
- ▶ Strong cash generation from operations of £168.6 million (2015: £139.3 million) resulting in net debt reduction by £17.3 million and year-end gearing of just 9% (2015: 12%);
- ▶ Investment of £72.3 million on acquisitions and capital expenditure to support future growth; and
- ▶ 10% increase in dividend in line with progressive dividend policy.

\* Before amortisation of intangible assets arising on acquisitions, exceptional items of £19.7m in 2016 and a net non-recurring credit of £1.4m in 2015

### Remuneration for 2016

The Committee agreed in December 2015 not to award an increase in basic salary to the Chief Executive Officer and Chief Financial Officer for 2016.

The annual bonus for 2016 was based on very demanding financial performance targets and personal objectives. Financial performance targets accounted for three quarters of the overall bonus opportunity.



Reflecting the performance set out above, a bonus of 72.24 per cent of basic salary, out of a maximum possible award of 120 per cent of basic salary, was made to the Chief Executive Officer. The bonus award made to the Chief Financial Officer was 60.20 per cent of basic salary out of a potential bonus opportunity of 100 per cent of basic salary.

The performance conditions for LTIP awards granted in April 2014, and covering the performance period ending on 31 December 2016, were based on growth in Adjusted Earnings Per Share and Total Shareholder Return (TSR). Half of the award to the Chief Executive Officer and Chief Financial Officer was based on the relative TSR performance versus a comparator group. As the Group's TSR was below the median, relative to a bespoke group of 18 UK and Irish quoted companies that operate in the construction industry, this half of the award will not vest. The other half of the award was based on the Group's adjusted EPS for the financial year ended 31 December 2016 being in the range of 38.0 pence to 45.0 pence. As the Adjusted Earnings Per Share of 47.7 pence for 2016 exceeded the upper end of the range (representing a compound annual growth in adjusted EPS of 28.8 per cent), this performance condition was met and this half of the award to the Chief Executive Officer and Chief Financial Officer will fully vest.

The Remuneration Committee is satisfied that the short and long-term elements of remuneration reflect the performance of the Group both in 2016 and over the three years to the end of 2016.

#### Proposed Changes to Remuneration Policy

The Company's first Remuneration Policy was approved by shareholders in 2014. While a revised policy was approved in 2015, there were no substantive changes made except to facilitate ongoing LTIP provision for the Chief Financial Officer. 2017 represents the end of our first Remuneration Policy period and following a comprehensive review of remuneration and consultation with major shareholders and institutional investors bodies, a new Remuneration Policy will be put to a shareholder vote at the 2017 AGM. The Committee was advised by New Bridge Street, part of Aon Hewitt, on the proposed Remuneration Policy.

The Committee is seeking to make the following changes to its remuneration policy and how it is implemented in 2017.

#### Base Salary Cap

Directors' salaries were not increased in 2016 and it is proposed that the 2017 Remuneration Policy will include a salary cap which limits increases to current Directors' salaries over the life of the policy (covering 2017, 2018 and 2019) to that of the general workforce. The Committee may decide for any particular year, based on company and personal performance, to apply a lower rate of increase to the salary of current Directors than the rate of increase applied to the general workforce.

The increase approved by the Committee for 2017 was two per cent which is consistent with the increase applying to the general workforce.

#### Annual bonus

No changes are proposed to the policy on annual bonus limits. The annual bonus opportunity will remain at 120 per cent of salary for the CEO and 100 per cent of salary for the CFO. For 2017, the Committee has decided to simplify the annual bonus plan by reducing the number of measures from four to two including removing the personal objectives element. The 2017 bonus awards will be based on earnings per share (70 per cent) and return on capital employed (ROCE) (30 per cent).

#### Long Term Incentive Plan

Since the 2014 Remuneration Policy was approved, the Group has become more complex as it has expanded internationally through a series of well-integrated acquisitions in the UK, Belgium and the Netherlands. Strong organic growth and exposure to strengthening economies of Ireland and the Netherlands has resulted in a more complex and diversified business. As part of the review, the Remuneration Committee concluded that the remuneration policy should provide a greater focus on incentivising sustained long-term performance. As a result, the Committee is proposing that the LTIP policy limits are increased from 150 per cent to 200 per cent of salary for the CEO and from 125 per cent to 175 per cent of salary for the CFO. The Committee believes the new limits are appropriate when considered in the context of the introduction of good practice features outlined below, more stretching targets, and a below market annual bonus opportunity.

Awards to be made in 2017 will be at the increased levels subject to shareholder approval of the proposed Remuneration Policy. Vesting of the 2017 award will continue to be based on TSR (50 per cent) and on EPS (50 per cent) growth.

The Committee believes in pay-for-performance and in view of the proposed increase in the quantum of awards, the Committee will ensure that targets set are tougher, based on expectations at the time of grant, than those previously set for the EPS and TSR performance measures. Full vesting will require exceptional performance as demonstrated below.

#### Total Shareholder Return

TSR remains an appropriate measure as it ensures that the interests of Executive Directors are closely aligned with those of shareholders over the medium to long term and incentivises Directors to ensure that the Group outperforms relative to a selected comparator group of companies. The TSR performance condition supports the achievement of profit growth and cash generation to maximise shareholder value and outperformance.

The Committee conducted a review of the peer group used in previous years, which consisted of a bespoke group of eighteen UK and Irish listed companies operating in the construction sector and, having considered alternative peer groups, the Committee concluded that there were too few quoted companies that carried on business activities that were similar to Grafton to constitute a meaningful sector peer group particularly in the event of any delistings over the three year

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Chairman's Annual Statement (continued)

period. The Committee is proposing that the TSR performance condition should be measured against a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts. This index was chosen on the basis that it is more representative of the Group's overall trading and financial environment and is a more appropriate measure of outperformance.

The Committee proposes to toughen the TSR performance measure for the 2017 award. If the Group's TSR equals the median TSR of the peer group, 25 per cent of this part of the award will continue to vest, with full vesting for upper quintile performance or better. This is more demanding than the current approach which provides for full vesting for upper quartile performance. Awards will vest on a straight line basis for performance between the median and upper quintile. Notwithstanding the achievement of the TSR performance conditions, no shares will vest unless the Committee considers that the overall financial results of the Group have been satisfactory in the circumstances over the performance period.

### Earnings Per Share

For EPS growth targets, the Committee sets the percentage growth range having considered the Group's budget and strategic business plan, the Group's economic and trading environment and analysts' forecasts for EPS. The Committee has historically set very demanding growth targets for EPS in absolute terms.

The proposed EPS range for the 2017 LTIP award is 59.0p to 66.0p for the year ended 31 December 2019 (compared to actual 2016 adjusted EPS of 47.7p). The lower end of the target range (threshold) is above consensus Brokers Forecasts of 58.4p for 2019 which were available when the range was approved on 14 March 2017 and reflects changes made to forecasts following the publication of the Final Results for 2016 on 7 March 2017. It should be noted that in previous years, market consensus was the mid-point of the range and therefore the 2017 target is more challenging than the previous years' targets.

Consistent with prior years, the upper end of the range is appropriately stretching and will only be achieved if performance is exceptional. 25 per cent of the award will vest if the lower target in the range is achieved. Where EPS is between the lower and higher targets in the range, then between 25 per cent and 100 per cent of this part of the award will vest on a straight line basis.

### Shareholding Guideline

In order to further strengthen the alignment between the interests of directors and shareholders, the Committee proposes to double the minimum share ownership guideline to 200 per cent of basic salary for Executive Directors.

### Holding Period

The Committee also proposes introducing a holding period of two years on shares received from LTIP awards that vest following approval of this policy after taking into account any shares sold to pay tax and other statutory obligations. Shares held during the two year

holding period will be deemed to be part of an executive directors' shareholding. The vesting period and the holding period will be five years in total.

### Summary

The Committee has considered these proposals very carefully and believes that the increase in the LTIP opportunity is appropriate. The Committee also believes that in view of the increased scale and complexity of the Group, the proposed changes are necessary to appropriately incentivise and retain a highly regarded senior management team. The EPS and TSR targets that will be set for 2017 and future years will be much tougher as demonstrated by the overall approach to setting targets for the forthcoming award in 2017 and will be kept under review to ensure that full vesting of awards will require exceptional performance and reflect the proposed increase in the quantum of awards that will be granted. The Committee has further supported the alignment of directors and shareholders interests by significantly strengthening shareholder guidelines to require directors to hold a higher proportion of their personal assets in Grafton shares and by the introduction of a holding period of two years for LTIP awards that have vested. It should also be noted that the Remuneration Policy will include a salary cap which limits increases to current Directors' salaries over the three year life of the policy to that of the general workforce.

### Shareholder Engagement

The Committee is committed to ongoing dialogue with shareholders and institutional investor bodies on remuneration matters and it welcomes feedback as it helps to inform its decisions. The Committee takes an active interest in voting and it was very pleased that the 2015 Report on Remuneration received the support of 99 per cent of votes cast at the 2016 Annual General Meeting ("AGM") of the company. The Committee has actively engaged with major shareholders and institutional investor bodies concerning the proposed changes to the remuneration policy and the thought process behind these proposals and in some areas altered its original proposals to take account of the helpful feedback received during the consultation process.

I hope that we can rely on your continued support at this year's AGM. I am available to respond to any questions that shareholders have about the proposed changes to the remuneration policy, the annual report on remuneration or indeed on any other aspect of the work of the Committee and can be contacted by email at remunerationchair@graftonplc.com.

Finally, I would like to take the opportunity to say that it has been a pleasure to have served on the Board of Grafton Group plc for the last eight years and I will be handing over Chairmanship of the Remuneration Committee to Mrs. Susan Murray at the end of the 2017 AGM.

**Charles M. Fisher,**  
*Chairman of the Remuneration Committee*

# Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the proposed remuneration policy for the Company and has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the disclosure requirements set out in the Listing Rules of the Financial Conduct Authority. The policy has been developed taking into account the principles of the UK Corporate Governance Code and describes the policy to be applied from 1 January 2017 onwards subject to shareholder approval. The Policy Report will be put to a non-binding advisory shareholder vote at the 2017 AGM.

## Policy Overview

The objective of the remuneration policy is to provide remuneration packages for each Executive Director that will:

- Attract, retain and motivate executives of high calibre;
- Ensure that executive management is provided with appropriate incentives to encourage enhanced long-term performance;
- Ensure that the overall package for each director is linked to the short and longer term strategic objectives of the Group; and
- Have a significant proportion of the potential remuneration package paid in equity, which is designed to ensure that executives have a strong alignment with shareholders.

When setting the levels of short-term and long-term variable remuneration and the balance of equity and cash within the package, consideration is given to discouraging unnecessary risk-taking whilst ensuring that performance hurdles are suitably challenging.

In determining the proposed policy, the Remuneration Committee takes into account all factors which it considers necessary, including market practice, the changing nature of the business and markets in which it operates, the performance of the Group, the experience, responsibility and performance of the individuals concerned and remuneration practices elsewhere in the Group.

## How the Views of Shareholders are taken into Account

The Remuneration Committee considers the guidelines issued by bodies representing institutional shareholders and feedback from shareholders on the Group's remuneration policies and practices.

Leading shareholders and investor bodies were consulted prior to agreeing this Remuneration Policy. The Committee also takes on board any shareholder feedback received prior to and at the AGM each year. This feedback, together with any feedback received during meetings and contacts with shareholders from time to time, is then considered as part of the annual review of the Remuneration Policy and its effectiveness.

When any significant changes are proposed to the Remuneration Policy, the Remuneration Committee Chairman will inform major shareholders of these in advance and will offer a meeting to discuss these changes. The Remuneration Committee will actively engage with shareholders and give serious consideration to their views.

Details of votes cast for and against the resolution to approve the prior year's remuneration report and any matters discussed with shareholders during the year are referred to in the Annual Report on Remuneration on page 63 and in the Chairman's Annual Statement on page 54.

## How the Views of Employees are taken into Account

When setting the remuneration policy for Executive Directors the Remuneration Committee takes into account the pay and employment conditions of other employees in the Group although it does not directly consult with employees on Directors' remuneration.

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Remuneration Policy Report (continued)

### The Remuneration Policy for Directors

The table below summarises the key aspects of the Group's future remuneration policy for Executive Directors.

Element, purpose and link to strategy      Operation      Maximum opportunity/limit      Performance targets/comments

<b>Base Salary</b>			
<b>To recruit, retain and reward executives of a suitable calibre for the roles and duties required</b>	<p>Salaries of Executive Directors are reviewed annually in January and any changes made are effective from 1 January.</p> <p>When conducting this review and the level of increase, the Committee considers a range of factors including:</p> <ul style="list-style-type: none"> <li>• The performance of the Group and the individual;</li> <li>• Market conditions;</li> <li>• The prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers;</li> <li>• The responsibilities and experience of each Executive Director; and</li> <li>• The level of salary increases implemented across the Group.</li> </ul>	<p>There will be a cap for current Directors that limits salary increases for 2017, 2018 and 2019 to that of the general workforce.</p> <p>The Committee may decide for any particular year, based on the performance of the Group and personal performance, to apply a lower rate of increase in salary to Directors than the rate of increase applied to the general workforce.</p>	Not applicable
<b>Benefits</b>			
<b>To provide market competitive benefits to ensure the well-being of Directors</b>	<p>Benefits may include company car, mobile telephone, life assurance, private medical cover and permanent health insurance.</p> <p>Relocation or other related expenses may be offered, as required.</p>	<p>The value of other benefits is based on the cost to the company and is not pre-determined.</p> <p>Relocation expenses must be reasonable and necessary.</p>	Not applicable
<b>Pension</b>			
<b>To provide market competitive benefits</b>	A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension.	A company pension contribution or payment in lieu of pension made through the payroll of up to 25% of basic salary.	Not applicable

Element, purpose  
and link to strategy

## Operation

## Maximum opportunity/limit

## Performance targets/comments

**Annual Bonus****To encourage and reward delivery of the Group's annual financial and strategic objectives**

Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Performance measures and targets are reviewed annually.

The bonus is payable in cash. An Executive Director is required to apply 30% of their annual bonus after statutory deductions for the purchase of shares in the Group until their shareholding is equivalent to at least 200 per cent of basic salary.

Claw-back may be applied, at the discretion of the Committee, in the event of gross misconduct, material misconduct, material misstatement of results, a calculation error and/or the use of incorrect or inaccurate information when calculating the bonus award.

The maximum award under the annual bonus plan is 120% of basic salary for the CEO and 100% of salary for the CFO and any Executive Directors appointed in the future (other than a CEO).

The bonus will be primarily based on the achievement of appropriate financial measures but may also include an element for non-financial measures including personal performance and strategic measures.

Financial measures which will account for the vast majority of the bonus opportunity in any year may include measures such as earnings per share, profit, return on capital employed, free cash flow and such other measures as determined from time to time by the Committee. The metrics chosen and their weightings will be set out in the Annual Report on Remuneration.

For financial measures, a sliding scale is set by the Committee. No bonus is payable if performance is below a minimum threshold, up to 20% is payable for achieving threshold and the bonus payable increases on a straight line or similar basis thereafter with full bonus payable for achieving the upper point on the scale.

**Long-Term Incentives ('LTIP')****To encourage and reward delivery of the Group's strategic objectives; to provide alignment with shareholders through the use of shares and to assist with retention**

The 2011 LTIP is an incentive plan that is designed to reward Executive Directors and senior executives in a manner that aligns their interests with those of shareholders. An Executive Director nominated to participate in the plan is granted an award over "free shares" which vest subject to the achievement of performance conditions measured over three financial years and the Executive Director remaining employed in the Group.

There is a claw-back provision under which the Remuneration Committee has the discretion to require the reduction of the vesting of awards or require the repayment of vested awards (within two years of the vesting of awards) in circumstances where the vesting arose as a result of information which has subsequently proved to be inaccurate or misleading in a material respect.

There will, for the first time, be a holding period of two years on shares received by Executive Directors from LTIP awards that vest following approval of this policy after taking into account any shares sold to pay tax and other statutory obligations.

The maximum value of awards which may be granted in any financial year is 200% of salary. This is subject to shareholder approval at the 2017 AGM to amend the LTIP rules to increase the current limit of 150% of salary (or 200% of salary in exceptional circumstances) to 200% of salary.

The Company's policy is to make awards of up to 200% of basic salary in the case of the CEO and 175% of basic salary in the case of the CFO and any Executive Directors (other than a CEO) appointed in the future.

LTIP awards vest subject to the achievement of challenging financial and total shareholder return performance targets measured over a three year performance period.

The vesting of LTIP awards made to Executive Directors is currently subject to EPS (earnings per share) and TSR (total shareholder return) performance conditions.

The Remuneration Committee has the authority to set appropriate metrics (not limited to EPS and TSR) for each award taking account of the medium to long term strategic objectives of the Group.

The EPS (as defined in the scheme rules) condition if chosen will be subject to achieving EPS within a target range. 25% of this part of the award will vest if the lower target in the range is achieved. Where the EPS is between the lower and higher targets in the range, then between 25% and 100% of this part of the award will normally vest on a straight line basis.

If TSR is chosen as a metric, the Group's TSR must equal the median TSR of the peer group with 25% of this part of the award vesting on achieving threshold performance and full vesting for upper quintile performance or better. Awards will vest on a straight line basis for performance between the median and upper quintile.

Notwithstanding the achievement of a TSR performance condition, no shares will vest unless the Committee considers that overall financial results have been satisfactory in the circumstances over the performance period.

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Remuneration Policy Report (continued)

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
<b>All-Employee Share Plans</b>			
<b>To encourage share ownership and align the interests of employees with shareholders</b>	<p>Executive Directors are entitled to participate in employee share schemes in operation during the period of the policy on the same basis as other colleagues.</p> <p>The Group currently operates the 2011 Approved SAYE Plan for UK colleagues.</p>	<p>The limits are set by the UK tax authorities from time to time. Currently this limit is £500 per month for the SAYE scheme.</p>	Not applicable
<b>Share Ownership Guidelines</b>			
<b>To increase the alignment of interests between Executive Directors and shareholders</b>	<p>An Executive Director is required to apply 30% of their annual bonus after statutory deductions for the purchase of shares in the Group until his/her shareholding is equivalent to at least 200 per cent of basic salary.</p> <p>Half of any LTIP awards that vest, after taking into account any shares sold to pay tax and other statutory obligations, must be held until the share ownership guideline has been met.</p> <p>Vested awards subject to the two year holding period will be deemed to be part of an executive directors' shareholding.</p>	<p>Minimum 200% of basic salary to be held in Grafton shares, built up over time.</p>	Not applicable
<b>Chairman and Non-Executive Director Fees</b>			
<b>To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level</b>	<p>The Chairman's fee is set based on a recommendation from the Remuneration Committee.</p> <p>On the recommendation of the Chairman, the Board sets the level of remuneration of all Non-Executive Directors within an aggregate limit approved from time to time by shareholders.</p> <p>Additional fees may be payable for chairing the main Board Committees.</p> <p>The level of fees paid seeks to recognise the time commitment, responsibility and skills required to contribute to the effectiveness of the Board.</p> <p>Non-Executive Directors may be reimbursed for travel and accommodation expenses (and any personal tax that may be due on those expenses).</p>	<p>Details of the outcome of the most recent fee review are provided in the Annual Remuneration Report.</p>	Not applicable

### Notes

- The measures for the 2017 Annual Bonus will be EPS (70%) and ROCE (30%).
- The 2017 grant of LTIP awards will be based on EPS (50%) and TSR performance (50%). As set out above, EPS is a key measure of the Group's overall performance and TSR reflects the Group's performance and return to shareholders in terms of the value of their investment in the Group and dividends received.

### Annual Bonus and LTIP Discretions

The Committee will operate the annual bonus and LTIP according to their respective rules and in accordance with the Listing Rules and applicable tax rules. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award restricted as set out in the policy table above):

- Who participates in the plan;
- The timing of grant of awards;
- The size of awards;
- The choice of performance measures and performance target conditions in respect of each annual award (including the setting of EPS targets and the selection of a TSR comparator group);
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of the plan;
- Adjustments required in certain circumstances (e.g. in the event of a de-merger, special dividend or an alteration to the capital structure of the Company including a capitalisation of reserves or rights issue); and
- The ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

### Legacy Arrangements

For the avoidance of doubt, it is noted that the Group will honour any commitments entered into with current or former Directors that have been previously disclosed to shareholders.

### Differences in Remuneration Policy for Executive Directors Compared to Other Employees

The Committee is made aware of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors.

Overall, the remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors and recognises that Executive Directors should have the greatest accountability and responsibility for increasing shareholder value.

### Approach to Recruitment and Promotions

The remuneration package for a new Director will be set in accordance with and subject to the limits set out in the Group's approved policy as set out earlier in this report, subject to such modifications as are set out below.

Salary levels for Executive Directors will be set in accordance with the Group's remuneration policy, taking into account the experience and calibre of the individual and his/her existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation, travel or other expenses provided if necessary. A pension contribution of up to 25 per cent of salary may be provided.

The structure of the variable pay element will be in accordance with and subject to the limits set out in the Group's approved policy detailed above. Different performance measures may be set initially for the annual bonus in the year an Executive Director joins the Group taking into account the responsibilities of the individual and the point in the financial year that he or she joins the Board. Subject to the rules of the scheme, an LTIP award may be awarded after joining the Group.

If it is necessary to buy-out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer) in the case of an external appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. The general policy is that payment should be no more than the Committee considers is required to provide reasonable compensation for remuneration being forfeited. Share awards may be used to the extent permitted under the Group's existing share plans and provisions under the Listing Rules where necessary.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

### Service Contracts & Payments for Loss of Office

The Remuneration Committee determines the contractual terms for new Executive Directors, subject to appropriate professional advice to ensure that these reflect best practice.

The Group's policy is that the period of notice for Executive Directors will not exceed 12 months. The employment contracts of the current CEO and the CFO may be terminated on six months' notice by either side. In the event of a director's departure, the Group's policy on termination is as follows:

- The Group will pay any amounts it is required to make in accordance with or in settlement of a director's statutory employment rights;
- The Group will seek to ensure that no more is paid than is warranted in each individual case;
- There is no entitlement to bonus paid following notice of termination unless expressly provided for in an Executive Director's employment

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Remuneration Policy Report (continued)

contract but the Group reserves the right to pay a bonus for the notice period subject to performance conditions; and

- Following service of notice to terminate employment, the Company may place the executive on garden leave. During this time, the executive will continue to receive salary and benefits (or a sum equivalent to) until the termination of employment.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the Group terminates employment in lieu of notice in other circumstances, compensation payable is as provided for in employment contracts which is as follows:

- **Gavin Slark** - basic salary due for any unexpired notice period;
- **David Arnold** - basic salary together with benefits and bonus which would have been payable during the notice period or any unexpired balance thereof. Any bonus payable is subject to performance conditions.

Payments may be made in monthly instalments.

The Group may pay salary, benefits and pension in lieu of notice for a new director.

The treatment of unvested awards previously granted under the LTIP upon termination will be determined in accordance with the plan rules. As a general rule, LTIP awards will lapse upon a participant giving or receiving notice of his/her cessation of employment. However for certain good leaver reasons including death, ill health, injury, disability, redundancy, agreed retirement, their employing company or business being sold out of the Group, or any other reason at the Committee's discretion after taking into account the circumstances prevailing at the time, awards will vest on the normal vesting date subject to the satisfaction of performance conditions and pro-rating the award to reflect the reduced period of time between the commencement of the performance period and the Executive Director's cessation of employment as a proportion of the total performance period. Alternatively, the Committee can decide that the award will vest on the date of cessation, subject to the extent to which the performance conditions have been satisfied by reference to the date of cessation and pro-rated by reference to the date of cessation of employment.

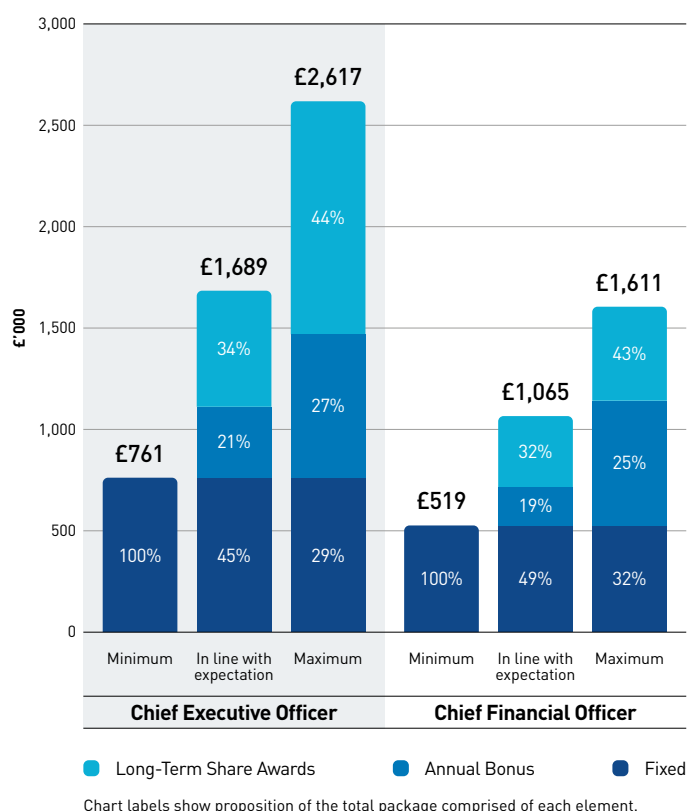
### Non-Executive Directors

All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice or otherwise in accordance with the Group's Articles of Association and subject to annual re-appointment at the AGM.

The appointment letters for Non-Executive Directors provide that no compensation is payable on termination other than accrued fees and expenses.

### Remuneration Scenarios for Executive Directors

The Group's normal policy results in a significant portion of remuneration received by Executive Directors being dependent on performance. The chart below shows how the total pay opportunities for 2017 for Executive Directors vary under three performance scenarios - Minimum, In line with Expectation and Maximum.



### Assumptions:

**Minimum** = fixed pay only (2017 salary, benefits and pension)

**In line with Expectation** (which is not target) = 50% vesting of the annual bonus and LTIP awards

**Maximum** = 100% vesting of the annual bonus and LTIP awards (assuming that the Policy limits are increased to 200% of salary for the CEO and 175% for the CFO).

No account has been taken of any share price increase.



# Annual Report on Remuneration

Although not required under Irish Companies legislation, this report also includes the disclosures required by UK legislation contained in Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and the disclosures required by 9.8.6R of the Listing Rules.

## Membership of the Remuneration Committee

The Committee currently comprises Mr. Charles M. Fisher, Chairman, Mr. Frank van Zanten, Mr. Paul Hampden Smith and Mrs. Susan Murray, all of whom are Non-Executive Directors determined by the Board to be independent. Mr. Michael Roney was appointed to the Committee on 9 May 2016 and resigned from the Committee on 31 December 2016 prior to taking up the role of Chairman on 1 January 2017. Mrs. Susan Murray was appointed to the Committee on 19 January 2017.

The Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes. The Committee's terms of reference can be found on the company website.

Mr. Michael Chadwick, the former Chairman, attended meetings of the Committee during 2016 by invitation and participated in discussions at Committee meetings. The Committee also consulted with the CEO as appropriate and periodically invited him to attend meetings of the Committee. The Chairman of the Committee was assisted in his work by the Group's Company Secretary. The Secretary of the Committee is Ms. Paula Harvey, Group HR Director. The Executive Directors and Company Secretary take no part in discussions relating to their own remuneration and benefits. New Bridge Street is the Committee's advisor on remuneration matters and fees paid to them during the year were £32,286. The Group has no other connection with New Bridge Street, other than that another subsidiary of Aon Hewitt provides pension advice. During the year New Bridge Street provided a market practice update to the Committee on remuneration trends and governance and advised on Remuneration Policy proposals.

## Schedule of Work During 2016

The Committee met on eight occasions during 2016 and its schedule of work covered the following matters that fall within the scope of its duties and responsibilities:

- ▶ Considered and determined bonus awards under the 2015 bonus scheme for the Executive Directors and Company Secretary;
- ▶ Reviewed and determined that 100 per cent of the EPS and 73.3% of the TSR components of the 2013 LTIP award were met and that in aggregate 86.7 per cent of the 2013 LTIP awards should vest;
- ▶ Approved the 2016 grant of LTIP awards and determined the EPS and TSR performance conditions;
- ▶ Agreed the framework for measuring financial targets for the 2016 bonus scheme;
- ▶ Conducted a review of Directors remuneration and considered a market practice update from New Bridge Street; and
- ▶ Reviewed the existing Remuneration Policy, considered and approved the new Remuneration Policy to be proposed to shareholders at the 2017 AGM following consultation with major shareholders and institutional shareholder bodies.

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Annual Report on Remuneration (continued)

### Single Total Remuneration Figure of Directors' Remuneration

The following table sets out the total remuneration for Directors for the year ending 31 December 2016 and the prior year.

	Salary/Fees (a)		Bonus (b)		Pension (c)		Other Benefits (d)		Long term Incentive Plan (e)		Total	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015* £'000	2016 £'000	2015* £'000
<b>Executive Directors</b>												
G. Slark	569	569	411	359	128	128	53	48	356	1,151	1,517	2,255
D. Arnold	390	390	234	225	78	78	42	39	203	-	947	732
	<b>959</b>	<b>959</b>	<b>645</b>	<b>584</b>	<b>206</b>	<b>206</b>	<b>95</b>	<b>87</b>	<b>559</b>	<b>1,151</b>	<b>2,464</b>	<b>2,987</b>
<b>Non-Executive Directors</b>												
M. Chadwick**	123	109	-	-	-	-	-	-	-	-	123	109
C. M. Fisher	57	51	-	-	-	-	-	-	-	-	57	51
R. Ryan	57	51	-	-	-	-	-	-	-	-	57	51
P. Hampden Smith	57	18	-	-	-	-	-	-	-	-	57	18
F. van Zanten	57	51	-	-	-	-	-	-	-	-	57	51
M. Roney***	77	-	-	-	-	-	-	-	-	-	77	-
S. Murray****	12	-	-	-	-	-	-	-	-	-	12	-
V. Crowley*****	12	-	-	-	-	-	-	-	-	-	12	-
A. Flynn*****	-	48	-	-	-	-	-	-	-	-	-	48
	<b>452</b>	<b>328</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>452</b>	<b>328</b>
<b>Total Remuneration</b>	<b>1,411</b>	<b>1,287</b>	<b>645</b>	<b>584</b>	<b>206</b>	<b>206</b>	<b>95</b>	<b>87</b>	<b>559</b>	<b>1,151</b>	<b>2,916</b>	<b>3,315</b>

\* 2015 has been updated as set out in note (e) below.

\*\* Mr. Chadwick retired from the Board on 31 December 2016

\*\*\* Mr. Roney was appointed Deputy Chairman and Chairman Designate on 1 May 2016

\*\*\*\* Mrs. Murray was appointed Non-Executive Director on 14 October 2016

\*\*\*\*\* Mr. Crowley was appointed Non-Executive Director on 14 October 2016

\*\*\*\*\* Ms. Flynn resigned from the Board on 11 December 2015

Comparative figures included in the table above have been presented on a consistent basis with the current year. Further details on the valuation methodologies applied are set out in notes (a) to (f) below. These valuation methodologies are as required by the Regulations and are different from those applied within the financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The total expense relating to the Directors recognised within the income statement is £811,000 (2015: £748,000) in respect of the long-term incentive plan (LTIP).

#### Notes to the Directors' Remuneration Table:

- This is the amount of salaries and fees earned in respect of the financial year.
- This is the amount of bonus earned in respect of the financial year.
- This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a payment in lieu of pension made through the payroll.
- Benefits comprise permanent health and medical insurance, the provision of a company car/car allowance and, in the case of Mr. Slark, a rent allowance.

(e) For the year ended 31 December 2016, this is the value of LTIP awards that will vest in April 2017. The value of the awards is based on the average share price of £5.31 for the three months to 31 December 2016. The vesting of these awards was subject to performance conditions over the period from 1 January 2014 to 31 December 2016. For the year ended 31 December 2015, this is the value of LTIP awards that vested in May 2016. The value of this award has been updated from that disclosed last year to reflect the share price of £6.75 on the date of vesting.

(f) Non-Executive Directors were paid fees at the same annual rate as 2015 in constant currency being €70,000 except for Mr. Michael Roney, Deputy Chairman and Chairman Designate who was paid £115,000 per annum for the period from his appointment to the Board on 1 May 2016 to 31 December 2016.

#### Salary and Fees

Having taken account of both external market developments and internal Group considerations, the Committee agreed in January 2016 that the basic salary of the Chief Executive Officer and the Chief Financial Officer would remain at its existing level for the year ended 31 December 2016. Mr. Slark's salary was £568,711 for 2016 (2015: £568,711). Mr. Arnold's salary was £389,500 for 2016 (2015: £389,500).

Non-Executive Directors fees were paid at the rate of £57,000 per annum, the same level in constant currency (€70,000) since 2005. No additional fees were paid for chairing Board Committees. The fee paid to Mr. Chadwick as Chairman was £123,000, the same level in constant currency (€150,000) since his appointment as Non-Executive Chairman on 1 July 2011.

## Annual Bonus

The maximum bonus opportunity for Mr. G. Slark and Mr. D. Arnold was 120 per cent and 100 per cent of salary respectively. The maximum bonus opportunity was divided equally between three financial measures and one measure related to personal objectives.

The table below analyses the composition of the bonus awards for the year:

	Percentage of Basic Salary				
	Adjusted EPS	Free Cash flow	Return on Capital	Personal Objectives	Bonus Payable
G. Slark	11.65%	30.00%	12.59%	18.00%	72.24%
D. Arnold	9.71%	25.00%	10.49%	15.00%	60.20%

The maximum bonus opportunity for each of the four components was 30 per cent of gross pay for Mr. Slark and 25 per cent of gross pay for Mr. Arnold.

Financial targets were set at the beginning of the year by reference to the Group's budget for 2016. The actual targets are set out in the table below for 2016.

	Threshold (20% payable)	Budget (40% payable)	Stretch (100% payable)	Actual	% of Maximum Payable
Adjusted EPS	45.4p	47.8p	52.6p	47.7p	38.84
Return on capital employed*	11.5 %	12.1%	13.3%	12.2%	41.96
Free cashflow	£93.4m	£98.3m	£108.2m	£134.6m	100.00

\* Based on capital employed in monthly management accounts

The award for each financial measure was based on a sliding scale from 95 per cent to 110 per cent of the Group's budget for 2016. No bonus was payable if performance was below a minimum threshold of 95 per cent of budget. 20 per cent of the bonus opportunity was payable at 95 per cent of budget and between 20 and 40 per cent was payable on a straight line basis between 95 per cent of budget and 100 per cent of budget. The bonus then increased on a straight line basis up to a limit of 100 per cent of the bonus opportunity on achieving 110 per cent of budget.

The personal objectives for Mr. Slark related to implementation of the Group's strategy, improving the performance of the Belgian business and transitioning from the legacy trading and back office IT systems in the traditional UK merchanting business to a new Microsoft AX Dynamics platform.

The personal objectives for Mr. Arnold related to refinancing of Group debt, undertaking a strategic review and implementing any agreed restructuring of shared services functions in the traditional UK merchanting business, transitioning to the new IT system in the traditional UK merchanting business, appointment of new fund managers for the UK defined contribution pension scheme and transitioning the external audit from KPMG to PwC.

The Committee considered the extent to which these objectives were

achieved and agreed a payment of 18 per cent of salary for Mr. Slark and 15 per cent of salary for Mr. Arnold out of a maximum bonus opportunity of 30 per cent and 25 per cent of salary respectively.

Following publication of last year's Annual Report, the Committee agreed to retrospectively disclose the measures and targets that applied for the 2015 bonus awards:

	Percentage of Basic Salary				
	Adjusted EPS	Free Cash flow	Return on Capital	Personal Objectives	Bonus Payable
G. Slark	4.97%	30.00%	7.20%	21.00%	63.17%
D. Arnold	4.15%	25.00%	6.00%	22.50%	57.65%

The actual financial targets for 2015 are disclosed retrospectively in the table below.

	Threshold	Budget	Stretch	Actual
Adjusted EPS	38.9p	43.2p	51.8p	41.0p
Return on capital employed*	10.9%	12.1%	14.5%	11.8%
Free cashflow	£80.4m	£89.3m	£107.2m	£107.4m

\* Based on capital employed in monthly management accounts

The maximum bonus opportunity for each of the four components was 30 per cent of gross pay for Mr. Slark and 25 per cent of gross pay for Mr. Arnold.

Financial targets were set at the beginning of the year by reference to the Group's budget for 2015. No bonus was payable if the performance achieved was below 90 per cent of budget and the bonus payable increased on a straight line basis thereafter with the full bonus opportunity payable on achieving 120 per cent of budget.

The personal objectives for Mr. Slark related to establishing a new management team in Belgium, review of structure and management in the traditional merchanting business in the UK, business development opportunities, health and safety management and reporting and progressing implementation of a new IT platform in the traditional UK merchanting business. The personal objectives for Mr. Arnold were the development of the finance teams across the Group, undertaking a review of the UK defined benefit pension scheme, supporting the Audit & Risk Committee with the tender process for the external audit, improving accountability for financial returns in the traditional UK merchanting business and implementation of the business resilience programme.

## Pension

Pension benefits comprise either a company contribution to an Executive Director's personal pension plan, a company contribution to the Group defined contribution pension scheme or an allowance paid through the payroll in lieu of pension benefit.

Mr. Slark's pension benefit comprised a payment made to a defined contribution scheme and a taxable non-pensionable cash allowance. The total pension benefit was £128,000. The pension benefit for Mr. Arnold

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Annual Report on Remuneration (continued)

was based on an annual contribution rate of 20 per cent of his salary which was paid as a taxable non-pensionable cash allowance.

### Long Term Incentive Plan (LTIP)

The Remuneration Committee has the authority to set appropriate criteria for each award. The Committee believes that the LTIP should align management and shareholder interests and assist the Group in the recruitment and retention of senior executives.

### Awards Granted with a Performance Period Covering the Three Years to 31 December 2016

The performance conditions for LTIP awards made in April 2014 were based on growth in EPS (as defined in the scheme) and TSR. Half of the awards to Executive Directors were based on relative TSR versus a peer group. The other half was based on the Group's EPS for the financial year ended 31 December 2016.

The relative TSR performance over the three year period was ranked below the median of the comparator group, which comprised a bespoke group of 18 UK and Irish companies that operate in the construction sector, and this half of the award will not vest as independently confirmed to the Committee by New Bridge Street.

The other half of the award was based on the Group's adjusted EPS for the financial year ended 31 December 2016 being in the range of 38 pence to 45 pence. The adjusted EPS for 2016 of 47.7 pence exceeded the upper limit of the range. As this performance condition was met, 100 per cent of this part of the award will vest. In aggregate 50 per cent of the 2014 LTIP awards will vest.

The number of Grafton Units granted to Mr. Slark on 16 April 2014 was 134,181 of which 67,091 will vest under the EPS performance condition with no units vesting under the TSR performance condition. The number of Grafton Units granted to Mr. Arnold on 16 April 2014 was 76,582 of which 38,291 will vest under the EPS performance condition with no units vesting under the TSR performance condition. The value of the awards made to Mr. Slark and Mr. Arnold is £356,000 and £203,000 respectively on the basis of the average price of a Grafton Unit of £5.31 over the three months to 31 December 2016.

### LTIP Awards Granted During the Year Ended 31 December 2016

The following awards were made during the year ended 31 December 2016:

	Number of Units	Share Price at Grant Date	Value of Award at Grant Date
G. Slark	118,894	£7.175	£853,064
D. Arnold	67,857	£7.175	£486,874

Mr. Slark was granted an award on 14 April 2016 valued at 150 per cent of his base salary in the form of nil cost Grafton Units. Mr. Arnold was granted an award on 14 April 2016 valued at 125 per cent of his base salary in the form of nil cost Grafton Units.

The 2016 awards to Mr. Slark and Mr. Arnold are subject to the achievement performance conditions. Half of these awards will vest depending on the Group's TSR performance over a three-year period commencing on 1 January 2016, with no opportunity to re-test. TSR will be compared to a comparator group of 18 UK and Irish companies operating in the construction sector.

Notwithstanding the achievement of the TSR performance condition, no shares will vest unless the Committee considers that the overall financial results have been satisfactory in the circumstances over the performance period.

Where the Group's TSR performance equals the median TSR performance of the peer group, then 25 per cent of the shares which are subject to the TSR performance condition shall vest. 100 per cent of the shares that are subject to the TSR performance condition shall vest if the Group's TSR performance is equal to or greater than the 75th percentile in the peer group. For TSR performance between the 50th and the 75th percentiles, between 25 per cent and 100 per cent of the shares which are subject to the TSR performance condition shall vest on a straight-line basis based on the Group's notional ranking compared against the Comparator Group.

Under the EPS performance condition for the other half of awards granted on 14 April 2016, the Group's EPS for the financial year ending 31 December 2018 must be equal to 56 pence per share if any part of the award is to vest. If this target is achieved, then 25 per cent of the shares which are subject to the EPS performance condition shall vest. Where the Group's EPS for the financial year ending 31 December 2018 is equal to or greater than 64 pence per share, then 100 per cent of the shares which are subject to the EPS performance condition shall vest. Where the Group's EPS for the financial year ending 31 December 2018 is between the thresholds of 56 pence and 64 pence per share, then between 25 per cent and 100 per cent of the shares which are subject to the EPS performance condition shall vest on a straight-line basis.

Claw back provisions will apply.

### External Appointments

The Company recognises that Executive Directors may be approached to become Non-Executive Directors of other companies and that opportunities of this nature can provide valuable experience that benefits the company.

Mr. Gavin Slark is a Non-Executive Director of Galliford Try plc and is permitted to retain his fee for the role which amounted to £40,000 in 2016.

### Non-Executive Directors Remuneration

Non-Executive Directors receive fees for their roles and are precluded from participating in performance related share or other incentive schemes.

### Loss of Office Payments

No loss of office payments were made during the year.

## Application of Remuneration Policy in 2017

### Salaries

The proposed Remuneration Policy for 2017 includes a salary cap which limits increases to current Directors' salaries over the life of the policy (covering 2017, 2018 and 2019) to that of the general workforce. The Committee may decide for any particular year, based on company and personal performance, to apply a lower rate of increase to the salary of Directors than the rate of increase applied to the general workforce.

The following salaries will apply for 2017:

	2017	2016	
	Base Salary	Base Salary	% Increase
G. Slark	£580,085	£568,711	2.0%
D. Arnold	£397,290	£389,500	2.0%

### Chairman and Non-Executive Directors' Fees

Non-Executive Directors fees are payable in Euro and will remain unchanged at €70,000. The sterling equivalent was £57,000 in 2016. The fee paid to Mr. Roney as Deputy Chairman from his appointment to the Board on 1 May 2016 to 31 December 2016 was at the rate of £115,000 per annum and this increased to £230,000 per annum following his appointment as Chairman on 1 January 2017.

### Pension and Benefits

Mr. Slark and Mr. Arnold will receive pension contributions/salary supplements in lieu of pension of £128,040 and 20 per cent of salary respectively which is consistent with the arrangements in place for 2016.

### Annual Bonus

The maximum potential performance related bonus pay award for the Chief Executive Officer for 2017 is 120 per cent of basic salary and the maximum bonus opportunity for 2017 for Mr. Arnold is 100 per cent of salary. These limits also applied in respect of 2016.

For 2017, the Committee has decided to simplify the annual bonus plan by reducing the number of measures from four to two. The 2017 bonus awards will be based on earnings per share (70 per cent of bonus opportunity) and return on capital employed (30 per cent of bonus opportunity). The actual targets are commercially sensitive and will be disclosed in full in the 2017 Annual Report.

The annual bonus is payable in cash subject to part investment in shares in accordance with the Group's share ownership guidelines as set out in the proposed Remuneration Policy.

Clawback provisions will operate as set out in the Remuneration Policy.

### Long-Term Incentives

The Committee recognises that the current maximum bonus opportunities are below market levels but instead wishes to place greater focus on incentivising sustained long-term performance. It is therefore proposed that the LTIP policy limits are increased from 150 per cent to 200 per cent of salary for the CEO and from 125 per cent to 175 per cent of salary for the CFO. Awards to be made in 2017 will be at the increased levels subject to shareholder approval of the proposed

Remuneration Policy. Vesting of the 2017 award will continue to be based on relative TSR (50 per cent) and on EPS (50 per cent) growth.

The Committee conducted a review of the peer group used in previous years, which consisted of a bespoke group of eighteen UK and Irish listed companies operating in the construction sector and, having considered alternative peer groups, the Committee concluded that there were too few quoted companies that carried on business activities that were similar to Grafton to constitute a meaningful sector peer group. The Committee is proposing that the TSR performance condition should be measured against a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts. This index was chosen on the basis that it is more representative of the Group's overall trading and financial environment and is a more appropriate measure of outperformance.

The Committee proposes to toughen the TSR performance measure for the 2017 award. If the Group's TSR equals the median TSR of the peer group, 25 per cent of this part of the award will continue to vest, with full vesting for upper quintile performance or better. This is more demanding than the current approach which provides for full vesting for upper quartile performance. Awards will vest on a straight line basis for performance between the median and upper quintile. Notwithstanding the achievement of the TSR performance conditions, no shares will vest unless the Committee considers that the overall financial results of the Group have been satisfactory in the circumstances over the performance period.

For EPS growth targets, the Committee sets the percentage growth range having considered the Group's budget and strategic business plan, the Group's economic and trading environment and analysts' forecasts for EPS. The Committee has historically set very demanding growth ranges for EPS in absolute terms.

The proposed EPS range for the 2017 LTIP award is 59.0p to 66.0p for the year ended 31 December 2019. The lower end of the target range (threshold) is above consensus Brokers Forecasts for 2019 of 58.4p which were available when the range was approved on 14 March 2017 and reflects changes made following the publication of the Final Results for 2016 on 7 March 2017. It should be noted that in previous years, market consensus was the mid-point of the range and therefore the 2017 target is more challenging than the previous years' targets. Consistent with prior years, the upper end of the range is appropriately stretching. 25 per cent of the award will vest if the lower target in the range is achieved. Where EPS is between the lower and higher targets in the range, then between 25 per cent and 100 per cent of this part of the award will vest on a straight line basis.

A holding period of two years will apply on LTIP awards that vest, after taking into account any shares sold to pay tax and other statutory obligations, following approval of the proposed Remuneration Policy. Shares held during the two year holding period will be deemed to be part of an executive directors' shareholding. The vesting period and the holding period will be five years in total.

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Annual Report on Remuneration (continued)

### Relative Importance of Spend on Pay

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2016 financial year compared with the prior year.

	2016 £'000	2015 £'000	Percentage change
Dividends payable	32,490	29,340	10.7%
Employee remuneration costs	362,905	318,418	14.0%

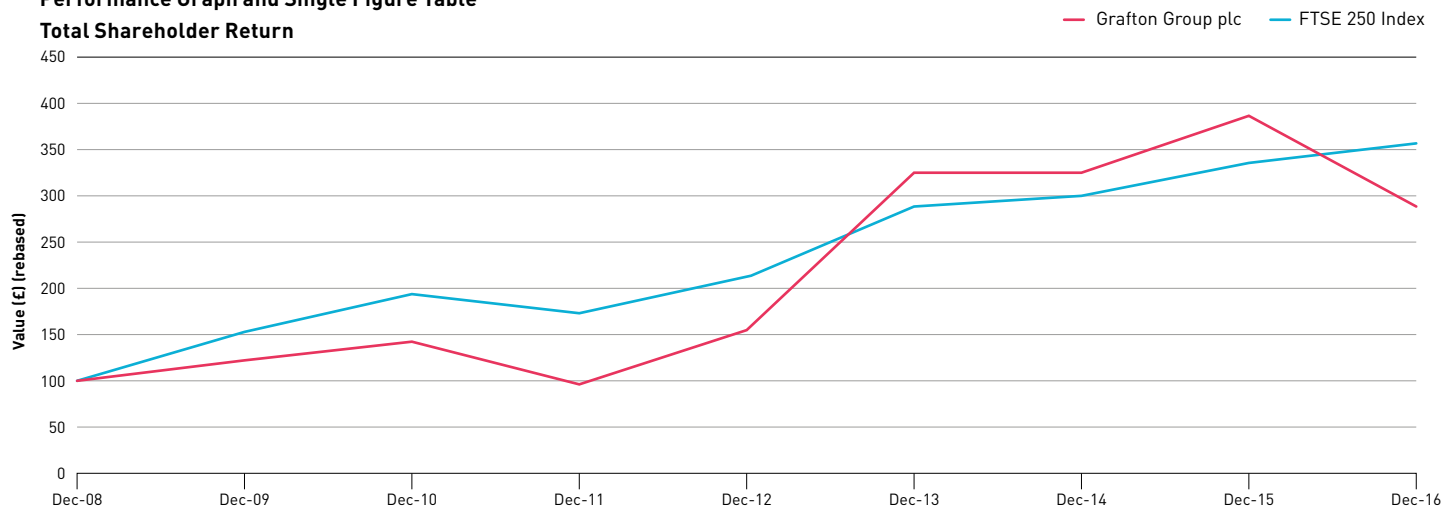
### Percentage Change in CEO Pay

	2016 £'000	2015 £'000	Percentage change
<b>Chief Executive Officer</b>			
- Salary	569	569	0.0%
- Benefits	53	48	10.4%
- Bonus	411	359	14.5%
<b>Average employee</b>			
- Salary, Benefits and Bonus (£)*	27,951	26,697	4.7%

\* The average salary increased by 1.1% in constant currency. This is based on Full-Time Equivalents (FTE's).

The table above also shows the percentage year-on-year change in the value of salary, benefits and annual bonus for the Chief Executive Officer between the current and previous year compared to that of the average employee.

### Performance Graph and Single Figure Table



Source: Datastream (Thomson Reuters)

This graph compares the TSR performance of Grafton Group plc, assuming dividends are re-invested, with the TSR performance of the FTSE 250 over the period 31 December 2008 to 31 December 2016.

The table below shows the total remuneration figure for the CEO position over the eight years to 2016. The remuneration for 2015 has been updated as set out on page 64.

	2009	2010	2011	2012	2013	2014	2015	2016
CEO single total figure of remuneration (£'000)	589	570	1,151	1,001	1,524	3,080	2,255	1,517
Annual bonus payout relative to maximum	0%	0%	16%	49%	49%	98%	53%	60%
LTIP vesting	N/A	N/A	N/A	N/A	45%	100%	87%	50%

### Statement of Shareholder Voting at the 2016 AGM

The Directors' Remuneration Report received the following votes from shareholders:

	Total Number of Votes	% of Votes Cast
For	148,227,970	98.91
Against	1,635,494	1.09
<b>Total</b>	<b>149,863,464</b>	<b>100.00</b>

The number of votes withheld was 55,173. A vote withheld is not a vote under Irish law and is not counted in the calculation of the percentage votes for and against a resolution.

### Directors' and Secretary's Interests

The beneficial interests of the Directors in the share capital of the Company were as follows:

Director	31 December 2016 Grafton Units*	31 December 2015 Grafton Units*	Unvested LTIP Awards**
M. Chadwick	19,436,079	19,436,079	-
G. Slark	283,692	195,785	357,389
D. Arnold	24,100	15,600	203,973
R. Ryan	35,000	35,000	-
C. M. Fisher	30,000	30,000	-
F. van Zanten	3,000	3,000	-
P. Hampden Smith	32,990	-	-
M. Roney	11,529	-	-
V. Crowley	8,000	-	-
S. Murray	-	-	-
<b>Secretary</b>			
C. Rinn	400,124	371,530	54,790

\* At 31 December 2016 and at 31 December 2015, a Grafton Unit comprised one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

\*\* Vesting of these awards is subject to performance conditions

On 31 December 2016, Mr. M. Chadwick held a non-beneficial interest in 2,490,330 (31 December 2015: 2,490,330) Grafton Units in his capacity as a Trustee of a Trust.

The closing price of a Grafton Unit on 31 December 2016 was 550p (31 December 2015: 740p) and the price range during the year was between 440p and 752p (2015: 619.5p and 858.5p).

There have been no changes in the interests of the Directors and Secretary between 31 December 2016 and the date of this report except that Mr. David Arnold's shareholding increased by 7,546 to 31,646 Grafton Units.

To further align the interests of senior management with those of shareholders, Executive Directors are subject to share ownership guidelines. Currently, Executive Directors are required to build a holding of shares in the Company with a minimum value of 100 per cent of their salary. It is proposed to double the minimum share ownership guideline to 200 per cent of basic salary. Directors are

required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until this share ownership requirement is fulfilled.

Mr. G. Slark held shares at the year-end valued at 2.7 times his salary. Mr. D. Arnold held shares at the year-end valued at 0.34 times his salary.

### Directors' and Secretary's Interests under the Grafton Group Share Schemes

The interests of the Directors and the Secretary to acquire Grafton Units in accordance with the Grafton Group Share Schemes are shown below:

Mr. C. Rinn had an interest to acquire 200,000 (31 December 2015: 236,500) Grafton Units at 31 December 2016 at prices ranging between €1.66 and €8.48 subject to the rules of the 1999 Grafton Group Share Scheme. An interest to acquire 36,500 Grafton Units lapsed during the year.

Under the terms of the 1999 Grafton Group Share Scheme, shares were subject to the performance conditions set out below:

- Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.
- Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years, the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and also provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme had a ten year life for the award of entitlements. This period expired in 2009 and was replaced in 2011 by the Long Term Incentive Plan (LTIP).

There has not been any contract or arrangement with the Company or any subsidiary undertaking during the year in which an Officer of the Company was materially interested and which was significant in relation to the Company's business except for remuneration arrangements.

Mr. D. Arnold has options over 3,015 Grafton Units granted under the 2014 SAYE Scheme.

# Report of the Remuneration Committee on Directors' Remuneration (continued)

## Annual Report on Remuneration (continued)

### Directors' and Secretary's Interests under the 2011 Long Term Incentive Plan (LTIP)

The grant of awards over Grafton Units to the Directors and Secretary under the LTIP are shown below:

	Grant Date	Share Price on date of Grant	Number of Units				31 Dec 2016	EPS Condition	TSR Condition	Performance Period	Vesting Date**
			1 January 2016	Granted	Lapsed	Shares Received					
<b>G. Slark</b>	16 April 2013	£4.229	196,792	-	(26,272)	(170,520)*	-	-	-	1 Jan 2013 – 31 Dec 2015	11 May 2016
	16 April 2014	£6.2025	134,181	-	-	-	134,181	67,091	67,090	1 Jan 2014 – 31 Dec 2016	16 April 2017
	17 April 2015	£8.1775	104,314	-	-	-	104,314	52,157	52,157	1 Jan 2015 – 31 Dec 2017	17 April 2018
	14 April 2016	£7.175	-	118,894	-	-	118,894	59,447	59,447	1 Jan 2016 – 31 Dec 2018	14 April 2019
			<b>435,287</b>	<b>118,894</b>	<b>(26,272)</b>	<b>(170,520)</b>	<b>357,389</b>	<b>178,695</b>	<b>178,694</b>		
<b>D. Arnold</b>	16 April 2014	£6.2025	76,582	-	-	-	76,582	38,291	38,291	1 Jan 2014 – 31 Dec 2016	16 April 2017
	17 April 2015	£8.1775	59,534	-	-	-	59,534	29,767	29,767	1 Jan 2015 – 31 Dec 2017	17 April 2018
	14 April 2016	£7.175	-	67,857	-	-	67,857	33,929	33,928	1 Jan 2016 – 31 Dec 2018	14 April 2019
			<b>136,116</b>	<b>67,857</b>	-	-	<b>203,973</b>	<b>101,987</b>	<b>101,986</b>		
<b>C. Rinn</b>	16 April 2013	£4.229	33,000	-	(4,406)	(28,594)*	-	-	-	1 Jan 2013 – 31 Dec 2015	11 May 2016
	16 April 2014	£6.2025	21,616	-	-	-	21,616	10,808	10,808	1 Jan 2014 – 31 Dec 2016	16 April 2017
	17 April 2015	£8.1775	14,640	-	-	-	14,640	7,320	7,320	1 Jan 2015 – 31 Dec 2017	17 April 2018
	14 April 2016	£7.175	-	18,534	-	-	18,534	9,267	9,267	1 Jan 2016 – 31 Dec 2018	14 April 2019
			<b>69,256</b>	<b>18,534</b>	<b>(4,406)</b>	<b>(28,594)</b>	<b>54,790</b>	<b>27,395</b>	<b>27,395</b>		

\* The market price at the date of vesting was £6.75.

\*\* This is the earliest date for vesting except for the vesting in 2016 which is the actual date of vesting. The actual date of vesting is subject to approval by the Remuneration Committee.

The Group's long-term incentive share scheme expired in April 2009. Consequently, no long-term incentive awards were made during 2010. Shareholder approval was granted at the AGM held on 4 May 2011 for the introduction of a new Long-Term Incentive Plan (LTIP) and the first awards under the plan were made on 25 May 2011. Subsequent awards under the LTIP were made on 18 April 2012, 16 April 2013, 16 April 2014, 17 April 2015 and 14 April 2016.

In the case of awards that were issued in 2011, 2012, 2013, 2014, 2015 and 2016 to the Company's Executive Directors and Secretary, the performance conditions are dependent on the growth in the Company's EPS (earnings per share) and the Company's TSR (total shareholder return) performance (the "EPS Performance Condition" and the "TSR Performance Condition", respectively). The vesting of 50 per cent of the share awards granted to the Company's Executive Directors and Secretary are subject to the EPS Performance Condition and the remaining 50 per cent are subject to the TSR Performance Condition. EPS is the adjusted earnings per share figure shown in the Company's Annual Report. TSR represents the change in share price

of a listed/quoted company over a period, plus dividends, expressed as a plus or minus percentage of the opening value. For this reason, both EPS and TSR are recognised as good measures of shareholder returns on the value of their investment in the Group when account is taken of the Group's share price, dividends paid and performance.

**Charles M. Fisher,**  
Chairman of the Remuneration Committee  
15 March 2017



# Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2016.

## Group Results

Group revenue of £2.5 billion was 13 per cent higher than Group revenue of £2.2 billion in 2015. Adjusted operating profit before property profit increased 14 per cent to £137.1 million compared to £120.6 million in 2015.

The net finance expense was £5.9 million (2015: £7.9 million). Group statutory profit before taxation amounted to £114.2 million compared with £120.3 million in the previous year.

The headline rate of corporation tax of 18.5 per cent is lower than the underlying tax rate of 19 per cent (2015: 21 per cent) due to the use of a previously unrecognised deferred tax asset to partially offset a taxable profit arising on the disposal of properties in the UK and agreement of a claim with the UK Revenue that related to historic capital allowances. The tax charge was £21.1 million for 2016 (2015: £23.8 million).

Basic earnings per share were 39.6 pence compared with 41.6 pence in the previous year. Adjusted earnings per share (before intangible amortisation on acquisitions and before exceptional and non-recurring items) increased by 16 per cent to 47.7 pence from 41.2 pence in 2015.

The Group and Company financial statements for the year ended 31 December 2016 are set out in detail on pages 75 to 164.

## Dividends

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

A second interim dividend for 2016 of 9.0 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 17 March 2017 (the 'Record Date'). The dividend will be paid on 13 April 2017. A liability in respect of this second interim dividend has not been recognised at 31 December 2016 as there was no present obligation to pay the dividend at the year-end.

## Review of the Business

Shareholders are referred to the Chairman's Statement, Chief Executive Officer's Review, Sectoral and Strategic Review and Financial Review

which contain a review of operations and the financial performance of the Group for 2016, the outlook for 2017 and the key performance indicators used to assess the performance of the Group. These are deemed to be incorporated in the Report of the Directors.

## Cautionary Statement

Certain statements made in this Annual Report 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 Annual Report 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 rate and potential growth opportunities, potential operating performance improvements, the effects of competition and the strategy of the overall Group and its individual businesses. 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, except as required by law.

The risk factors included at pages 16 to 19 of this Annual Report could cause the Group's results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that the Group is unable to predict at this time or that the Group currently does not expect to have a material adverse effect on its business. These forward-looking statements are made as of the date of this Annual Report.

The forward-looking statements in this Annual Report do not constitute reports or statements published in compliance with any of Regulations 4 to 9 and 26 of the Transparency (Directive 2004/109/EC) Regulations 2007.

## Board of Directors

In line with the provisions contained in the UK Corporate Governance Code, all Directors retired at the Annual General Meeting of the Company on 10 May 2016 and being eligible offered themselves for re-election and all were re-elected to the Board on the same day.

Under the Company's Articles of Association, Directors are required to submit themselves to shareholders for election at the Annual General Meeting following their appointment and all the Directors are required

to submit themselves for re-election at intervals of not more than three years. However, in accordance with the provisions of the UK Corporate Governance Code, the Board has decided that all Directors seeking re-election should retire at the 2017 Annual General Meeting and offer themselves for re-election.

## Share Capital

At 31 December 2016, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc. The composition of the Company's share capital including a summary of the rights and obligations attaching to the three components of a Grafton Unit is set out in Note 18 to the Group Financial Statements.

The Group has in place a number of employee share schemes, the details of which are set out in the Report of the Remuneration Committee on Directors' Remuneration and in Note 33 to the Group Financial Statements.

## Annual General Meeting

The Annual General Meeting of the Company will be held at the IMI Conference Centre, Sandyford Road, Dublin 16 on 9 May 2017 at 10.30am. Your attention is drawn to the circular on the Company's website, [www.graftonplc.com](http://www.graftonplc.com) which sets out details of resolutions to be considered at the Annual General Meeting, including the following:

### Authority to Increase The Limit on the Aggregate Fees for Directors

Shareholders are being asked to increase the limit of the aggregate fees for Directors to €950,000. The current limit, approved at the 2015 Annual General Meeting, is €750,000.

### Authority to Allot Relevant Securities

Shareholders are being asked to renew the Directors' authority to allot and issue any unissued ordinary share capital of the Company. The total number of shares which the Directors may issue under this authority will be limited to approximately 27 per cent of the issued share capital of the Company at 15 March 2017. The Directors have no present intention to make a share issue other than in respect of employee share schemes.

### Disapplication of Pre-emption Rights

At each Annual General Meeting, the Directors seek authority to disapply statutory pre-emption rights in relation to allotments of shares for cash up to an aggregate nominal value for all allotments and all treasury shares of approximately €591,991, representing five per cent of the nominal value of the issued share capital of the Company. Under the Articles of Association, shareholders are required to renew this power at each year's Annual General Meeting.

A further resolution, which is based on the revised Statement of Principles on Disapplying Pre-emption Rights published by the Pre-

Emption Group in the UK, would, if approved, authorise the Directors to issue new shares for cash up to an additional 5% of the nominal value of the issued share capital of the Company. The authority in this resolution may only be used to raise funds for the purposes of financing a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-emption Rights published by the Pre-Emption Group.

### Authority to Make Market Purchases of the Company's Own Shares

At the 2016 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to 10 per cent of the Company's own shares. Shareholders are being asked to renew this authority.

The Directors monitor the Company's share price and may from time to time exercise this power to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. The minimum price which may be paid for any market purchase of the Company's own shares will be the nominal value of the shares and the maximum price which may be paid will be 105 per cent of the then average market price of the shares.

### Authority to Re-issue Treasury Shares

Shareholders are being asked to sanction the price range at which any treasury share (that is a share of the Company redeemed or purchased and held by the Company rather than being cancelled) may be re-issued other than on the Stock Exchange. The maximum and minimum prices at which such a share may be re-issued are 120 per cent and 95 per cent respectively of the average market price of a share calculated over the five business days immediately preceding the date of such re-issue.

The authorities which will be sought at the forthcoming AGM to allot relevant securities, dis-apply pre-emption rights, purchase the Company's Units and re-issue treasury shares will, if granted, expire on the earlier of the date of the Annual General Meeting in 2018 or 15 months after the passing of these resolutions.

### Report of the Remuneration Committee on Directors' Remuneration

The Board is proposing to submit a new Remuneration Policy which is set out on pages 57 to 62 to a non-binding advisory vote. It is the Company's intention that this policy will apply until the 2020 AGM unless the Remuneration Committee seeks approval from shareholders to adopt a new policy at an earlier date. The Board is proposing to submit the Chairman's Annual Statement and the Annual Report on Remuneration of the Remuneration Committee, as set out on pages 54 to 56 and 63 to 70 to a non-binding advisory vote.

### Amendment of the Company's Long Term Incentive Plan

Shareholders are being asked to approve an amendment to the Rules of the Long Term Incentive Plan to increase the limit on an individual award from 150 per cent of a person's Base Salary to 200 per cent of a person's Base Salary and to remove the reference to the authority of the Remuneration Committee to make increased awards in exceptional circumstances. It also allows for the increased limit to apply to awards granted in 2017 following the AGM.

### Notice Period for Extraordinary General Meetings

This resolution will, if adopted, maintain the existing authority in the Articles of Association which permits the Company to convene an extraordinary general meeting on 14 days' notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 days' notice will only be utilised where the Directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

### Substantial Holdings

So far as the Company is aware, the following held shares representing 3 per cent or more of its ordinary share capital (excluding treasury shares) at 31 December 2016 and 7 March 2017:

Name	31 December 2016		7 March 2017	
	Holding	%	Holding	%
The Capital Group Companies, Inc**	30,491,000	12.90	30,491,000	12.90
Investec Asset Management Limited**	30,355,630	12.85	29,979,280	12.69
Mr. Michael Chadwick*	21,926,409	9.28	21,926,409	9.28
Franklin Templeton Institutional, LLC**	20,421,430	8.64	20,081,130	8.50
EdgePoint Investment Management Inc.**	8,737,098	3.70	11,107,561	4.70
Blackrock, Inc.**	8,669,320	3.67	8,839,804	3.74

\* Beneficial holding of 19,436,079 Grafton Units and non-beneficial holding of 2,490,330 Grafton Units.

\*\* The Company has been advised that these units are not beneficially owned.

Apart from these holdings, the Company has not been notified at 15 March 2017 or at 31 December 2016 of any interest of 3 per cent or more in its ordinary share capital.

Directors' and Secretary's interests in the share capital of the Company are set out in the Report of the Remuneration Committee on Directors' Remuneration.

### Accounting Records

The Directors are responsible for ensuring that adequate accounting records are maintained by the Company as required by Sections 281-285 of the Companies Act, 2014. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate

qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

### Takeover Regulations 2006

The capital structure of the Company is detailed in Note 18 to the Group Financial Statements. Details of employee share schemes are set out in Note 33. In the event of a change of control, the vesting/conversion/exercise of share entitlements/options may be accelerated. The Group's borrowing facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Act and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above. The Company's Memorandum and Articles of Association, which are available on the Company's website, [www.graftonplc.com](http://www.graftonplc.com), are deemed to be incorporated in this part of the Report of the Directors.

### Corporate Governance Regulations

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 42 to 46 and which, for the purposes of Section 1373 of the Companies Act 2014, is deemed to be incorporated in this part of the Report of the Directors. Details of the capital structure and employee share schemes are included in Notes 18 and 33 respectively.

### Directors Compliance Statement

It is the policy of the Company to comply with its relevant obligations as defined in the Companies Act 2014. The Directors have drawn up a compliance policy statement as defined in section 225(3)(a) of the Companies Act 2014. Arrangements and structures have been put in place that are, in the directors' opinion, designed to secure a material compliance with the Company's relevant obligations. These arrangements and structures were reviewed by the Company during the financial year. As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for the Company's compliance with its relevant obligations. In discharging their responsibilities under section 225, the Directors relied on the advice of third parties who the Directors believe have the requisite knowledge and experience to advise the Company on compliance with its relevant obligations.

### Principal Risks and Uncertainties

The Company is required under Irish company law to give a description of the principal risks and uncertainties. These principal risks and uncertainties are set out on pages 16 to 19 and are deemed to be incorporated in this section of the Report of the Directors.

### Transparency Regulations 2007

The report on Corporate Social Responsibility set out on pages 34 to 38, is deemed to be incorporated in this part of the Report of the Directors

together with details of earnings per share in Note 11 to the Group Financial Statements, employment details in Note 6 and details of financial instruments in Note 21.

## Subsidiaries

The Group's principal operating subsidiary undertakings are set out on page 163.

## Political Contributions

There were no political contributions which require disclosure under the Electoral Act, 1997.

## Post Balance Sheet Events

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

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

## Auditor

The statutory Auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 382 (2) of the Companies Act 2014 and a resolution authorising the Directors to fix their remuneration will be submitted to the Annual General Meeting.

## Disclosure of information to statutory Auditors

In accordance with the provisions of section 330 of the Companies Act 2014, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2014) of which the statutory Auditor is unaware; and

The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to ensure that the statutory Auditor is aware of such information.

*On behalf of the Board*

**Gavin Slark**

*Director*

15 March 2017

**David Arnold**

*Director*

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# Financial Statements

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# Statement of Directors' Responsibilities

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The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

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Company law in the Republic of Ireland requires the Directors to prepare Group and Company financial statements each year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the European Union, and as applied in accordance with the provisions of the Companies Act 2014.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's and Company's profit or loss for that year.

In preparing each of the Group and Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the European Union, and as regards the Company, as applied in accordance with the Companies Act 2014; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company, and which enable them to ensure that the financial statements of the Company comply with the provisions of the Companies Act 2014, and as regards to the Group financial statements Article 4 of IAS Regulation. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with

the provisions of the Companies Act 2014. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website ([www.graftonplc.com](http://www.graftonplc.com)). Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility Statement as required by the Transparency Directive and the UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 40 to 41 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRS as adopted by the European Union and the Company financial statements prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities, financial position of the Group and Company at 31 December 2016 and of the profit of the Group for the year then ended;
- The Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company and that a fair description of the principal risks and uncertainties faced by the Group and Company is provided on pages 16 to 19; and
- The Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

*On behalf of the Board*

**Gavin Slark**

*Director*

15 March 2017

**David Arnold**

*Director*

# Independent Auditor's Report to the Members of Grafton Group plc

## Report on the financial statements

### Our opinion

In our opinion:

- Grafton Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Group and Company Balance Sheets as at 31 December 2016;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group and Company Cash Flow Statements for the year then ended;
- the Group and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

### Our audit approach

#### Overview



#### Materiality

- Overall group materiality: £6.3m which represents 4.7% of profit before tax before exceptional items.

#### Audit Scope

- We conducted an audit of the complete financial information of 15 of the Group's 16 reporting components, these account for in excess of 99% of revenue, profit before tax and total assets.

#### Areas of Focus

- Valuation of goodwill
- Recognition of supplier rebates
- Valuation of inventory
- Implementation of new IT systems
- Presentation and disclosure of exceptional items

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “areas of focus” in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Valuation of Goodwill</b></p> <p>Refer to page 50 (Audit and Risk Committee Report) and Note 12, Goodwill.</p> <p>At 31 December 2016 goodwill amounted to £566.2m. Goodwill is allocated to groups of Cash Generating Units (“CGUs”) in order to conduct impairment testing. The groups of CGUs represent the lowest level within the entity at which goodwill is monitored for internal management purposes.</p> <p>During 2016 the Group considered, having regard to advice received from a third party expert, that its recent expansion into new European markets, together with changes to the management reporting structures, had resulted in the number of groups of CGUs increasing from 3 to 7.</p> <p>As set out in Note 12 to the financial statements, this resulted in goodwill being tested for impairment at this new level. Goodwill was reallocated to these newly identified groups of CGUs on a “relative value” basis as set out in the Group’s accounting policies.</p> <p>The Group tests goodwill for impairment using a value-in-use (“VIU”) model. The cash flows included in this VIU model are those included in the management approved forecasts for the period from 2017 to 2021 and long term growth rates are used to estimate cash flows beyond that period. As set out in Note 12 to the financial statements, this involves a number of areas of judgement, in particular estimating the growth and gross margin assumptions in the period 2017 to 2021, long term growth rates used in calculating a terminal value and pre-tax discount rates for each CGU.</p> <p>We focused on this area due to the significance of this asset, the revision in the allocation of goodwill to the groups of CGUs in the year and because the Directors’ assessment of the carrying value of goodwill involves complex and subjective judgements about the future results of the business. In particular we focused on the Belgium Merchanting CGU group which, as set out in Note 12, has headroom that is most sensitive to changes in assumptions.</p>	<p>We evaluated the Directors’ reassessment of the identification of groups of CGUs during 2016 by considering the third party advice that the Group obtained and our own assessment of the groups of assets that generate independent cash flows based on our industry expertise and our assessment of how the group monitors goodwill for impairment. We tested the allocation of goodwill to the new groups of CGUs on a “relative value” basis by re-performing management’s calculations and by confirming that the discounted cash flows used in management’s calculations were consistent with the cash flows used in the impairment review calculations referred to below.</p> <p>We compared the underlying cash flow forecast models for each of the groups of CGUs to the management approved forecasts. We critically assessed and challenged management on the key assumptions included in the model, in particular the revenue and gross margin assumptions over the period 2017 - 2021. We considered the reliability of management’s forecasting process by considering how actual results compared to budget for the years 2014, 2015 and 2016. We considered the appropriateness of the discount rate applied to each of the groups of CGUs by comparing the elements of the weighted average cost of capital calculation to external benchmarks. We also considered the appropriateness of the long term growth rates included in the terminal value calculation by reference to external market data.</p> <p>We performed sensitivity analysis on key assumptions, focusing in particular on the Belgium Merchanting group of CGUs which has lower headroom. We assessed the change in assumptions that would result in an impairment in Belgium Merchanting.</p>



## Area of focus

## How our audit addressed the area of focus

**Recognition of supplier rebates**

Refer to page 50 (Audit and Risk Committee Report) and Note 1, Summary of Significant Accounting Policies

The Group has entered into rebate arrangements with a significant number of its suppliers. Supplier rebates received and receivable in respect of goods purchased are deducted from cost of sales in the income statement or the cost of inventory, to the extent that those goods remain in inventory at year end.

Due to the nature of the agreements in place, a significant portion of the Group's rebate income during the year is not received until after the year end. Certain arrangements have volume targets that span the year end. In addition, in certain businesses the process for calculating rebate income requires manual input and use of spreadsheets.

We have focused on this area as the calculation of rebate income in the year and the rebate receivable at 31 December 2016 involves the use of estimates and judgements due to the complex rebate arrangements in place.

We obtained an understanding of the significant rebate arrangements that the Group has entered into by meeting procurement personnel and reading a sample of contracts. We also inspected the work performed by Internal Audit to ensure there was no findings that would impact our audit.

We recalculated on a sample basis rebate income and receivables by reference to supplier agreements and purchases reports. For a sample of suppliers we obtained third party confirmation of rebate income and rebates due at 31 December 2016. Where responses were not received we completed alternative procedures including obtaining rebate agreements and re-computing rebate income and rebates receivables. We assessed the reasonableness of any significant estimates or judgements made by management in the calculation of rebate income and rebate receivables. We also considered the results of the collection history in respect of rebate receivables.

**Valuation of inventory**

Refer to page 51 (Audit and Risk Committee Report) and Note 16, Inventories

Inventory on hand at 31 December 2016 is £292.7m. The Group holds a significant number of product lines across its branch network in the UK, Ireland, Belgium and Netherlands. Significant judgement is exercised by management in assessing the level of inventory provision in respect of slow moving inventory.

Management assess the required level of provision based on a model that reflects the age of inventory on hand at year end and considerations in respect of specific inventory. In locations that had stocktakes in advance of the year end management estimates a provision for stock losses (a "shrinkage provision") in order to accurately state inventory on hand at year end. Where inventory on which rebates have been earned is held at the year end, an appropriate rebate deduction is made from the gross carrying value of that inventory.

We focused on this area due to the judgement involved in estimating the inventory provisions and rebate deductions across multiple product lines and locations.

For each in scope component we obtained an analysis of inventory on hand by location.

We tested the accuracy of inventory ageing reports where they supported the calculation of inventory provisions by selecting a sample of inventory items on hand and testing the aged classification by reference to purchase documentation. We recomputed provisions recorded to assess whether they were in line with Group policy and we assessed the appropriateness of Group policy by reference to past experience. We obtained an understanding from management of plans to liquidate any slower moving inventory and we then considered the appropriateness of any provisions made.

In locations where stocktaking occurred before the year end we evaluated the reasonableness of the shrinkage provisions recorded by reference to the historical shrinkage experience of the Group.

We tested the allocation of rebate deductions to inventory by reference to the volume and value of inventory sourced from specific suppliers and the related rebate arrangement with those suppliers.

## Area of focus

### Implementation of new IT systems

Refer to page 51 (Audit and Risk Committee Report) and Note 15, Intangible Assets

The Group operates a number of different IT systems across its business units. The Group has continued its on-going investment in its systems, in particular the development of in-branch and financial reporting IT systems in Buildbase (the "AX platform"). During the year the Group has begun to implement discrete elements of the AX platform. As the implementation of new IT systems impacts financial reporting this was considered to be an area of focus during our audit.

## How our audit addressed the area of focus

We obtained a full understanding from management and Internal Audit of the IT developments during the year. Where there were implementation issues that impacted on financial reporting we considered the impact of these on our planned audit approach.

Our audit incorporated tests of the transfer of data between systems and additional substantive testing of transactions and key reconciliations to address identified risks to the financial reporting process as a result of the introduction of new systems during the year.

### Presentation and disclosure of exceptional items

Refer to page 51 (Audit and Risk Committee Report) and Note 4, Exceptional Items, Non-Recurring Operating Income and Operating Costs

As set out in the accounting policies on page 93 the Group has adopted a policy which seeks to highlight significant items within the Group's results.

The Group has separately disclosed exceptional items of £19.7 million in the Income Statement for the year ended 31 December 2016. These costs relate to branch closures in the traditional UK Merchanting business, onerous lease provisions and other rationalisation costs.

We have considered this to be an area of focus during our audit as the classification of items as exceptional involves judgement and the metric of "operating profit before exceptional items" is a key financial performance metric for the Group in the current year.

We assessed the appropriateness of the Group's accounting policy for exceptional items by reference to applicable accounting standards. We evaluated whether the items disclosed as exceptional items met the criteria set out in the accounting policy and whether all items that met the criteria were appropriately identified.

We tested a sample of individual items to supporting documentation including third party evidence, where relevant to ensure appropriate classification as exceptional in the income statement in line with the Group's accounting policy.

We considered the appropriateness of the disclosures made in the Annual Report.

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are comprised of the consolidation of 16 components. 15 of these components were subject to an audit of their full financial information and these accounted for 99% of revenue, 99% of profit before tax and exceptional items and 99% of total assets.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. During the planning phase of our audit the Group audit partner visited the main locations where work is performed by component auditors. The Group team attended all significant component team meetings with local management where the results of each component's audit were finalised, either in person or by conference call. We obtained and considered the detailed finding reports from all component teams.

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## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

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<b>Overall group materiality</b>	£6.3 million
<b>How we determined it</b>	4.7% of profit before tax before exceptional items
<b>Rationale for benchmark applied</b>	We consider that profit before tax before exceptional items is an appropriate benchmark as amounts which have been excluded from the Group's profit before tax are significant non-recurring items which are not reflective of the Group's trading activity.

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We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £250,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 45, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company has adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

## Other required reporting

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### Consistency of other information

#### Companies Act 2014 opinion

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

#### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"> <li>• information in the Annual Report is:                             <ul style="list-style-type: none"> <li>- materially inconsistent with the information in the audited financial statements; or</li> <li>- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li> <li>- otherwise misleading.</li> </ul> </li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>• the statement given by the Directors on page 76, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>• the section of the Annual Report on pages 48 to 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>	We have no exceptions to report.

### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> <li>• the Directors' confirmation on page 16 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>• the Directors' explanation on page 45 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### Directors' remuneration and transactions

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosure of Directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

- In our opinion, based on the work undertaken in the course of our audit of the financial statements:
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014;included in the Directors' Report on Corporate Governance, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014.
- Based on our knowledge and understanding of the Company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Directors' Report on Corporate Governance.
- In our opinion, based on the work undertaken during the course of our audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Directors' Report on Corporate Governance.
- Under the Listing Rules we are required to review the part of the Directors' Report on Corporate Governance relating to the Company's compliance with ten provisions of the UK Corporate Governance Code specified for our review. We have nothing to report having performed our review.

### Other matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the Company financial statements to be readily and properly audited.
- The Company Balance Sheet is in agreement with the accounting records.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Paul O'Connor**

**for and on behalf of PricewaterhouseCoopers**

Chartered Accountants and Statutory Audit Firm

Dublin

15 March 2017

# Group Income Statement

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Revenue</b>	2	<b>2,507,276</b>	2,211,990
<b>Operating costs – before exceptional items</b>	3	<b>(2,372,349)</b>	(2,090,471)
Property profits		<b>4,923</b>	6,692
<b>Operating profit – before exceptional items</b>		<b>139,850</b>	128,211
Exceptional items	4	<b>(19,713)</b>	-
<b>Operating profit</b>		<b>120,137</b>	128,211
Finance expense	7	<b>(7,166)</b>	(8,932)
Finance income	7	<b>1,276</b>	1,050
<b>Profit before tax</b>		<b>114,247</b>	120,329
Income tax charge	9	<b>(21,128)</b>	(23,827)
<b>Profit after tax for the financial year</b>		<b>93,119</b>	96,502
<b>Profit attributable to:</b>			
Owners of the Parent		<b>93,347</b>	97,179
Non-controlling interests		<b>(228)</b>	(677)
<b>Profit after tax for the financial year</b>		<b>93,119</b>	96,502
<b>Earnings per ordinary share - basic</b>	11	<b>39.56p</b>	41.62p
<b>Earnings per ordinary share - diluted</b>	11	<b>39.44p</b>	41.30p

*On behalf of the Board*

**Gavin Slark**

*Director*

15 March 2017

**David Arnold**

*Director*

# Group Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Profit after tax for the financial year		<b>93,119</b>	96,502
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to the income statement</b>			
<b>Currency translation effects:</b>			
- on foreign currency net investments		<b>20,374</b>	(5,362)
- on foreign currency borrowings designated as net investment hedges		<b>1,221</b>	(879)
<b>Fair value movement on cash flow hedges:</b>			
- Effective portion of changes in fair value of cash flow hedges		<b>(461)</b>	(442)
- Net change in fair value of cash flow hedges transferred from equity		<b>258</b>	82
Deferred tax on cash flow hedges	26	<b>26</b>	42
		<b>21,418</b>	(6,559)
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement (loss)/gain on Group defined benefit pension schemes	32	<b>(13,810)</b>	13,142
Deferred tax on Group defined benefit pension schemes	26	<b>2,102</b>	(1,992)
		<b>(11,708)</b>	11,150
<b>Total other comprehensive income</b>		<b>9,710</b>	4,591
<b>Total comprehensive income for the financial year</b>		<b>102,829</b>	101,093
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		<b>103,057</b>	101,770
Non-controlling interests		<b>(228)</b>	(677)
<b>Total comprehensive income for the financial year</b>		<b>102,829</b>	101,093

On behalf of the Board

**Gavin Slark**

Director

15 March 2017

**David Arnold**

Director



# Group Balance Sheet

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	12	566,237	521,521
Intangible assets	15	44,584	32,640
Property, plant and equipment	13	461,660	430,116
Investment properties	13	21,749	17,797
Deferred tax assets	26	15,718	17,905
Retirement benefit assets	32	796	744
Other financial assets	14	125	122
<b>Total non-current assets</b>		<b>1,110,869</b>	1,020,845
<b>Current assets</b>			
Properties held for sale	13	8,407	10,805
Inventories	16	292,681	276,229
Trade and other receivables	17	397,689	355,752
Cash and cash equivalents	20	205,857	211,565
<b>Total current assets</b>		<b>904,634</b>	854,351
<b>Total assets</b>		<b>2,015,503</b>	1,875,196
<b>EQUITY</b>			
Equity share capital	18	8,449	8,405
Share premium account	18	210,271	209,810
Capital redemption reserve	19	621	621
Revaluation reserve	19	13,507	13,674
Shares to be issued reserve	19	8,446	9,168
Cash flow hedge reserve	19	(531)	(354)
Foreign currency translation reserve	19	73,359	51,764
Retained earnings		751,842	696,479
Treasury shares held	18	(3,897)	(3,897)
<b>Equity attributable to owners of the Parent</b>		<b>1,062,067</b>	985,670
Non-controlling interests	19	3,122	3,350
<b>Total equity</b>		<b>1,065,189</b>	989,020
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	20	300,426	323,393
Provisions	23	22,385	17,875
Retirement benefit obligations	32	32,081	17,367
Derivative financial instruments	22	675	404
Deferred tax liabilities	26	36,429	32,670
<b>Total non-current liabilities</b>		<b>391,996</b>	391,709
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	20	1,051	1,326
Trade and other payables	24	523,700	465,914
Current income tax liabilities		21,224	19,640
Provisions	23	12,343	7,587
<b>Total current liabilities</b>		<b>558,318</b>	494,467
<b>Total liabilities</b>		<b>950,314</b>	886,176
<b>Total equity and liabilities</b>		<b>2,015,503</b>	1,875,196

On behalf of the Board

**Gavin Slark**

Director

15 March 2017

**David Arnold**

Director

# Group Cash Flow Statement

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Profit before taxation</b>		<b>114,247</b>	120,329
Finance income	7	<b>(1,276)</b>	(1,050)
Finance expense	7	<b>7,166</b>	8,932
<b>Operating profit</b>		<b>120,137</b>	128,211
Depreciation	13	<b>34,929</b>	32,211
Amortisation of intangible assets	15	<b>3,121</b>	911
Share-based payments charge	33	<b>3,232</b>	4,461
Movement in provisions	23	<b>5,802</b>	(1,548)
Asset impairment and fair value (gains)/losses		<b>4,383</b>	-
Loss/(profit) on sale of property, plant and equipment		<b>19</b>	(220)
Property profit		<b>(4,923)</b>	(6,692)
Loss/(profit) on sale of Group businesses		<b>392</b>	(785)
Contributions to pension schemes in excess of IAS 19 charge		<b>(1,516)</b>	(3,408)
Decrease/(increase) in working capital	27	<b>3,010</b>	(13,828)
<b>Cash generated from operations</b>		<b>168,586</b>	139,313
Interest paid		<b>(6,936)</b>	(7,463)
Income taxes paid		<b>(16,269)</b>	(19,305)
<b>Cash flows from operating activities</b>		<b>145,381</b>	112,545
<b>Investing activities</b>			
<b>Inflows</b>			
Proceeds from sale of property, plant and equipment		<b>1,740</b>	2,779
Proceeds from sale of properties held for sale		<b>8,251</b>	8,543
Proceeds from sale of Group businesses (net)		<b>881</b>	2,617
Interest received		<b>1,276</b>	1,025
		<b>12,148</b>	14,964
<b>Outflows</b>			
Acquisition of subsidiary undertakings and businesses (net of cash acquired)	28	<b>(11,859)</b>	(98,641)
Investment in intangible assets - computer software	15	<b>(10,343)</b>	(9,988)
Purchase of property, plant and equipment	13	<b>(50,101)</b>	(41,592)
		<b>(72,303)</b>	(150,221)
<b>Cash flows from investing activities</b>		<b>(60,155)</b>	(135,257)
<b>Financing activities</b>			
<b>Inflows</b>			
Proceeds from the issue of share capital		<b>505</b>	3,309
Proceeds from borrowings		<b>77,842</b>	95,097
		<b>78,347</b>	98,406
<b>Outflows</b>			
Repayment of borrowings		<b>(145,577)</b>	(2,917)
Dividends paid	10	<b>(30,048)</b>	(26,797)
Payment on finance lease liabilities		<b>(409)</b>	(565)
Redemption of loan notes payable net of derivatives		<b>-</b>	(11,649)
		<b>(176,034)</b>	(41,928)
<b>Cash flows from financing activities</b>		<b>(97,687)</b>	56,478
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(12,461)</b>	33,766
Cash and cash equivalents at 1 January		<b>211,565</b>	182,360
Effect of exchange rate fluctuations on cash held		<b>6,753</b>	(4,561)
<b>Cash and cash equivalents at 31 December</b>		<b>205,857</b>	211,565
<b>Cash and cash equivalents are broken down as follows:</b>			
Cash at bank and short-term deposits		<b>205,857</b>	211,565

## Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
<b>Year to 31 December 2016</b>												
<b>At 1 January 2016</b>	8,405	209,810	621	13,674	9,168	(354)	51,764	696,479	(3,897)	985,670	3,350	989,020
Profit after tax for the financial year	-	-	-	-	-	-	-	93,347	-	93,347	(228)	93,119
<b>Total other comprehensive income</b>												
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(11,708)	-	(11,708)	-	(11,708)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(177)	-	-	-	(177)	-	(177)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	20,374	-	-	20,374	-	20,374
Currency translation effect on foreign currency borrowings designated as net investment hedges	-	-	-	-	-	-	1,221	-	-	1,221	-	1,221
<b>Total other comprehensive income</b>												
<b>Total comprehensive income</b>												
<b>Transactions with owners of the Parent recognised directly in equity</b>												
Dividends paid (Note 10)	-	-	-	-	-	-	-	(30,048)	-	(30,048)	-	(30,048)
Issue of Grafton Units	44	461	-	-	-	-	-	-	-	505	-	505
Share based payments charge	-	-	-	-	3,232	-	-	-	-	3,232	-	3,232
Tax on share based payments	-	-	-	-	(349)	-	-	-	-	(349)	-	(349)
Transfer from shares to be issued reserve	-	-	-	-	(3,605)	-	-	3,605	-	-	-	-
Transfer from revaluation reserve	-	-	-	(167)	-	-	-	167	-	-	-	-
<b>At 31 December 2016</b>	8,449	210,271	621	13,507	8,446	(531)	73,359	751,842	(3,897)	1,062,067	3,122	1,065,189

# Group Statement of Changes in Equity

(continued)

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
<b>Year to 31 December 2015</b>												
<b>At 1 January 2015</b>	8,309	206,597	621	13,822	7,834	(36)	58,005	610,998	(3,897)	902,253	4,027	906,280
Profit after tax for the financial year	-	-	-	-	-	-	-	97,179	-	97,179	(677)	96,502
<b>Total other comprehensive income</b>												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	11,150	-	11,150	-	11,150
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(318)	-	-	-	(318)	-	(318)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(5,362)	-	-	(5,362)	-	(5,362)
Currency translation effect on foreign currency borrowings designated as net investment hedges	-	-	-	-	-	-	(879)	-	-	(879)	-	(879)
<b>Total other comprehensive income</b>												
<b>Total comprehensive income</b>												
<b>Transactions with owners of the Parent recognised directly in equity</b>												
Dividends paid (Note 10)	-	-	-	-	-	-	-	(26,797)	-	(26,797)	-	(26,797)
Issue of Grafton Units	96	3,213	-	-	-	-	-	-	-	3,309	-	3,309
Share based payments charge	-	-	-	-	4,461	-	-	-	-	4,461	-	4,461
Tax on share based payments	-	-	-	-	674	-	-	-	-	674	-	674
Transfer from shares to be issued reserve	-	-	-	-	(3,801)	-	-	3,801	-	-	-	-
Transfer from revaluation reserve	-	-	-	(148)	-	-	-	148	-	-	-	-
<b>At 31 December 2015</b>	8,405	209,810	621	13,674	9,168	(354)	51,764	696,479	(3,897)	985,670	3,350	989,020

# Notes to the Group Financial Statements

## 1. Summary of Significant Accounting Policies

### Statement of Compliance

The consolidated and Company Financial Statements of Grafton Group plc have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The Company Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union (EU) and as applied in accordance with the Companies Act, 2014. The Company has taken advantage of the exemption in Section 304(2) of the Companies Act 2014 from presenting to its members the Company Statement of Comprehensive Income and related notes as the Company publishes Company and Group Financial Statements together.

The IFRSs applied in these financial statements were those effective for accounting periods ending on 31 December 2016.

### New Standards, Amendments and Interpretations

The group has applied the following standards and amendments for the first time in the reporting period commencing 1 January 2016:

- Disclosure initiative - amendments to IAS 1;
- Amendments to IAS 19, 'Employee benefits', on defined benefit plans;
- Clarification of acceptable methods of depreciation and amortisation - Amendments to IAS 16 and IAS 38;
- Annual improvements to IFRSs 2010 - 2012 cycle; and
- Annual improvements to IFRSs 2012 - 2014 cycle.

In applying the amendments to IAS 1 from the disclosure initiative, the Group now separately presents "property profit" on the Group Income Statement. The comparative period has been restated for consistency. This has had the impact of presenting property profit of £6.7m separately on the Group Income Statement and increasing operating costs by £6.7m in 2015.

The adoption of the other amendments effective for the first time for the financial year beginning on or after 1 January 2016 have not had a material impact on the Group or parent company.

### New Standards, Amendments and Interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or parent company, except for the following:

- IFRS 9, 'Financial instruments', (effective date: Grafton Group financial year beginning 1 January 2018). This standard addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new hedge

accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships may be eligible for hedge accounting, as the standard introduces a more principles-based approach. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39 Financial Instruments: Recognition and Measurement. It applies to financial assets classified at amortised cost, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet completed a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly. The Group is currently assessing the full impact of IFRS 9 with the new standard likely to affect the Group's accounting for some financial instruments.

- IFRS 15, 'Revenue from contracts with customers' (effective date: Grafton Group financial year beginning 1 January 2018). This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The impact of IFRS 15 is being assessed by the Group. Implementation of IFRS 15 requires a thorough review of existing contractual arrangements. At present, the Directors anticipate there will not be material measurement differences from the implementation of IFRS 15, however additional disclosures will be required. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.
- IFRS 16, 'Leases' (effective date: Grafton Group financial year beginning 1 January 2019). This standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. Subject to EU endorsement, the Group will apply IFRS 16 from its effective date. It is expected that the adoption of the standard will result in increased debt being recognised on the Group Balance Sheet. The full impact of IFRS 16 has not yet been fully assessed. The Group has entered into leases principally relating to property in the UK, Ireland, the Netherlands and Belgium. Note 3 to the financial statements outlines the Group's lease rentals and other hire charges and Note 31 outlines the Group's operating lease commitments at 31 December 2016.

## 1. Summary of Significant Accounting Policies (continued)

The Directors are considering the potential impact of a number of standards that will be effective in the future.

### Basis of Preparation

The consolidated Financial Statements, which are presented in sterling and rounded to the nearest thousand are prepared on a going concern basis. The Company Financial Statements continue to be presented in euro and rounded to the nearest thousand and are prepared on a going concern basis. The Statements have been prepared under the historical cost convention, as modified by the previous revaluation of land and buildings, the measurement at fair value of share-based payments at initial date of award and the measurement at fair value of all derivative financial instruments. The carrying values of recognised assets and liabilities that are fair value hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Management believes that the estimates and assumptions made are reasonable based on the information available to it at the time that those estimates and assumptions are made. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements are set out in Note 34 and relate primarily to provisions for liabilities including onerous lease provisions, valuation of inventory, accounting for defined benefit pension schemes, asset impairment provisions, goodwill impairment, fair value of investment properties, rebate income and current taxation.

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all subsidiaries drawn up to 31 December each year together with the Group's interest in joint ventures.

The financial year-end of the Group's subsidiaries and joint venture are coterminous.

### Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained and they cease to be consolidated from the date on which the Group loses control. The definition of control is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

### Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Transactions with joint ventures and associates are similarly eliminated to the extent of the Group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Revenue Recognition

Revenue comprises the fair value of consideration receivable for goods and services supplied to external customers in the ordinary course of the Group's activities and excludes inter-company revenue and value added tax.

In general, revenue is recognised to the extent that it is subject to reliable measurement, that it is probable that economic benefits will flow to the Group and that the significant risks and rewards of ownership have passed to the buyer. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Revenues are recorded based on the price specified in the sales invoices/contracts net of actual and estimated returns and any discounts granted.

### Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker, being the Board, who is responsible for allocating resources and assessing performance.

### Foreign Currency Translation

#### Functional and Presentation Currency

The consolidated financial statements are presented in sterling. Items included in the financial statements of each of the Group's entities are measured using its functional currency, being the currency of the primary economic environment in which the entity operates which is primarily euro and sterling. The functional currency of the parent company is euro.

## 1. Summary of Significant Accounting Policies (continued)

### Transactions and Balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for the effective portion designated as a hedge of a net investment in a foreign operation which is recognised in other comprehensive income.

### Foreign Operations

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to sterling at the foreign exchange rates ruling at the balance sheet date. Results and cash flows of subsidiaries which do not have sterling as their functional currency are translated into sterling at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra-Group loans deemed to be quasi equity in nature, are recognised directly in other comprehensive income, in the currency translation reserve. The portion of exchange gains or losses on foreign currency borrowings or derivatives used to provide a hedge against a net investment in a foreign operation that is designated as a hedge of those investments is recognised directly in other comprehensive income to the extent that they are determined to be effective. The ineffective portion is recognised immediately in the income statement.

Movements since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are reclassified to the income statement on disposal of the related business.

### Share Capital and Share Premium

The company's share capital and share premium has been translated from euro into sterling at historic rates of exchange at the dates of transactions.

### Exceptional Items and Non-Recurring Items

The Group has adopted a policy in relation to its income statement which seeks to highlight significant items within the Group's results. Such items may include significant restructuring and onerous lease provisions, profit or loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items which, by virtue of their scale and nature, should be disclosed in the income statement or related notes. Where exceptional items are not significant for separate presentation, they are disclosed as non-recurring items.

Property profit is disclosed as a separate line item on the face of the Income Statement. Property profit arises when the proceeds, less costs to sell, exceed the carrying value of the disposed property.

### Rebate Arrangements

Rebate arrangements are a common component of supplier agreements in the merchanting industry. As part of its on-going business activities, Grafton Group plc has entered into such arrangements with a significant number of its suppliers.

Supplier rebates received and receivable in respect of goods which have been sold to the Group's customers are deducted from cost of sales in the income statement. Where goods on which rebate has been earned remain in inventory at the year-end, an appropriate rebate deduction is made from the gross balance sheet carrying value of that inventory. The rebate deduction is only released to the income statement when the goods are ultimately sold.

At the year-end the balance sheet includes a balance representing unpaid amounts receivable from suppliers.

### Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, net foreign exchange losses on monetary items and gains and losses on hedging instruments that are recognised in the income statement. The net finance cost of pension scheme obligations is recognised as a finance expense in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is included as a finance expense or finance income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement as incurred using the effective interest rate method.

### Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognised in profit or loss. The net expected return on defined benefit pension scheme plan assets is recognised as finance income in the income statement. Interest income is recognised in the income statement as it accrues using the effective interest rate method.

## 1. Summary of Significant Accounting Policies (continued)

### Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined as when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

The consideration transferred does not include amounts related to the settlement of the pre-existing relationships. Such amounts are generally recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

### Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill acquired is allocated, at acquisition date, to the groups of Cash Generating Units (CGU's) expected to benefit from synergies related to the acquisition. Where management reassesses its groups of CGU's, goodwill is reallocated on a relative value basis.

Goodwill is measured at cost less accumulated impairment losses. The CGU's represent the lowest level within the Group at which goodwill is monitored for internal management purposes. These units are no larger than the operating segments determined in accordance with IFRS 8: Operating Segments.

Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment exists.

Where the recoverable amount of a cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed once recognised.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, is included in determining the profit or loss arising on disposal.

### Intangible Assets (Computer Software)

Acquired computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:

- An asset can be separately identified;
- It is probable that the asset created will generate future economic benefits;
- The development cost of the asset can be measured reliably;
- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met. Computer software is amortised over its expected useful life, which ranges from 4 to 10 years, by charging equal instalments to the income statement from the date the assets are ready for use.

### Intangible Assets (Other than Goodwill and Computer Software)

An intangible asset, other than goodwill and computer software, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill at fair value on the date of acquisition if the intangible asset meets the definition of an asset and the fair value can be reliably measured.



## 1. Summary of Significant Accounting Policies (continued)

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying value of intangible assets is reviewed for impairment at each reporting date and is also subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

Intangible assets are amortised on a straight-line basis. In general, finite life intangible assets are amortised over periods ranging from one to twenty years, depending on the nature of the intangible asset.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's freehold properties in Ireland were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation. The valuations were deemed to be cost for the purposes of transition to IFRS as adopted by the EU.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

<b>Freehold buildings</b>	50-100 years
<b>Freehold land</b>	Not depreciated
<b>Leasehold buildings</b>	Lease term or up to 100 years
<b>Plant and machinery</b>	5-20 years
<b>Motor vehicles</b>	5 years
<b>Plant hire equipment</b>	4-10 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is firstly dealt with through the revaluation reserve relating to that asset with any residual amount being transferred to the income statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of replacing the item can be reliably measured. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

### Investment Properties

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes from owner occupied or held for sale to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

### Assets Held for Sale

Non-current assets that are expected to be recovered principally through sale rather than continuing use and meet the IFRS 5 criteria are classified as held for sale. These assets are shown in the balance sheet at the lower of their carrying amount and fair value less any costs to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains or losses on re-measurement are recognised in the income statement.

### Investments

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value. All other investments are classified as available for sale with changes in fair value recognised directly in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is brought into the income statement for the period. All items recognised in the income statement relating to investments, other than investments in joint ventures and associates, are reported as non-operating items.

## 1. Summary of Significant Accounting Policies (continued)

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IFRS 13, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group balance sheet. They are assessed for impairment annually.

### Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. Leased assets are recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of finance leases. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of the obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis as a reduction of the lease expense.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

### Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the Group will not be in a position to collect all of its receivables when they fall due. Bad debts are written-off in the income statement on identification.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have an original maturity of three months or less. In addition, for the purposes of the Group cash flow statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Bank overdrafts are included within current interest-bearing loans and borrowings in the Group balance sheet.

### Derivative Financial Instruments and Hedging Activities

Derivative financial instruments, principally interest rate and currency swaps, are used in certain circumstances to hedge the Group's exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at fair value and thereafter are subsequently re-measured at their fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value of interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swap counterparties.

The method of recognising the resulting gain or loss on re-measurement to fair value depends on whether the derivative is designated as a hedging instrument. Where derivatives are not designated or do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of the resulting gains or losses depends on the nature of the item being hedged. The Group designates certain derivatives for various purposes in hedge relationships in one or more of the following types of relationships:

- (i) Fair value hedge: Hedges of the fair value of recognised liabilities;
- (ii) Cash flow hedge: Hedges of a particular risk associated with a highly probable forecast transaction; or
- (iii) Net investment hedge: Hedges of a net investment in a foreign operation.

## 1. Summary of Significant Accounting Policies (continued)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

### (i) Fair Value Hedge

Any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

### (ii) Cash Flow Hedges

The effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedge reserve in equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from other comprehensive income and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other

comprehensive income is transferred to the income statement in the period.

### (iii) Hedge of Net Investment in Foreign Operation

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or finance expense. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are reclassified to the income statement as part of the overall gain or loss on sale.

### Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the lower of the present value of the expected cost of terminating the contract and the present value of the expected net cost of continuing with the contract.

## 1. Summary of Significant Accounting Policies (continued)

### Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to provide retirement benefits.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises actuarial gains and losses immediately in other comprehensive income.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The Group determines net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period. Differences between the income recognised based on the discount rate and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as a past service cost in the income statement at the earlier of the date when the plan amendment occurs and when the related restructuring costs are recognised. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

### Share-Based Payment Transactions

The 2011 Long-Term Incentive Plan (LTIP), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees should enable employees to acquire shares in the Company subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the

issue of units or by a market purchase of units. The fair value of share entitlements at the grant date is recognised as an employee expense in the income statement over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted or issued.

### Income Tax

Income tax in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit and represents the expected tax payable for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes certain items that are not tax deductible including property depreciation. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date. The Group's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Group operates. The determination of the Group's charge for income tax in the income statement requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined. The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

## 1. Summary of Significant Accounting Policies (continued)

Deferred tax assets and liabilities are not recognised for the following temporary differences:

- Goodwill that is not deductible for tax purposes;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

### Share Capital

#### Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### Repurchase of Share Capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

#### Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid. In the case of final dividends these are declared when authorised by the shareholders in General Meeting.

#### Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for treasury shares held and for the effects of all dilutive potential ordinary shares related to employee share schemes.

## 2. Segment Information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker, being the Board, in order to allocate resources to the segments and to assess their performance. Three reportable segments have been identified, Merchanting, Retailing and Manufacturing.

The Merchanting segment is engaged in the distribution of building and plumbing materials primarily to professional trades people engaged in residential repair, maintenance and improvement projects and also in residential and other new build construction from a network of 585 branches in Britain, Ireland, the Netherlands and Belgium. In view of the increasingly trade nature of the customer base and change in reporting lines, the In-House kitchen business was transferred from retailing to merchanting with effect from 1 January 2016. The 2015 comparatives, where applicable, have been updated to reflect this transfer.

The aggregation of operating segments into the Merchanting segment reflects, in the opinion of management, the similar economic characteristics within each of these segments as well as the similar products and services offered and supplied and the classes of customers. This is assessed by reference to gross margins and long-term growth rates of the segments.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 35 stores that supply mainly retail customers with a wide range of products for DIY and for the home and garden.

The Manufacturing segment comprises the largest manufacturer of dry mortar in Britain operating from 10 plants and a plastics manufacturing business in Ireland.

Information regarding the results of each operating segment is included in this note. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's Chief Operating Decision Maker. Segment operating profit is used to measure performance, as such information is the most relevant in evaluating the results of the Group's segments.

Segment results, assets and liabilities include all items directly attributable to a segment.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

## 2. Segment Information (continued)

## Group Income Statement

	Continuing operations – Year Ended 31 December							
	Merchandising		Retailing		Manufacturing		Group	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Segment revenue</b>	<b>2,290,568</b>	2,027,740	<b>157,090</b>	131,416	<b>74,358</b>	63,059	<b>2,522,016</b>	2,222,215
<b>Less: Inter-segment revenue</b>	-	-	-	-	<b>(14,740)</b>	(10,225)	<b>(14,740)</b>	(10,225)
	<b>2,290,568</b>	2,027,740	<b>157,090</b>	131,416	<b>59,618</b>	52,834	<b>2,507,276</b>	2,211,990
<b>Segment operating profit</b>	<b>130,264</b>	118,118	<b>7,304</b>	3,332	<b>12,149</b>	9,749	<b>149,717</b>	131,199
Property profits	<b>4,923</b>	6,692	-	-	-	-	<b>4,923</b>	6,692
Amortisation of intangible assets arising on acquisitions	<b>(2,198)</b>	(465)	-	-	-	-	<b>(2,198)</b>	(465)
Exceptional items (Note 4)	<b>(16,933)</b>	-	<b>(2,020)</b>	-	-	-	<b>(18,953)</b>	-
Non-recurring pension credit (Note 4)	-	2,945	-	-	-	-	-	2,945
Non-recurring asset impairment (Note 4)	-	(1,520)	-	-	-	-	-	(1,520)
<b>Segment operating profit after exceptional and non-recurring items</b>	<b>116,056</b>	125,770	<b>5,284</b>	3,332	<b>12,149</b>	9,749	<b>133,489</b>	138,851
							<b>Group</b>	
							<b>2016</b>	<b>2015</b>
							<b>£'000</b>	<b>£'000</b>
<b>Reconciliation to consolidated operating profit</b>								
Segment operating profit after non-recurring items							<b>133,489</b>	138,851
Central activities							<b>(12,592)</b>	(10,640)
Central activities - exceptional items (Note 4)							<b>(760)</b>	-
<b>Operating profit</b>							<b>120,137</b>	128,211
Finance expense							<b>(7,166)</b>	(8,932)
Finance income							<b>1,276</b>	1,050
<b>Profit before tax</b>							<b>114,247</b>	120,329
Income tax							<b>(21,128)</b>	(23,827)
<b>Profit after tax for the financial year</b>							<b>93,119</b>	96,502

## 2. Segment Information (continued)

### Group Balance Sheet

	Merchandising		Continuing operations – as at 31 December				Group	
	2016	2015	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Segment assets</b>	<b>1,695,668</b>	1,562,237	<b>55,570</b>	45,963	<b>41,769</b>	36,660	<b>1,793,007</b>	1,644,860
<b>Reconciliation of total assets</b>								
Deferred tax assets							<b>15,718</b>	17,905
Retirement benefit assets							<b>796</b>	744
Other financial assets							<b>125</b>	122
Cash and cash equivalents							<b>205,857</b>	211,565
<b>Total assets in the Group balance sheet</b>							<b>2,015,503</b>	1,875,196

	Merchandising		Continuing operations – as at 31 December				Group	
	2016	2015	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Segment liabilities</b>	<b>502,871</b>	449,105	<b>41,451</b>	31,027	<b>14,106</b>	11,244	<b>558,428</b>	491,376
<b>Reconciliation of total liabilities</b>								
Interest bearing loans and borrowings (current and non-current)							<b>301,477</b>	324,719
Retirement benefit obligations							<b>32,081</b>	17,367
Deferred tax liabilities							<b>36,429</b>	32,670
Current tax liabilities							<b>21,224</b>	19,640
Derivative financial instruments							<b>675</b>	404
<b>Total liabilities in the Group balance sheet</b>							<b>950,314</b>	886,176

# Notes to the Group Financial Statements

(continued)

## 2. Segment Information (continued)

### Other Segment Information

	Continuing operations – Year Ended 31 December							
	Merchandising		Retailing		Manufacturing		Group	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Capital expenditure	<b>44,937</b>	37,545	<b>2,790</b>	1,328	<b>2,374</b>	2,719	<b>50,101</b>	41,592
Investment in intangible assets	<b>10,343</b>	9,988	-	-	-	-	<b>10,343</b>	9,988
Intangible assets acquired	<b>2,815</b>	17,276	-	-	-	-	<b>2,815</b>	17,276
Depreciation	<b>29,931</b>	27,305	<b>2,661</b>	2,677	<b>2,337</b>	2,229	<b>34,929</b>	32,211
Amortisation of intangible assets	<b>3,121</b>	911	-	-	-	-	<b>3,121</b>	911

### Geographic Analysis

The following is a geographic analysis of the information presented above. The analysis of geographic revenue below is the same whether it is based on location of assets or customers.

	Belgium		Ireland*		Netherlands		UK		Group	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
	Segment revenue (continuing operations)	<b>83,462</b>	82,762	<b>509,074</b>	409,040	<b>87,712</b>	8,538	<b>1,827,028</b>	1,711,650	<b>2,507,276</b>
Capital expenditure	<b>1,108</b>	1,158	<b>6,868</b>	4,199	<b>700</b>	151	<b>41,425</b>	36,084	<b>50,101</b>	41,592
Investment in intangible assets	-	-	-	-	-	-	<b>10,343</b>	9,988	<b>10,343</b>	9,988
Intangible assets acquired	-	-	-	-	-	11,326	<b>2,815</b>	5,950	<b>2,815</b>	17,276
Segment non-current assets	<b>13,584</b>	12,168	<b>126,398</b>	105,367	<b>14,871</b>	16,981	<b>373,140</b>	346,037	<b>527,993</b>	480,553
Goodwill									<b>566,237</b>	521,521
Properties held for sale									<b>8,407</b>	10,805
Inventories									<b>292,681</b>	276,229
Trade and other receivables									<b>397,689</b>	355,752
Total segment assets									<b>1,793,007</b>	1,644,860
Segment liabilities	<b>13,384</b>	12,460	<b>167,905</b>	134,980	<b>7,809</b>	5,906	<b>369,330</b>	338,030	<b>558,428</b>	491,376

\*Includes Poland which is immaterial



### 3. Operating Costs and Income

The following have been charged/(credited) in arriving at operating profit:

	2016 £'000	2015 £'000
<b>Non-recurring items (Note 4)</b>		
Defined benefit pension scheme past service credit	-	(2,945)
Asset impairment charge in Belgian business	-	1,520
<b>Total non-recurring items (Note 4)</b>	-	(1,425)
(Increase) in inventories	<b>(2,160)</b>	(13,220)
Purchases and consumables	<b>1,712,918</b>	1,521,720
Staff costs before non-recurring items (Note 6)	<b>362,905</b>	318,418
Auditor's remuneration - Group and subsidiaries	<b>808</b>	659
Depreciation	<b>34,929</b>	32,211
Lease rentals and other hire charges	<b>59,619</b>	54,302
Amortisation of intangible assets	<b>3,121</b>	911
Loss/(profit) on disposal of property, plant and equipment	<b>19</b>	(220)
Loss/(profit) on disposal of Group businesses	<b>392</b>	(785)
Selling, distribution and administrative expenses	<b>199,798</b>	177,900
	<b>2,372,349</b>	2,090,471

In applying the amendments to IAS 1 from the disclosure initiative, the Group now separately presents "property profit" on the Group Income Statement. The comparative period has been restated for consistency. Property profits of £6.7 million in 2015 are now separately presented.

## 3. Operating Costs and Income (continued)

The following services were provided by the Group's Auditor:

	2016 €'000	2015 €'000
Audit services (i)		
- Group Auditor - PwC Ireland (2015: KPMG Ireland)	344	399
- Other network firm - PwC (2015: KPMG)	443	95
	<b>787</b>	494
Other assurance services (ii)		
- Group Auditor - PwC Ireland (2015: KPMG Ireland)	13	141
- Other network firm - PwC (2015: KPMG)	8	24
	<b>21</b>	165
Auditor's remuneration - Group and subsidiaries (i) & (ii)	<b>808</b>	659
Other non-audit services		
- Group Auditor - PwC Ireland (2015: KPMG Ireland)	-	-
- Other network firm - PwC (2015: KPMG)	32	68
	<b>32</b>	68
Tax advisory services		
- Group Auditor - PwC Ireland (2015: KPMG Ireland)	-	192
- Other network firm - PwC (2015: KPMG)	-	241
	-	433
<b>Total*</b>		
- Group Auditor - PwC Ireland (2015: KPMG Ireland)	<b>357</b>	732
- Other network firm - PwC (2015: KPMG)	<b>483</b>	428
	<b>840</b>	1,160

\*Amounts for 2016 include expenses. These were not included in 2015.

As set out in the 2015 Annual Report, a formal tender process was carried out for the external audit of the Group's financial statements for the year ended 31 December 2016 and subsequent years. Following the conclusion of this process, on the recommendation of the Audit and Risk Committee, the Board approved the appointment of PwC as auditors.

#### 4. Exceptional Items, Non-Recurring Operating Income and Operating Costs

	2016 £'000	2015 £'000
<b>Non-recurring items</b>		
Defined benefit pension scheme past service credit	-	(2,945)
Asset impairment charge in Belgian business	-	1,520
Total non-recurring items charged in operating costs in the income statement	-	(1,425)
<b>Exceptional items</b>		
Exceptional items presented separately in the income statement	<b>(19,713)</b>	-

##### Exceptional items

Exceptional items of £19.7m (2015:£Nil) relate to branch closures in the traditional UK Merchanting business (£16.1 million), an increase in the onerous lease provision of £3.2 million and other rationalisation costs of £0.4 million. The branch closure costs in the UK primarily relates to fixed asset and goodwill impairments, redundancy costs, dilapidations provisions and the write down of inventory balances.

##### Pension scheme credit

The 2015 past service credit of £2.9 million arose from the change in the basis for increasing pensions to CPI from RPI (Note 32).

##### Asset impairment

In 2015 a review of the inventory provisioning in Belgium resulted in a non-recurring inventory asset impairment charge of £1.5 million to the income statement.

#### 5. Directors' Remuneration, Pension Entitlements and Interests

	2016 £'000	2015 £'000
Emoluments	<b>2,357</b>	2,164
Benefits under long-term incentive plan (LTIP)*	<b>559</b>	1,151
Total emoluments	<b>2,916</b>	3,315
Emoluments above include the following pension payments/contributions		
- Defined contribution **	<b>206</b>	206
	<b>206</b>	206

\* For the year ended 31 December 2016, this is the value of LTIP awards that will vest in May 2017. The value of the awards is based on the average share price of £5.31 for the three months to 31 December 2016. The vesting of these awards was subject to performance conditions over the period from 1 January 2014 to 31 December 2016. For the year ended 31 December 2015, this is the value of LTIP awards that vested in May 2016. The value of this award has been updated from that disclosed last year to reflect the share price of £6.75 on the date of vesting.

\*\* This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a payment in lieu of pension made through the payroll. This amount is accruing to two directors at 31 December 2016 (2015: two).

Further information on Directors' remuneration, pension entitlements and interests in shares and share entitlements is presented in the Report of the Remuneration Committee on Directors' Remuneration on pages 54 to 70.

# Notes to the Group Financial Statements

(continued)

## 6. Employment

The average number of persons employed during the year by segment was as follows:

	2016	2015
Merchanting	10,492	9,142
Retailing	1,080	1,088
Manufacturing	208	179
Holding company	29	25
	<b>11,809</b>	<b>10,434</b>

The aggregate remuneration costs of employees were:

	£'000	£'000
Wages and salaries	318,804	278,556
Social welfare costs	33,316	28,224
Share based payments charge	3,232	4,461
Defined benefit pension (Note 32)	2,263	2,360
Defined contribution pension and related costs	5,290	4,817
<b>Staff costs before non-recurring items</b>	<b>362,905</b>	<b>318,418</b>
Past service credit - non-recurring (Note 32)	-	(2,945)
<b>Charged to operating profit</b>	<b>362,905</b>	<b>315,473</b>
Net finance cost on pension scheme obligations (Note 32)	510	897
<b>Charged to income statement</b>	<b>363,415</b>	<b>316,370</b>
Remeasurement loss/(gain) on pension schemes (Note 32)	13,810	(13,142)
<b>Total employee benefit cost</b>	<b>377,225</b>	<b>303,228</b>

The share-based payments charge was derived on the basis of the Group's expectation of the number of shares likely to vest having regard to the service and non-market performance vesting conditions, the historic performance of the Group over the period since the share entitlements were granted and the forecast performance over the remaining life of share awards.

Total capitalised costs in the year amounted to £2.5 million (2015: £2.5 million).

### Key Management

The cost of key management including Directors is set out in the table below:

	2016	2015
Number of Individuals	11	8
	2016	2015
	£'000	£'000
Short-term employee benefits	2,581	2,317
Share-based payment charge	895	839
Retirement benefits expense	263	257
<b>Charged to operating profit</b>	<b>3,739</b>	<b>3,413</b>

## 7. Finance Expense and Finance Income

	2016 £'000	2015 £'000
<b>Finance expense:</b>		
Interest on bank loans and overdrafts	5,975 *	6,839 *
Interest on loan notes	- *	95 *
Net change in fair value of cash flow hedges transferred from equity	258	82
Interest on finance leases	208	207
Net finance cost on pension scheme obligations	510	897
Foreign exchange loss	215	812
	<b>7,166</b>	<b>8,932</b>
<b>Finance income:</b>		
Fair value movement on derivatives (cross-currency interest rate swaps not in hedging relationship)	-	(25)
Interest income on bank deposits	(1,276)*	(1,025)*
	<b>(1,276)</b>	<b>(1,050)</b>
<b>Net finance expense recognised in income statement</b>	<b>5,890</b>	<b>7,882</b>
*Net bank/loan note interest of £4.7 million (2015: £5.9 million)		
<b>Amounts relating to items not at fair value through income statement</b>		
- Total finance expense on financial liabilities	<b>6,908</b>	8,850
- Total finance income on financial assets	<b>(1,276)</b>	(1,025)
<b>Recognised directly in other comprehensive income</b>		
Currency translation effects on foreign currency net investments	<b>20,374</b>	(5,362)
Currency translation effects on foreign currency borrowings designated as net investment hedges	<b>1,221</b>	(879)
Effective portion of changes in fair value of cash flow hedges	<b>(461)</b>	(442)
Net change in fair value of cash flow hedges transferred to income statement	<b>258</b>	82
	<b>21,392</b>	(6,601)

## 8. Foreign Currencies

The results and cash flows of the subsidiaries with euro functional currencies have been translated into sterling using the average exchange rate for the year. The balance sheets of subsidiaries with euro functional currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date.

The average sterling/euro rate of exchange for the year ended 31 December 2016 was Stg81.95 pence (Year ended 31 December 2015: Stg72.59). The sterling/euro exchange rate at 31 December 2016 was Stg85.62 pence (31 December 2015: Stg73.40 pence).

## 9. Income Tax

	2016	2015
	£'000	£'000
<b>(a) Income tax recognised in income statement</b>		
<b>Current tax expense</b>		
Irish corporation tax	89	1,060
UK and other corporation tax	16,212	20,017
	<b>16,301</b>	21,077
<b>Deferred tax expense</b>		
Irish deferred tax expense relating to the origination and reversal of temporary differences	1,902	1,240
Deferred tax credit resulting from change in tax rates	(820)	(881)
UK and other deferred tax expense relating to the origination and reversal of temporary differences	3,745	2,391
	<b>4,827</b>	2,750
<b>Total income tax expense in income statement</b>	<b>21,128</b>	23,827

### Taxation

The headline rate of corporation tax is 18.5 per cent. Excluding exceptional items the tax rate reduces to 17.4 per cent. This 17.4 per cent is lower than the underlying tax rate of 19 per cent as (i) a previously unrecognised deferred tax asset has been utilised against a UK taxable profit arising on the disposal of properties during the year ended 31 December 2016 and (ii) a credit has arisen from an historic capital allowance claim which has now been agreed with UK Revenue. This underlying tax rate reflects the cash tax payable and a non-cash charge due to the unwinding of deferred tax assets. The underlying tax rate of 19 per cent (2015: 21 per cent) reflects the mix of profits between the UK, Ireland, the Netherlands and Belgium and the disallowance of a tax deduction for certain overheads charged in arriving at profit including depreciation on buildings. The UK corporation tax rate reduced from 21 per cent to 20 per cent from April 2015 and is due to drop further to 19 per cent in April 2017 and to 17 per cent in April 2020.

Taxation paid in 2016 of £16.3 million (2015: £19.3 million) reflected the availability of tax allowances and various reliefs carried forward from prior years.

The amount shown for current taxation includes a liability for tax uncertainties and is based on the Directors' best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

## 9. Income Tax (continued)

	2016	2015
	£'000	£'000
<b>(b) Reconciliation of effective tax rate</b>		
Profit before tax	<b>114,247</b>	120,329
Profit before tax multiplied by the standard rate of tax of 12.5% (2015: 12.5%)	<b>14,281</b>	15,041
Effects of:		
Expenses not deductible for tax purposes	<b>5,670</b>	2,140
Differences in effective tax rates on overseas earnings	<b>5,353</b>	7,787
Effect of change in tax rates	<b>(820)</b>	(881)
Benefit of prior year items not recognised for deferred tax	<b>(2,917)</b>	(2,582)
Other differences	<b>(439)</b>	2,322
<b>Total income tax expense in income statement</b>	<b>21,128</b>	23,827
	<b>2016</b>	2015
	£'000	£'000
<b>(c) Deferred tax recognised directly in equity/other comprehensive income</b>		
Actuarial movement on pension schemes	<b>(2,102)</b>	1,992
Employee share schemes	<b>349</b>	(674)
Financing - cash flow hedge	<b>(26)</b>	(42)
	<b>(1,779)</b>	1,276

At 31 December 2016 the Group recognised deferred tax assets on tax losses of £6.2 million (2015: £8.2 million). The tax losses arose in the Irish and Belgian tax jurisdictions and their utilisation is dependent on future profits. The Directors have concluded that a forecast period of up to four years is the appropriate timescale over which to consider whether it is more likely than not that the Irish and Belgian sub-groups will earn sufficient future profits to utilise losses carried forward.

Deferred income tax liabilities have not been recognised for any taxes that would be payable on the unremitted earnings of certain subsidiaries as it is probable that any temporary differences will not reverse in the foreseeable future.

## 10. Dividends

	2016	2015
	£'000	£'000
<b>Group</b>		
Interim dividend of 8.0p per Grafton Unit - paid 15 April 2016	<b>18,825</b>	-
Interim dividend of 4.75p per Grafton Unit - paid 7 October 2016	<b>11,223</b>	-
Interim dividend of 7.0p per Grafton Unit - paid 17 April 2015	-	16,282
Interim dividend of 4.5p per Grafton Unit - paid 9 October 2015	-	10,515
	<b>30,048</b>	26,797

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

## 10. Dividends (continued)

The Board has agreed to pay a second interim dividend of 9.0 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 17 March 2017 (the 'Record Date') and the cash consideration will be paid on 13 April 2017. A liability in respect of this second interim dividend has not been recognised at 31 December 2016, as there was no present obligation to pay the dividend at the year-end. The dividend payable on 13 April 2017 of £21.3 million will be recognised in 2017.

## 11. Earnings per Share - Group

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

	2016 £'000	2015 £'000
<b>Numerator for basic, adjusted and diluted earnings per share:</b>		
Profit after tax for the financial year	93,119	96,502
Non-controlling interest	228	677
<b>Numerator for basic and diluted earnings per share</b>	<b>93,347</b>	<b>97,179</b>
Exceptional items (Note 4)	19,713	-
Tax relating to exceptional items	(2,231)	-
Amortisation of intangible assets arising on acquisitions	2,198	465
Tax relating to amortisation of intangible assets arising on acquisitions	(564)	(93)
Non-recurring defined benefit pension credit (Note 4)	-	(2,945)
Tax relating to non-recurring defined benefit pension credit	-	530
Non-recurring costs incurred in Belgium business (Note 4)	-	1,520
Tax relating to non-recurring costs incurred in Belgium business	-	(532)
<b>Numerator for adjusted earnings per share</b>	<b>112,463</b>	<b>96,124</b>
<b>Denominator for basic and adjusted earnings per share:</b>		
	<b>Number of Grafton Units</b>	<b>Number of Grafton Units</b>
Weighted average number of Grafton Units in issue	235,942,078	233,477,908
Dilutive effect of options and awards	726,245	1,824,338
<b>Denominator for diluted earnings per share</b>	<b>236,668,323</b>	<b>235,302,246</b>
<b>Earnings per share (pence)</b>		
- Basic	39.56	41.62
- Diluted	39.44	41.30
<b>Adjusted earnings per share (pence)</b>		
- Basic	47.67	41.17
- Diluted	47.52	40.85

The weighted average potential employee share entitlements over 593,675 Grafton Units (2015: 1,845,500) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

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



## 12. Goodwill

	2016 £'000	2015 £'000
<b>Cost</b>		
At 1 January	521,521	480,157
Arising on acquisitions (Note 28)	5,380	53,254
Measurement period adjustment	(500)	-
Disposal of Group businesses	(549)	(641)
Translation adjustment	40,385	(11,249)
<b>At 31 December</b>	<b>566,237</b>	<b>521,521</b>

### Goodwill Acquired

Goodwill acquired during the year in the amount of £5.4 million (2015: £53.3 million) was allocated to the merchanting segment. Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group. Intangible assets which formed part of the acquisition consideration are detailed in Note 15.

### Measurement Period Adjustment

A measurement period adjustment on finalisation of the IFRS 3 Business Combination accounting for the Parkes Services Limited acquisition, completed in 2015, resulted in a reduction in goodwill of £0.5m.

### Goodwill Disposed

The branch closures in the traditional UK merchanting business in 2016 resulted in a write off of goodwill amounting to £0.5 million. In June 2015, the Group disposed of a non-core scaffolding business in Northern Ireland and a non-core readymix business in Belgium. Goodwill on these disposals amounted to £0.6 million.

### Goodwill Impaired

There were no impairments during the year (2015: £Nil). Total accumulated impairment losses at 31 December 2016 amounted to £Nil (2015: £Nil).

### Cash Generating Units

Goodwill arising as part of a business combination is allocated to groups of cash generating units ('CGUs') for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. During the year, the Merchanting segment was split into four individual CGUs to reflect the structure of the Group following the Group's expansion into new European markets and due to revisions to management reporting and the existence of Group purchasing synergies. The CGUs represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, Operating Segments. The Board has determined, for the purposes of IFRS 8, Operating Segments, that three reportable segments exist, Merchanting, Retailing and Manufacturing. A total of seven CGUs (2015: three) have been identified and these are analysed between the three reportable segments as follows:

	Cash-generating units		Goodwill	
	2016 Number	2015 Number	2016 £'000	2015 £'000
Merchanting	4	1	564,073	519,357
Retailing	1	1	-	-
Manufacturing	2	1	2,164	2,164
	<b>7</b>	<b>3</b>	<b>566,237</b>	<b>521,521</b>

## 12. Goodwill (continued)

### Impairment Testing

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. The recoverable amount of each cash generating unit is determined based on value-in-use calculations. The carrying value of each cash generating unit was compared to its estimated value-in-use. There were no impairments during the year (2015: £Nil).

### Value-in-use Calculations

The value-in-use is calculated on the basis of estimated future cash flows discounted to present value. Estimated future cash flows were determined by reference to the budget for 2017 and management forecasts for each of the following years from 2018 to 2021 inclusive. The terminal value was calculated using a long-term growth rate in respect of the years after 2021. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for each of the businesses within the CGUs. The assumptions used are also referenced against external industry data.

The key assumptions used in the value-in-use calculations are the revenue growth rate, gross margin, the discount rate and the long term growth rate. The pre-tax discount rates used were based on the Group's estimated weighted average cost of capital, adjusted to reflect risks associated with each CGU. The discount rates range from 8.6 per cent to 10.9 per cent (2015: 8.9 per cent to 11.2 per cent). In determining the terminal value of the value-in-use, it was assumed that cash flows after the first five years will increase at a long term growth rate of 2 per cent (2015: 3 per cent). The rate assumed was based on an assessment of the likely long term growth prospects of the individual CGUs.

### Significant Goodwill Amounts

Only the UK merchanting and Irish merchanting CGUs have significant amounts of goodwill. A summary of the allocated goodwill and the assumptions relating to the recoverable amounts of these CGUs is shown below:

	UK Merchanting 2016	Irish Merchanting 2016
Goodwill (£'000)	<b>363,967</b>	<b>155,648</b>
Recoverable amount basis	<b>Value-in-use</b>	<b>Value-in-use</b>
Revenue growth rate average	<b>2.4%</b>	<b>8.1%</b>
Gross margin growth average	<b>13 bps</b>	<b>14 bps</b>
Long term growth rate	<b>2.0%</b>	<b>2.0%</b>
Discount rate (pre-tax)	<b>8.9%</b>	<b>8.6%</b>

The remaining goodwill balance of £46.6 million is allocated across three CGUs and the goodwill amounts of these CGUs are not significant either individually or in aggregate. As noted above, the merchanting CGU has been split into four separate CGUs in 2016. There are no prior comparative amounts in respect of the UK merchanting and the Irish merchanting CGUs. The total merchanting CGU was allocated £521.5m of goodwill in 2015.

### Sensitivity Analysis

The value-in-use calculations are sensitive to changes in the key assumptions of the revenue growth rate, gross margin, the discount rate and the long term growth rate. While management believes that the value-in-use assumptions are prudent, sensitivity analysis was performed based on reasonable changes in each of the four key assumptions in the significant CGUs. No reasonably possible change in any of the key assumptions would cause the carrying amount to exceed the recoverable amount in significant CGUs.

Of the CGUs which are not significant, the value-in-use of the Belgium merchanting CGU is the most sensitive to changes in key assumptions. However, the underlying assumptions used in compiling the cash flow forecasts for Belgium are deemed by management to be prudent. In addition, should the recoverable amount of the Belgium Merchanting CGU reduce in the future to the extent that the recoverable amount would be lower than its carrying amount, any impairment charge is not likely to be significant.

## 13. Property, Plant and Equipment, Properties Held for Sale and Investment Properties

### 13. (a) Property, Plant and Equipment

	Freehold land and buildings £'000	Leasehold improvements / buildings £'000	Plant machinery and motor vehicles £'000	Total £'000
<b>Cost</b>				
<b>At 1 January 2015</b>	312,774	81,366	296,491	690,631
Additions	998	6,090	34,504	41,592
Acquisitions	4,649	630	3,208	8,487
Disposals	(1,701)	(155)	(19,620)	(21,476)
Disposal of Group businesses	-	-	(3,439)	(3,439)
Reclassifications	130	(1,002)	872	-
Reclassification to properties held for sale	(1,772)	-	-	(1,772)
Exchange adjustment	(8,273)	(1,596)	(6,996)	(16,865)
<b>At 1 January 2016</b>	<b>306,805</b>	<b>85,333</b>	<b>305,020</b>	<b>697,158</b>
Additions	854	10,610	38,637	50,101
Acquisitions (Note 28)	4,404	-	1,396	5,800
Disposals	(800)	(335)	(14,848)	(15,983)
Reclassifications	(1,085)	1,085	-	-
Reclassification to properties held for sale	(2,179)	-	-	(2,179)
Reclassification to investment properties	(1,152)	-	-	(1,152)
Exchange adjustment	16,956	5,593	20,957	43,506
<b>At 31 December 2016</b>	<b>323,803</b>	<b>102,286</b>	<b>351,162</b>	<b>777,251</b>
<b>Depreciation and impairment</b>				
<b>At 1 January 2015</b>	33,208	36,499	197,513	267,220
Charge for year	3,999	3,232	24,980	32,211
Disposals	(234)	(16)	(18,385)	(18,635)
Disposal of Group businesses	-	-	(2,721)	(2,721)
Reclassifications	417	(714)	297	-
Reclassification to properties held for sale	(716)	-	-	(716)
Exchange adjustment	(3,191)	(853)	(6,273)	(10,317)
<b>At 1 January 2016</b>	<b>33,483</b>	<b>38,148</b>	<b>195,411</b>	<b>267,042</b>
Charge for year	3,453	3,835	27,641	34,929
Disposals	(771)	(82)	(13,105)	(13,958)
Reclassification to properties held for sale	(478)	-	-	(478)
Reclassification to investment properties	(535)	-	-	(535)
Impairment*	1,091	264	1,967	3,322
Exchange adjustment	3,340	3,449	18,480	25,269
<b>At 31 December 2016</b>	<b>39,583</b>	<b>45,614</b>	<b>230,394</b>	<b>315,591</b>
<b>Net book amount</b>				
<b>At 31 December 2016</b>	<b>284,220</b>	<b>56,672</b>	<b>120,768</b>	<b>461,660</b>
At 31 December 2015	273,322	47,185	109,609	430,116

\* The impairment charge in 2016 arose as a result of the branch closures in the traditional UK merchanting business.

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

#### 13. (a) Property, Plant and Equipment (continued)

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at fair value or cost. The valuations which were made on an open market for existing use basis were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom, the Netherlands and Belgium, are included at cost less depreciation.

Property, plant and equipment included leased assets as follows:

	Plant, machinery and motor vehicles		Leasehold properties	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cost	198	170	6,610	5,831
Accumulated depreciation	(198)	(152)	(3,544)	(2,898)
Net book amount	-	18	3,066	2,933
Depreciation charge for year	30	33	266	244

The Group repaid finance leases amounting to £0.4 million (2015: £0.6 million) and entered new leases during the year of £Nil (2015: £Nil).

#### 13. (b) Properties Held for Sale

	Carrying Amount £'000
<b>At 1 January 2015</b>	9,581
Transfers from property, plant and equipment	1,056
Transfers from investment properties	1,858
Disposals	(1,569)
Translation adjustment	(121)
<b>At 31 December 2015</b>	<b>10,805</b>
Transfers from property, plant and equipment	1,701
Transfers to investment properties	(930)
Impairment during the year	(314)
Disposals	(3,328)
Translation adjustment	473
<b>At 31 December 2016</b>	<b>8,407</b>

During the year ten UK properties held for sale were sold. Eight properties were transferred from property, plant and equipment. Two properties were transferred to investment properties. The total number of properties held for sale at 31 December 2016 is 22 (2015: 26), of which 19 (2015: 23) are located in the UK, two (2015: two) in Ireland and one (2015: one) in Belgium. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Six properties are included at a fair value of £4.5 million (2015: eight properties at £4.9 million). During the year a number of properties were impaired resulting in a total impairment charge of £0.3 million.

Properties held for sale are not used in the course of business and are available for immediate sale in their present condition subject to terms that are usual and customary for properties of this nature. The individual properties were being actively marketed at the year end and the Group is committed to its plan to sell these properties.

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

### 13. (c) Investment Properties

	Fair Value £'000
<b>At 1 January 2015</b>	20,473
Transfers from properties held for sale	(1,858)
Translation adjustment	(818)
<b>At 31 December 2015</b>	<b>17,797</b>
Transfers from properties held for sale	<b>930</b>
Transfers from property, plant & equipment	<b>617</b>
Fair value gain	<b>302</b>
Translation adjustment	<b>2,103</b>
<b>At 31 December 2016</b>	<b>21,749</b>

Following completion of a review of its estate in 2016, one Irish investment property was revalued which gave rise to a fair value gain of £0.3 million. Two properties in the UK were transferred to investment property from properties held for sale and one Irish property was transferred to investment property from property, plant & equipment. The total number of investment properties at 31 December 2016 is 22 (2015: 19) of which six (2015: four) are located in the UK and 16 (2015: 15) are located in Ireland. These properties are being held pending a recovery in the property market or with a view to enhancing their development potential by securing alternative use planning.

Investment properties of £21.7 million, which are separately classified in non-current assets, are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions that were recently completed or on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields and consultations with external agents who have knowledge of local property markets.

### 13. (d) Fair Value Hierarchy – Properties Held for Sale Carried at Fair Value and Investment Properties

As noted in the Group's accounting policies on page 95, properties held for sale are held at the lower of carrying amount and fair value less costs to sell. Investment properties are carried at fair value. Fair value is defined as the price that would be received if the asset was sold in an orderly transaction between market participants based on the asset's highest and best use. Valuations are reviewed each year by the Directors with movements in fair value recognised in the income statement.

The Group reviewed its property portfolio during the year. Properties held for sale comprise land and buildings in a number of locations across the UK, Ireland and Belgium. Investment properties, comprising land and buildings located in the UK and Ireland, are held for capital appreciation and or rental income and are not occupied for trading purposes by the Group. This also includes parts of properties which are sublet to third parties. Properties held for sale comprise properties that are held at a cost of £3.9 million (2015: £5.9 million) and properties held at a fair value of £4.5 million (2015: £4.9 million). Investment properties are held at a fair value of £21.7 million (2015: £17.8 million).

In general, valuations have been undertaken having regard to comparable market transactions between informed market participants. Due to very limited transactions for properties of a similar nature in the UK and Ireland, the valuations of a number of properties were determined internally with reference to local knowledge, valuation techniques and the exercise of judgement following consultation with property advisers with recent experience of the location and nature of the properties being valued.

The property valuations are derived from data which is not publicly available and involves a degree of judgement. For these reasons, the valuations of the Group's property portfolio is classified as level 3 as defined by IFRS 13.

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

The following is a summary of valuation methods used in relation to the Group's held for sale and investment properties which are carried at fair value:

### At 31 December 2016

	Comparable market transactions £'000	Offers from third parties £'000	Total 2016 £'000
<b>Properties Held for Sale</b>			
Merchanting segment	3,707	745	4,452
	Comparable market transactions £'000	Other methods £'000	Total 2016 £'000
<b>Investment Properties</b>			
Merchanting segment	17,665	-	17,665
Manufacturing segment	2,890	1,194	4,084
<b>Total</b>	<b>20,555</b>	<b>1,194</b>	<b>21,749</b>

### At 31 December 2015

	Comparable market transactions £'000	Offers from third parties £'000	Total 2015 £'000
<b>Properties Held for Sale</b>			
Merchanting segment	3,681	1,245	4,926
	Comparable market transactions £'000	Other methods £'000	Total 2015 £'000
<b>Investment Properties</b>			
Merchanting segment	14,323	-	14,323
Manufacturing segment	2,451	1,023	3,474
<b>Total</b>	<b>16,774</b>	<b>1,023</b>	<b>17,797</b>

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

The following table shows a reconciliation from the opening balance to the closing 2016 balance for level 3 fair values:

	Properties held for sale 2016 £'000	Investment properties 2016 £'000
Balance at beginning of year	10,805	17,797
Transfers from property, plant and equipment	1,701	617
Transfers to investment properties	(930)	930
Disposals	(3,328)	-
Impairment	(314)	-
Fair value gain	-	302
Foreign exchange movement	473	2,103
<b>Balance at end of year</b>	<b>8,407</b>	<b>21,749</b>
Recorded at fair value	4,452	21,749
Recorded at cost	3,955	-
Total	8,407	21,749

During 2016, one Irish investment property was revalued with a fair value gain of £0.3 million. During 2016 five UK held for sale properties were impaired giving rise to an impairment charge of £0.3 million.

The following table shows a reconciliation from the opening balance to the closing 2015 balance for level 3 fair values:

	Properties held for sale 2015 £'000	Investment properties 2015 £'000
Balance at beginning of year	9,581	20,473
Transfers from property, plant and equipment	1,056	-
Transfers from investment properties	1,858	-
Transfers to properties held for sale	-	(1,858)
Disposals	(1,569)	-
Foreign exchange movement	(121)	(818)
<b>Balance at end of year</b>	<b>10,805</b>	<b>17,797</b>
Recorded at fair value	4,926	17,797
Recorded at cost	5,879	-
Total	10,805	17,797

During 2015 five Irish investment properties were revalued with a net fair value gain of £Nil. There was no impairment charge or revaluation gain recognised during 2015 in relation to held for sale properties.

#### Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring the fair value of properties held for sale and investment properties and the significant unobservable inputs used. Where market transactions are present, the comparable market transaction method is used for land and buildings held for sale or capital appreciation.

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

Properties Held for Sale		
Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><b>Comparable market transactions - price per square metre:</b> The value is based on comparable market transactions after discussion with independent agents and/or with reference to other information sources.</p>	<p><b>UK - Regional (excluding major cities)</b></p> <ul style="list-style-type: none"> <li>• Comparable warehouse market prices of £130 - £411 per square metre.</li> <li>• Comparable industrial development land prices of £200,000 - £1,000,000 per acre.</li> </ul>	<p><b>The estimated fair value would increase/ (decrease) if:</b></p> <ul style="list-style-type: none"> <li>• Comparable market prices per square metre were higher/(lower).</li> </ul>
<p><b>Offers from third parties:</b> This valuation is used for properties that have formal offer documentation received by the Group from third parties intending to purchase with a reasonable possibility of a sale being concluded.</p>	<p><b>Ireland – Urban</b></p> <ul style="list-style-type: none"> <li>• Conditional offer price for single redevelopment site £2.514m per acre.</li> </ul> <p><b>Ireland – Regional</b></p> <ul style="list-style-type: none"> <li>• Conditional offer price for single redevelopment site £1.243m per acre.</li> </ul> <p><b>UK - Regional (excluding major cities)</b></p> <ul style="list-style-type: none"> <li>• Two offers for warehouse property of £456 per square metre.</li> <li>• One offer for office space of £910 per square metre.</li> </ul> <p><b>UK - Urban (major cities)</b></p> <ul style="list-style-type: none"> <li>• Two warehouse properties under offer for £359 and £527 per square metre</li> </ul>	<p><b>The estimated fair value would increase/ (decrease) if:</b></p> <ul style="list-style-type: none"> <li>• Final offer price increased/(decreased).</li> </ul>



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

Investment Properties		
Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><b>Comparable market transactions - price per square metre:</b></p> <p>The value is based on comparable market transactions after discussion with independent registered property appraisers and/or with reference to other information sources.</p>	<p><b>Ireland - Urban</b></p> <ul style="list-style-type: none"> <li>• Comparable minimum office market prices of £461 per square metre.</li> <li>• Comparable minimum warehouse market prices of £223 per square metre.</li> <li>• Comparable agricultural land market prices of £12,843 per acre.</li> <li>• Comparable industrial or development land prices of £85,620 - £285,400 per acre.</li> </ul> <p><b>Ireland - Regional</b></p> <ul style="list-style-type: none"> <li>• Comparable warehouse market prices of £31 - £563 per square metre.</li> <li>• Comparable market prices of development land £42,810 - £428,100 per acre.</li> </ul> <p><b>UK - Regional (excluding major cities)</b></p> <ul style="list-style-type: none"> <li>• Comparable warehouse market price of £228 - £350 per square metre.</li> <li>• Comparable market prices for development sites of between £150,000 and £1,500,000 per acre.</li> </ul>	<p><b>The estimated fair value would increase/ (decrease) if:</b></p> <ul style="list-style-type: none"> <li>• Comparable market prices per square metre were higher/(lower).</li> </ul>

### 14. Other Financial Assets

	Other Investments £'000
<b>At 1 January 2015</b>	123
Translation adjustment	(1)
<b>At 31 December 2015</b>	122
Translation adjustment	3
<b>At 31 December 2016</b>	<b>125</b>

Other investments represent sundry equity investments at cost less provision for impairment.

## 15. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
<b>Cost</b>				
<b>At 1 January 2015</b>	5,881	-	-	5,881
Additions	9,988	-	-	9,988
Acquisitions	-	2,274	15,002	17,276
Translation adjustment	-	69	466	535
<b>At 1 January 2016</b>	<b>15,869</b>	<b>2,343</b>	<b>15,468</b>	<b>33,680</b>
Additions	<b>10,343</b>	-	-	<b>10,343</b>
Acquisitions (Note 28)	-	<b>225</b>	<b>2,590</b>	<b>2,815</b>
Translation adjustment	<b>13</b>	<b>255</b>	<b>1,719</b>	<b>1,987</b>
<b>At 31 December 2016</b>	<b>26,225</b>	<b>2,823</b>	<b>19,777</b>	<b>48,825</b>
<b>Amortisation</b>				
<b>At 1 January 2015</b>	124	-	-	124
Charge for the year	446	66	399	911
Translation adjustment	-	-	5	5
<b>At 1 January 2016</b>	<b>570</b>	<b>66</b>	<b>404</b>	<b>1,040</b>
Charge for the year	<b>923</b>	<b>274</b>	<b>1,924</b>	<b>3,121</b>
Translation adjustment	<b>(3)</b>	<b>12</b>	<b>71</b>	<b>80</b>
<b>At 31 December 2016</b>	<b>1,490</b>	<b>352</b>	<b>2,399</b>	<b>4,241</b>
<b>Net book amount</b>				
<b>At 31 December 2016</b>	<b>24,735</b>	<b>2,471</b>	<b>17,378</b>	<b>44,584</b>
At 31 December 2015	15,299	2,277	15,064	32,640

Computer software of £24.7 million at 31 December 2016 (2015: £15.3 million) reflects the cost of the Group's investment to upgrade 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.

Customer relationships and trade names arise from business combinations (Note 28) and are amortised over their estimated useful lives. The average remaining amortisation period is 9 years (2015: 10 years).

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

## 16. Inventories

	2016 £'000	2015 £'000
Raw materials	1,117	1,165
Finished goods	1,307	1,351
Goods purchased for resale	290,257	273,713
	<b>292,681</b>	276,229

The inventory provision at 31 December 2016 was £31.7 million (31 December 2015: £20.7 million). Certain inventory items which were previously classified as finished goods have been reclassified to goods purchased for resale in the current year. The reclassification related to a refinement of what is defined as finished goods and goods purchased for resale.

During the year, £2.1 million of inventory was written down as a result of the branch closures in the traditional UK merchanting business.

## 17. Trade and Other Receivables

	2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>		
Trade receivables	282,551	244,798
Other receivables	115,138	110,954
	<b>397,689</b>	355,752

The carrying amount of trade and other receivables represents the maximum credit exposure. Other receivables primarily includes prepayments and rebates receivable.

The maximum exposure to credit risk for trade debtors and other receivables at the reporting date by geographic region was as follows:

	Carrying Amount	
	2016 £'000	2015 £'000
United Kingdom	302,459	276,908
Ireland	66,072	52,546
Netherlands	15,529	12,641
Belgium	13,629	13,657
	<b>397,689</b>	355,752

Credit risk is well diversified over a broad customer base with only a small number of accounts with balances in excess of £100,000 that collectively account for a small proportion of total trade receivables.

# Notes to the Group Financial Statements

(continued)

## 17. Trade and Other Receivables (continued)

The ageing of trade and other receivables at 31 December was:

	Gross Value 2016 £'000	Impairment 2016 £'000	Carrying Amount 2016 £'000	Gross Value 2015 £'000	Impairment 2015 £'000	Carrying Amount 2015 £'000
<b>Not Past Due</b>	<b>280,715</b>	-	<b>280,715</b>	291,855	-	291,855
<b>Past Due</b>						
0-30 days	<b>89,592</b>	(734)	<b>88,858</b>	43,915	(1,168)	42,747
30-60 days	<b>17,991</b>	(2,117)	<b>15,874</b>	24,209	(4,129)	20,080
+60 days	<b>18,373</b>	(6,131)	<b>12,242</b>	3,716	(2,646)	1,070
	<b>125,956</b>	(8,982)	<b>116,974</b>	71,840	(7,943)	63,897
	<b>406,671</b>	(8,982)	<b>397,689</b>	363,695	(7,943)	355,752

### Movement in Impairment Provision

	2016 £'000	2015 £'000
At 1 January	<b>7,943</b>	9,355
Written-off during year*	<b>(4,189)</b>	(1,951)
Additional provision	<b>4,688</b>	792
Translation adjustment	<b>540</b>	(253)
At 31 December	<b>8,982</b>	7,943

\*Includes an amount of £0.1 million in 2016 (2015: £Nil) written off as a result of the branch closures in the traditional UK merchanting business.

## 18. Share Capital and Share Premium

Group and Company	2016 £'000	2015 £'000
<b>Authorised:</b>		
<b>Equity shares</b>		
300 million ordinary shares of 5c each	<b>15,000</b>	15,000
30 billion 'A' ordinary shares of 0.001c each	<b>300</b>	300
	<b>15,300</b>	15,300

## 18. Share Capital and Share Premium (continued)

### Year ended 31 December 2016

	Issue Price	Number of Shares	2016 Nominal Value £'000
<b>Issued and fully paid:</b>			
<b>Ordinary shares</b>			
<b>At 1 January</b>		<b>235,721,435</b>	<b>8,383</b>
Issued under UK SAYE scheme*		<b>193,060</b>	<b>8</b>
<b>2011 Long Term Incentive Plan</b>			
Date awards granted			
April 2013 LTIP	<b>Nil</b>	<b>881,392</b>	<b>36</b>
<b>At 31 December</b>		<b>236,795,887</b>	<b>8,427</b>
<b>'A' ordinary shares</b>			
<b>At 1 January</b>		<b>4,007,264,395</b>	<b>22</b>
'A' ordinary shares issued in year		<b>18,265,684</b>	<b>-</b>
<b>At 31 December</b>		<b>4,025,530,079</b>	<b>22</b>
<b>Total nominal share capital issued</b>			<b>8,449</b>

\* Refer to Note 33 which outlines the issue price of both the 2014 and 2012 SAYE Schemes.

### Year ended 31 December 2015

	Issue Price	Number of Shares	2015 Nominal Value £'000
<b>Issued and fully paid:</b>			
<b>Ordinary shares</b>			
<b>At 1 January</b>		<b>233,090,638</b>	<b>8,287</b>
Issued under UK SAYE scheme		<b>1,578,367</b>	<b>58</b>
<b>2011 Long Term Incentive Plan</b>			
Date awards granted			
April 2012 LTIP	<b>Nil</b>	<b>1,052,430</b>	<b>38</b>
<b>At 31 December</b>		<b>235,721,435</b>	<b>8,383</b>
<b>'A' ordinary shares</b>			
<b>At 1 January</b>		<b>3,962,540,846</b>	<b>22</b>
'A' ordinary shares issued in year		<b>44,723,549</b>	<b>-</b>
<b>At 31 December</b>		<b>4,007,264,395</b>	<b>22</b>
<b>Total nominal share capital issued</b>			<b>8,405</b>

## 18. Share Capital and Share Premium (continued)

### Share Premium

	2016	2015
Group	£'000	£'000
At 1 January	<b>209,810</b>	206,597
Premium on issue of shares under UK SAYE scheme	<b>461</b>	3,213
<b>At 31 December</b>	<b>210,271</b>	209,810

### Grafton Units Issued During 2016

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 1,074,452 (2015: 2,630,797) and the total consideration received amounted to £505,000 (2015: £3,309,000). Costs relating to the issues were £Nil (2015: £Nil).

### Grafton Units

At 31 December 2016 and 31 December 2015, a Grafton Unit comprised one ordinary share of Euro 5 cent and seventeen 'A' ordinary shares of Stg0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

### Ordinary Shares

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

#### 'A' Ordinary Shares

At 31 December 2016, there were seventeen 'A' Ordinary shares per Grafton Unit.

All 'A' ordinary shares purchased between 2004 to 2009 were cancelled.

The 'A' ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.001 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

#### 'C' Ordinary Shares (in Grafton Group (UK) plc)

The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared on 'C' ordinary shares, the holder of a Grafton Unit shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, pari passu with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share, with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

### Treasury Shares

The Group holds 500,000 (2015: 500,000) Grafton Units at a cost of £3,897,000 (2015: £3,897,000) as treasury shares.

## 19. Group Statement of Changes in Equity

The capital redemption reserve is a legal reserve which arose from the purchase of 'A' ordinary shares, the redemption of redeemable shares in prior years and the buy-back and cancellation of shares.

The revaluation reserve was created as a result of a revaluation of Irish properties in 1998.

The shares to be issued reserve comprises amounts expensed in the income statement in connection with share-based payments, net of transfers to retained earnings on the exercise of share entitlements and the lapsing of such entitlements.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The foreign currency translation reserve arises from the currency effect on translation of the investment in subsidiaries with euro functional currencies as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

### Non-Controlling Interests

The Group has a controlling interest in YouBuild NV (formerly BMC Groep NV), a Belgian builders merchanting business. This company is accounted for as a subsidiary undertaking with a non-controlling interest.

## 20. Interest-Bearing Loans and Borrowings

	2016 €'000	2015 €'000
<b>Non-current liabilities</b>		
Euro bank loans	<b>297,870</b>	269,540
Sterling bank loans	-	51,274
Finance leases	<b>2,556</b>	2,579
	<b>300,426</b>	323,393
<b>Current liabilities</b>		
Euro bank loans	<b>442</b>	788
Sterling bank loans	<b>203</b>	189
Finance leases	<b>406</b>	349
	<b>1,051</b>	1,326

The decrease in non-current interest bearing loans and borrowings largely reflects net borrowings repaid during the year which was partly offset by the foreign exchange movement on translation of the Group's euro bank loans into sterling at the year end.

## 20. Interest-Bearing Loans and Borrowings (continued)

### Maturity of Financial Liabilities

The maturity profile of the Group's interest bearing financial liabilities (bank debt, loan notes and finance leases) can be summarised as follows:

	Bank loans 2016 £'000	Finance leases 2016 £'000	Total 2016 £'000	Bank loans 2015 £'000	Finance leases 2015 £'000	Total 2015 £'000
Due within one year	645	406	1,051	977	349	1,326
Between one and two years	343	406	749	505	349	854
Between two and three years	136	406	542	221	349	570
Between three and four years	89	406	495	320,088	349	320,437
Between four and five years	297,302	406	297,708	-	349	349
After five years	-	932	932	-	1,183	1,183
	<b>298,515</b>	<b>2,962</b>	<b>301,477</b>	321,791	2,928	324,719
Derivatives			675			404
Gross Debt			302,152			325,123
Cash and short term deposits			(205,857)			(211,565)
Net debt			96,295			113,558
Shareholders' equity			1,062,067			985,670
Gearing			9%			12%

The following table indicates the effective interest rates at 31 December 2016 in respect of interest bearing financial assets and financial liabilities and the periods during which they re-price. The effective interest rate and timing of re-pricing were adjusted for the effect of derivatives.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Euro deposits	0.00%	8,239	8,239	-	-	-	-
Sterling deposits	0.25%	9,598	9,598	-	-	-	-
Cash at bank	0-0.2%	188,020	188,020	-	-	-	-
Cash and cash equivalents		205,857	205,857	-	-	-	-
<b>Floating rate debt:</b>							
Euro loans	0.84%	(238,378)	(238,378)	-	-	-	-
Sterling loans	2.00%	(203)	(203)	-	-	-	-
Total floating rate debt		(238,581)	(238,581)	-	-	-	-
<b>Fixed rate debt:</b>							
Euro loans	1.41%	(59,934)	(59,934)	-	-	-	-
Finance leases	6.00%	(2,962)	(203)	(203)	(406)	(1,218)	(932)
Total fixed rate debt		(62,896)	(60,137)	(203)	(406)	(1,218)	(932)
Derivatives		(675)	(675)	-	-	-	-
<b>Total Net Debt</b>		<b>(96,295)</b>	<b>(93,536)</b>	<b>(203)</b>	<b>(406)</b>	<b>(1,218)</b>	<b>(932)</b>



## 20. Interest-Bearing Loans and Borrowings (continued)

### Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2016 of £217.6 million (2015: £115.7 million) in respect of which all conditions precedent were met. In March 2016 the Group completed an amendment and extension of its loan facilities to improve terms and to extend the maturity date to March 2021 plus two one-year extension options exercisable at the discretion of the bank's and the Group. In addition, the Group also entered into a revolving loan facility for €75 million (£58 million) on similar terms with a new relationship bank. A one-year extension was agreed with five of the Group's six relationship banks in March 2017.

The following table indicates the effective interest rates at 31 December 2015 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were adjusted for the effect of derivatives.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Sterling deposits	0.40%	32,316	32,316	-	-	-	-
Euro deposits	0.00%	10,529	10,529	-	-	-	-
US dollar deposits	0.00%	1,251	1,251	-	-	-	-
Cash at bank	0-0.4%	167,469	167,469	-	-	-	-
Cash and cash equivalents		211,565	211,565	-	-	-	-
<b>Floating rate debt:</b>							
Euro loans	1.51%	(218,948)	(218,948)	-	-	-	-
Sterling loans	2.07%	(51,463)	(51,463)	-	-	-	-
Total floating rate debt		(270,411)	(270,411)	-	-	-	-
<b>Fixed rate debt:</b>							
Euro loans	1.77%	(51,380)	(51,380)	-	-	-	-
Finance leases	6.00%	(2,928)	(175)	(174)	(349)	(1,047)	(1,183)
Total fixed rate debt		(54,308)	(51,555)	(174)	(349)	(1,047)	(1,183)
Derivatives		(404)	(404)	-	-	-	-
<b>Total Net Debt</b>		<b>(113,558)</b>	<b>(110,805)</b>	<b>(174)</b>	<b>(349)</b>	<b>(1,047)</b>	<b>(1,183)</b>

## 21. Financial Instruments and Financial Risk

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

At 31 December 2016	Available for sale £'000	Cashflow hedge £'000	Fair value through profit and loss £'000	Loans and receivables £'000	Liabilities at amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	125	-	-	-	-	125	-
Trade and other receivables*	-	-	-	397,689	-	397,689	-
Cash and cash equivalents*	-	-	-	205,857	-	205,857	-
	125	-	-	603,546	-	603,671	-
Interest rate swaps	-	(675)	-	-	-	(675)	(675)
Euro bank loans	-	-	-	-	(298,312)	(298,312)	(298,312)
Sterling bank loans	-	-	-	-	(203)	(203)	(203)
Finance leases	-	-	-	-	(2,962)	(2,962)	(2,962)
Trade and other payables*	-	-	-	-	(523,700)	(523,700)	-
	-	(675)	-	-	(825,177)	(825,852)	(302,152)

## 21. Financial Instruments and Financial Risk (continued)

At 31 December 2015	Available for sale	Cashflow hedge	Fair value through profit and loss	Loans and receivables	Liabilities at amortised cost	Total carrying value	Fair value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other financial assets*	122	-	-	-	-	122	-
Trade and other receivables*	-	-	-	355,752	-	355,752	-
Cash and cash equivalents*	-	-	-	211,565	-	211,565	-
	122	-	-	567,317	-	567,439	-
Interest rate swaps	-	(404)	-	-	-	(404)	(404)
Euro bank loans	-	-	-	-	(270,328)	(270,328)	(270,328)
Sterling bank loans	-	-	-	-	(51,463)	(51,463)	(51,463)
Finance leases	-	-	-	-	(2,928)	(2,928)	(2,928)
Trade and other payables*	-	-	-	-	(465,914)	(465,914)	-
	-	(404)	-	-	(790,633)	(791,037)	(325,123)

\*The Group has not disclosed the fair values of financial instruments such as short term receivables and payables because their carrying value closely approximates fair value.

## Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of financial instruments carried at fair value, by valuation method. The different levels in the fair value hierarchy have been defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

- **Trade and other receivables/trade and other payables**

For receivables and payables with a remaining life of less than six months or demand balances, fair value is the amount that is payable contractually less an impairment provision where appropriate.

- **Cash and cash equivalents, including short-term bank deposits**

For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the carrying amount is a reasonable approximation of fair value.

- **Other financial assets**

Certain of the Group's financial assets are comprised of investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such investments are measured at cost less provision for impairment where appropriate and applicable.

- **Derivative instruments (Cross currency interest rate swaps and interest rate swaps)**

The fair values of cross currency interest rate swaps and 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.

## 21. Financial Instruments and Financial Risk (continued)

### Fair Value (continued)

#### • Interest bearing loans and borrowings

For floating rate interest bearing loans and borrowings with a contractual repricing date of less than six months, the nominal amount is deemed to reflect fair value. For loans with repricing dates of greater than six months, the fair value is calculated based on the present value of the expected future principal and interest cash flows discounted at interest rates effective at the balance sheet date and adjusted for credit spread.

#### • Finance lease liabilities

Fair value is based on the present value of future cash flows discounted at market rates and credit spread.

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

	2016 Total £'000	2016 Level 1 £'000	2016 Level 2 £'000	2016 Level 3 £'000
<b>Liabilities measured at fair value</b>				
<b>Designated as hedging instruments</b>				
Interest rate swaps	(675)	-	(675)	-

#### Liabilities not measured at fair value

##### Liabilities at amortised cost

Euro bank loans	(298,312)	-	(298,312)	-
Sterling bank loans	(203)	-	(203)	-
Finance leases	(2,962)	-	(2,962)	-
	<b>(301,477)</b>	<b>-</b>	<b>(301,477)</b>	<b>-</b>

	2015 Total £'000	2015 Level 1 £'000	2015 Level 2 £'000	2015 Level 3 £'000
<b>Liabilities measured at fair value</b>				
<b>Designated as hedging instruments</b>				
Interest rate swaps	(404)	-	(404)	-

#### Liabilities not measured at fair value

##### Liabilities at amortised cost

Euro bank loans	(270,328)	-	(270,328)	-
Sterling bank loans	(51,463)	-	(51,463)	-
Finance leases	(2,928)	-	(2,928)	-
	<b>(324,719)</b>	<b>-</b>	<b>(324,719)</b>	<b>-</b>

## 21. Financial Instruments and Financial Risk (continued)

### Fair Value (continued)

#### Level 2 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<b>Financial assets and liabilities measured at fair value</b>			
Interest rate swaps	The fair value of interest rate swaps is calculated as the present value of the estimated future cashflows based on observable yield curves	Not applicable	Not applicable
<b>Financial assets and liabilities not held at fair value</b>			
Other financial liabilities*	Discounted cash flows	Not applicable	Not applicable

\*Other financial liabilities include Euro bank loans, Sterling bank loans and finance leases.

### Risk Exposures and Group Treasury Policy

The Group's operations expose it to various financial risks that include credit risk, liquidity risk, currency risk and interest rate risk. The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost efficient way. A limited number of foreign exchange swaps, spot foreign currency contracts and interest rate swaps are undertaken periodically to hedge underlying interest rate, fair value and currency exposures and it is Board policy to manage these risks in a non-speculative manner.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

The manner in which the Group is exposed to each of these risks and the risk management policies applied are discussed below.

The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Board and the Audit and Risk Committee have reviewed the process for identifying, evaluating and managing the significant risks affecting the business.

### Credit Risk

Credit risk arises from credit granted to customers. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Exposure to credit risk is monitored on an ongoing basis. The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by Business Unit credit control teams. Credit insurance is in place to cover major exposures in the UK merchanting business. Credit evaluations are performed regularly. New customers are subject to initial credit checks that include trade and bank references and are generally subject to restricted credit limits prior to developing a credit history. Due to the established nature of the businesses a high proportion of customers have long-standing trading relationships with Group companies. These established customers are reviewed regularly for financial strength and the appropriateness of their credit limit.

## 21. Financial Instruments and Financial Risk (continued)

The Group establishes a provision for impairment that represents its estimate of losses in respect of trade and other receivables. The main components of this provision are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and short term bank deposits are invested with a range of banks, all with original maturities of less than 3 months at 31 December 2016.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The maximum exposure to credit risk at 31 December 2016 and 31 December 2015 was:

	2016 £'000	2015 £'000
Trade and other receivables	397,689	355,752
Cash and cash equivalents	205,857	211,565
	<b>603,546</b>	567,317

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in Note 17.

The maximum exposure to credit risk for cash and cash equivalents, based on the domicile of the parent bank, at the reporting date was:

	Carrying Amount	
	2016 £'000	2015 £'000
United Kingdom banks	168,428	171,089
Domestic banks	34,900	35,878
Netherlands banks	1,005	3,123
Belgian banks	1,524	1,475
	<b>205,857</b>	211,565

The cash on deposit is primarily held with Bank of Ireland, HSBC, Ulster Bank, Barclays, ABN AMRO and Lloyds Bank. All of the Group's cash is held with financial institutions which have an investment grade credit rating.

	2016 £'000	2015 £'000
Gross amounts of cash and cash equivalents	245,742	263,181
Amounts set off in the balance sheet *	(39,885)	(51,616)
<b>Net amounts of cash and cash equivalents in the balance sheet</b>	<b>205,857</b>	211,565

\*The Group has netting arrangements in place with Bank of Ireland, HSBC and Lloyds Bank with cash balances and overdrawn positions being netted as a legal right of set-off exists with each bank.

## 21. Financial Instruments and Financial Risk (continued)

### Foreign Currency Risk Management

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Group operations manage foreign exchange trading risks against the functional currency. The majority of trade conducted by the Group's Irish, Belgian and Dutch businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A portion of the Group's net worth is denominated in euro reflecting profit after tax reserves retained in euro denominated trading and finance companies which gives rise to translation differences on conversion to sterling.

Borrowings made in a non-functional currency are swapped into a functional currency.

### Sensitivity Analysis

A ten per cent strengthening of the sterling exchange rate against the euro exchange rate at the balance sheet date would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each euro functional currency entity and interest rates, remained constant. A ten per cent weakening of the sterling exchange rate against the euro exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity £'000	Profit after tax £'000
<b>31 December 2016</b>		
<b>10% strengthening of sterling currency against the euro</b>	<b>(19,045)</b>	<b>(1,851)</b>
31 December 2015		
10% strengthening of sterling currency against the euro	(11,370)	(650)

### Hedging

The Group has exposure to changes in interest rates on certain debt instruments and has hedged an element of this risk by entering into interest rate swaps. The nominal value of contracts outstanding is £59,934,000 (2015: £51,380,000) and the period hedged is from December 2014 to May 2019 (2015: December 2014 to May 2019).

The Group classified interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2016 was a liability of £0.7 million (31 December 2015: a liability of £0.4 million). A net charge of £203,000 (31 December 2015: £360,000) was recorded in the cash flow hedge reserve in other comprehensive income and a balance of £Nil (31 December 2015: £Nil), being the ineffective portion of the hedge, was taken to the Group Income Statement (Note 7).

Up until June 2015 the Group had exposure to fair value risk and US dollar fluctuations through its fixed rate US dollar Private Placement loan notes. The Group's policy is to hedge this exposure to currency and fair value movements. This was initially achieved by entering into a number of cross currency interest rate swaps that swapped the debt into floating rate sterling.

The Group originally designated its cross currency interest rate swaps (CCIRS) as both a hedge of its fair value exposure to interest rate fair value and currency risk associated with its fixed rate firm commitment in its US\$ Senior Notes and a hedge of the Group's exposure to foreign currency risk arising on its net investment hedge in operations in the UK. Certain CCIRS fell out of hedge accounting at 30 June 2011 as noted below. The Group's US loan notes have now been fully repaid with the final repayment made in June 2015. The related CCIRS also expired at the same time. The fair value of these swaps at 31 December 2016 was £Nil (31 December 2015: £Nil).

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## 21. Financial Instruments and Financial Risk (continued)

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### Hedging (continued)

Movements in fair value have been recognised in the income statement as set out in Note 7.

Effectiveness testing performed on the Group's hedging relationships at 31 December 2011 revealed that two of the Group's cross currency interest rate swaps were ineffective. As a result, hedge accounting ceased with effect from 30 June 2011, the last reporting date on which the hedges were proven to be effective.

The effect of ceasing to hedge account in respect of these two cross currency interest rate swaps is that all fair value movements on the two swaps from 30 June 2011 were reflected in the income statement while the associated US dollar loans are now accounted for at spot rate on the balance sheet with the impact of the movement in the spot rate taken to the income statement. The cumulative fair value adjustment recognised on the loans at 30 June 2011 is amortised to the income statement over the remaining term of the borrowings. The net income statement impact in the current year, being the difference between the amounts recorded and the amounts that would have been recorded had the hedge remained effective, was a charge of £Nil (2015: £0.5 million) to finance income and expense.

### Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

### Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 50 basis points in interest rates at the reporting date would have increased profit before tax and equity by £1.5 million (2015: £1.6 million) on the basis of the Group's gross debt of £302.2 million. An increase of 50 basis points, on the same basis, would have an equal and opposite effect.

### Capital Management

The capital structure of the Group comprises share capital, reserves and net debt.

The overall approach is to optimise shareholder value by leveraging the balance sheet to an appropriate level having regard to economic and trading conditions in the Group's markets, the level of internal cash generation, credit conditions generally and interest rates payable.

The Group's capital structure is kept under ongoing review and the debt component is actively managed with a view to maintaining diversified sources of funding, significant undrawn facilities and cash deposits.

The Directors monitor the Company's share price and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

The principal bank covenants are a net debt to equity ratio limit of 85 per cent, EBITDA interest cover of 4 times and a minimum shareholders' equity of £0.7 billion at 31 December 2016.

At 31 December 2016 the net debt to equity ratio was 9 per cent and shareholders' equity was £1.1 billion. EBITDA for the year was £177.9 million and underlying EBITDA interest cover for 2016 was 37.9 times.

## 21. Financial Instruments and Financial Risk (continued)

### Funding and Liquidity

The Group has cash resources at its disposal through the holding at the year-end of deposits and cash balances of £205.9 million (31 December 2015: £211.6 million) which together with undrawn bank facilities of £217.6 million (2015: £115.7 million) and cash-flow from operations should provide flexibility in financing its operations.

The following are the undiscounted contractual maturities of financial liabilities, including interest payments.

31 December 2016	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
<b>Non-Derivative Financial Liabilities</b>						
Bank loans	298,515	313,986	3,504	3,194	307,288	-
Finance lease liabilities	2,962	10,496	673	673	2,019	7,131
Trade and other payables	523,700	523,700	523,700	-	-	-
<b>Derivative Financial Instruments</b>						
Interest rate swaps used for hedging	675	644	313	237	94	-
	<b>825,852</b>	<b>848,826</b>	<b>528,190</b>	<b>4,104</b>	<b>309,401</b>	<b>7,131</b>

\*Includes interest based on the rates in place at 31 December 2016.

31 December 2015	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
<b>Non-Derivative Financial Liabilities</b>						
Bank loans	321,791	342,170	6,272	5,787	330,111	-
Finance lease liabilities	2,928	10,230	649	649	1,946	6,986
Trade and other payables	465,914	465,914	465,914	-	-	-
<b>Derivative Financial Instruments</b>						
Interest rate swaps used for hedging	404	395	185	158	52	-
	<b>791,037</b>	<b>818,709</b>	<b>473,020</b>	<b>6,594</b>	<b>332,109</b>	<b>6,986</b>

\*Includes interest based on the rates in place at 31 December 2015.



## 21. Financial Instruments and Financial Risk (continued)

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur.

31 December 2016	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
<b>Interest rate swaps</b>	<b>(675)</b>	<b>(644)</b>	<b>(160)</b>	<b>(153)</b>	<b>(237)</b>	<b>(94)</b>	-	-
31 December 2015	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Interest rate swaps	(404)	(395)	(90)	(95)	(158)	(68)	16	-

## 22. Derivatives

	2016 £'000	2015 £'000
<b>Included in non-current liabilities:</b>		
Fair value of interest rate swaps	<b>(675)</b>	(404)

The increase in derivatives (non-current) at 31 December 2016 is due to movements in the fair values of the interest rate swaps.

### Nature of derivative instruments as at 31 December 2016

Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000	
<b>Interest Rate Swap</b>	<b>Dec 2014 to May 2019</b>	<b>floating interest rate to fixed interest rate</b>	<b>€70,000,000</b>	<b>€70,000,000</b>	-	<b>(675)</b>

### Nature of derivative instruments as at 31 December 2015

Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000	
Interest Rate Swap	Dec 2014 to May 2019	floating interest rate to fixed interest rate	€70,000,000	€70,000,000	-	(404)

# Notes to the Group Financial Statements

(continued)

## 23. Provisions

	2016 £'000	2015 £'000
<b>Non-current liabilities</b>		
Insurance provision	9,110	7,658
Onerous lease provision	9,144	5,867
Dilapidations provision	4,131	4,350
	<b>22,385</b>	<b>17,875</b>
<b>Current liabilities</b>		
Insurance provision	3,951	4,284
Onerous lease provision	3,519	2,113
Dilapidations provision	3,415	-
Other provisions	1,458	1,190
	<b>12,343</b>	<b>7,587</b>

Provisions	Insurance		Onerous Leases		Dilapidations	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>At 1 January</b>	<b>11,942</b>	11,513	<b>7,980</b>	9,381	<b>4,350</b>	4,454
Charge in year	4,496	5,682	5,007	598	3,225	307
Utilised / released	(2,805)	(1,863)	(1,599)	(2,034)	(219)	(349)
Paid during the year	(2,525)	(2,733)	-	-	-	-
Acquisitions	-	-	-	523	-	-
Foreign exchange	1,953	(657)	1,275	(488)	190	(62)
<b>At 31 December</b>	<b>13,061</b>	11,942	<b>12,663</b>	7,980	<b>7,546</b>	4,350
<b>Non-current</b>	<b>9,110</b>	7,658	<b>9,144</b>	5,867	<b>4,131</b>	4,350
<b>Current</b>	<b>3,951</b>	4,284	<b>3,519</b>	2,113	<b>3,415</b>	-

Provisions	Restructuring		Other Provisions		Total	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>At 1 January</b>	-	-	<b>1,190</b>	2,039	<b>25,462</b>	27,387
Charge in year	4,180	-	1,244	-	18,152	6,587
Utilised / released	(4,180)	-	(1,022)	(117)	(9,825)	(4,363)
Paid during the year	-	-	-	(1,039)	(2,525)	(3,772)
Acquisitions	-	-	-	400	-	923
Foreign exchange	-	-	46	(93)	3,464	(1,300)
<b>At 31 December</b>	-	-	<b>1,458</b>	1,190	<b>34,728</b>	25,462
<b>Non-current</b>	-	-	-	-	<b>22,385</b>	17,875
<b>Current</b>	-	-	<b>1,458</b>	1,190	<b>12,343</b>	7,587

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## 23. Provisions (continued)

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### Insurance Provision

The insurance provision relates to actual obligations under the self-insurance elements of the Group's overall insurance arrangements which are subject to limits in respect of individual claims. This provision was based on an independent actuarial valuation. The provision principally covers the combined public and employer liability claims for the Group's businesses. The Group has third party insurance cover above specific limits for individual claims and has an overall maximum aggregate payable for all claims for any one year. Given the nature of employer and public liability claims, the timing of cash outflows can vary significantly. The outflow arising from the payment of claims in the next year is expected to be at a similar level to the previous year. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2016 will be paid over a two to six year period.

The incurred but not reported (IBNR) element of the insurance provision is classified as non-current as the normal cycle for settlement of such claims is likely to be more than 12 months from the year end.

Claims no longer being challenged by the Group are classified as current liabilities at year end. The Group no longer has an unconditional right to defer payment and it is only the timing of the payment that is uncertain.

On-going claims in legal process are classified as non-current liabilities at year end as the Group still has an unconditional right to defer settlement since it can not generally determine the extent and duration of the legal process unless the Group expects to settle claims within 12 months.

### Onerous Lease Provision

The onerous lease provision covers the expected cost to the Group of onerous property leases based on the present value of the unavoidable costs of meeting obligations under lease contracts where the unavoidable costs exceed the economic benefits expected to be received under the contract. The timing of cash outflows is over the remaining life of the relevant lease. Changes in trading patterns from year to year may impact forecast cashflows and alter the amount and timing of outflows.

Expected reimbursements in the form of sub-lease rental income are taken into account in respect of certain properties which can be sublet.

The increased charge in 2016 primarily relates to the exceptional items recognised during the year (Note 4).

### Dilapidations Provision

The dilapidations provision covers the cost of reinstating certain Group properties at the end of the lease term. This is based on the terms of the individual leases which set out the conditions relating to the return of property. The timing of the outflows will match the ending of the relevant leases which ranges from 2 to 20 years. The increased charge in 2016 primarily relates to the branch closures in the traditional UK merchanting business.

### Restructuring Provision

The restructuring provision recognised in 2016 primarily relates to the branch closures in the traditional UK merchanting business and includes severance payments.

### Other Provisions

Included in other provisions are pension settlement contributions, legal provisions, deferred consideration and WEEE provisions. None of these are individually material to require separate disclosure in the financial statements.

## 24. Trade and Other Payables

	2016 £'000	2015 £'000
Trade payables	409,020	367,772
Accruals	78,610	68,088
Social welfare	3,936	3,901
Employee income tax	6,079	4,656
Value added tax	26,055	21,497
	<b>523,700</b>	465,914

## 25. Obligations under Finance Leases

	2016			2015		
	Minimum lease payments £'000	Interest £'000	Principal £'000	Minimum lease payments £'000	Interest £'000	Principal £'000
<b>Leasehold Property</b>						
Committed finance lease obligations:						
Within one year	673	267	406	649	300	349
Between one and five years	2,692	1,068	1,624	2,595	1,199	1,396
Later than five years	7,131	6,199	932	6,986	5,803	1,183
	<b>10,496</b>	<b>7,534</b>	<b>2,962</b>	10,230	7,302	2,928

Under the terms of the leases, no contingent rents are payable.

## 26. Deferred Taxation

	Assets 2016 £'000	Liabilities 2016 £'000	Net (assets)/ liabilities 2016 £'000	Assets 2015 £'000	Liabilities 2015 £'000	Net (assets)/ liabilities 2015 £'000
	<b>Recognised deferred tax assets and liabilities</b>					
Property, plant and equipment	(3,175)	31,244	28,069	(4,903)	27,052	22,149
Employee share schemes	(528)	-	(528)	(1,192)	-	(1,192)
Financing	(85)	-	(85)	(50)	-	(50)
Other items	(1,000)	827	(173)	(1,011)	1,676	665
Intangibles	-	4,358	4,358	-	3,942	3,942
Tax value of losses carried forward	(6,231)	-	(6,231)	(8,150)	-	(8,150)
Pension	(4,699)	-	(4,699)	(2,599)	-	(2,599)
<b>(Assets)/liabilities</b>	<b>(15,718)</b>	<b>36,429</b>	<b>20,711</b>	(17,905)	32,670	14,765

The decrease in the deferred tax asset reflects the utilisation of tax allowances and reliefs for which deferred tax assets were previously recognised, the movement on deferred tax assets in respect of employee share schemes and an increase in the deferred tax asset on the pension schemes deficit.

At 31 December 2016, there were unrecognised deferred tax assets in relation to capital losses of £1.2 million (31 December 2015: £1.6 million), trading losses of £3.2 million (31 December 2015: £0.9 million) and deductible temporary differences of £2.6 million (31 December 2015: £3.8 million). Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future with reasonable certainty. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

## 26. Deferred Taxation (continued)

	Balance 1 Jan 16	Recognised in profit or loss	Recognised in other comprehensive income	Foreign exchange retranslation	Arising on acquisitions	Balance 31 Dec 16
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Analysis of Net Deferred Tax (asset)/liability</b>						
Property, plant and equipment	22,149	2,334	-	2,823	763	28,069
Employee share schemes	(1,192)	315	349	-	-	(528)
Financing	(50)	-	(26)	(9)	-	(85)
Other items	665	(628)	-	(210)	-	(173)
Intangibles	3,942	(564)	-	473	507	4,358
Tax value of losses carried forward	(8,150)	3,139	-	(1,220)	-	(6,231)
Pension	(2,599)	231	(2,102)	(229)	-	(4,699)
	<b>14,765</b>	<b>4,827</b>	<b>(1,779)</b>	<b>1,628</b>	<b>1,270</b>	<b>20,711</b>

	Balance 1 Jan 15	Recognised in profit or loss	Recognised in other comprehensive income	Foreign exchange retranslation	Arising on acquisitions	Balance 31 Dec 15
	£'000	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	22,970	76	-	(1,029)	132	22,149
Employee share schemes	(2,317)	1,799	(674)	-	-	(1,192)
Financing	(6)	-	(42)	(2)	-	(50)
Other items	926	97	-	(8)	(350)	665
Intangibles	-	(94)	-	134	3,902	3,942
Tax value of losses carried forward	(8,922)	255	-	517	-	(8,150)
Pension	(5,345)	617	1,992	137	-	(2,599)
	<b>7,306</b>	<b>2,750</b>	<b>1,276</b>	<b>(251)</b>	<b>3,684</b>	<b>14,765</b>

## 27. Movement in Working Capital

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
<b>At 1 January 2015</b>	249,906	302,871	(425,696)	127,081
Translation adjustment	(3,399)	(3,165)	7,291	727
Interest accruals and other movements	-	387	(437)	(50)
Acquisitions	16,742	24,986	(16,247)	25,481
Disposal of Group businesses	(240)	(2,287)	1,527	(1,000)
Movement in 2015	13,220	32,960	(32,352)	13,828
<b>At 1 January 2016</b>	<b>276,229</b>	<b>355,752</b>	<b>(465,914)</b>	<b>166,067</b>
Translation adjustment	13,980	13,084	(21,923)	5,141
Disposal of Group businesses	(560)	(1,433)	1,040	(953)
Acquisitions (Note 28)	872	1,853	(3,300)	(575)
Movement in 2016	2,160	28,433	(33,603)	(3,010)
<b>At 31 December 2016</b>	<b>292,681</b>	<b>397,689</b>	<b>(523,700)</b>	<b>166,670</b>

## 28. Acquisition of Subsidiary Undertakings and Businesses

On 5 January 2016, the Group completed the acquisition of the entire share capital (100%) of T Brewer & Co. Limited ("T Brewer"), a London based specialist timber business that trades from 3 branches in Clapham, Enfield and Amersham. The Group also acquired 100 per cent of the share capital of Allsands Supplies Limited ("Allsands") on 1 February 2016. Allsands is a single branch general builders Merchanting business located in Larkfield, Kent. Both acquisitions were in the merchanting segment and were strategic in nature to grow the merchanting business in the UK. Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies that should be realised as part of the enlarged Group. Neither of these acquisitions are material and thus do not require individual disclosure.

Acquisitions would have contributed revenue of £19.4 million and operating profit of £1.2 million in the year ended 31 December 2016 on the assumption that they had been acquired on 1 January.

Acquisitions completed in 2016 contributed revenues of £19.0 million and operating profit of £1.5 million for the period from the date of acquisition until the year end. In 2016, the Group incurred acquisition costs of £0.7m (2015: £1.3m). These have been included in operating costs in the Group Income Statement.

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

	<b>Total £'000</b>
Property, plant and equipment (Note 13)	<b>5,800</b>
Intangible assets - customer relationships (Note 15)	<b>2,590</b>
Intangible assets - trade names (Note 15)	<b>225</b>
Inventories (Note 27)	<b>872</b>
Trade and other receivables (Note 27)	<b>1,853</b>
Trade and other payables (Note 27)	<b>(3,300)</b>
Corporation tax	<b>(291)</b>
Deferred tax liability (Note 26)	<b>(1,270)</b>
Cash acquired	<b>2,586</b>
Net assets acquired	<b>9,065</b>
Goodwill (Note 12)	<b>5,380</b>
<b>Consideration</b>	<b>14,445</b>
Satisfied by:	
Cash paid	<b>14,445</b>
<b>Net cash outflow - arising on acquisitions</b>	
Cash consideration	<b>14,445</b>
Less: cash and cash equivalents acquired	<b>(2,586)</b>
	<b>11,859</b>

## 28. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of identifiable net assets acquired in 2016 was £9.1 million.

	Fair Value £'000	Consideration £'000	Goodwill £'000
Total acquisitions	<b>9,065</b>	<b>14,445</b>	<b>5,380</b>

Any adjustments to these provisional fair values within the twelve month timeframe from the date of acquisition will be disclosed in the 2017 Annual Report as stipulated by IFRS3 Business Combinations.

A measurement period adjustment on finalisation of the IFRS 3 Business Combination accounting for the Parkes Services Limited acquisition, completed in 2015, resulted in a reduction in goodwill of £0.5m. In addition, a measurement period adjustment on finalisation of the IFRS 3 Business Combination accounting for the Wollens Limited acquisition, also completed in 2015, was recorded during the year. This resulted in an additional payment of £0.7m.

## 29. Reconciliation of Net Cash Flow to Movement in Net Debt

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

# Notes to the Group Financial Statements

(continued)

## 30. Capital Expenditure Commitments

At the year end the following commitments authorised by the Board had not been provided for in the financial statements:

	2016 £'000	2015 £'000
Contracted for	5,773	4,098
Not contracted for	67,505	55,085
	<b>73,278</b>	59,183

Capital expenditure commitments are analysed by geography in the table below:

	2016 £'000	2015 £'000
UK	67,678	56,302
Ireland	2,873	1,125
Netherlands	421	-
Belgium	2,306	1,756
	<b>73,278</b>	59,183

Amounts relating to intangibles included above	<b>3,025</b>	7,199
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## 31. Operating Leases

Total commitments payable under non-cancellable operating leases are as follows:

	Land and buildings 2016 £'000	Other 2016 £'000	Total 2016 £'000	Land and buildings 2015 £'000	Other 2015 £'000	Total 2015 £'000
<b>Operating lease payments due:</b>						
Within one year	56,042	5,940	61,982	52,109	4,318	56,427
Between two and five years	208,219	10,136	218,355	199,529	7,375	206,904
Over five years	368,875	-	368,875	521,662	1,296	522,958
	<b>633,136</b>	<b>16,076</b>	<b>649,212</b>	773,300	12,989	786,289

The Group leases a number of properties under operating leases. The leases typically run for a period of 15 to 25 years. Rents are generally reviewed every five years.

During the year ended 31 December 2016 £59.6 million (2015: £54.3 million) was recognised as an expense in the income statement in respect of operating leases.



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## 32. Pension Commitments

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A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

### IAS 19 – Employee Benefits

The Group operates four defined benefit schemes in Ireland, two defined benefit schemes in the UK, one scheme in the Netherlands and three schemes in Belgium for qualifying employees (the “DB Schemes”). All schemes except one are closed to new entrants. The DB Schemes are administered by trusts that are legally separated from the Group. The trustees of the DB Schemes are required by law to act in the interest of the members of the DB Schemes. The trustees of the DB Schemes are responsible for the investment policy of the schemes.

Under the DB Schemes, the employees are entitled to receive an annual payment on attainment of normal retirement age which in Ireland, is in line with the State pension age (i.e. age 66, 67 or 68 depending on year of birth) and in the UK is age 65 for the majority of benefits. The level of benefit payable depends on length of service. It also depends, in the case of Ireland, on a member’s final pensionable salary near retirement (excluding salary increases up to and including 1st January 2019) and in the case of the UK, on a member’s 2013 pensionable salary. Salary for pension purposes is integrated with the State Pension. The DB Schemes provide post retirement pension increases in the UK only and spouse’s death in retirement pensions in both Ireland and the UK. No other post-retirement benefits are provided to employees.

### Defined Benefit Pension Schemes – Principal Risks

Through its defined benefit pension schemes the Group is exposed to a number of risks the most significant of which are detailed below:

**Asset volatility:** Under IFRS the assets of the Group’s defined benefit pension schemes are reported at fair value. The majority of the schemes’ assets comprise of equities, bonds and property all of which may fluctuate significantly from one reporting period to the next.

**Discount rates:** the discount rates used in calculating the present value of scheme liabilities are determined by reference to market yields at the balance sheet date of high quality corporate bonds consistent with the currency and term of the retirement benefit obligations. Changes to the discount rates can have a very significant impact on the amount of defined benefit scheme liabilities.

**Salary and price inflation:** Some of the Group’s pension obligations are salary and inflation linked. Higher salary and price inflation will lead to higher liabilities. In 2013 the Group agreed new arrangements on pensionable salary increases which reduced this risk as noted in the financial assumptions. The exposure to inflation risk relates to the granting of inflation linked pension increases in the UK and also to revaluation of deferred benefits in both the UK and Ireland.

**Longevity risk:** In the majority of cases the Group’s defined benefit pension schemes provide benefits for life. Increases in life expectancy will therefore give rise to higher liabilities.

The nature of these risks is not materially different across all schemes with the exception of salary and price inflation risks which differ between the UK and Ireland.

## 32. Pension Commitments (continued)

### Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

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

\*2.50% applies from 2 January 2019 (31 December 2015: 2.60% from 2 January 2019).

\*\* Pensionable salaries are not adjusted for inflation.

\*\*\*The inflation assumption shown for the UK is based on the Consumer Price Index (CPI).

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2016 and 2015 year end IAS 19 disclosures are as follows:

2016 Mortality (years)		Ireland	UK	2015 Mortality (years)		Ireland	UK
<b>Future Pensioner aged 65:</b>	<b>Male</b>	<b>22.4</b>	<b>22.5</b>	Future Pensioner aged 65:	Male	22.3	22.6
	<b>Female</b>	<b>24.7</b>	<b>24.8</b>		Female	24.6	24.9
<b>Current Pensioner aged 65:</b>	<b>Male</b>	<b>21.1</b>	<b>21.7</b>	Current Pensioner aged 65:	Male	20.9	21.8
	<b>Female</b>	<b>23.6</b>	<b>23.8</b>		Female	23.5	24.0

### Scheme Assets

The assets in these schemes are analysed below:

	%	2016 €'000	%	2015 €'000
UK equities	23	50,271	24	45,093
Overseas (non- UK) equities	42	92,264	46	86,214
Government bonds	10	23,258	10	17,788
Corporate bonds	4	9,595	7	13,730
Property	4	10,129	6	11,919
Other	14	30,471	3	4,672
Cash	3	5,978	4	7,391
	<b>100</b>	<b>221,966</b>	100	186,807
Actuarial value of liabilities		<b>(253,251)</b>		(203,430)
<b>Deficit in the schemes</b>		<b>(31,285)</b>		(16,623)
Represented by:				
Retirement benefit assets		796		744
Retirement benefit obligations		<b>(32,081)</b>		(17,367)
		<b>(31,285)</b>		(16,623)

Some of the investment funds in which the schemes invest, held shares in Grafton Group plc. The total amount held in Grafton Group plc shares was £Nil at 31 December 2016 (31 December 2015: £34,000).

## 32. Pension Commitments (continued)

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

In 2015, the net pension scheme deficit of £16,623,000 is shown in the Group balance sheet as (i) retirement benefit obligations (non-current liabilities) of £17,367,000 of which £10,125,000 relates to the Euro schemes and £7,242,000 relates to one UK scheme and (ii) retirement benefit assets (non-current assets) of £744,000 relating to a second UK scheme (£528,000) and one Euro scheme (£216,000). Changes in the rates used to discount liabilities, in line with changes in corporate bond rates, decreased scheme liabilities by £12.0 million.

The actual return on plan assets is set out below:

	2016 £'000	2015 £'000
Actual return on plan assets	<b>22,535</b>	5,084

Plan assets are comprised as follows:

	Quoted £'000	Unquoted £'000	Total £'000
Equity - UK	<b>49,870</b>	<b>401</b>	<b>50,271</b>
Equity - Other	<b>91,877</b>	<b>387</b>	<b>92,264</b>
Bonds - Government	<b>23,100</b>	<b>158</b>	<b>23,258</b>
Bonds - Corporate	<b>9,029</b>	<b>566</b>	<b>9,595</b>
Property	<b>10,000</b>	<b>129</b>	<b>10,129</b>
Cash	<b>5,925</b>	<b>53</b>	<b>5,978</b>
Other	<b>28,965</b>	<b>1,506</b>	<b>30,471</b>
<b>Total</b>	<b>218,766</b>	<b>3,200</b>	<b>221,966</b>

### Sensitivity of Pension Liability to Judgemental /Assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.5%
Rate of salary growth	Increase by 0.25%	Increase by 0.7%
Rate of inflation*	Increase by 0.25%	Increase by 2.5%
Life expectancy	Increase by 1 year	Increase by 3.6%

\*Assumed that an increase of 0.25% in the inflation assumption would also give rise to an increase in the salary increase assumption of 0.25%.

The above sensitivity analysis is derived through changing an individual assumption while holding all other assumptions constant.

## 32. Pension Commitments (continued)

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

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

### Expense Recognised in Operating Costs

	2016	2015
	£'000	£'000
Past service credit (i) - non-recurring (Note 4)	-	(2,945)
Current service cost	<b>2,411</b>	2,488
Other long term benefit gain	<b>(148)</b>	-
Past service credit (ii)	-	(128)
<b>Total operating charge / (credit)</b>	<b>2,263</b>	(585)

(i) In 2015, the past service credit of £2,945,000 arose from the change in the basis for increasing pensions to CPI from RPI.

(ii) The past service credit of £128,000 in 2015 arose from the 0.15% pension levy imposed by the Irish Government on the Group's Irish plan assets.

## 32. Pension Commitments (continued)

### Recognised Directly in Other Comprehensive Income

	2016 £'000	2015 £'000
Remeasurement (loss)/gain on pensions	(13,810)	13,142
Deferred tax on pensions	2,102	(1,992)
	<b>(11,708)</b>	11,150

The expense/(credit) is recognised in the following lines in the income statement:

	2016 £'000	2015 £'000
Operating costs/(income)	2,263	(585)
Net finance costs on pension scheme obligations	510	897
Total operating charge	<b>2,773</b>	312

### Actuarial Valuations – Funding Requirements

Employees pay contributions equal to a percentage of pensionable salary. The percentage payable varies by scheme. Triennial actuarial valuations are carried out to determine the Group's contribution rate required under the schemes.

In Ireland, the DB Schemes are also assessed annually against the Funding Standard (the statutory minimum funding requirement). As most of the DB Schemes did not satisfy the Funding Standard, funding proposals are in place to address any Funding Standard deficits. The funding proposals are agreed between the Group and the trustees of the relevant schemes and are designed to restore the Funding Standard positions by 2023.

In the UK, the DB Schemes are subject to the Statutory Funding Objective under the Pensions Act 2004. Valuations of the DB Schemes are carried out at least once every three years to determine whether or not the Statutory Funding Objectives are met. As part of the process, the Group must agree with the Trustees of the DB Schemes the contributions to be paid to address any shortfalls against the Statutory Funding Objectives and contributions to pay for future accrual of benefits.

No explicit external contracts have been entered into to provide liability matching such as longevity swaps or annuity purchase. Following a recent strategy review the scheme's investments are being more closely aligned to the liabilities by term and nature in order to minimise volatility and target full funding on the local statutory funding measures.

The contributions expected to be paid to the Group's defined benefit schemes in 2017 total approximately £4.3 million.

### Average duration and scheme composition

	Ireland		UK	
	2016	2015	2016	2015
Average duration of defined benefit obligation (years)	<b>19.00</b>	18.00	<b>18.90</b>	18.90

### Allocation of total defined benefit obligation by participant

	2016	2015
Active plan participants	<b>36%</b>	36%
Deferred plan participants	<b>29%</b>	25%
Retirees	<b>35%</b>	39%
	<b>100%</b>	100%

## 33. Share Based Payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 Share Based Payments. The total share based payments expense for the year charged to the income statement was £3,232,000 (2015: £4,461,000), analysed as follows;

	2016 £'000	2015 £'000
LTIP	<b>3,046</b>	3,934
UK SAYE Scheme	<b>186</b>	527
	<b>3,232</b>	4,461

Details of the schemes operated by the Group are set out below:

### Long Term Incentive Plan (LTIP)

A Long Term Incentive Plan (LTIP) was introduced in 2011. Details of the plan are set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 54 to 70. Awards over 837,007 Grafton Units were granted under the plan on 14 April 2016 (2015: 707,588).

A summary of the award granted on 14 April 2016 is set out below:

	Grafton Group LTIP 2016 14 April 2016	Grafton Group LTIP 2015 17 April 2015
Grant date		
Share price at date of award	<b>£7.25</b>	£8.10
Exercise price	<b>N/A</b>	N/A
Number of employees	<b>215</b>	207
Number of share awards	<b>837,007</b>	707,588
Vesting period	<b>3 years</b>	3 years
Expected volatility	<b>23.7%</b>	29.0%
Award life	<b>3 years</b>	3 years
Expected life	<b>3 years</b>	3 years
Risk free rate	<b>0.45%</b>	0.71%
Expected dividends expressed as dividend yield	<b>1.75%</b>	1.47%
Valuation model - EPS	<b>Binomial model</b>	Binomial model
Valuation model - TSR	<b>Black Scholes / Monte-Carlo</b>	Black Scholes / Monte-Carlo
Fair value of share award - EPS component	<b>£6.88</b>	£7.75
Fair value of share award - TSR component	<b>£3.94</b>	£4.75

The expected volatility, referred to above, is based on historic volatility over the last 3 years. The expected life is equal to the vesting period. The risk free rate of return is the yield on bonds from the Bank of England of a term consistent with the life of the award at the grant date. The fair values of share awards granted under the 2011 plan were determined taking account of peer group total share return volatility together with the above assumptions.

### 33. Share Based Payments (continued)

A reconciliation of all share awards granted under the LTIP is as follows:

	2016 Number	2015 Number
<b>Outstanding at 1 January</b>	<b>2,563,157</b>	3,035,869
Granted in year	<b>837,007</b>	707,588
Forfeited#	<b>(144,797)</b>	-
Expired unvested	<b>(30,677)</b>	(127,870)
Exercised	<b>(881,392)</b>	(1,052,430)
<b>Outstanding at 31 December</b>	<b>2,343,298</b>	2,563,157

#Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

At 31 December 2016 and 31 December 2015 none of the LTIPs were exercisable.

#### Share Schemes

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Company's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Company's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme had a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits complied with Institutional Guidelines.

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was Nil (2015: Nil). Entitlements outstanding at 31 December 2016 amounted to 2,440,001 (2015: 3,524,501). Grafton Units may be acquired, in accordance with the rules of the scheme, at prices ranging between €1.66 and €8.48 during the period to 2019.

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2016 Number	2016 Weighted average exercise price €	2015 Number	2015 Weighted average exercise price €
<b>Outstanding at 1 January</b>	<b>3,524,501</b>	<b>5.94</b>	5,082,501	6.50
Forfeited#	<b>(257,000)</b>	<b>3.86</b>	(579,000)	7.76
Expired*	<b>(827,500)</b>	<b>11.50</b>	(979,000)	8.11
<b>Outstanding at 31 December</b>	<b>2,440,001</b>	<b>4.27</b>	3,524,501	5.94

#Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

\*Performance conditions not met.

## 33. Share Based Payments (continued)

Share entitlements are exercisable within six months upon a change of control of the Company. The weighted average remaining life of the share entitlements is 1.6 years (2015: 2.2 years).

At 31 December 2016 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

### UK SAYE Scheme

Options over 593,675 (2015: 936,083) Grafton Units were outstanding at 31 December 2016, pursuant to the 2014 three year saving contracts under the Grafton Group (UK) plc Savings Related Share Option Scheme at a price of £5.97. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being April 2018 for the 2014 SAYE scheme.

The number of Grafton Units issued during the year under the Company's 2012 SAYE Scheme was 188,135 (2015: 1,577,781) and the total consideration received amounted to £439,000 (2015: £3,267,000). Options forfeited in the year were 21,973 (2015: 49,811).

The number of Grafton Units issued during the year under the Company's 2014 SAYE Scheme to good leavers was 4,925 (2015: 586) and the total consideration received amounted to £30,000 (2015: £4,000). Options forfeited in the year were 127,375 (2015: 79,369).

A reconciliation of options granted under the 2012 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	Number	2016 Option price €	Number	2015 Option price €
<b>Outstanding at 1 January</b>	<b>210,108</b>	<b>2.85</b>	1,837,700	2.85
Forfeited	(21,973)	2.85	(49,811)	2.85
Exercised	(188,135)	2.85	(1,577,781)	2.85
<b>Outstanding at 31 December</b>	-		210,108	

A reconciliation of options granted under the 2014 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	Number	2016 Option price £	Number	2015 Option price £
<b>Outstanding at 1 January</b>	<b>725,975</b>	<b>5.97</b>	805,930	5.97
Forfeited	(127,375)	5.97	(79,369)	5.97
Exercised	(4,925)	5.97	(586)	5.97
<b>Outstanding at 31 December</b>	<b>593,675</b>		725,975	

The weighted average share price for the period was £6.03.

At 31 December 2016 and 31 December 2015 none of the 2014 UK SAYE shares were exercisable. The 2012 SAYE scheme matured on 1 November 2015. The weighted average remaining life is 1.3 years.

## 34. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 91 to 99. Judgements and assumptions have been made by management by applying the Group's accounting policies in certain areas. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:



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## 34. Accounting Estimates and Judgements (continued)

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### Goodwill

The Group has capitalised goodwill of £566.2 million at 31 December 2016 (2015: £521.5 million) as detailed in Note 12. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value in use calculations to determine the recoverable amount of cash generating units containing goodwill. Value in use is calculated as the present value of future cash flows. In calculating value in use, management judgement is required in forecasting cash flows of the segments and in selecting an appropriate discount rate and the nominal growth rate in perpetuity. A measurement period adjustment of £0.5 million was recognised by the Group in 2016 (2015: £Nil). In addition, the branch closures in the traditional UK merchanting business in 2016 resulted in a write off of goodwill amounting to £0.5 million (2015: £Nil).

### Retirement Benefit Obligations

The Group operates a number of defined benefit retirement plans which are as set out in Note 32. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals £253.3 million at 31 December 2016 (2015: £203.4 million). Plan assets at 31 December 2016 amounted to £222.0 million (2015: £186.8 million) giving a net scheme deficit of £31.3 million (2015: £16.6 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases.

### Insurance Provisions

Insurance provisions of £13.1 million (2015: £11.9 million) shown in Note 23 were based on a review of self-insured claims undertaken by an independent firm of actuaries and consultants. Claims in excess of specified limits are covered by external insurers.

### Onerous Lease Provisions

Onerous lease provisions of £12.7 million (2015: £8.0 million) shown in Note 23 relate to the expected cost to the Group of onerous property leases and are based on the present value of unavoidable costs of meeting the obligations under lease contracts where the unavoidable costs exceed the economic benefits expected to be received under these contracts. Changes in trading patterns from year to year may impact forecast cashflows and alter the amount and timing of outflows.

### Taxation

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 will impact the income tax and deferred tax provisions and assets in the period in which the determination was made.

The amount shown for current taxation includes a liability for tax uncertainties and is based on the Directors' best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

### Investment Properties and Properties Held for Sale

The Group holds investment properties of £21.7 million (2015: £17.8 million) and properties held for sale of £8.4 million (2015: £10.8 million). Details on the fair value of the investment properties and a number of the properties held for sale is set out and explained in Note 13.

### Rebate Income

Rebates from suppliers represent a significant source of income for the Group each year. The nature of the arrangements in place means that a large proportion of the rebates due to the Group are not collected until after the year end. The calculation of rebate income in the year and the rebate receivable at year end is based on the agreements in place with suppliers. Rebate is accrued in the year as it is earned. Due to the supplier specific nature of each arrangement the calculations can be complex and requires management to make estimates in the absence of any supplier confirmations.

## 34. Accounting Estimates and Judgements (continued)

### Valuation of Inventory

Inventory comprises raw materials, finished goods and goods purchased for resale. Provisions are made against slow moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than cost. Determining the net realisable value of the wide range of products held in many locations requires judgement to be applied to determine the likely saleability of products and the potential prices that can be achieved. In arriving at any provisions for net realisable value, the Directors take into account the age, condition, quality of the products in stock and recent sales trends. The actual realisable value of inventory may differ from the estimated value on which the provision is based. The Group held provisions in respect of inventory balances at 31 December 2016 amounting to £31.7 million (2015: £20.7 million).

## 35. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, key management personnel and post-employment benefit plans.

### Subsidiaries

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IFRS 10, Consolidated Financial Statements.

### Key Management Personnel

The term key management personnel for 2016 is the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in Note 6 to the Group Financial Statements. The Report of the Remuneration Committee on Directors' Remuneration on pages 54 to 70 provides detailed disclosure for 2016 and 2015 of salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the 1999 Grafton Group Share Scheme and awards granted under the LTIP.

During the year, three Directors were appointed to the Board of Grafton Group plc.

### Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 32 to the Group Financial Statements.

## 36. Events after the Balance Sheet Date

On 5 January 2017, the Group completed the acquisition of 100 per cent of the issued share capital of Gunters en Meuser B.V. ("G&M"), the market leader in the distribution of ironmongery, tools and fixings in the Greater Amsterdam Area. The acquisition of G&M will strengthen and complement the market position of the Group's existing business in the Netherlands ironmongery, tools and fixings market. G&M trades from 14 branches. The estimated net consideration is €36.2 million (£31.0 million). Acquisition-related costs amounted to £0.3m. Due to the short time frame between completion date and the date of issuance of this report, it was not possible to reliably estimate the fair values of assets and liabilities or the goodwill amount associated with this acquisition.

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

## 37. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 85 to 152 on 15 March 2017.

# Company Balance Sheet

As at 31 December 2016

	Notes	2016 €'000	2015 €'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	3	130	105
Property, plant and equipment	3	578	774
Deferred tax asset	9	362	511
Investments in subsidiary undertakings	4	531,173	373,768
Financial assets	4	13	13
Receivables from Group companies	5	13,991	17,820
<b>Total non-current assets</b>		<b>546,247</b>	392,991
<b>Current assets</b>			
Receivables from Group companies	5	1,081,436	680,140
Other receivables	5	7,547	6,305
Cash and cash equivalents		5,372	8,351
<b>Total current assets</b>		<b>1,094,355</b>	694,796
<b>Total assets</b>		<b>1,640,602</b>	1,087,787
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Equity share capital	6	11,880	11,826
Share premium account	6	300,345	299,782
Capital redemption reserve		905	905
Shares to be issued reserve		10,617	10,964
Retained earnings		931,237	349,954
Treasury shares held		(5,746)	(5,746)
<b>Total equity</b>		<b>1,249,238</b>	667,685
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables to Group companies	8	384,589	408,956
Other payables	8	6,749	11,075
Deferred tax liabilities	9	26	71
Current income tax liabilities		-	-
<b>Total current liabilities</b>		<b>391,364</b>	420,102
<b>Total liabilities</b>		<b>391,364</b>	420,102
<b>Total equity and liabilities</b>		<b>1,640,602</b>	1,087,787

On behalf of the Board

**Gavin Slark**

Director

15 March 2017

**David Arnold**

Director

# Company Cash Flow Statement

For the year ended 31 December 2016

	Notes	2016 €'000	2015* €'000
<b>Profit before tax</b>		<b>577,099</b>	10,617
Finance income		(32)	(41)
Finance expense		214	165
<b>Operating profit</b>		<b>577,281</b>	10,741
Depreciation	3	205	196
Amortisation of intangible assets	3	28	-
Share-based payments charge		1,292	1,523
Contributions to pension schemes in excess of IAS 19 charge	13	-	(2)
Asset impairment	4	15,005	-
Movement of Group payables		(24,367)	68,197
Movement of Group receivables		(567,217)	(79,402)
(Decrease) in working capital	10	(5,568)	(1,011)
<b>Cash (used)/generated from operations</b>		<b>(3,341)</b>	242
Interest paid		(214)	(165)
Income taxes paid		(11)	(8)
<b>Cash (outflows)/inflows from operating activities</b>		<b>(3,566)</b>	69
<b>Investing activities</b>			
<b>Inflows</b>			
Interest received		32	41
<b>Outflows</b>			
Purchase of property, plant and equipment	3	(9)	(131)
Purchase of intangible assets	3	(53)	(105)
		(62)	(236)
<b>Cash flows from investing activities</b>		<b>(30)</b>	(195)
<b>Financing activities</b>			
<b>Inflows</b>			
Proceeds from the issue of share capital		617	4,554
<b>Cash flows from financing activities</b>		<b>617</b>	4,554
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,979)</b>	4,428
Cash and cash equivalents at 1 January		8,351	3,923
<b>Cash and cash equivalents at 31 December</b>		<b>5,372</b>	8,351
<b>Cash and cash equivalents are broken down as follows:</b>			
Cash at bank and short-term deposits		5,372	8,351

\* Prior year comparatives have been restated to conform to current year presentation.

## Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Retained earnings €'000	Treasury shares €'000	Total equity €'000
<b>Year to 31 December 2016</b>							
At 1 January 2016	11,826	299,782	905	10,964	349,954	(5,746)	667,685
Profit after tax for the financial year	-	-	-	-	576,985	-	576,985
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	576,985	-	576,985
<b>Transactions with owners of the Company recognised directly in equity</b>							
Issue of Grafton Units	54	563	-	-	-	-	617
Share based payments charge	-	-	-	3,951	-	-	3,951
Transfer from shares to be issued reserve	-	-	-	(4,298)	4,298	-	-
	54	563	-	(347)	4,298	-	4,568
<b>At 31 December 2016</b>	<b>11,880</b>	<b>300,345</b>	<b>905</b>	<b>10,617</b>	<b>931,237</b>	<b>(5,746)</b>	<b>1,249,238</b>
<b>Year to 31 December 2015</b>							
At 1 January 2015	11,694	295,360	905	9,846	334,514	(5,746)	646,573
Profit after tax for the financial year	-	-	-	-	10,414	-	10,414
<b>Total other comprehensive income</b>							
Remeasurement loss on pensions (net of tax)	-	-	-	-	(2)	-	(2)
<b>Total comprehensive income</b>	-	-	-	-	10,412	-	10,412
<b>Transactions with owners of the Company recognised directly in equity</b>							
Issue of Grafton Units	132	4,422	-	-	-	-	4,554
Share based payments charge	-	-	-	6,146	-	-	6,146
Transfer from shares to be issued reserve	-	-	-	(5,028)	5,028	-	-
	132	4,422	-	1,118	5,028	-	10,700
<b>At 31 December 2015</b>	<b>11,826</b>	<b>299,782</b>	<b>905</b>	<b>10,964</b>	<b>349,954</b>	<b>(5,746)</b>	<b>667,685</b>

# Notes to the Company Financial Statements

## 1. Income Statement

In accordance with Section 304(2) of the Companies Act 2014, the income statement and related notes of the parent undertaking have not been presented separately in these financial statements. There was a profit after tax of €577.0 million (2015: profit of €10.4 million) attributable to the parent undertaking for the financial year.

## 2. Statutory and Other Information

The following items have been charged to the company income statement:

	2016 €'000	2015 €'000
Statutory audit (refer to Note 3 of Group Financial Statements)	60	60
Depreciation	205	196
Intangible asset amortisation	28	-
Operating lease costs	114	114
Directors' remuneration	3,866	4,012

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 54 to 70.

The average number of persons employed by the Company during the year was 29 (2015: 25).

	2016 €'000	2015 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	5,099	5,160
Social welfare costs	313	288
Share-based payments charge	1,292	1,523
Defined contribution and pension related costs	439	521
<b>Charged to operating profit</b>	<b>7,143</b>	<b>7,492</b>
Net finance cost on pension scheme obligations	-	-
<b>Charged to income statement</b>	<b>7,143</b>	<b>7,492</b>
Actuarial loss on pension scheme	-	2
<b>Total employee benefit cost</b>	<b>7,143</b>	<b>7,494</b>

### Key Management

The cost of key management including Directors is set out in the table below:

	2016	2015
Number of Individuals	11	8
	2016 €'000	2015 €'000
Short-term employee benefits	3,148	3,193
Share-based payment charge	1,093	1,156
Retirement benefits expense	321	354
<b>Charged to operating profit</b>	<b>4,562</b>	<b>4,703</b>

### 3. Property, Plant and Equipment & Intangible Assets

Plant and Equipment & Intangible Assets in the Company are stated as follows:

	Plant and Equipment		Intangible Assets*	
	2016 €'000	2015 €'000	2016 €'000	2015 €'000
<b>Company</b>				
<b>Cost</b>				
At 1 January	3,010	2,879	105	-
Additions	9	131	53	105
<b>At 31 December</b>	<b>3,019</b>	<b>3,010</b>	<b>158</b>	<b>105</b>
<b>Depreciation</b>				
At 1 January	2,236	2,040	-	-
Charge for year	205	196	28	-
<b>At 31 December</b>	<b>2,441</b>	<b>2,236</b>	<b>28</b>	<b>-</b>
<b>Net book amount</b>				
<b>At 31 December</b>	<b>578</b>	<b>774</b>	<b>130</b>	<b>105</b>
At 1 January	774	839	105	-

\*The computer software additions of €0.1 million at 31 December 2016 (2015: €0.1 million) reflects the cost of the Company's investment on upgrading the IT systems and infrastructure.

### 4. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
<b>At 1 January 2015</b>	13	369,145	369,158
Capital contribution - share-based payments	-	4,623	4,623
<b>At 31 December 2015</b>	<b>13</b>	<b>373,768</b>	<b>373,781</b>
Capital contribution - share-based payments	-	2,660	2,660
Additions in the year *	-	169,750	169,750
Impairments during the year**	-	(15,005)	(15,005)
<b>At 31 December 2016</b>	<b>13</b>	<b>531,173</b>	<b>531,186</b>

\* During the year the company acquired shares in a number of subsidiary companies which were satisfied by the assignment of intercompany receivables.

\*\* The impairment charge during the year (2015: €Nil) largely relates to subsidiaries which were liquidated.

Other investments represent sundry equity investments at cost less provision for impairment.

# Notes to the Company Financial Statements

(continued)

## 5. Trade and Other Receivables

	2016 €'000	2015 €'000
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	1,081,436	680,140
Other receivables	7,547	6,305
	<b>1,088,983</b>	686,445
<b>Amounts falling due after one year:</b>		
Amounts owed by subsidiary undertakings	13,991	17,820

## 6. Share Capital and Share Premium

Details of equity share capital and share premium are set out below and in Note 18 to the Group Financial Statements.

	Issue Price	Number of Shares	2016 Nominal Value €'000	2015 Nominal Value €'000
<b>Issued and fully paid:</b>				
<b>Ordinary shares</b>				
<b>At 1 January</b>		235,721,435	11,787	11,655
Issued under UK SAYE scheme*		193,060	10	79
<b>2011 Long Term Incentive Plan</b>				
Date awards granted				
April 2013 LTIP	Nil	881,392	44	-
April 2012 LTIP	Nil	-	-	53
<b>At 31 December</b>		<b>236,795,887</b>	<b>11,841</b>	11,787
<b>'A' ordinary shares</b>				
<b>At 1 January</b>		4,007,264,395	39	39
'A' ordinary shares issued in year		18,265,684	-	-
<b>At 31 December</b>		<b>4,025,530,079</b>	<b>39</b>	39
<b>Total nominal share capital issued</b>			<b>11,880</b>	11,826

\* Refer to Note 33 to the Group Financial Statements which outlines the issue price of both the 2014 and 2012 SAYE Schemes.

### Share Premium

	2016 €'000	2015 €'000
<b>Company</b>		
<b>At 1 January</b>	299,782	295,360
Premium on issue of shares under UK SAYE scheme	563	4,422
<b>At 31 December</b>	<b>300,345</b>	299,782



## 7. Financial Instruments and Financial Risk

There is no difference between the fair value and carrying value of the financial assets and financial liabilities for the Company.

The maximum credit risk is represented by the carrying amount of the asset. The cash held at the year-end is primarily held with Bank of Ireland and HSBC.

The majority of foreign exchange exposure in the Company relates to inter-group balances and transactions.

There is no significant cashflow sensitivity for variable rate instruments in the Company.

	Carrying amount €'000	Contractual cash flow €'000	Within 1 Year €'000
31 December 2016			
<b>Non-Derivative Financial Liabilities</b>			
Payable to Group companies	384,589	384,589	384,589
	<b>384,589</b>	<b>384,589</b>	<b>384,589</b>

	Carrying amount €'000	Contractual cash flow €'000	Within 1 Year €'000
31 December 2015			
<b>Non-Derivative Financial Liabilities</b>			
Payable to Group companies	408,956	408,956	408,956
	408,956	408,956	408,956

## 8. Trade and Other Payables

	2016 €'000	2015 €'000
<b>Trade and other payables</b>		
Accruals	6,749	11,075
Amounts owed to subsidiary undertakings	384,589	408,956
	<b>391,338</b>	420,031

# Notes to the Company Financial Statements

(continued)

## 9. Deferred Taxation

Recognised deferred tax (assets) and liabilities	Assets		Liabilities		Net (assets)/ liabilities	
	2016	2016	2016	2015	2015	2015
	€'000	€'000	€'000	€'000	€'000	€'000
Other items	(362)	26	(336)	(511)	71	(440)

Other items	Balance	Recognised in	Recognised in other	Foreign	Arising on	Balance
	1 Jan 16	income	comprehensive	exchange	acquisitions	31 Dec 16
	€'000	€'000	income	retranslation	€'000	€'000
	(440)	104	-	-	-	(336)

Other items	Balance	Recognised in	Recognised in other	Foreign	Arising on	Balance
	1 Jan 15	income	comprehensive	exchange	acquisitions	31 Dec 15
	€'000	€'000	income	retranslation	€'000	€'000
	(639)	199	-	-	-	(440)

## 10. Movement in Working Capital

	Trade and other	Trade and other	Total
	receivables	payables	
	€'000	€'000	€'000
At 1 January 2015	4,660	(10,441)	(5,781)
Movement in 2015	1,645	(634)	1,011
At 1 January 2016	6,305	(11,075)	(4,770)
Movement in 2016	1,242	4,326	5,568
At 31 December 2016	7,547	(6,749)	798

## 11. Reconciliation of Net Cash Flow to Movement in Net Debt

	2016	2015
	€'000	€'000
Net (decrease)/increase in cash and cash equivalents	(2,979)	4,428
<b>Change in net debt resulting from cash flows</b>	<b>(2,979)</b>	<b>4,428</b>
Net cash at 1 January	8,351	3,923
<b>Net cash at 31 December</b>	<b>5,372</b>	<b>8,351</b>

## 12. Operating Leases

Total commitments payable under non-cancellable operating leases are as follows:

	Land and Buildings 2016 €'000	Land and Buildings 2015 €'000
Operating lease payments due:		
Within one year	114	114
Between two and five years	217	331
Over five years	-	-
	<b>331</b>	<b>445</b>

## 13. Pension Commitments

A defined benefit scheme and defined contribution pension schemes are operated by the Company and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

### IAS 19 – Employee Benefits

An actuarial valuation was updated to 31 December 2016 by a qualified independent actuary.

### Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 31 Dec 2016 Company scheme	At 31 Dec 2015 Company scheme
Valuation Method	<b>Projected Unit</b>	Projected Unit
Rate of increase of pensions in payment	-	-
Discount rate	<b>1.80%</b>	2.35%
Inflation rate increase	<b>1.30%</b>	1.40%

The Company's obligations to the scheme at the end of 2016 and 2015 were limited to providing a pension to an executive who retired in 2009 on a fixed pension.

## 13. Pension Commitments (continued)

	Assets		Year ended 31 December		Net asset/(deficit)	
	2016	2015	2016	2015	2016	2015
	€'000	€'000	€'000	€'000	€'000	€'000
<b>At 1 January</b>	<b>1,306</b>	1,382	<b>(1,306)</b>	(1,382)	-	-
Interest income on plan assets	<b>30</b>	28	-	-	<b>30</b>	28
Contributions by employer	-	-	-	-	-	-
Contributions by members	-	-	-	-	-	-
Benefit payments	<b>(76)</b>	(76)	<b>76</b>	76	-	-
Current service cost	-	-	-	-	-	-
Past service credit	-	-	-	2	-	2
Settlement loss	-	-	-	-	-	-
Interest cost on scheme liabilities	-	-	<b>(30)</b>	(28)	<b>(30)</b>	(28)
Remeasurement gains/(losses)	<b>96</b>	(28)	<b>(96)</b>	26	-	(2)
<b>At 31 December</b>	<b>1,356</b>	1,306	<b>(1,356)</b>	(1,306)	-	-
Related deferred tax asset (net)					-	-
<b>Net pension liability</b>					-	-

## Expense recognised in operating costs

	2016	2015
	€'000	€'000
Past service credit	-	2
<b>Total operating credit</b>	<b>-</b>	<b>2</b>

## Recognised directly in other comprehensive income

	2016	2015
	€'000	€'000
Remeasurement loss on pensions	-	(2)
	-	(2)

The credit is recognised in the following lines in the income statement:

	2016	2015
	€'000	€'000
Operating credit	-	(2)
Net finance cost on pensions scheme obligations	-	-
<b>Total operating credit</b>	<b>-</b>	<b>(2)</b>

No contributions are expected to be paid to the Company's defined benefit scheme in 2016 (2015: €Nil).

## 14. Share-Based Payments

Please refer to the Group Share-Based Payments Note (Note 33) set out on pages 148 to 150.

## 15. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, key management personnel and post employment benefit plans.

## 15. Related Party Transactions (continued)

### Subsidiaries

The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation: Management charges made by the Company to the subsidiaries of €11.0 million (2015: €11.2 million) for the year ended 31 December 2016; and Loans were granted to and by the Company to its subsidiaries.

### Key Management Personnel

The term key management personnel comprise the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in Note 2 to the Company Financial Statements and in Note 6 to the Group Financial Statements. The Report of the Remuneration Committee on Directors' Remuneration on pages 54 to 70 provides detailed disclosure for 2016 and 2015 salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the Grafton Group Share Scheme, and awards granted under the 2011 LTIP.

### Post Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 13 to the Company Financial Statements.

## 16. Principal Operating Subsidiaries

The principal operating subsidiaries operating in Ireland are:

Name of Company	Nature of Business
Grafton Merchanting ROI Limited	Builders merchants
Chadwicks Limited	Builders merchants
Woodie's DIY Limited	DIY superstores
Panelling Centre Limited	Kitchen/Bedroom Panel Products

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business
Grafton Merchanting GB Limited	Builders merchants
Macnaughton Blair Limited	Builders merchants
Selco Trade Centres Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the UK. The registered office of Grafton Merchanting GB Limited is PO Box 1586, Gemini One, John Smith Drive, Oxford Business Park South, Oxford, OX4 9JF. The registered office of Selco Trade Centres Limited is First Floor, Boundary House, 2 Wythall Green Way, Wythall, Birmingham, B47 6LW. The registered office of CPI Mortars Limited is Oak Green House, 250-256 High Street, Dorking, Surrey, RH4 1QT. The registered office of Macnaughton Blair Limited is 10 Falcon Road, Belfast, BT12 6RD, Northern Ireland.

The principal operating subsidiaries in Belgium are YouBuild NV (formerly BMC Groep NV) (Builders merchants) and Binje Ackermans S.A. (trading as MPRO). The registered office of YouBuild NV is Ropswalle 26, 8930 Menen, Belgium. The Company owns 65 per cent of the share capital of YouBuild NV. The registered office of Binje Ackermans S.A. is Avenue du Port 25, 1000 Brussels, Belgium.

The principal operating subsidiaries in the Netherlands are Isero IJzerwarengroep B.V. and Pijnenburg Bouw en Industrie B.V. The registered office of Isero IJzerwarengroep B.V. is Barwoutswaarder 1, 3449 HE Woerden, the Netherlands. The registered office of Pijnenburg Bouw en Industrie B.V. is Pegasusweg 4, 5015BZ Tilburg, the Netherlands.

## 17. Section 357 Guarantees

Pursuant to the provisions of Section 357, Companies Act, 2014, the Company has guaranteed the liabilities of certain wholly owned subsidiaries in the Republic of Ireland for the financial year ended 31 December 2016. The following subsidiary undertakings have been exempted from the filing provisions of Section 347, Companies Act, 2014 and Regulation 20 of the European Communities (Accounts Regulations), 1993, as the conditions set out in the act have been satisfied.

This guarantee applies to the following wholly owned subsidiaries, whose registered office is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18: Absolute Bathrooms Limited, Athina Limited, Atlantic Home and Garden Centre Limited, Barretts of Ballinasloe Limited, Beralt Developments Limited, Bluebell Sawmills Limited, Cardston Properties Limited, Chadwicks Limited, Chadwicks Holdings Limited, Cheshunt Limited, Cork Builders Providers Limited, CPI Limited, Davies Limited, Denningco Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Dunmore Holdings Limited, Eddie's Hardware Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Frank Barrett & Sons Limited, Garvey Builders Providers Limited, Gillespie Building Supplies (Carlow) Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Management Services Limited, Grafton Group Secretarial Services Limited, Grafton Group Finance plc, Grafton Merchanting ROI Limited, Heatovent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E. Telford Limited, Jarkin Properties Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarry) Limited, Panelling Centre Limited, Payless D.I.Y. Limited, Perchura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Grafton Group Treasury Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Stettler Properties Limited, Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited, Woodies DIY (Irl) Limited, and Woodie's DIY Limited.

## 18. Other Guarantees

The company has declared and assumes joint and several liability for any obligations arising from the legal acts of Grafton Holding Netherlands BV, Isero BV, Isero IJzerwarengroep BV and Pijnenburg Bouw en Industrie BV in accordance with article 2:403 paragraph (f) of the Dutch Civil Code and such declarations will be filed at the Dutch commercial register (Kamer van Koophandel) in accordance with article 2:403 paragraph (g).

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €351.2 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

## 19. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2016 on 15 March 2017.

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# Supplementary Information

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# Supplementary Financial Information

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## Alternative Performance Measures

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

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

The key Alternative Performance Measures (“APMs”) of the Group are set out below. As amounts are reflected in £’m some non-material rounding differences may arise. Numbers that refer to 2015 are available in the 2015 Annual Report.

APM	Description
<b>Adjusted operating profit</b>	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
<b>Adjusted operating profit/EBITA before property profit</b>	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.
<b>Adjusted operating profit/EBITA margin before property profit</b>	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
<b>Adjusted profit before tax</b>	Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense.
<b>Adjusted profit after tax</b>	Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense.
<b>Capital turn</b>	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).
<b>Constant currency</b>	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.
<b>Dividend cover</b>	Group earnings per share divided by the total dividend per share for the Group.
<b>EBITDA</b>	Earnings before exceptional items, net finance expense, income tax expense, depreciation and intangible assets amortisation. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
<b>EBITDA interest cover</b>	EBITDA divided by net bank/loan note interest.
<b>Gearing</b>	The Group net debt divided by the total equity times 100.

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## Alternative Performance Measures (continued)

APM	Description
<b>Like-for-like revenue</b>	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.
<b>Operating profit margin</b>	Profit before net finance expense and income tax expense as a percentage of revenue.
<b>Return on capital employed</b>	Operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.

### Adjusted Operating Profit/EBITA before Property Profit

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

### Operating Profit/EBITA Margin

	2016 £'m	2015 £'m
Revenue	<b>2,507.3</b>	2,212.0
Operating profit	<b>120.1</b>	128.2
<b>Operating profit/EBITA margin</b>	<b>4.8%</b>	5.8%

### Adjusted Operating Profit/EBITA

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

## Supplementary Financial Information

(continued)

### Adjusted Profit before Tax

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

### Adjusted Profit after Tax

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

### Reconciliation of Profit to EBITDA

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

### Net debt to EBITDA

	2016 £'m	2016 £'m
EBITDA	177.9	161.3
Net debt	96.3	113.6
<b>Net debt to EBITDA - times</b>	<b>0.54</b>	<b>0.70</b>

**EBITDA Interest Cover**

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

**Gearing**

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

**Return on Capital Employed**

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

**Capital Turn**

	2016 £'m	2016 £'m
Revenue	2,507.3	2,212.0
Average capital employed	1,132.0	1,042.1
<b>Capital turn - times</b>	<b>2.2</b>	<b>2.1</b>

**Dividend Cover**

	2016	2015
Group adjusted EPS - basic (pence)	47.67	41.17
Group dividend (pence)	13.75	12.50
<b>Group dividend cover - times</b>	<b>3.5</b>	<b>3.3</b>

# Grafton Group plc Financial History - 1995 to 2016

Group Income Statements	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012‡ £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m	2006 £'m
<b>Revenue</b>	<b>2,507.3</b>	2,212.0	2,081.7	1,899.8	1,760.8	1,782.5	1,719.4	1,763.8	2,128.5	2,193.3	2,000.0
<b>Operating profit</b>	<b>134.9</b>	121.5	110.1	77.2	59.1	47.5	41.5	21.3	92.7	180.4	165.4
<b>Operating margin %</b>	<b>5.4%</b>	5.5%	5.3%	4.1%	3.4%	2.7%	2.4%	1.2%	4.4%	8.2%	8.3%
Restructuring (costs)/credit	(19.7)	-	-	2.8	(21.2)	(27.8)	(13.2)	(17.0)	(13.7)	-	-
Property profit	4.9	6.7	-	-	-	-	-	-	-	5.0	25.9
Finance (expense)/income (net)	(5.9)	(7.9)	(8.9)	(12.3)	(12.9)	(10.8)	(6.4)	7.8	(28.0)	(24.0)	(21.4)
<b>Profit before taxation</b>	<b>114.2</b>	120.3	101.2	67.7	25.0	8.9	21.9	12.1	51.0	161.4	169.9
Taxation	(21.1)	(23.8)	(21.2)	(5.6)	6.6	(6.7)	33.0	(0.2)	(5.1)	(21.0)	(22.0)
<b>Profit after taxation</b>	<b>93.1</b>	96.5	80.0	62.1	31.6	2.2	54.9	11.9	45.9	140.4	147.9
<b>Group Balance Sheets</b>	<b>2016 £'m</b>	2015 £'m	2014 £'m	2013 £'m	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m	2006 £'m
<b>Capital employed</b>											
Goodwill and intangibles	610.8	554.2	485.9	481.0	476.2	474.9	479.7	489.3	516.0	448.7	400.3
Property, plant and equipment	461.7	430.1	423.4	413.4	458.3	471.9	489.6	537.1	603.2	516.1	460.8
Financial assets	0.1	0.1	0.1	0.1	0.2	0.1	3.4	3.5	0.2	0.6	0.3
Net current assets**	141.5	149.6	112.8	136.5	133.7	121.2	122.2	122.6	193.0	256.9	225.4
Other net non-current liabilities	(52.6)	(31.3)	(40.6)	(23.0)	(85.9)	(58.4)	(22.8)	(56.4)	(69.9)	(35.7)	(35.8)
	<b>1,161.5</b>	1,102.7	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5	1,186.6	1,051.0
<b>Financed as follows:</b>											
Shareholders' equity	1,062.1	985.7	902.3	870.3	813.5	821.0	852.5	809.7	827.6	783.0	681.1
Non-controlling interest	3.1	3.4	4.0	4.0	4.1	-	-	-	-	-	-
Net debt/(cash)	96.3	113.6	75.3	133.7	164.9	188.7	219.6	286.4	414.9	403.6	369.9
	<b>1,161.5</b>	1,102.7	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5	1,186.6	1,051.0
<b>Other Information</b>											
Acquisitions & investments	11.9	98.6	33.1	5.9	17.6	11.1	2.1	6.1	22.4	61.0	59.4
Purchase of fixed assets / investment in intangible assets	60.4	51.6	46.9	24.7	23.0	30.6	8.2	11.0	62.6	71.7	84.8
	<b>72.3</b>	150.2	80.0	30.6	40.6	41.7	10.3	17.1	85.0	132.7	144.2
Depreciation and intangible amortisation	38.1	33.1	32.5	31.5	33.9	37.1	40.1	44.7	45.0	40.4	37.8
<b>Financial Highlights</b>	<b>2016</b>	2015	2014	2013	2012‡	2011	2010	2009	2008	2007	2006
Adjusted EPS*** (pence)	47.7	41.2	34.4	22.3	15.1	13.4	15.9	4.8	25.6	57.7	53.2
Dividend/share purchase per share (pence)	13.8	12.5	10.8	8.5	7.0	6.5	6.0	4.5	11.9	15.1	12.8
Cashflow per share (pence)#	64.0	54.9	48.4	39.5	29.9	24.9	44.8	26.6	39.6	74.1	68.4
Net assets per share (pence)	449.5	419.0	387.9	374.4	350.6	354.1	368.5	351.0	359.5	341.2	284.7
Underlying EBITDA interest cover (times)	37.9	27.3	19.4	11.0	8.6	6.4	10.0	5.6	4.5	8.2	10.2
Dividend/share purchase cover	3.5	3.3	3.2	2.6	2.2	2.1	2.6	1.1	2.1	3.8	4.2
Net debt to shareholders' funds	9%	12%	8%	15%	20%	23%	26%	35%	50%	52%	54%
ROCE	12.5%	12.2%	11.1%	7.8%	6.1%	4.6%	3.8%	1.8%	7.6%	16.1%	16.5%

\* The summary financial information is stated under IFRS for 2004 to 2016 and under Irish GAAP for all years from 1994 to 2003.

\*\* Excluding net debt/(cash)

\*\*\* Before exceptional items and amortisation of intangible assets arising on acquisitions in 2016. Before pension credit, asset impairment and amortisation of intangible assets arising on acquisitions in 2015 (restated). Before pension credit and property impairment in 2013 and before restructuring costs and intangible amortisation in 2012 and taxation credits in both years. In previous years before intangible amortisation, onerous lease provision and impairment, restructuring costs (net), taxation credit in 2010 and investment profit in 2009 and excluding material property profits in previous years

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Group Income Statements</b>											
<b>Revenue</b>	1,798.1	1,270.5	1,035.2	724.6	614.9	506.2	408.6	289.7	239.1	197.1	156.7
<b>Operating profit</b>	146.2	109.3	80.1	56.4	48.1	39.4	30.5	22.4	18.7	15.4	11.4
<b>Operating margin %</b>	8.1%	8.6%	7.7%	7.8%	7.8%	7.8%	7.5%	7.7%	7.8%	7.8%	7.3%
Restructuring (costs)/credit	-	-	-	-	-	-	-	-	-	-	-
Property profit	6.6	5.1	2.4	2.3	1.4	-	-	-	-	1.5	0.6
Finance (expense)/income (net)	(21.4)	(15.5)	(11.9)	(8.3)	(7.7)	(7.2)	(5.4)	(3.3)	(1.8)	(1.1)	(0.9)
<b>Profit before taxation</b>	131.4	98.9	70.6	50.4	41.8	32.2	25.1	19.1	16.9	15.8	11.1
Taxation	(17.8)	(13.5)	(10.6)	(7.5)	(5.4)	(4.2)	(3.0)	(2.7)	(2.5)	(2.3)	(2.0)
<b>Profit after taxation</b>	113.6	85.4	60.0	42.9	36.4	28.0	22.1	16.4	14.4	13.5	9.1
<b>Group Balance Sheets</b>											
<b>Capital employed</b>											
Goodwill and intangibles	375.4	174.2	148.6	65.3	38.0	32.3	19.7	6.9	-	-	-
Property, plant and equipment	427.1	286.4	244.4	196.6	153.0	130.8	109.4	99.2	42.1	37.8	35.1
Financial assets	0.2	33.2	23.7	21.9	20.5	11.7	11.8	0.1	8.5	0.1	-
Net current assets**	207.8	137.6	139.9	93.9	78.8	66.5	47.4	42.5	20.1	16.7	17.5
Other net non-current liabilities	(52.4)	(35.8)	(19.9)	(11.7)	(10.8)	(10.0)	(8.8)	(8.7)	(0.8)	(0.9)	(0.9)
	958.1	595.6	536.7	366.0	279.5	231.3	179.5	140.0	69.9	53.7	51.7
<b>Financed as follows:</b>											
Shareholders' equity	557.7	349.4	317.0	209.5	160.9	135.1	112.7	98.6	53.6	55.0	46.9
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-
Net debt/(cash)	400.4	246.2	219.7	156.5	118.6	96.2	66.8	41.4	16.3	(1.3)	4.8
	958.1	595.6	536.7	366.0	279.5	231.3	179.5	140.0	69.9	53.7	51.7
<b>Other Information</b>											
Acquisitions & investments	326.7	60.2	152.3	55.8	38.4	34.5	41.9	36.2	21.7	6.5	1.1
Purchase of fixed assets / investment in intangible assets	68.8	60.3	48.0	42.8	26.1	26.3	19.4	14.0	10.7	6.1	6.2
	395.5	120.5	200.3	98.6	64.5	60.8	61.3	50.2	32.4	12.6	7.3
Depreciation and intangible amortisation	34.5	23.5	26.0	16.7	13.6	10.1	8.3	4.9	3.9	3.4	2.9
<b>Financial Highlights</b>											
Adjusted EPS*** (pence)	46.4	38.1	31.2	23.3	20.0	15.8	12.8	9.6	8.5	7.3	5.2
Dividend/share purchase per share (pence)	10.8	8.8	7.3	5.3	4.7	3.7	3.0	2.2	2.0	1.7	1.2
Cashflow per share (pence)#	60.4	49.1	40.6	32.7	27.9	22.1	18.1	13.1	11.5	9.9	7.2
Net assets per share (pence)	234.9	163.7	149.1	118.1	91.4	77.6	65.2	59.9	33.3	34.4	29.8
Underlying EBITDA interest cover (times)	9.4	9.9	9.1	9.1	8.2	6.9	7.2	8.3	12.9	20.2	17.1
Dividend/share purchase cover	4.3	4.3	4.3	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	72%	70%	69%	75%	74%	71%	59%	42%	30%	-	10%
ROCE	18.8%	19.3%	17.1%	16.5%	17.4%	17.4%	16.9%	18.2%	23.1%	22.2%	17.6%

# Based on profit after tax before depreciation, 2016 exceptional items, 2015 pension credit, 2013 pension credit, intangible amortisation, onerous lease provision, impairment and excluding material property profits in previous years.

‡ IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRS from the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.

## Corporate Information

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<b>Auditor</b>	PricewaterhouseCoopers
<b>Bankers</b>	Bank of Ireland HSBC Bank plc Ulster Bank Barclays Bank plc ABN AMRO Bank N.V. Lloyds Bank plc
<b>Solicitors</b>	Arthur Cox, Dublin A&L Goodbody, Dublin Squire Patton Boggs, London Allen & Overy, Amsterdam Norton Rose Fulbright, London Lyons Davidson, Bristol
<b>Stockbrokers</b>	Goodbody, Dublin Numis Securities Limited, London
<b>Corporate &amp; Registered Office</b>	Heron House Corrig Road Sandyford Industrial Estate, Dublin 18 Phone: 00353-1-216 0600 Fax: 00353-1-295 4470 Email: email@graftonplc.com
<b>Registrars</b>	Capita Asset Services Shareholders Solutions (Ireland) 2 Grand Canal Square, Dublin 2, D02 A342 Phone: 00353-1-553 0050 Email: enquiries@capita.ie www.capitaassetservices.com

## Financial Calendar

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### Results

Half-Year Results for 2016	31 August 2016
Final Results for 2016	7 March 2017
Annual General Meeting	9 May 2017
2017 Half-Year Results	31 August 2017

### Interim Dividends

Record date	9 September 2016
Record date	17 March 2017

# Location of Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 9 May 2017 at 10.30 am in the **IMI Conference Centre, Sandyford Road, Dublin 16. Telephone: (01) 207 8400**



Should you require any assistance, or have any queries on the day of the AGM, please call 087 971 0851.



Grafton Group plc

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