



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 (“RMI”) projects and house building.

The Group has leading regional or national market positions in the merchanting markets in the UK, Ireland, the Netherlands and Belgium. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in Britain.

Grafton trades from 649 branches and has in the region of 13,000 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 £2.7 billion and adjusted profit before tax of £157.2 million for 2017.



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Supplementary Information

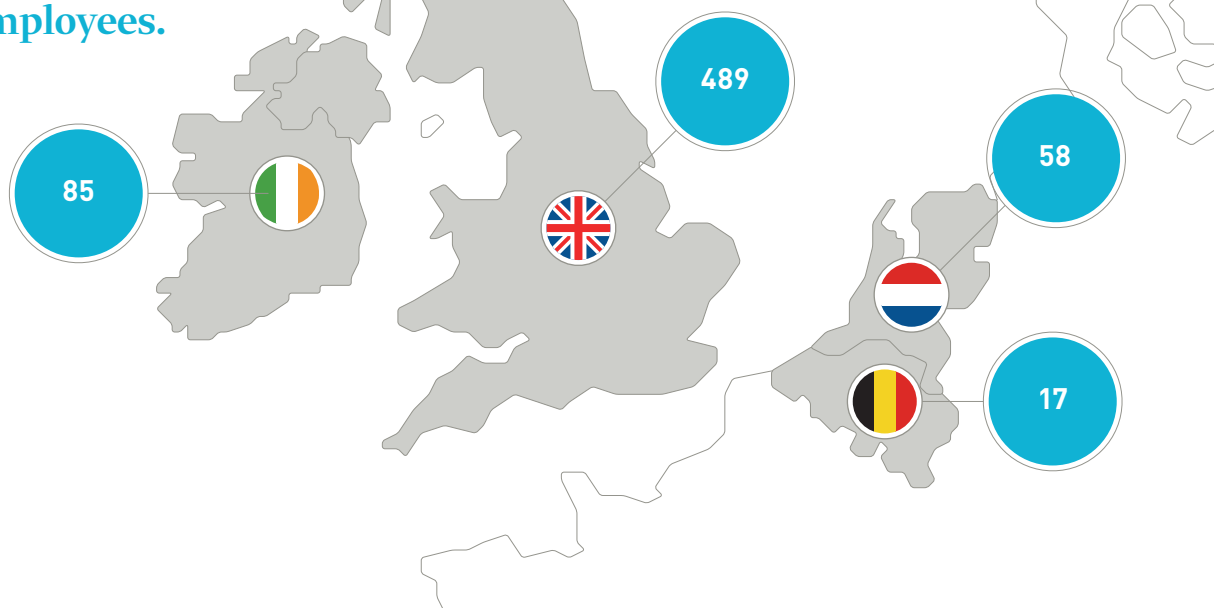
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Further investor and shareholder
information is available at
www.graftonplc.com.

Grafton at a Glance

Grafton trades from 649 branches and has in the region of 13,000 employees.



UK



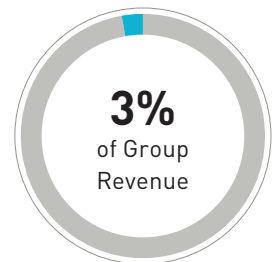
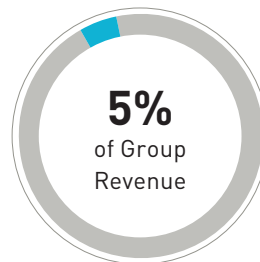
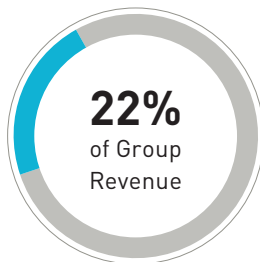
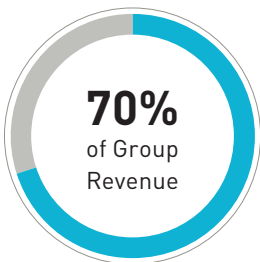
Ireland



Netherlands



Belgium



- 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 market

- 2nd** Merchandising market



Merchandising

The Merchandising segment distributes building materials from 603 branches in the UK, Ireland, the Netherlands and Belgium.



Merchandising revenue up 8.3% to £2.5bn

(up 6.6% in constant currency)



Buildbase is the UK's third largest builders' merchants trading from more than 180 branches with a strong presence in the South East, Midlands and North of England.

buildbase.co.uk



Selco is a trade and business only builders' merchants that operates a retail style self-select format. Its unique products and service model is primarily focused on customers engaged in small residential RMI projects.

Selco, the UK's fourth largest merchandising brand, trades from 59 branches including 35 that are located within the Greater London Area.

selcobw.com



Plumbase is the fourth largest plumbing and heating merchant in the UK with a network of over 160 branches. It has a strong presence in the South East, Midlands, East Anglia, West Country and Scotland.

As one of the country's leading suppliers of plumbing and heating products, it focuses on a customer base of domestic and commercial gas engineers, plumbers and maintenance contractors.

plumbase.co.uk



MacBlair is the leading builders' merchant in Northern Ireland where it trades from 17 branches.

The business supplies the trade, DIY and self-build markets providing "a one stop shop" for building materials, timber, doors and floors, plumbing and heating, bathrooms and landscaping products.

macblair.com



Leyland SDM is one of the most recognisable and trusted decorating and DIY brands in Central London selling paint, tools, ironmongery and accessories from 21 branches.

leylandsdm.co.uk

Grafton at a Glance (continued)

CHADWICKS

Chadwicks is a leading builders' and plumbers' merchants in the Republic of Ireland where it has a strong market position in the Greater Dublin area and provincial locations.

The business distributes a full range of building materials principally to the residential RMI and new build markets.

✦ chadwicks.ie

Heiton Buckley

BUILDERS MERCHANTS

Heiton Buckley is a leading builders' and plumbers' merchanting business trading from branches in Dublin, provincial cities and towns where the Chadwicks brand is not represented. It also incorporates Ireland's largest steel stockholding business.

✦ heitonbuckley.ie & heitonsteel.ie

ISERO

IJZERWARENGROEP

Isero is the leading specialist distributor of tools, ironmongery and fixings in the Netherlands.

Isero trades from 44 branches under the Gerritse, Breur Ceintuurbaan, Van der Winkel and Scholte de Vries-Estoppey brands. The business offers a comprehensive range of quality products to trade professionals supported by an exceptional level of customer service.

✦ isero.nl

GUNTERS en MEUSER

IJZERWAREN - GEREEDSCHAPPEN

Gunters en Meuser is the market leader in the distribution of tools, ironmongery and fixings in the Greater Amsterdam Area. It is a high quality business and brand that is synonymous with the ironmongery market in Amsterdam where it has traded for over 190 years.

✦ guntersenmeuser.nl

YouBuild

We Supply

YouBuild is a builders' merchants trading from ten branches located mainly in the Flanders Region of Belgium where it has a strong market position.

✦ youbuild.be

M PRO

MPro is a six branch builders' merchants with a strong market position in Brussels and the Wallonia Region.

✦ mpro.be



Retailing

The Group is the largest DIY retailer in Ireland trading from 35 branches



Retailing revenue up 14.8% to £180.4m

(up 7.4% in constant currency)

Woodie's

Woodie's is Ireland's market leading DIY, Home and Garden retailer with 35 stores nationwide offering an extensive range of DIY products, paints, lighting, homestyle, housewares, bathroom products and fitted kitchens. Woodie's is also a leading retailer of seasonal categories including gardening and Christmas ranges.

woodies.ie



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 12.5% to £66.1m

(up 12.0% in constant currency)

EuroMix

CPI Mortars is the market leader in dry mortar manufacturing in the UK, operating from 10 strategically located factories that provide almost national coverage. The portable silo system, which contains aggregates, sand and cement, provides customers with a constant supply of high quality mortar and creates other benefits for customers through improved site management, savings on labour costs and reduced waste.

cpieuromix.com

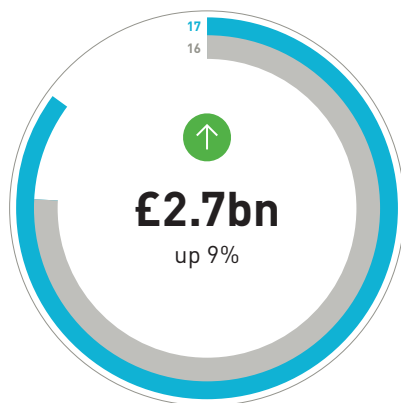
MFP

MFP is a manufacturer of a comprehensive range of drainage and roofline products and is also a distributor of selected ranges from other manufacturers.

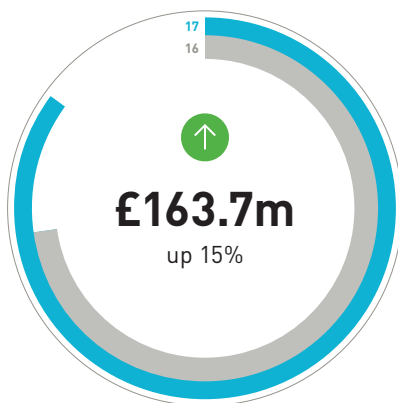
mfp.ie

2017 Highlights

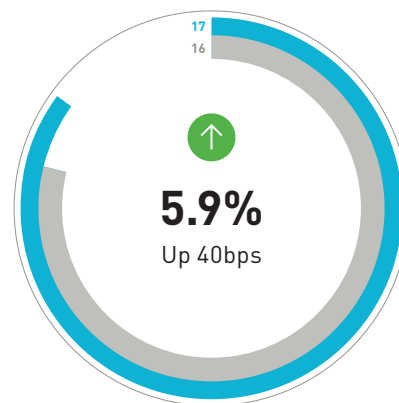
Revenue



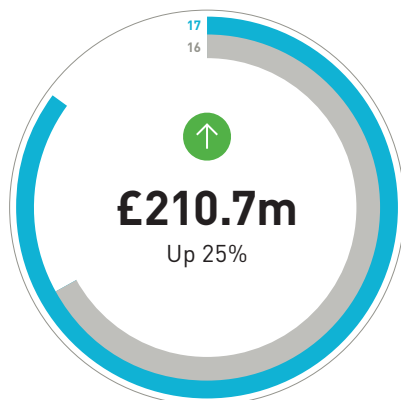
Adjusted Operating Profit



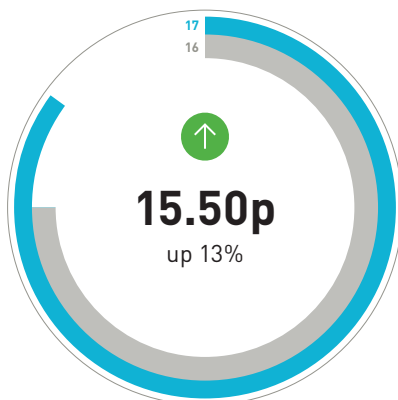
Adjusted Operating Profit Margin before Property Profit



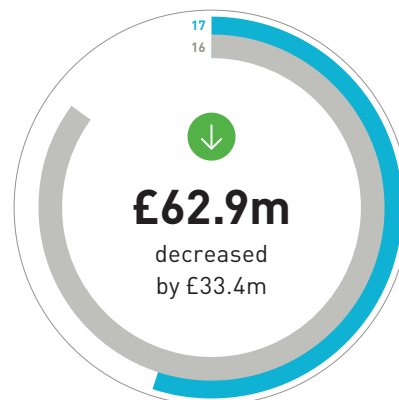
Cash Generation from Operations



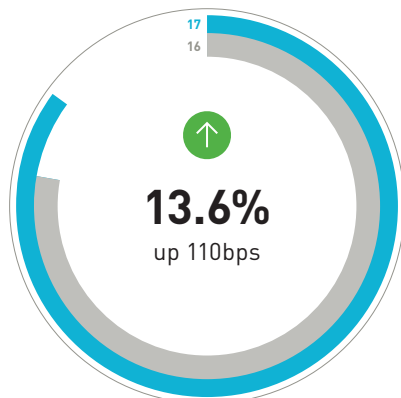
Dividend



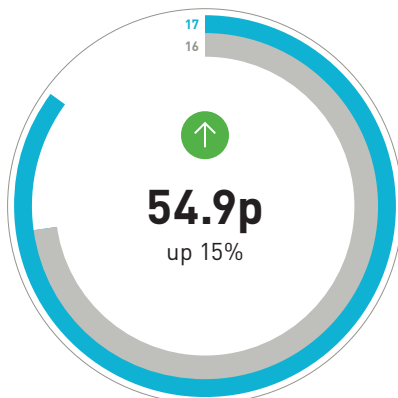
Net Debt



Return on Capital Employed



Adjusted Earnings Per Share – Basic



Key Performance Indicators
pages 22 - 23



Record revenue reflects strong organic growth

Adjusted operating profit before property profit up 17%

Read more on pages 44 - 47



Growth in profitability in all segments and geographies:

- Strong organic growth in Irish Merchandising, Woodie's DIY and Mortar Manufacturing
- Acquisitions and organic growth increase scale and profitability of Dutch merchandising business
- Continued investment in Selco with a record number of branch openings
- Traditional UK Merchandising business benefits from growth and prior year restructuring

Read more on pages 14 - 16



Record cash from operations of £210.7 million (2016: £168.6 million) finances investment and strengthens balance sheet

Investment of £119.1 million (2016: £72.3 million) on capital expenditure and acquisitions

Progressive dividend policy - growth of 121% over the past five years

Read more on pages 10 - 13 and 44 - 47

Financial Summary

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

*Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 190 to 193.

**2016 revenue has been updated to reflect a change in the presentation of rebates payable to customers and the segmental presentation has also been updated. There was no impact on operating profit as a result of this change.

***The term "adjusted" means before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7 million in 2016.


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Strategic Report

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The creation of a more balanced portfolio of businesses internationally, by seeking growth opportunities in new geographic markets, continues to be a high strategic priority for the Board.

Dear Shareholder,

I am pleased to report that 2017 was another year of strong growth and development for Grafton.

The strong results for the year were driven principally by organic growth. The traditional UK merchanting business benefitted from growth and the prior year restructuring and we continued to invest in Selco with a record number of branch openings. Strong organic growth was reported by the Merchanting and DIY businesses in Ireland and the mortar business in the UK. Acquisitions and organic growth contributed to growth in the Netherlands merchanting business and the Belgian merchanting business returned to profit.

Results

The Group reported a significant improvement in key measures of financial performance including an increase in return on capital employed (“ROCE”) by 110 basis points from 12.5 per cent to 13.6 per cent. Revenue grew by 9 per cent to £2.7 billion (2016: £2.5 billion) and by 6.8 per cent in constant currency. Adjusted operating profit increased by 15 per cent to £163.7 million (2016: £142.0 million) and adjusted profit before tax increased at the same rate to £157.2 million (2016: £136.2 million). Adjusted earnings per share was also up by 15 per cent to 54.9p (2016: 47.7p).

Dividend

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

Cash Flow

Cash generated from operations was a record £210.7 million (2016: £168.6 million) driven principally by increased profitability. Our priorities for the use of free cash flow remain broadly unchanged. We will continue to invest organically in businesses that have been prioritised for development, pursue acquisition opportunities in existing and new geographic markets in line with the Group’s development strategy and maintain a progressive dividend policy. The Board is also committed to maintaining a strong balance sheet and to retaining its investment grade credit rating.

Further progress was made during the year by the Group's executive management team in refining and implementing the Group's medium term strategy.

Strategy

Further progress was made during the year by the Group's executive management team in refining and implementing the Group's medium term strategy.

The Group built on its entry into the Netherlands merchanting market at the end of 2015 with the acquisition during 2017 of Gunters en Meuser and Scholte & de Vries - Estoppey, which provided a leading position in the Greater Amsterdam Area. The Netherlands business now has a strong presence in each of the country's five largest cities.

Selco continued to be the focus of development activity in the UK merchanting market with the opening of twelve new branches during the year which increased the estate to 59 at the year end. The acquisition last month of Leyland SDM, London's largest independent decorators' merchant, provides access to a new and resilient specialist segment of the RMI market.

The strong growth in profitability in the merchanting and DIY markets in Ireland continued to be generated organically by market leading brands and businesses operating branch networks that provide almost national coverage.

The Board's strategy for the future growth and development of Grafton is based on strengthening existing market positions in the merchanting markets in the UK and Ireland, continuing to build on the relatively recent successful entry into the Netherlands merchanting market and increasing

profitability in the Belgian merchanting business. The creation of a more balanced portfolio of businesses internationally, by seeking growth opportunities in new geographic markets, continues to be a high strategic priority for the Board. The Group's excellent cash generation from operations, good liquidity and strong balance sheet should continue to support its strategic growth plans.

Board Composition and Renewal

I noted in my statement last year that Mr. Roderick Ryan and Mr. Charles Fisher would retire from the Board at the conclusion of the 2017 AGM having completed eleven years' and eight years' service respectively as Non-Executive Directors.

Mr. Ryan was succeeded as Senior Independent Director by Mr. Paul Hampden Smith and by myself as Chairman of the Nomination Committee and Mr. Fisher was succeeded as Chairman of the Remuneration Committee by Mrs. Susan Murray. These changes took effect on 9 May 2017.

The appointments of Mrs. Susan Murray and Mr. Vincent Crowley to the Board in October 2016 were made in anticipation of planned retirements from the Board in 2017. The Board is now comprised of two Executive Directors, Gavin Slark and David Arnold, four Independent Non-Executive Directors and myself as Non-Executive Chairman.

On behalf of the Board, I would like to thank Roddy and Charles for their significant contribution to Grafton over a long period.

Board Evaluation

An internal evaluation of the Board, its Committees and individual Directors was conducted during 2017 having been externally facilitated by the Institute of Directors in Ireland during 2015. Each Director and the Company Secretary independently completed a questionnaire covering the running of an effective board, relationships with management, oversight and development of strategy, monitoring financial and operating performance and shareholder value creation. The overall result was very positive with a high and improved level of satisfaction among Directors concerning the matters covered by the evaluation. 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 will retire and seek re-election at the 2018 AGM. Each Director performs effectively and has demonstrated a strong commitment to the role and I strongly recommend that it is in the interests of shareholders and the Board that each of the Directors going forward be re-elected at the Annual General Meeting.

Colleagues

The results for the year are a testament to the quality of the management teams in our businesses under the strong leadership provided by Gavin Slark. I have been consistently impressed by the quality and commitment of colleagues that I have had the opportunity to meet since I joined the Board in May 2016. The hard work and dedication of our 13,000 colleagues is a critical element in our success and, on behalf of the Board, I would like to extend our appreciation to each of them for their contribution and commitment to the progress made during 2017.

Outlook

The Board is positive about the overall growth prospects for 2018 and potential opportunities to continue creating shareholder value over the medium term.

Michael Roney

Chairman

Chief Executive Officer's Review

Grafton achieved a strong set of results for the year driven principally by organic growth, an improvement in the Group's gross margin and good cost control.



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

Group Results

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

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

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

Good organic growth in a favourable market together with the completion of three acquisitions substantially increased the scale and profitability

of the Netherlands business in what was only the Group's second full year of trading in that market. The business is now established as a significant contributor to Group profitability and a sound platform for future growth.

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

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

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

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

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

Outlook

We anticipate that overall conditions in the UK merchanting market are likely to remain relatively flat and that further progress in 2018 will continue to be dependent on realising benefits from self-help and other opportunities.

Activity levels in the UK housing RMI market are expected to remain subdued, sensitive to changes in housing transactions and consumer confidence and spending. House building is expected to remain strong supported by good underlying demand, the availability of mortgages and the Help to Buy scheme.

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

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

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

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

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

Gavin Stark

Chief Executive Officer

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.



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.

Strategy (continued)

Progress in 2017

A Strong Financial Base



Continued focus on operational and commercial performance across the Group's businesses during the year resulted in Group revenue growth of 9 per cent.

Adjusted EBITA margin before property profit increased by 40bps to 5.9 per cent.

Capital turn increased from 2.2 to 2.3 times and return on capital employed increased by 110 basis points to 13.6 per cent.

Excellence in Service



2017 saw the introduction of a number of new trading initiatives and innovations in the Group's merchanting businesses.

The Irish merchanting business opened three new branches in Dublin providing convenient collection points for customers.

The Woodie's store upgrade programme has helped to provide an improved customer experience and ensure that it retains its strong market leadership position.

Organic Growth and Acquisitions



The Group continued its expansion in the Netherlands with the acquisition of Gunters en Meuser, a distributor of tools, fixings and ironmongery from 14 branches. Two further acquisitions were made in the Netherlands during the year.

Expansion of the Selco branch network continued during the year with the opening of twelve new branches.

Three new branches were opened in the Irish merchanting business in areas of Dublin that are expected to benefit from increased construction activity over the coming years, increasing the number of branches in the network to 49 including 20 in the Greater Dublin Area.

In February 2018, the Group completed the acquisition of Leyland SDM, a 21-branch decorating and DIY business that complements the Group's larger Selco merchanting branches in the Greater London Area.

A Supportive Organisational Structure and Management



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

Ethics and Integrity



A Group-wide programme to implement processes for compliance with the General Data Protection Regulation (GDPR) was developed during 2017. The Group also developed procedures to confirm supplier compliance with regulatory requirements including the UK Modern Slavery Act.

The Group Code of Business Conduct and Ethics, and existing policies relating to Anti-Bribery and Corruption and Competition Compliance were reviewed and updated during the year.

An external effectiveness review carried out during 2017 found that the Group's Internal Audit and Risk Management procedures were fit for purpose and suggested a number of actions for further development.

Group carbon emissions reduced by 3.1% in 2017.

Key Performance Indicators

pages 22 - 23

Risk Management

pages 48 - 53

Priorities for 2018

A Group priority for 2018 is to grow like-for-like revenue in its markets and to exert tight control over costs.

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.

KPIs

- Revenue
- Adjusted EBITA Margin before Property Profit
- Adjusted EBITA Margin
- Capital Turn
- Adjusted EBITA
- Free Cash Flow
- Adjusted Earnings Per Share
- ROCE

Link to Risk

- Macro-Economic Conditions
- Competition
- Acquisition and Integration of New Businesses
- Credit Risk Relating to Customers
- Supplier Rebates
- Internal Controls & Fraud
- Stock Management

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.

- Revenue
- Adjusted EBITA Margin before Property Profit
- Adjusted EBITA Margin
- Adjusted EBITA
- Adjusted Earnings Per Share
- ROCE

- Competition
- Colleagues
- IT Systems and Infrastructure
- Cyber Security & Data Protection
- Supplier Rebates
- Internal Controls & Fraud
- Stock Management

Grafton will continue to pursue organic growth in its established businesses.

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

Growth in new geographic markets continues to be a high strategic priority.

- Revenue
- Adjusted EBITA Margin before Property Profit
- Adjusted EBITA Margin
- Adjusted EBITA
- Free Cash Flow
- Adjusted Earnings Per Share
- ROCE

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

The Group will continue to focus on the development of the Group's management teams and provide opportunities for developing key leadership competencies.

- Revenue
- Adjusted EBITA Margin before Property Profit
- Adjusted EBITA Margin
- Capital Turn
- Adjusted EBITA
- Free Cash Flow
- Adjusted Earnings Per Share
- ROCE
- Lost Time Injury Frequency Rate

- Colleagues
- IT Systems and Infrastructure
- Cyber Security & Data Protection
- Health & Safety
- Acquisition and Integration of New Businesses
- Internal Controls & Fraud

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.

The recommendations set out in the external effectiveness review carried out during the year will be addressed as part of the Internal Audit and Risk Management objectives for 2018.

Reducing the frequency and severity of accidents remains a key priority.

- Lost Time Injury Frequency Rate
- Group Co2 Emissions

- Colleagues
- Health & Safety
- Internal Controls and Fraud
- Non-Ethical and Anti-Competitive Practices

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.

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 649 branches with opportunities for further growth through acquisition and organic development.

A portfolio of highly cash generative and profitable businesses.

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.

Core Values



Be Brilliant for Our Customers



Value Our People



Ambitious



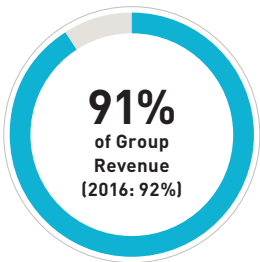
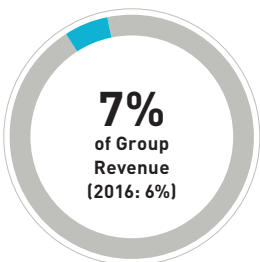
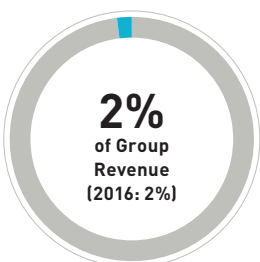





Trustworthy



Entrepreneurial and Empowering

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 merchanting and related markets.

| | Outputs Growing our business internationally | Outcomes And sharing the resulting value with our stakeholders |
|---|---|--|
| <p>Operating Segments</p> <hr/> <p>Merchanting</p>  <p>91% of Group Revenue (2016: 92%)</p> <hr/> <p>Retailing</p>  <p>7% of Group Revenue (2016: 6%)</p> <hr/> <p>Manufacturing</p>  <p>2% of Group Revenue (2016: 2%)</p> | <p>Revenue £2.7bn</p> <hr/> <p>Adjusted Group Operating Profit £163.7m</p> <hr/> <p>Almost 13,000 colleagues in 649 branches and support offices</p> <hr/> <p>3.1% reduction in CO2e Emissions</p> <hr/> <p>Over £500,000 raised for charities</p> | <p> Shareholders Increasing profitability and earnings</p> <hr/> <p> Customers Being brilliant for our customers</p> <hr/> <p> Colleagues Retaining a loyal, engaged and well trained workforce</p> <hr/> <p> Suppliers Building relationships to grow our businesses</p> <hr/> <p> Communities Engaging with local communities</p> |

Key Performance Indicators

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

| KPI | Definition and Relevance | Performance Trend | | | | | 2017 Performance | Link to Risk | Link to Strategy |
|---|--|-------------------|-----------|-----------|-----------|-----------|--|--|--|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | | | |
| Revenue | Group revenue for the year is a measure of overall growth. | £1.9bn | £2.1bn | £2.2bn | £2.5bn | £2.7bn | Group Revenue for 2017 was a record £2.7 billion, an increase of 9 per cent on 2016 and represented the fifth successive year of growth. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Excellence in Service ● Organic Growth and Acquisitions ● Organisational Structure & Management |
| Adjusted EBITA Margin before Property Profit | Adjusted EBITA before profit on disposal of Group properties as a percentage of revenue provides a good measure of performance. (The term “adjusted” means before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7 million in 2016). | 4.1% | 5.3% | 5.5% | 5.5% | 5.9% | EBITA margin before property profit increased by 40bps to 5.9 per cent. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Excellence in Service ● Organic Growth and Acquisitions ● Organisational Structure & Management |
| Adjusted EBITA Margin | | 4.1% | 5.3% | 5.8% | 5.7% | 6.0% | Increased by 30bps to 6.0%. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Excellence in Service ● Organic Growth and Acquisitions ● Organisational Structure & Management |
| Capital Turn | Revenue divided by average capital employed where capital employed is the sum of total equity and net debt at each period end. | 1.9 times | 2.1 times | 2.1 times | 2.2 times | 2.3 times | Capital turn increased to 2.3 times from 2.2 times. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Organisational Structure & Management |
| Adjusted EBITA | Profit before intangible asset amortisation on acquisitions, exceptional items, net finance expense and income tax expense. | £77.2m | £110.1m | £127.3m | £142.0m | £163.7m | The Group delivered growth in adjusted operating profit for the eighth successive year. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Excellence in Service ● Organic Growth and Acquisitions ● Organisational Structure & Management |

Certain KPIs are used as financial measures to incentivise executives. For 2017 these were Adjusted Earnings per Share and Return on Capital Employed which are identified below with the symbol **R**

Risk Management
pages 48 - 53

Strategy
pages 17 - 19

| KPI | Definition and Relevance | Performance Trend | | | | | 2017 Performance | Link to Risk | Link to Strategy |
|--|--|-------------------|---------|---------|---------|---------|--|--|--|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | | | |
| Free Cash Flow | 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. | £66.3m | £126.4m | £104.7m | £133.8m | £163.5m | Free Cash Flow was up £29.7m or 22 per cent in 2017. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Organic Growth and Acquisitions ● Organisational Structure & Management |
| Adjusted Earnings Per Share R | 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. | 22.3p | 34.4p | 41.2p | 47.7p | 54.9p | Adjusted EPS increased by 15 per cent to 54.9 pence in 2017 from 47.7 pence in 2016. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Excellence in Service ● Organic Growth and Acquisitions ● Organisational Structure & Management |
| ROCE R | 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. | 7.8% | 11.1% | 12.2% | 12.5% | 13.6% | Return on Capital Employed (ROCE) increased by 110 basis points to 13.6 per cent. | <ul style="list-style-type: none"> • Macro-Economic Conditions • Competition | <ul style="list-style-type: none"> ● Strong Financial Base ● Excellence in Service ● Organic Growth and Acquisitions ● Organisational Structure & Management |
| Lost Time Injury Frequency Rate | A measure of the number of lost time injuries per 100,000 hours worked. | 1.02 | 1.22 | 1.13 | 1.16 | 1.09 | Lost Time Injury Frequency Rate decreased by 6 per cent since 2016. | <ul style="list-style-type: none"> • Health & Safety | <ul style="list-style-type: none"> ● Organisational Structure & Management ● Ethics & Integrity |
| Group Co2 Emissions | The total tonnes of greenhouse gas emitted by Group activities, referred to as our carbon footprint. | | | 89,214 | 87,348 | 84,630 | Group carbon emissions reduced by 3.1 per cent since 2016. | <ul style="list-style-type: none"> • Non-Ethical & Anti-Competitive Practices | <ul style="list-style-type: none"> ● Ethics & Integrity |



Sectoral & Strategic Review

Merchanting Segment

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

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

UK Merchanting

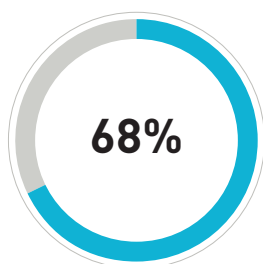
The UK Merchanting segment trades from 479 branches, principally under the Selco, Buildbase and Plumbase brands in the South East, Midlands and North of England, and under the MacBlair brand in Northern Ireland.

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

Market Positions

| | |
|----------------------|--------------|
| Builders Merchanting | No. 3 |
| Plumbers Merchanting | No. 4 |

Proportion of Group Revenue



Key Brands



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

Against this challenging backdrop, average daily like-for-like revenue grew by 4.5 per cent comprising volume growth of 2.0 per cent and inflation of 2.5 per cent.

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





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

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

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

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

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

of five branches in the first half and seven in the second half of the year. The business traded from 59 branches at the year end.

Selco increased its high level of operating profit before store opening costs which were ahead of the prior year by £3.0 million.

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

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

The gross margin was maintained in a competitive market aided by procurement

Sectoral and Strategic Review (continued)

UK Merchandising (continued)

gains, a more favourable product mix and targeted price adjustments. Overall, Buildbase recorded an improvement in operating profit and margin in the year.

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

Plumbase profitability was substantially improved from a low base despite revenue being lower due to branch closures in 2016.

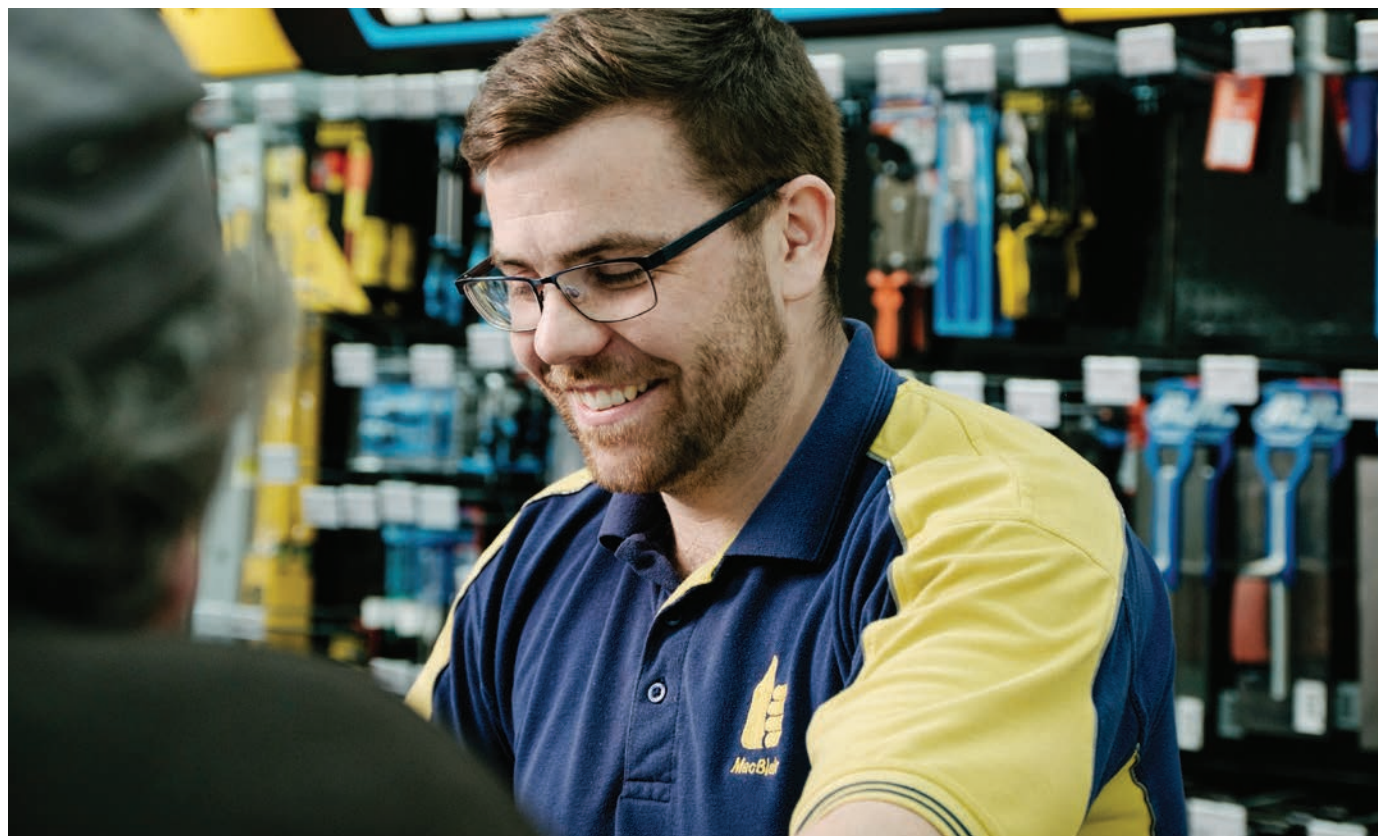
Management were successful in growing like-for-like revenue and in maintaining gross margin discipline in a very competitive market environment. Actions taken in Plumbase to improve the customer mix and the initiatives taken over the past eighteen months started to deliver benefits. The bathroom distribution business continued to deliver a strong level of operating profit and a good operating margin.

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

outcome for the year in a more challenging trading environment.

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

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



UK Merchenting Strategy in Action

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

- **Focusing on the 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 attractive segments of merchenting market as a preferred buyer;**
- **Developing sustainable position in the electrical distribution market;**
- **Growing hire centre revenue in builders merchenting branches; and**
- **Expanding selectively in complementary product markets.**

During 2017 this strategy was implemented through continued organic development of the Selco branch network, with 12 new branches opened during the year and plans to open seven new branches this year and to relocate its sizeable long established branch at Cricklewood to a new store nearby.

Selco continued to implement a clear and well-focused strategy that is based on an opportunity to grow revenue and the scale of the business. This involved increased investment and a step-up in the number of branch openings and is supported by a very successful operating model.

The acquisition in February 2018 of **Leyland SDM**, a 21-branch decorating and DIY business, complements the Group's larger Selco merchenting branches in the Greater London Area.



Irish Merchancing

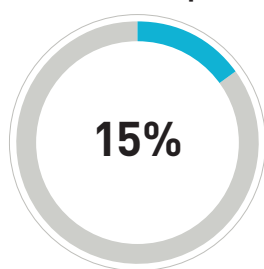
The Irish Merchancing segment trades mainly under the Chadwicks and Heiton Buckley brands in the Republic of Ireland.

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

Market Positions

| | |
|----------------------|--------------|
| Builders Merchancing | No. 1 |
| Plumbers Merchancing | No. 1 |
| Steel Stock Holding | No. 1 |

Proportion of Group Revenue



Key Brands

CHADWICKS

Heiton Buckley
BUILDERS MERCHANTS

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

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

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

Some of the gains from increased revenue were reinvested in the businesses to support the higher level of activity in the branch network and to provide for further progress in a market that offers significant growth potential. This involved creating 60 new roles that will

allow the business to continue to leverage its leadership position as the market returns to a more normalised level of activity over the coming years.

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

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

Irish Merchanting Strategy in Action

The Group's Irish Merchanting 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 and acquisitions.**

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



Netherlands Merchanting

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

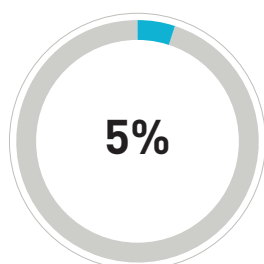
| | 2017 £'m | 2016 £'m | Actual Change | Constant Currency Change |
|----------------------------------|--------------|-------------|------------------|--------------------------------|
| Revenue | 131.0 | 87.7 | +49.4% | +39.8% |
| Adjusted operating profit | 12.6 | 9.1 | +38.1% | +29.3% |
| Adjusted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

Market Position

Builders Merchanting
(ironmongery, tools and fixings)

No. 1

Proportion of Group Revenue



Key Brands



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

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

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



Netherlands Merchanting Strategy in Action

The Group's strategy in the Netherlands Merchanting 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 merchanting market; and
- Using Group scale and expertise to enhance product ranges in existing branch network.

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

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

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



Belgium Merchancing

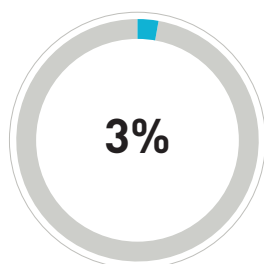
Grafton trades under the YouBuild and MPRO brands in Belgium.

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

Market Position

Merchancing Market **No. 2**

Proportion of Group Revenue



Key Brands



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

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



Belgium Merchenting Strategy in Action

The Group's Belgium Merchenting strategy focuses on:

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





Sectoral and Strategic Review

Retailing

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

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

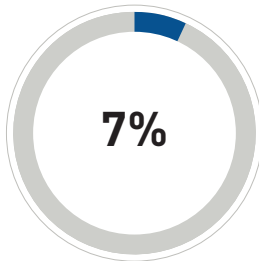
Retailing

Woodie's, Ireland's number one retailer for DIY, Home & Garden products, expanded its market position with like-for-like revenue growth of 9.1 per cent.

Market Position

DIY Retailing Ireland **No. 1**

Proportion of Group Revenue



Key Brand



The strong performance for the year reflected the positive response from customers to the transformation programme implemented in recent years. This programme sought to build a business for the future to meet the evolving needs of customers while recognising the unique heritage of **Woodie's** in the Irish retail market. Woodie's traded strongly though the year in a favourable economy and achieved above market growth from improved and extended product ranges and initiatives in the Seasonal, Kitchens and DIY categories.

Eight stores were upgraded taking the number completed to 20 by the year-end representing two-thirds of revenue. Woodie's online presence, which allows customers the convenience to shop at any time using the direct delivery service or to click-and-collect from stores, was enhanced with a new website and on-line revenue doubled.

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

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



Retailing Strategy in Action

The Group's Retailing 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 continued to be upgraded in line with evolving technology and retail trends. It now allows the convenience to shop at any time using the direct delivery service or to click-and-collect from stores.

Social media continues to be an integral part of ongoing marketing programmes. The business has over 94,000 Facebook likes and almost 8,000 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 in 2017 following the successful rollout in 2016 of the new layout and merchandising concept. This took the number of branches completed to 20 by the year-end representing two thirds of total revenue. The newly formatted stores deliver an improved shopping environment, enhance performance and protect Woodie's strong market leadership position.





Sectoral and Strategic Review

Manufacturing

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

CPI EuroMix 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.

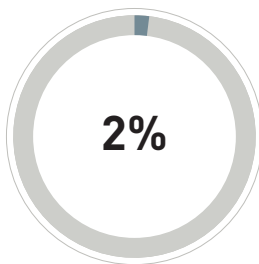
Manufacturing

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

Market Position

Mortar Manufacturing UK **No. 1**

Proportion of Group Revenue



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

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

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.**



The Group retains its medium term objective of achieving a Group operating margin of seven per cent and a return on capital employed of fifteen per cent.



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

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

Revenue

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

Adjusted Operating Profit

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

Growth in the adjusted operating margin by 30 basis points to 6.0 per cent and by 40 basis points to 5.9 per cent excluding property profit was due to volume growth and efficiencies across the businesses including a focus on tight control of overheads in

Financial Review (continued)

the like-for-like business and benefits from successfully restructuring the UK Plumbing, Heating and Contracts businesses in the last quarter of 2016.

Net Finance Income and Expense

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

Taxation

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

Capital Expenditure and Investment in Intangible Assets

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

of fixed assets. The net investment on capital expenditure and intangible assets was £72.6 million (2016: £50.4 million).

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

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

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

Pensions

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

The reduction in the deficit was mainly attributed to good returns on scheme assets which were valued at £239.4 million at the year end. Updated mortality assumptions and a fall in expectations for future inflation reduced scheme liabilities and the deficit in the UK schemes. These gains were partially offset

by a decline of 30 basis points to 2.6 per cent in bond yields used to discount UK scheme liabilities.

Net Debt

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

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

Financing

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

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

At 31 December 2017 the Group had undrawn bank facilities of £213.1 million (31 December 2016: £217.6 million) and cash balances and deposits of £253.7 million which together with

strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, replacement assets and development activity including acquisitions.

Shareholders' Equity

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

Return on Capital Employed and Asset Turn

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

David Arnold

Chief Financial Officer

Risk Management

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 risk 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 and 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 processes that fulfil the Board's corporate governance obligations and support the Group's strategic objectives. The Board is responsible for establishing and maintaining risk management processes 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 UK Corporate Governance 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 closely controlled 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 also significant 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 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 the Group Head Office in Dublin. The Group's financial reporting process is controlled by reference to the Group Financial Accounting Policies and Procedures Manual, which sets out the general accounting principles, requirements and internal controls applicable to all Group businesses.

Group Risk Committee

The Group has established a Group Risk Committee ("GRC") whose membership reflects a range of executive functions, skills, expertise, experience and business activities within the Group. The GRC is responsible for the 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 management team in each Business Unit is responsible for identifying risks and for the day to day management of those risks.

The GRC initiates Group-wide actions to manage risks. Recent GRC initiatives and actions have included:

- Development of procedures to confirm supplier compliance with regulatory requirements and ethical standards;
- Defining and communicating responsibilities of the Group and Business Units in relation to the management of risk;
- Monitoring the roll-out of Ethics training and Business Continuity Planning across the Group;
- Sharing of good practice and lessons learned;
- Actions to support the Group’s information security programme; and
- Monitoring of relevant legislative and regulatory developments and the Group’s response to these, including Modern Slavery Act, Gender Pay Reporting, GDPR, Payment Practices Reporting, and Corporate Criminal Offences, including updates to Group Policies where necessary.

Internal Audit

The Group Internal Audit function focuses on areas of greatest risk to the Group, by developing and executing an annual programme of audit work which is based on covering the key risks to the Group and Business Units as set out in their risk registers. It monitors compliance and considers the effectiveness of internal control throughout the Group. Where appropriate this involves co-ordinating work with audit teams based in the businesses who perform compliance reviews of branch level procedures, health and safety and transport.

The Audit and Risk Committee approves the Internal Audit Plan, reviews Internal Audit Reports and meets with the Group Internal Audit and Business Risk Director in order to satisfy itself of 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

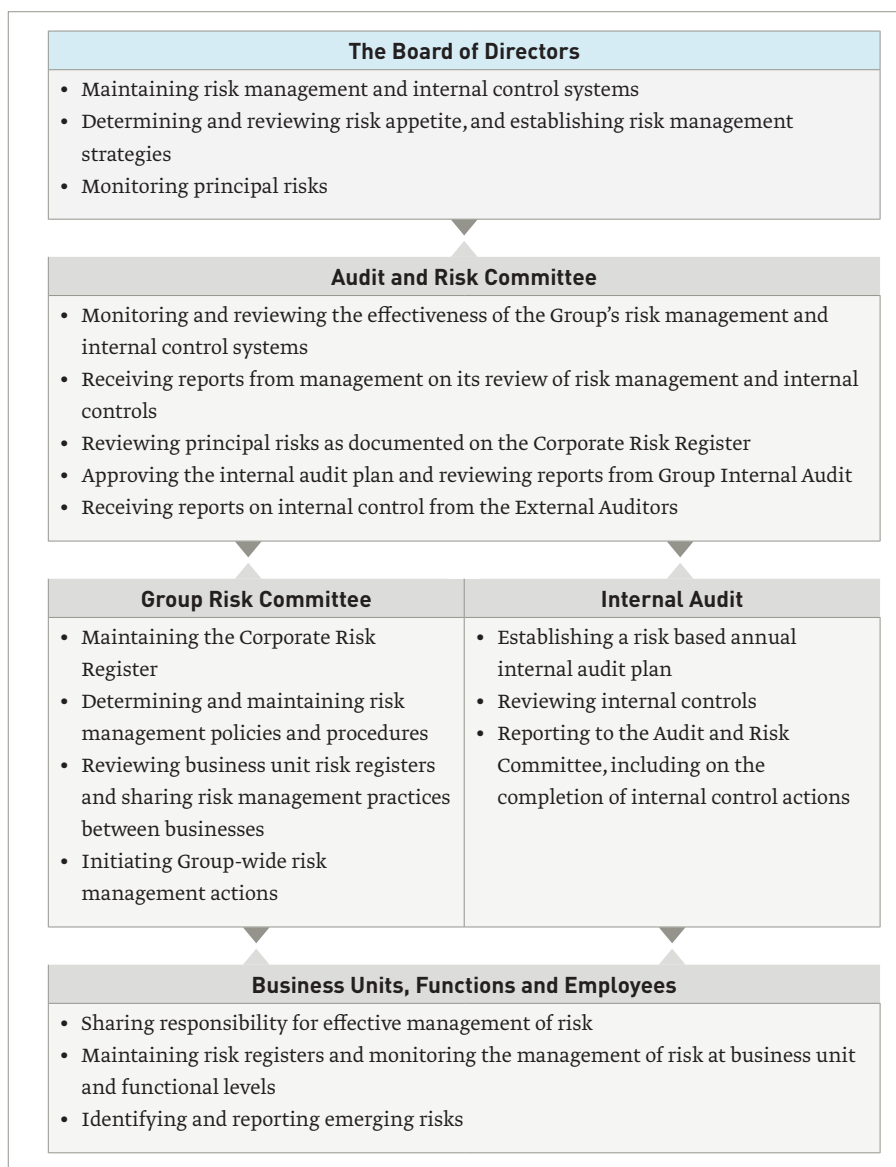
External Auditor to discuss the nature of the points raised. The Chairman of the Audit and Risk Committee reports to the Board on all significant matters considered by the Committee.

In line with best practice, the Group’s Risk Management and Internal Audit procedures are subject to a review of their effectiveness by an independent third party on a periodic basis. An effectiveness review was carried out in 2017 by KPMG, which found that both Internal Audit and Risk Management procedures in the Group were fit for purpose, whilst setting out a number of recommendations for further development of each function. These recommendations form part of Internal

Audit and Risk Management objectives to be addressed in 2018.

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 Group’s system of internal control. The Directors confirm that they have reviewed the effectiveness of internal controls. In particular, during the year the Board has considered the significant risks affecting the business and the way in which these risks are managed, controlled and monitored.



Key Risks

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

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 Movement



Link to Strategy



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 at least a further 12 months 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.

Competition in Merchancing, DIY and Mortar Markets

Risk Movement



Link to Strategy



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.

The Group has established and continues to develop online sales capability to respond to changing customer requirements. 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 Movement



Link to Strategy



Risk Description

The Group has in the region of 13,000 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. This enabled a number of Business Unit CEO roles to be filled internally during 2017.

IT Systems and Infrastructure

Risk Movement



Link to Strategy



Risk Description

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.

The rate and scale of IT change is increasing as the Group undertakes a programme to replace a number of legacy systems. These changes have the potential to disrupt operations.

Mitigation

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.

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. System changes are subject to rigorous testing and confirmation that they meet defined business acceptance criteria prior to full implementation. Regular progress reports are made to the Board and planning and implementation is subject to review by Group Internal Audit.

Risk Management (continued)

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

Key Risks (continued)

Cyber Security and Data Protection

Risk Movement



Link to Strategy



Risk Description

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, including the risk of a material loss of revenue, steal information or commit fraud.

Theft of data relating to employees, business partners or customers may result in a regulatory breach and could impact the reputation of the Group.

Mitigation

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 has put in place a Cyber Insurance Policy to provide additional cover against cyber risk.

A programme to oversee the actions required for GDPR compliance has been established at a Group level, with leads established in each business unit to co-ordinate activities. The Group has also established an Information Security and GDPR Steering committee to monitor and oversee the delivery of the Information Security and GDPR Programmes.

Health and Safety

Risk Movement



Link to Strategy



Risk Description

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.

Mitigation

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.

Acquisition and Integration of New Businesses

Risk Movement



Link to Strategy



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, and the sharing of any lessons learnt identified by those reviews.

Credit Risk Relating to Customers

Risk Movement



Link to Strategy



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 and Irish merchanting businesses. Past-due receivables are monitored and actively managed on an on-going basis and bad debt provisions are made as required. Enforcement action is taken against customers who do not fulfil their payment obligations where it is anticipated that all or part of a debt will be recovered.

Supplier Rebates

Risk Movement



Link to Strategy



Risk Description

The total value of income the Group receives from its suppliers in the form of volume rebates and other amounts, including product and marketing support, represents a material percentage of its operating profit. There is a risk that the Group does not collect all supplier rebates receivable or that rebates are accounted for incorrectly.

Mitigation

The Group seeks to put in place written agreements with all key suppliers detailing the terms and conditions of rebate arrangements. Finance and procurement teams work closely to validate amounts due from suppliers based on these agreements and quantities purchased. Rebates receivable are regularly reviewed and Business Units engage in dialogue with suppliers regarding collection. A proportion of rebate agreements provide for repayment of rebates at regular intervals throughout the year thereby reducing the amount receivable by the Group at the year end.

Internal Controls and Fraud

Risk Movement



Link to Strategy



Risk Description

The Group is exposed to the risk of failure in financial or operational controls in individual Business Units, including the failure to prevent or detect fraud. A breakdown in controls of this nature could lead to a financial loss for the Group.

Mitigation

The Group has established a framework of controls incorporating a “three lines of defence” model to protect against significant control deficiencies and the risk of fraud. This includes documented policies and procedures for key financial and operational processes, ongoing monitoring of management accounts both at Group and Business Unit level, monthly sign-off of Business Unit accounts by local finance directors and an annual compliance statement. Business Units also complete a six monthly self-assessment of key financial controls which is subject to validation by Group Internal Audit. Branch procedures are subject to regular review and audit by Business Unit internal audit and loss prevention teams.

Non-Ethical and Anti-Competitive Practices

Risk Movement



Link to Strategy



Risk Description

Non-ethical behaviour by any of the Group’s employees may result in a breach of legislation, and potentially significant fines and penalties, as well as damaging the Group’s reputation. In particular, given the market leading position of many of the Group’s businesses there is a risk that anti-competitive practices could result in the imposition of a penalty against the Group under competition law.

Mitigation

The Group has established a Code of Business Conduct and Ethics which sets out the high standard of behaviour expected from the Group’s employees and businesses. This is supported by a number of Group policies which are cascaded down into Business Units setting out the requirements in areas including Anti-Bribery and Corruption and Competition Law. These policies are communicated to all employees and reinforced through mandatory on-line training which also forms part of employee induction programmes.

“SpeakUp”, the Group wide, independently run, reporting function, allows employees to anonymously report any suspected wrongdoing or unethical behaviour. All reported cases are investigated, which is overseen by Group Internal Audit, with appropriate disciplinary action taken where necessary.

Stock Management

Risk Movement



Link to Strategy



Risk Description

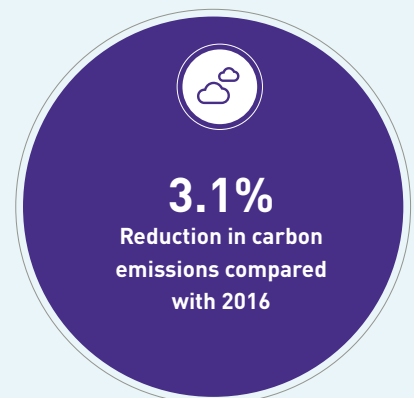
Inadequate stock management and control procedures could result in a misstatement of inventory balances and the holding of excessive inventory which may have to be written down to realisable value which may result in financial loss. In addition poor stock management practices which lead to non-availability of products required by customers will result in loss of revenue and profit.

Mitigation

Each business has its own specific inventory management practices and controls in place to minimise excessive stock holding and avoid stock-outs, including regular reviews of slow moving inventory across branch networks. Inventory is counted and verified on a regular basis at branches through either full stock counts or regular checks on a rotation basis of stocks that are controlled by perpetual inventory systems.

Corporate Social Responsibility

Some Highlights of our Performance in 2017



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

The Group continues to recognise the importance of a strategic and coordinated approach to the many aspects of its corporate social responsibility (“CSR”). 2017 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



The Group’s Code of Business Conduct and Ethics and associated policies and training modules are fundamental to establishing the basic standards of behaviour which all colleagues (and also contractors, agents and business partners) of the Group are expected to follow and to ensuring that the Group’s principles of ethical behaviour are embedded across all Business Units. The Group tracks completion of online ethics and regulatory training modules across all Business Units. During the year the training modules were translated into Dutch and rolled out in the Netherlands business.

The Group’s commitment to ethical business and good corporate governance was further strengthened during the year with the establishment of a Group-wide programme for compliance with GDPR, the development and piloting of procedures to confirm supplier compliance with regulatory requirements including the UK Modern Slavery Act, and the completion of an external effectiveness review of the Group’s risk management processes which resulted in a number of actions that

Corporate Social Responsibility (continued)

require further development.

Community and Charity Support



Grafton recognises its responsibility as a member of the communities in which we conduct business and we are committed to developing links to those communities through a range of community and charitable initiatives supported by local colleagues and management. The Group also supports a range of charitable causes mainly at a local level through its branch network. In 2017, Grafton businesses raised over £500,000 in support of charities.

The very successful “Woodie’s Heroes” fundraising campaign raised a total of €275,000 in 2017 and over €750,000 to date for various children’s charities. The campaign included cycling events, the recording of a charity single and various other initiatives across the branches. The charities benefitting from the campaign in 2017 were Make a Wish Ireland, Temple Street Children’s Hospital, Act for Meningitis and The Jack and Jill Children’s Foundation.

The Irish merchanting business supported a number of charitable initiatives during the year in support of various charities such as Barnardos and St. Vincent de Paul. The business also continued its 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 raising over £50,000 through a number of events and initiatives. A further £80,000 was raised for various other charities. Colleagues from across Buildbase and Hirebase spent seven weeks in Tanzania during the year assisting with the construction of sanitary facilities for a local school in partnership with Raleigh International.

In June 2017, Grafton Group plc sponsored its sixth consecutive cycle challenge. The four day challenge covered over 300 miles from Poland to Prague. A team of senior

executives completed the challenge and raised over £10,000 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 £118,000 in 2017 and almost £500,000 to date through a variety of sporting events and community initiatives. Selco also donated to local charities as part of its new branch opening activity.

The Netherlands merchanting 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 continues to support a number of children’s charities including the Children’s Cancer Foundation and the “Music for life” and “Viva for Life” campaigns which focus on the relief of child poverty.



- ▲ Colleagues from across Buildbase and Hirebase spent seven weeks in Tanzania during the year, assisting with the construction of sanitary facilities for a local school, in partnership with Raleigh International.



- ▲ Woodie’s colleagues took part in the Heroes cycle in August 2017, covering over 1,500km in five days as part of a campaign to raise funds for Irish children’s charities.

Our values

- 1 Be brilliant for our customers
- 2 Value our people

- 3 Ambitious
- 4 Trustworthy
- 5 Entrepreneurial and empowering

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.

62 per cent of the Group's branches are accredited 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 and Belgian merchanting businesses source timber from suppliers that are FSC/PEFC certified.

Modern Slavery Act

The Group has issued a Modern Slavery Policy Statement in respect of the year ended 31 December 2017, which is available on its website 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.

Carbon Footprint and Energy Reduction**Greenhouse Gas Emissions****Group CO₂e Emissions (Tonnes of CO₂e)**

| 2017 | 2016 |
|---------------|--------|
| 84,630 | 87,348 |

Overall CO₂ emissions for the Group decreased by 3.1 per cent in 2017, in part due to the cleaner energy now being supplied in the UK energy market.

Ongoing renewal of the Group's fleet and continued installation of LED lighting have also contributed to the Group's lower carbon footprint. In 2017 the Group invested in 177 new vehicles that comply with the latest and most stringent Euro 6 low emission standard.

The Isero business in the Netherlands has invested in a number of electric vans to reduce emissions.

Energy Efficiency

During 2017 we have continued to install LED lighting across our branch networks. All new Selco stores have installed LED lighting and energy management systems that reduce the gas used in heating. The UK merchanting business continues to issue monthly energy reports to all branches to promote energy saving at a local level.

Corporate Social Responsibility (continued)

Pollution and Waste



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.

Recycling rates in 2017 remained static at 77.1 per cent. However it is hoped that the rate will increase in future years following the introduction of a new waste recycling initiative in the UK merchanting business during 2017.

The Belgian business participates in the "Clean Site System" which aims to increase collection and recycling of plastic waste on construction sites by allowing customers to purchase empty waste bags in the branches and return them once full to branches where they are stored and collected by an accredited firm for recycling.

During 2017, MacBlair introduced a waste recycling initiative for cardboard, plastic and timber resulting in the business being shortlisted for the 'Waste Reduction Project of the Year' in the 2017 Business Eye awards.

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. The Group provide incentives to employees through remuneration policies that promote commitment and reward achievement.

The Group's Equality and Diversity Policy states that Grafton will not tolerate harassment or discriminatory practices based on age, ethnicity, marital status, medical condition, disability (both mental and physical), nationality, religion, political affiliation, gender, 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. Grafton's aim is to promote equality and to be a welcoming, inclusive, diverse and safe place to work for everyone. Gender Pay information will be published on the websites of those 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, with significant attention and resources 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 giving people opportunities through internal promotions and to complement internal appointments with recruitment from outside of the organisation.

The Irish merchanting business uses its Leadership Academy to develop and retain strong talent. Successful participants are conferred with a City & Guilds Diploma. The business also operates the 'GMROI Sales Academy' which equips colleagues with the essential tools required to develop their careers as sales representatives.

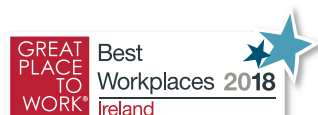
The Group's commitment to career development has been reinforced by the introduction of the Apprenticeships Levy in the UK whereby a proportion of payroll costs of UK employer companies are used to recruit entry-level apprentices and fund the development of future talent. Existing employees can also benefit from apprenticeship training programmes that lead to level 3 and 5 ILM qualifications.

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Both Selco and the traditional UK merchanting business participated in the UK Best Companies Survey which resulted in 'One to Watch' accreditations, while Woodie's was recognised as a 'Great Place to Work'.



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. A training program was also introduced to develop Experts in key areas of customer support.

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 platform.

The Belgian business increased investment in training, including management and leadership programs, and training in sales, driver and crane safety and first aid.

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. Both Selco and the traditional UK merchanting business participated in the UK Best Companies Survey which resulted in 'One to Watch' accreditations, while Woodie's was recognised as a 'Great Place to Work'.

The Group continued to roll out its cloud based HR solution which currently allows almost 10,000 colleagues to access and update their employee records from a range of devices. Colleagues in the UK 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.

The Group operates a Revenue-approved Save as You Earn (SAYE) Scheme that enables eligible UK colleagues to share in the success

of the overall Group. A scheme launched in 2014 matured in December 2017 that gives participating employees the option to purchase Grafton Units at a discount to the market price of the shares at the time the options were granted. A new SAYE scheme was launched in 2017 which will mature in 2020. Colleagues have the opportunity to benefit from any increase in the share price over the three year savings period. The Irish Merchanting business also operates a Revenue-approved profit sharing scheme.

Colleagues in the UK, have access to an Employee Helpline, a confidential helpline service available online or by telephone which provides instant and unlimited 24/7 access to them and their immediate family, to help and support on a wide range of everyday issues covering work, relationships, family matters, financial, legal and health.

Colleagues also have access to "Speak-Up", the group-wide confidential reporting service which provides 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. The Speak-Up line will also be utilised for whistleblowing under the Group's GDPR compliance programme. 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.

Health and Safety



The Group is committed to achieving the best practicable standard of health and safety for its colleagues, customers and visitors. Health and safety is regarded as a vital element in the overall management of the Group's businesses and is an agenda item for all meetings of the Grafton Group plc Board and at Business Unit review meetings. Effective health and safety management is driven by the Board and senior management.

The Group's health, safety and environment support teams were further strengthened in 2017 with the recruitment of additional advisors and the re-alignment of teams within each business to increase local ownership and leadership of safety. Senior management in each business will directly manage their local safety support teams to promote responsibility for health and safety and to ensure that the health and safety agenda is driven alongside all other business priorities. During the year the Group appointed Mike O'Hara as Group Safety, Health, Environment and Quality Director to strengthen its focus on behavioural safety leadership to support and challenge the Business Unit leaders and to provide overall strategic direction and guidance to individual Business Units. These changes to our safety leadership and support teams further demonstrate the Group's ongoing commitment to the health, safety and environment agenda.

Health and Safety improvement plans are in place in each of the businesses which allow for the measurement of future performance against agreed improvement objectives. The Group Health and Safety Policy, which sets out the key responsibilities for health and safety management across the Group, was reviewed and updated during the year. Every employee is expected to fulfil their responsibilities as effectively as possible and to raise any concerns about safety. The Group's health and safety 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.

A new electronic incident reporting system was introduced across most of the Group in 2017 utilising the 'Safety Cloud' system. This system has been used to encourage more open reporting of all incidents. It is intended that Safety Cloud will be further developed to become the 'one-stop-shop' for safety rather than simply being an incident reporting tool. Online training, safety bulletins, audits and checklists will be added to the system as they are developed during the year.

The Group's Lost Time Injury Frequency Rate (LTIFR) reduced by 6 per cent to 1.09 lost time injuries per 100,000 hours worked.

Looking ahead to 2018, the ongoing embedding of local safety teams alongside the operational leadership teams will form a significant part of the Group's health and safety activity using a revised methodology that is based on a Group average of 39 hours per working week.

Group-wide initiatives will continue to focus on three high risk areas: the management of pedestrians and vehicles in branches, safe product storage and handling practices and safe delivery to customers. Behavioural safety leadership is fundamental to the Group's successful transition from a 'Must Do' safety culture to a 'Choose To' safety culture and will be a focus for all business leaders in 2018 and beyond.

- ▶ A new electronic incident reporting system was introduced across much of the Group in 2017 utilising the 'Safety Cloud' system. This system has been used to encourage more open reporting of all incidents.



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Case studies: Health and safety

MacBlair introduced a number of safety initiatives including mandatory eyesight testing for all commercial vehicle drivers and alcohol and drugs testing after any incident and in certain other circumstances.

Plumbase continued its drive to increase awareness of health and safety with its new management handbook which contains practical advice and guidance for branch management.

Buildbase set up two drivers' forums for delivery drivers from several branches, chaired by the Regional Managing Directors.

Various strategies were introduced by Selco to reduce noise pollution from branches located in residential areas.

CPI Mortars, the Group's mortar manufacturing business, was the winner of the Mineral Products Association (MPA) Occupational Health and Wellbeing Award during 2017 in recognition of improvements achieved in the workplace by the fitting of hepa-filters to its mobile skip-vac units. These filters virtually eliminate respirable crystalline silica (RCS) emissions from the vac exhaust systems. This is an area of significant focus within the industry as RCS is a known carcinogen.

CPI Mortars also held a Vulnerable Road User Awareness day in partnership with a primary school to raise awareness of safety around heavy goods vehicles.







Corporate Governance

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Board of Directors and Secretary

Legend

- A Audit and Risk Committee
- F Finance Committee
- N Nominations Committee
- R Remuneration Committee
- C Committee Chairman

N C



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 Non-Executive Chairman on 1 January 2017.

Career

Mr. Roney 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 formerly Non-Executive Director of Johnson Matthey Plc.

Current external appointments

Non-Executive Chairman of Next plc, the FTSE 100 listed UK retailer. Non-Executive Director of Brown-Forman Corporation, the US based spirits business and of Azelis SA, a private company.

Board Length of Service: 1.9 years

F C



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.

Career

Mr. Slark was previously Group Chief Executive of BSS Group plc, a leading UK distributor of plumbing, heating, pipeline and mechanical services and products.

Current external appointments

Non-Executive Director of Galliford Try plc, a UK housebuilding and construction group.

Board Length of Service: 7.0 years

F



David Arnold (UK), BSc, FCMA, FCT

Chief Financial Officer

David Arnold joined the Group as Group Chief Financial Officer on 9 September 2013.

Career

Mr. Arnold was Group Finance Director of Enterprise plc, the UK Maintenance and Support Services business, from 2010 to 2013 and was 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.

Current external appointments

None.

Board Length of Service: 4.5 years

F



Charles Rinn, MBA, FCCA
Group Financial Controller & Secretary

Finance Committee

| Membership | Length of Service* |
|---------------------|--------------------|
| G. Slark (Chairman) | 7.0 years |
| D. Arnold | 4.5 years |
| C. Rinn | 14.0 years |



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

Frank van Zanten was appointed to the Board on 13 May 2013.

Career

Mr. van Zanten is Chief Executive of Bunzl plc, the FTSE 100 UK international distribution and outsourcing Group with operations across the Americas, Europe and Australasia. 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.

Current external appointments

Chief Executive of Bunzl plc.

Board Length of Service: 4.8 years



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

Paul Hampden Smith was appointed to the Board on 27 August 2015 and was appointed Senior Independent Director with effect from 9 May 2017.

Career

Mr. Hampden Smith 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 was previously Non-Executive Director and Chairman of the Audit Committee of Pendragon plc, Redrow plc, DX Services plc and Clipper Logistics plc.

Current external appointments

Non-Executive Director, Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees of Bellway plc.

Board Length of Service: 2.5 years



Susan Murray (UK)
Non-Executive Director

Susan Murray was appointed to the Board on 14 October 2016.

Career

Mrs. Murray 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.

Current external appointments

Non-Executive Director of 2 Sisters Food Group, a food manufacturing company, and of Hays plc, a provider of recruitment and human resources services.

Board Length of Service: 1.4 years



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

Vincent Crowley was appointed to the Board on 14 October 2016.

Career

In the course of a 24 year career with Independent News & Media PLC, a leading Irish newspaper and media business, Mr. Crowley 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.

Current external appointments

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.

Board Length of Service: 1.4 years

Remuneration Committee

| Membership | Length of Service* |
|----------------------|--------------------|
| S. Murray (Chairman) | 1.1 years |
| F. van Zanten | 2.2 years |
| P. Hampden Smith | 2.2 years |

Nomination Committee

| Membership | Length of Service* |
|---------------------|--------------------|
| M. Roney (Chairman) | 1.8 years |
| F. van Zanten | 2.7 years |
| P. Hampden Smith | 2.6 years |
| S. Murray | 1.0 years |
| V. Crowley | 1.0 years |

Audit and Risk Committee

| Membership | Length of Service* |
|-----------------------------|--------------------|
| P. Hampden Smith (Chairman) | 2.5 years |
| V. Crowley | 1.1 years |
| S. Murray | 0.2 years |

*All lengths of service are as at 12 March 2018

Directors' Report on Corporate Governance

Compliance with the 2016 UK Corporate Governance Code

Grafton Group plc ("the Company") is incorporated in Ireland and is subject to Irish company law. Its Units (shares) are listed on the London Stock Exchange and the Group is subject to the UK Corporate Governance Code ("the Code") which 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 during the year.





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

LEADERSHIP

The Board of Directors

| Role of the Board | Matters Reserved for Board Decision |
|---|---|
| <p>The Board is responsible for the oversight and success of the Group's business. The Board's responsibilities 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.</p> <p>It is Board policy that no individual or small group of individuals can dominate its decision-making.</p> <p>The Board has delegated some of its responsibilities to the Audit and Risk, Remuneration, Nomination and Finance Committees.</p> | <p>The Board has a formal schedule of matters specifically reserved for its decision, covering:</p> <ul style="list-style-type: none"> • Strategic decisions; • Risk management and internal controls; • Acquisitions and capital expenditure above agreed thresholds; • Approval of interim and final dividends and share purchases; • Changes to the capital structure; • Tax and treasury management; • Approval of half-yearly and annual financial statements; and • Budgets and matters currently or prospectively affecting the Group and its performance. |

Supported by

| Audit and Risk Committee | Nomination Committee | Remuneration Committee | Finance Committee |
|---|--|--|--|
| <p>Monitors the appropriateness and integrity of the Group's financial reporting, external audit, internal audit and risk management processes.</p> | <p>Evaluates the composition of the Board to ensure an effective balance of skills and experience and considers succession planning for directors and senior executives.</p> | <p>Determines the policy for remuneration of the Chairman, the Executive Directors, the Company Secretary and such other executive management as it is designated to consider.</p> | <p>Considers the financing requirements of the Group, amendments to the terms of existing bank facilities, finance and operating leases for assets other than property up to a specified level and litigation matters.</p> |
| <p> See page 73 for more information</p> | <p> See page 77 for more information</p> | <p> See page 79 for more information</p> | <p> See page 68 for more information</p> |

Chairman and Chief Executive Officer

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 responsibilities of each role were documented in a schedule approved by the Board during the year. 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.

Board meetings

The Board met on nine occasions during 2017. The Board also maintains contact between meetings as required. These contacts are for the purpose of receiving updates on developments from management. The Board takes the major decisions while allowing management sufficient scope to run the business within a centralised reporting framework. The Group has arranged insurance cover up to a specified limit in respect of legal actions against directors and officers.

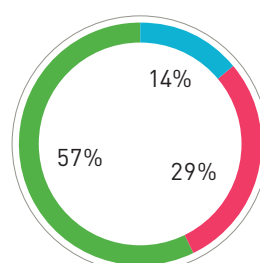
Non-Executive Directors

Non-Executive Directors act constructively to challenge management proposals and review the performance of the business and management. During the year, the Chairman and Non-Executives met without the Executives present.

Senior Independent Director

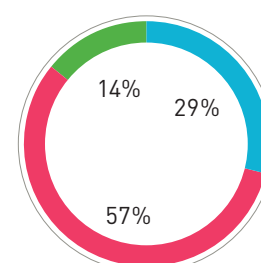
Mr. Paul Hampden Smith was appointed Senior Independent Director with effect from 9 May 2017. He succeeded Mr. Roderick Ryan who

Board Tenure



- More than 5 years
- 3-5 years
- 1-3 years

Executive and Non-Executive Director Balance



- Executive Directors
- Non-Executive Directors
- Chairman

retired from the Board on that date. Mr. Hampden Smith 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.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Mr. 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 2017

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. Roney | 9 | 9 | - | - | - | - | - | - | 3 | 3 |
| G. Slark | 9 | 9 | - | - | 2 | 2 | - | - | - | - |
| D. Arnold | 9 | 8 | - | - | 2 | 2 | - | - | - | - |
| P. Hampden Smith | 9 | 9 | 4 | 4 | - | - | 5 | 5 | 3 | 3 |
| F. van Zanten | 9 | 8 | 4 | 2 | - | - | 5 | 3 | 3 | 3 |
| S. Murray | 9 | 9 | - | - | - | - | 5 | 5 | 1 | 1 |
| V. Crowley | 9 | 9 | 3 | 3 | - | - | - | - | 1 | 1 |
| C. M. Fisher | 3 | 3 | 2 | 1 | - | - | 3 | 3 | 2 | 2 |
| R. Ryan | 3 | 3 | - | - | - | - | - | - | 2 | 2 |

Directors' Report on Corporate Governance (continued)

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. Membership and length of service of Board Committees is shown on pages 64 to 65. Ms. Susan Lannigan, Deputy Company Secretary is Secretary to the Audit and Risk Committee. Mr. Charles Rinn and Ms. Paula Harvey, Group HR Director, jointly act as Secretary to the Remuneration Committee. Mr. Charles Rinn is Secretary to the Nomination Committee.

The Finance Committee is chaired by Mr. Gavin Slark, Chief Executive Officer and also comprises Mr. David Arnold, Chief Financial Officer and Mr. Charles Rinn, Group Financial Controller and Secretary. The Committee considers the financing requirements of the Group, 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 Board is briefed on key discussions and decisions by each Committee Chairman at the Board meeting following the relevant committee meeting and minutes of committee meetings are circulated to the Board.

What the Board Did This Year

The activities of the Board are structured so as to enable the delivery of the Group's strategic priorities within a transparent governance framework. The key activities of the Board during 2017 are set out below:

| January | March | May | June |
|---|--|--|--|
| <ul style="list-style-type: none">Reviewed trading and financial performanceReviewed Health & Safety performanceConsidered findings of Board evaluationReceived an update from the Remuneration Committee Chairman on response from investors to proposed changes to remuneration policyApproved the appointment of Mr. Vincent Crowley to the Audit and Risk CommitteeApproved the appointment of Mrs. Susan Murray to the Remuneration Committee | <ul style="list-style-type: none">Reviewed trading and financial performanceReviewed Health & Safety performanceApproved the 2016 Final Results AnnouncementApproved the 2016 Annual Report, Notice of AGM and noted interim dividend proposalApproved the guarantee of the liabilities of certain group subsidiariesApproved policy statement on the UK Modern Slavery Act | <ul style="list-style-type: none">Reviewed trading and financial performanceReviewed Health & Safety performanceReceived a presentation on market dynamics and competitive landscape in the UK merchanting marketApproved Trading UpdateParticipated in the Annual General Meeting | <ul style="list-style-type: none">Reviewed trading and financial performanceReviewed Health & Safety performanceUpdated key Corporate Governance documents relating to the division of duties between the Chairman and CEO, the Role of the Senior Independent Director, the Schedule of Matters reserved for the Board, the operation of the Board and its Committees, and the approvals process for acquisitions and capital expenditure |

EFFECTIVENESS

Board Composition

It is the Company's policy that the Board comprises a majority of Non-Executive Directors. At 31 December 2017, the Board of Directors was made up of seven members comprising the Non-Executive Chairman, two Executive Directors and four independent Non-Executive Directors. The Board considers that its proposed size and structure 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 international business 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 prior to the AGM.

Directors' Independence and Board Balance

The four Non-Executive Directors, 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.

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. However, in accordance with the provisions of the Code, the Board has decided that all Directors should retire at the 2018 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.

| June | August | October | December |
|--|--|--|---|
| <ul style="list-style-type: none"> • Considered and approved a proposal to launch a new grant of the Save As You Earn scheme for eligible UK employees • Meeting to consider strategic development of Business Units organically and through acquisition, growth opportunities in new geographic markets, trends in the merchanting market, on-line trading and changes in the competitive landscape • Considered proposed appointments to a number of senior management positions in the Group | <ul style="list-style-type: none"> • Reviewed trading and financial performance • Reviewed Health & Safety performance • Update from the Remuneration Committee Chairman on the Committee's work programme • Received a report from the Audit and Risk Committee Chair in relation to the findings of both the External Auditor's and the Committees review of the Interim Results for 2017 • Approved the Interim Results for 2017 and noted the interim dividend proposal | <ul style="list-style-type: none"> • Reviewed trading and financial performance • Reviewed Health & Safety performance • Attended offsite Board and Committee meetings in Amsterdam which provided an opportunity to visit branches and meet with the local executive team • Reviewed and approved an update to the Group's Share Dealing Code • Received an update on acquisition opportunities • Approved a proposal to acquire Scholte & De Vries - Estoppey BV, an Amsterdam-based ironmongery, tools and fixings business | <ul style="list-style-type: none"> • Reviewed trading and financial performance • Reviewed Health & Safety performance • Received a report on talent and succession planning • Received presentations from a number of Business Unit management teams that included a review of 2017 and plans for 2018 • Considered and approved the Group Budget for 2018 • Provided feedback to the Group's Internal Audit and Business Risk Director in relation to the key Group risks |

Directors' Report on Corporate Governance (continued)

Further details on the Board evaluation are set out below.

The overall composition and balance of the Board is kept under review as outlined in the programme of work undertaken by the Nomination Committee in its report on pages 77 to 78. The Board will continue to manage the orderly succession of Non-Executive Directors who were appointed between 2013 and 2017.

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. 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 sufficient time to enable them to prepare for Board and Committee meetings. All Directors receive monthly management accounts and board reports covering the Group's performance, development proposals and other matters to enable them to review and oversee the performance of the Group on an ongoing basis. The Board devotes one of its meetings to strategy and one to the following year's budget. The strategy meeting covers the macro-economic, political and social systems in existing and prospective countries of operation for the Group. It also covers distinctive segments of the merchanting market, competitive landscape and possible acquisition opportunities.

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 visits branches and meets with senior management annually in order to help Directors gain a deeper understanding of the Group's operations, markets, performance and development. These contacts also provide an opportunity to get to know local management and to listen to their views.

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 Chairman during the year ended 31 December 2017. An externally facilitated evaluation was conducted during 2015 by the Institute of Directors in Ireland, with whom the Group has no other connection. The Chairman, Group CEO and Company Secretary met to discuss the findings of the 2016 Board evaluation and agreed a number of actions that were notified to the Board and implemented.

The internal evaluation conducted in 2017 involved each Director and the Company Secretary independently completing a 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. Mr. Niall Quinn, Assistant Company Secretary, collated the responses to the questionnaire and prepared a report on the findings of the evaluation for the Chairman who reported the results to the Board. The overall results of the evaluation were very positive with a high and improved level of satisfaction among Directors concerning the matters covered by the evaluation.

The Non-Executive Directors met without the Chairman present to appraise his performance. The evaluation of individual directors involved a meeting between each of them and the Chairman.

The Board confirms that each of the Non-Executive and Executive Directors 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 increasing scale, geographic spread and complexity of the Group's operations.

The Nomination Committee takes account of the skills, knowledge and experience, including international business experience, required by the Board. It also considered Board 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 strong succession pipeline for key positions up to and including Executive Director level.

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 and Risk Committee. Details of how these duties were discharged is set out in the Audit and Risk Committee Report on pages 73 to 76.

An assessment of the viability of the Group over a three year period to December 2020 was carried out by the Board and details of this assessment are set 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 2020, taking account of the Group's current position and prospects, the Group's strategy and principal risks and how they are managed as documented on pages 50 to 53. 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 2020.

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 and reasonable scenarios, and the effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks that would realistically 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 also considered the Group's very effective response following the 2008 global financial crisis.

The Directors have determined that the three-year period to December 2020 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 five 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, dividend payments and the Group's ability to generate positive cash inflows in a scenario of falling revenue as working capital invested in the business is unwound. These mitigating actions were tested during the downturn in the Group's businesses from 2008 to 2012 which highlighted the resilience of its business model to a severe and protracted economic downturn.

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 of pay are both stretching and rigorously applied. The Board has established a Remuneration Committee comprising three independent Non-Executive Directors. Details of the committee's key responsibilities and a description of its work during 2017 are contained in the Report of the Remuneration Committee on Directors' Remuneration on pages 79 to 95.

COMMUNICATIONS 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 issued trading updates in January, May, July and November of 2017.

Presentations to analysts were held in London on 7 March 2017 and 31 August 2017 following the announcement of the Final Results for 2016 and the Interim results for 2017 respectively. The presentation by the Chief Executive Officer and the Chief Financial Officer was broadcast live on www.graftonplc.com/webcast and can be viewed or downloaded at www.graftonplc.com.

Significant or noteworthy acquisitions are announced to the market. The Company's website www.graftonplc.com provides the full text of all announcements including the half-yearly and annual results and investor presentations. As noted above, the Group also issues regular trading updates on the performance of the overall group and individual business segments.

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 maintained through the Chief Executive Officer 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 feedback from investors following meetings with management following the announcement of the Final Results and the Interim Results and also receives analysts' reports on

Directors' Report on Corporate Governance (continued)

the Group. The Chairman is offered an opportunity to attend meetings with major shareholders. The Chairman attends the presentation of the interim and annual results.

All shareholders are invited to attend the Annual General Meeting. This provides an opportunity for shareholders to put questions to the Chairman, the Chairman of each of the Board Committees and Executive Directors and to meet informally with Directors before and after the meeting. The Company Secretary communicates with shareholders on corporate governance matters, particularly in the lead up to the AGM.

Disclosure Committee

The Disclosure Committee is a management Committee comprising Mr. Gavin Slark, Group CEO and Mr. David Arnold, Group CFO. The Committee holds meetings formally and informally as required to ensure the accuracy and timeliness of compliance with the EU Market Abuse Regulation.

General Meetings

Grafton Group plc is incorporated, managed and controlled in Ireland and the Company's Annual General Meeting (AGM) is held in Dublin. 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. In view of the Group's international shareholder base, it is the Board's policy to give 21 days' notice of EGMs unless the Directors believe that a period of 14 days is merited by the business of the meeting and the circumstances surrounding the business of the meeting.

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 the record date for the general meeting, 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 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 five 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 three 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.

Audit and Risk Committee Report

Dear Shareholder,

As Chairman of Grafton's Audit and Risk Committee, I am pleased to present the report of the Committee for the year ended 31 December 2017.



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 "Code").

The Committee is satisfied that its role and authority include those matters envisaged by the 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 three Non-Executive Directors:

- Mr. Paul Hampden Smith, Chairman,
- Mr. Vincent Crowley and
- Mrs. Susan Murray

Mr. Charles Fisher was a member of the Committee until his resignation from the Grafton Board on 9 May 2017. Mr. Frank van Zanten stepped down from the Committee on 15 December 2017 and Mrs. Susan Murray was appointed to the Committee on the same date.

All members of the Committee are determined by the Board to be independent Non-Executive Directors in accordance with provision B1.1 of the Code. In accordance with the requirements of provision C.3.1 of the Code, I am designated as the Committee member with recent and relevant financial experience. The biographical details on page 65 demonstrate that all 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.

Audit and Risk Committee Report (continued)

Meetings

The Committee met four times during the year and attendance by each Committee member is set out in the table on page 67.

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 a regular basis on the work of the Audit and Risk Committee and on its findings and recommendations.

Key Areas of Activity During 2017

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

| | |
|---|---|
| Financial Reporting | 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 Report of PwC following their audit and 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 page 76. |
| Risk Management and Internal Control | 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 48 to 53. 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. |
| Internal Audit | <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 recommended actions. The Committee considered and approved the programme of work to be undertaken by the Group's internal audit function in 2018.</p> <p>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> |
| IT Systems | 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 a full strategic business case and a risk analysis was conducted for each project. The Committee continued to monitor implementation of the AX Trading Platform and the quality of the processes in place in relation to its development and planned roll out across the branch network. |

External Auditor

The Committee reviewed the External Auditor's overall audit plan for the 2017 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.

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 Irish Auditing and Accounting Supervisory Authority's Ethical Standards for Auditors (Ireland). 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.

Non-Audit Services

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.

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 & 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.

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 2017 is disclosed in Note 3 on page 129. The Committee has undertaken a review of non-audit services provided during 2017 and is satisfied that these services, which were very 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.

Whistleblowing and Fraud

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 and monitored by the Committee.

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, anonymously if they wish, 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.

Anti-Bribery and Corruption

The Group's Code of Business Conduct and Ethics sets out the ethical standards to which all Group employees are expected to adhere. The Group Anti-Bribery and Corruption Policy was reviewed during 2017. It sets out the core standards and procedures to be observed and provides 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 exposed to higher risk of conflicts of interest, including employees who have responsibility for contract negotiations with customers and suppliers.

Audit and Risk Committee Report (continued)

Estimates and Judgements

The Committee reviewed in detail the following areas of significant judgement, complexity and estimation in connection with the Financial Statements for 2017. 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 103 to 110. The Committee also had an in-depth discussion on these matters with the external auditors.

Goodwill

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 2018 and internal forecasts for the years 2019 to 2022 inclusive.

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 merchanting 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.

Recognition of Supplier Rebates

Supplier rebates represent a significant source of income in the merchanting 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 year-end reviews across a sample of significant Business Units with the primary objective of providing independent assurance on the accuracy of rebate receivable balances at year-end. These reviews included re-performing calculations on a sample of rebate income for 2017 with 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 2017.

Valuation of Inventory

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.

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
12 March 2018

Nomination Committee Report

Dear Shareholder,

I am pleased to present my first report as Chairman of the Nomination Committee having taken on the role after my predecessor Roderick Ryan stepped down from the Board at the end of the 2017 AGM.



The Committee's primary responsibility is to ensure that the Board is comprised of individuals with the skills, knowledge, independence and expertise to enable it to discharge its responsibilities to shareholders.

Membership

The Committee currently comprises myself as Chairman and all four Non-Executive Directors:

- Mr. Paul Hampden Smith,
- Mr. Frank van Zanten,
- Mrs. Susan Murray and
- Mr. Vincent Crowley.

The biographical details of each Committee member and their length of service on the Committee are set out on pages 64 to 65. 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.

Nomination Committee Report (continued)

Activities of the Committee During 2017

The Nomination Committee met formally on three occasions during the year. The principal activities undertaken by the Committee during the year are set out below:

Changes to Board

In March 2016, the Group announced the planned retirement of Mr. Michael Chadwick as Non-Executive Director and Chairman and the appointment of myself as Chairman Designate. I was very pleased to succeed Mr. Chadwick as Chairman with effect from 1 January 2017.

Mr. Roderick Ryan retired from the Board at the conclusion of the 2017 AGM having completed eleven years as Non-Executive Director. Mr. Charles Fisher also retired from the Board at the conclusion of the 2017 AGM having completed eight years as Non-Executive Director.

Mr. Paul Hampden Smith succeeded Mr. Ryan as Senior Independent Director, Mrs. Susan Murray succeeded Mr. Fisher as Chairman of the Remuneration Committee and I succeeded Mr. Ryan as Chairman of the Nomination Committee. These changes took effect on 9 May 2017.

Mrs. Susan Murray and Mr. Vincent Crowley were appointed Non-Executive Directors in October 2016 in the context of the Board's succession planning and in anticipation of planned retirements.

Committee Changes

The Committee reviewed the composition of Board Committees during the year and recommended the appointment of Mr. Vincent Crowley to the Audit and Risk Committee and Mrs. Susan Murray to the Remuneration Committee. These appointments were approved by the Board with effect from 19 January 2017.

On the recommendation of the Committee, Mrs. Susan Murray and Mr. Vincent Crowley were appointed to the Nomination Committee with effect from 3 March 2017.

Mr. Frank van Zanten indicated that he wished to step down from the Audit and Risk Committee and, on the recommendation of the Committee, the Board approved the appointment of Mrs. Susan Murray to the Committee. This change took effect on 15 December 2017.

Details of the current membership of Board Committees are shown within each Committee report and on pages 64 to 65.

Nomination Process

There is a formal, rigorous and transparent procedure determining the nomination for appointment of new Directors to the Board. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Committee engages specialist recruitment consultants to assist in the identification and selection process. The Committee makes recommendations to the Board concerning appointments of Executive or Non-Executive Directors, having considered the blend of skills, experience,

independence and diversity deemed appropriate and reflecting the international nature of the Company.

The Nomination Committee also makes recommendations to the Board concerning the reappointment of any Non-Executive Director at the conclusion of their specified term and the re-election of all Directors who are the subject of annual rotation. Appointments to the Board are for a three year period, subject to shareholder approval and annual re-election, after consideration of annual performance evaluation. The terms and conditions of appointment of Non-Executive Directors are set out in formal letters of appointment.

Diversity and Inclusivity

The Group wants to recruit, retain and develop diverse and talented colleagues and to generate an inclusive working environment where a range of views are considered. The Board is very supportive of initiatives that promote diversity and inclusivity across the Group's businesses.

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. Differences in background, skills, experiences, nationality and other attributes including gender, are considered in determining the optimum composition of the Board. All Board appointments are made on merit, with due regard to diversity.

The Year Ahead

The Committee believes that all Directors have the right blend of skills and experience to advance the interests of shareholders and to build on the Group's track record of profitable growth. In the year ahead, we will continue to keep succession planning under review to ensure that the Group can retain, attract and develop the best people available to implement its strategy and grow profitability.

Michael Roney

Chairman of the Nomination Committee

12 March 2018

Report of the Remuneration Committee on Directors' Remuneration

Chairman's Annual Statement

Dear Shareholder,

I am pleased to present my first report as Chairman of the Remuneration Committee having taken over the role from Mr. Charles Fisher who stepped down from the Board at the conclusion of the 2017 AGM.



Although not required under the Irish Companies Act 2014, 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 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 2017 and how it is proposed to apply the policy in 2018. 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 successfully implement 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.

These principles underpinned the Remuneration Policy put to shareholders at the Annual General Meeting ("AGM") of the Company held on 9 May 2017. I was very encouraged by the level of shareholder support for our remuneration related resolutions with 96.9 per cent of votes cast in favour of the new Remuneration Policy and 99.5 per cent of votes cast in favour of the Annual Report on Remuneration.

The Policy became effective from the close of the 2017 AGM and the following pages describe how the policy has been applied in 2017 and how it will apply in 2018.

Performance Outcome for 2017

The key features of a good performance by the Group for 2017 are summarised as follows:

Revenue up 9% to a record £2.7 billion – 7% increase in constant currency;

Adjusted* Group operating profit growth of 15% to £163.7 million (2016: £142.0 million);

Adjusted* Group profit before taxation up 15% to £157.2 million from £136.2 million;

Adjusted basic earnings per share up 15% to 54.9p;

ROCE increased by 110bps to 13.6%;

Record cash generation from operations of £210.7 million (2016: £168.6 million) and year-end gearing of just 5% (2016: 9%);

Investment of £119.1 million on acquisitions and capital expenditure to support future growth; and

13% increase in dividend in line with progressive dividend policy.

* Before amortisation of intangible assets arising on acquisitions and exceptional items of £19.7m in 2016.

Remuneration for 2017

The Committee agreed to award an increase in basic salary of two per cent to the Chief Executive Officer and Chief Financial Officer for 2017. This reflects a salary cap which limits increases to current Directors to that of the general workforce.

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

The annual bonus for 2017 was based on two financial performance targets being earnings per share and return on capital employed. Reflecting the very strong financial performance set out above, a bonus of 120 per cent of basic salary, out of a potential bonus opportunity of 120 per cent of basic salary, was made to the Chief Executive Officer. The bonus award made to the Chief Financial Officer was 100 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 2015, that covered the performance period of three years ending on 31 December 2017, were based on growth in Adjusted Earnings Per Share (EPS) 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 2017 being in the range of 52.0 pence to 60.0 pence. As the Adjusted Earnings Per Share of 54.9 pence for 2017 was within the target range 51.72 per cent of this half of the award will vest.

The Remuneration Committee is satisfied that the short and long-term elements of remuneration reflect the performance of the Group both in 2017 and over the three years to the end of 2017.

Remuneration Policy for 2018

Following a comprehensive review of remuneration and consultation with major shareholders and institutional investor bodies, a new Remuneration Policy was put to a vote at the 2017 AGM and, as previously noted, was passed with very strong support from shareholders. The changes included a salary cap that limited increases to Director's salaries over the life of the policy (i.e. for 2017, 2018 and 2019) to the average increase for the general workforce, an increase in the LTIP award level alongside a toughening of the LTIP targets and the introduction of a two-year post-vesting holding period, a strengthening of our recovery (clawback) provisions, and an increase in our shareholding guidelines from 100 per cent to 200 per cent of salary.

The way in which we will be implementing our policy for 2018 will remain largely unchanged from the application of the policy in 2017.

The Committee approved a salary increase of 1.75 per cent for 2018 which is lower than the rate of increase for the general workforce.

The annual bonus opportunity remains at 120 per cent of salary for the CEO and 100 per cent of salary for the CFO. The 2018 bonus will be based on two critical measures of financial performance for the Group being operating profit (70 per cent) and ROCE (30 per cent). These measures are intended to focus the executive team on both profitability and the maintenance of a disciplined approach to the use of capital.

LTIP awards will continue to be made at 200 per cent of salary to the CEO and at 175 per cent of salary to the CFO. Half of the award will be based on a TSR performance condition and half based on an adjusted EPS performance condition. This is in line with awards made in 2017 and prior years.

The TSR performance condition will be measured, in line with the new policy, 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 representative of the Group's overall trading and financial environment and is considered to be an appropriate measure of outperformance. 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. 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.

The proposed EPS range for the 2018 LTIP award is 69p to 80p for the year ended 31 December 2020 which compares to adjusted EPS of 54.9p for 2017. The lower end of the target range (threshold) is above consensus Brokers Forecasts for 2020 which were available when the range was approved on 9 March 2018 and reflects changes made to forecasts following the publication of the Final Results for 2017 on 1 March 2018. 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.

The Remuneration Policy is set out on pages 81 to 86.

Shareholder Engagement

The Committee is committed to ongoing dialogue with shareholders and institutional investor bodies on remuneration matters and welcomes feedback as it helps to inform its decisions. The Committee actively engaged with major shareholders and institutional investor bodies in 2017 concerning the new Remuneration Policy and altered its original proposals in some areas 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 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.

Susan Murray

Chairman of the Remuneration Committee

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the 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. This Policy Report was approved by shareholders 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 policy, the Remuneration Committee took into account all factors which it considered 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 the new Remuneration Policy. The Committee also takes on board any shareholder feedback received prior to and during 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 93 and in the Chairman's Annual Statement on page 79.

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 Remuneration Policy for Executive Directors.

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

Base Salary

| | | | |
|---|--|--|----------------|
| To recruit, retain and reward executives of a suitable calibre for the roles and duties required | <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"> • The performance of the Group and the individual; • Market conditions; • The prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers; • The responsibilities and experience of each Executive Director; and • The level of salary increases implemented across the Group. | <p>There is 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 |
|---|--|--|----------------|

Benefits

| | | | |
|---|---|--|----------------|
| To provide market competitive benefits to ensure the well-being of Directors | <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 |
|---|---|--|----------------|

Pension

| | | | |
|---|---|--|----------------|
| To provide market competitive benefits | <p>A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension.</p> | <p>A company pension contribution or payment in lieu of pension made through the payroll of up to 25% of basic salary.</p> | 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.

Clawback 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 clawback 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 is a holding period of two years on shares received by Executive Directors from LTIP awards that vest 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.

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 |
|---|--|---|------------------------------|
| All-Employee Share Plans | | | |
| To encourage share ownership and align the interests of employees with shareholders | 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. The Group currently operates the 2011 Approved SAYE Plan for UK colleagues. | The limits are set by the UK tax authorities from time to time. Currently this limit is £500 per month for the SAYE scheme. | Not applicable |
| Share Ownership Guidelines | | | |
| To increase the alignment of interests between Executive Directors and shareholders | <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> | Minimum 200% of basic salary to be held in Grafton shares, built up over time. | Not applicable |
| Chairman and Non-Executive Director Fees | | | |
| To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level | <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> | Details of the outcome of the most recent fee review are provided in the Annual Remuneration Report. | Not applicable |

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. 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 status (in addition to other 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 value created for shareholders and remuneration received by 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 contract but the Group reserves the right to pay a bonus for the notice period subject to performance conditions; and

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

Remuneration Policy Report (continued)

- 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 2018 for Executive Directors vary under three performance scenarios - Minimum, In line with Expectation and Maximum.

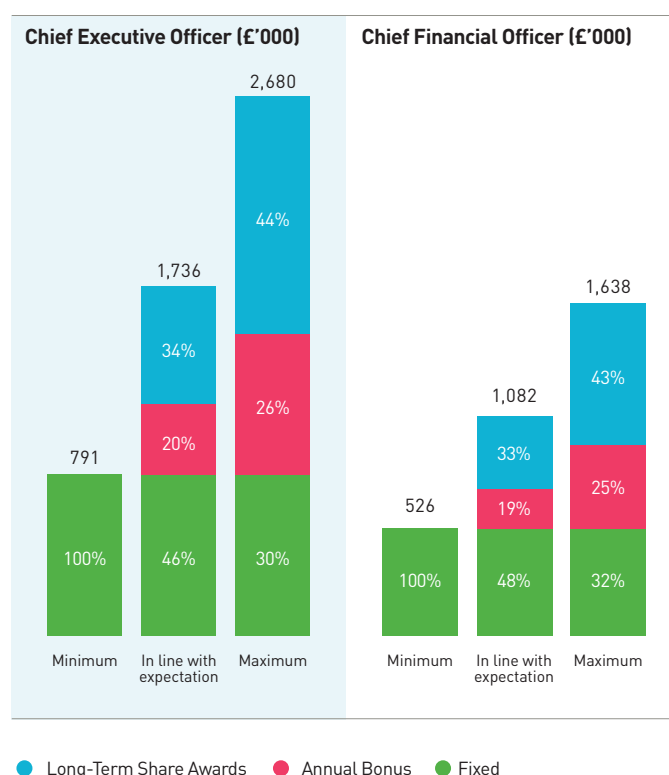


Chart labels show proportion of the total package comprised of each element.

Assumptions:

Minimum = fixed pay only (2018 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.

No account has been taken of any share price increase in respect of LTIP awards.

Annual Report on Remuneration

Although not required under Irish Companies legislation, this report 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 Mrs. Susan Murray, Chairman, Mr. Frank van Zanten and Mr. Paul Hampden Smith, all of whom are Non-Executive Directors determined by the Board to be independent. Mrs. Susan Murray was appointed to the Committee on 19 January 2017 and assumed the role of Chairman at the conclusion of the 2017 AGM which was held on 9 May 2017. Mr. Charles M. Fisher stepped down from the Board and as Chairman of the Committee at the conclusion of the 2017 AGM.

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 Roney, the Chairman, attended meetings of the Committee during 2017 by invitation and participated in discussions. The Committee also consulted with the CEO as appropriate and periodically invited him to attend certain parts of meetings of the Committee. The Chairman of the Committee was assisted in her work by Mr. Charles Rinn, Company Secretary and Ms. Paula Harvey, Group HR Director. No Directors or the Company Secretary take 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 €38,332. The Group has no other connection with New Bridge Street ("NBS"), other than that another subsidiary of Aon plc, its parent company, provides pension advice. During the year NBS provided a market practice update to the Committee on remuneration trends and governance and also provided advice on the fulfillment of the TSR vesting condition for the LTIP and general advice to the Committee Chairman on remuneration matters.

Activity During The Year

3 March 2017

- Determined bonus awards under the 2016 bonus scheme for Executive Directors and the Company Secretary;
- Determined extent to which the vesting conditions were met for the LTIP awards granted in 2014;
- Agreed the quantum of the 2017 LTIP awards to be granted to the Executive Directors and Company Secretary subject to shareholder approval of the new Remuneration Policy in respect of the increased limits;
- Determined and approved the basis for calculating the EPS target range for the 2017 LTIP award;
- Considered and approved the Report of the Remuneration Committee on Director's Remuneration; and
- Determined the EPS Target for the 2017 Bonus Award.

12 April 2017

- Approved the vesting of LTIP awards granted in 2014.

8 May 2017

- Determined arrangements for the vesting of the 2014 LTIP award.

23 October 2017

- Considered the AGM vote on remuneration resolutions and the feedback from shareholder advisory groups;
- Reviewed Directors' remuneration and considered a market practice update from New Bridge Street;
- Considered the framework and conditions for financial targets for the 2018 bonus scheme;
- Agreed the basis for setting the Adjusted EPS range for the 2018 LTIP Award;
- Considered the disclosure requirements of the Shareholder Rights Directive; and
- Reviewed and updated the Committee's Terms of Reference.

14 December 2017

- Agreed the rate of increase in basic salaries for 2018;
- Approved the framework for measuring financial targets for the 2018 bonus scheme;
- Reviewed compliance with minimum share ownership guidelines;
- Provisional discussion on forecast bonus awards for 2017 and on vesting of LTIP awards granted in 2015; and
- Initial consideration of 2018 LTIP participants, award levels, performance measures and targets.

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 2017 and the prior year.

| | Salary/Fees (a) | | Bonus (b) | | Pension (c) | | Other Benefits (d) | | Long Term Incentive Plan (e) | | Total | |
|--------------------------------|-----------------|---------------|---------------|---------------|---------------|---------------|--------------------|---------------|------------------------------|---------------|---------------|---------------|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Executive Directors | | | | | | | | | | | | |
| G. Slark | 580 | 569 | 696 | 411 | 128 | 128 | 73 | 53 | 213 | 531 | 1,690 | 1,692 |
| D. Arnold | 397 | 390 | 397 | 234 | 79 | 78 | 41 | 42 | 122 | 303 | 1,036 | 1,047 |
| | 977 | 959 | 1,093 | 645 | 207 | 206 | 114 | 95 | 335 | 834 | 2,726 | 2,739 |
| Non-Executive Directors | | | | | | | | | | | | |
| M. Roney (i) | 230 | 77 | - | - | - | - | - | - | - | - | 230 | 77 |
| P. Hampden Smith | 61 | 57 | - | - | - | - | - | - | - | - | 61 | 57 |
| F. van Zanten | 61 | 57 | - | - | - | - | - | - | - | - | 61 | 57 |
| S. Murray (ii) | 61 | 12 | - | - | - | - | - | - | - | - | 61 | 12 |
| V. Crowley (iii) | 61 | 12 | - | - | - | - | - | - | - | - | 61 | 12 |
| M. Chadwick (iv) | - | 123 | - | - | - | - | - | - | - | - | - | 123 |
| R. Ryan (v) | 22 | 57 | - | - | - | - | - | - | - | - | 22 | 57 |
| C. M. Fisher (vi) | 22 | 57 | - | - | - | - | - | - | - | - | 22 | 57 |
| | 518 | 452 | - | - | - | - | - | - | - | - | 518 | 452 |
| Total Remuneration | 1,495 | 1,411 | 1,093 | 645 | 207 | 206 | 114 | 95 | 335 | 834 | 3,244 | 3,191 |

(i) Mr. Roney was appointed Deputy Chairman and Chairman Designate on 1 May 2016

(ii) Mrs. Murray was appointed Non-Executive Director on 14 October 2016

(iii) Mr. Crowley was appointed Non-Executive Director on 14 October 2016

(iv) Mr. Chadwick retired from the Board on 31 December 2016

(v) Mr. Ryan retired from the Board on 9 May 2017

(vi) Mr. Fisher retired from the Board on 9 May 2017

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 (e) 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 £1,114,000 (2016: £811,000) 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. Fees payable to Non-Executive Directors were unchanged at €70,000 in constant currency.
- 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 and, in the case of Mr. Slark, a rent allowance.
- For the year ended 31 December 2017, this is the value of LTIP awards that will vest in May 2018. The value of the awards is based on the average share price of £7.90 for the three months to 31 December 2017. The vesting of these awards was subject to performance conditions over the period from 1 January 2015 to 31 December 2017. For the year ended 31 December 2016, this is the value of LTIP awards that vested in May 2017. The value of this award has been updated from that disclosed last year to reflect the share price of £7.92 on the date of vesting.

Fixed pay in 2017

Salary and Fees

Having taken account of both external market developments and internal Group considerations, the Committee agreed in January 2017 that the basic salary of the Chief Executive Officer and the Chief Financial Officer would increase by 2 per cent for the year ended 31 December 2017. This reflects a salary cap in the Remuneration Policy which limits increases to current Directors' to that of the general workforce.

| | Salary/Fees | | |
|-----------|---------------|---------------|----------|
| | 2017 £'000 | 2016 £'000 | % Change |
| G. Slark | 580 | 569 | 2% |
| D. Arnold | 397 | 390 | 2% |

Non-Executive Directors' fees were paid at the rate of £61,000 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. Roney, who assumed the position of Non-Executive Chairman on 1 January 2017 having previously been Deputy Chairman and Chairman Designate, was £230,000.

Benefits

Benefits comprise permanent health and medical insurance, the provision of a company car and, in the case of Mr. Slark, a rent allowance.

| | Health and Medical Insurance £'000 | Provision of a Company Car £'000 | Rent Allowance £'000 | Total 2017 Taxable Benefits £'000 | Total 2016 Taxable Benefits £'000 |
|-----------|---------------------------------------|-------------------------------------|-------------------------|--------------------------------------|--------------------------------------|
| G. Slark | 9 | 35 | 29 | 73 | 53 |
| D. Arnold | 7 | 34 | - | 41 | 42 |

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.

| | 2017 Base Salary £'000 | 2017 Pension % of Salary | 2017 Pension Contribution £'000 | 2016 Pension Contribution £'000 |
|-----------|---------------------------|--------------------------|------------------------------------|------------------------------------|
| G. Slark | 580 | 22.1% | 128 | 128 |
| D. Arnold | 397 | 20.0% | 79 | 78 |

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 was paid as a taxable non-pensionable cash allowance.

Pay for Performance

Annual Bonus

The maximum bonus opportunity for Mr. Slark and Mr. Arnold was 120 per cent and 100 per cent of salary respectively. The bonus was based on two financial measures.

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

| | Percentage of Basic Salary | | |
|-----------|----------------------------|----------------------------|---------------|
| | Earnings Per Share | Return on Capital Employed | Bonus Payable |
| G. Slark | 84% | 36% | 120% |
| D. Arnold | 70% | 30% | 100% |

Financial targets were set at the beginning of the year by reference to the Group's budget for 2017. The actual targets and performance against those targets are set out in the table below for 2017:

| | Threshold (0% Payable) | Budget (50% Payable) | Stretch (100% Payable) | % of Actual | % of Maximum Payable |
|-----------------------------|------------------------|----------------------|------------------------|-------------|----------------------|
| Earnings per share | 46.6p | 49.0p | 51.5p | 54.9p | 100% |
| Return on capital employed* | 11.0% | 11.5% | 12.1% | 13.0% | 100% |

* 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 105 per cent of the Group's budget for 2017. No bonus was payable if performance was below a minimum threshold of 95 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 105 per cent of budget.

The Committee considered the extent to which these targets were achieved and agreed a payment of 120 per cent of salary for Mr. Slark and 100 per cent of salary for Mr. Arnold out of a maximum bonus opportunity of 120 per cent and 100 per cent of salary respectively.

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

Annual Report on Remuneration (continued)

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 2017

The performance conditions for LTIP awards made in April 2015 were based on growth in EPS 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 Adjusted EPS for the financial year ended 31 December 2017.

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 2017 being in the range of 52 pence to 60 pence. The Adjusted EPS for 2017 of 54.9 pence lies within the lower and higher targets of the range and 51.72 per cent of this part of the award will vest.

In aggregate 25.9 per cent of the 2015 LTIP awards will vest.

The number of Grafton Units granted to Mr. Slark on 17 April 2015 was 104,314 of which 26,976 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 17 April 2015 was 59,534 of which 15,395 will vest under the Adjusted 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 £213,000 and £122,000 respectively on the basis of the average price of a Grafton Unit of £7.90 over the three months to 31 December 2017.

LTIP Awards Granted During the Year Ended 31 December 2017

The following awards were made during the year ended 31 December 2017:

| | Date of Grant | Number of Units | Share Price at Grant Date | Value of Award at Grant Date |
|-----------|---------------|-----------------|---------------------------|------------------------------|
| G. Slark | 12 Apr 17 | 121,654 | 7.15 | £870,130 |
| G. Slark | 10 May 17 | 37,497 | 7.74 | £290,039 |
| D. Arnold | 12 Apr 17 | 69,432 | 7.15 | £496,612 |
| D. Arnold | 10 May 17 | 25,681 | 7.74 | £198,643 |

Mr. Slark was granted an award on 12 April 2017 valued at 150 per cent of his base salary in the form of nil cost Grafton Units. Mr. Arnold was granted an award on 12 April 2017 valued at 125 per cent of his base salary in the form of nil cost Grafton Units. Following the approval of the new Remuneration Policy at the 2017 AGM, LTIP policy limits were 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. Mr. Slark and Mr. Arnold were each thereby granted an additional award on 10 May 2017 valued at 50 per cent of base salary in the form of nil cost Grafton Units.

The 2017 awards to Mr. Slark and Mr. Arnold are subject to the achievement of TSR and Adjusted EPS performance conditions.

Half of these awards will vest depending on the Group's TSR performance over a three-year period commencing on 1 January 2017, with no opportunity to re-test. TSR will be compared to 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.

| TSR Rank | % of Total Award Vesting |
|--------------------------|--------------------------|
| Below median | 0% |
| Median | 12.5% |
| Median - 80th percentile | 12.5%-50% |
| Above 80th percentile | 50% |

The level of outperformance for full vesting has been increased under the new policy. Previously full vesting was set at upper quartile performance and for awards granted in 2017 and going forward full vesting will be at the upper quintile. 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.

The other half of these awards will vest subject to the Adjusted EPS performance condition as follows:

| EPS for Year Ending 31 December 2019 | % of Total Award Vesting |
|--------------------------------------|--------------------------|
| Below 59p | 0% |
| 59p | 12.5% |
| 59p - 66p | 12.5% - 50% |
| 66p or above | 50% |

Clawback 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. 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 2017.

Loss of Office Payments and Payments to Past Directors

No loss of office payments or any payments to past Directors were made during the year.

Application of Remuneration Policy in 2018

Salaries

The Remuneration Policy for 2018 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 salaries of Directors than the rate of increase applied to the general workforce.

The following salaries will apply for 2018:

| | 2018 Base Salary | 2017 Base Salary | % Increase |
|-----------|---------------------|---------------------|------------|
| G. Slark | £590,236 | £580,085 | 1.75% |
| D. Arnold | £404,243 | £397,290 | 1.75% |

Chairman and Non-Executive Directors' Fees

Non-Executive Directors' fees are payable in Euro and will remain unchanged at €70,000 to cover all Board and Committee duties. The sterling equivalent was £61,000 in 2017. The fee paid to Mr. Roney as Chairman will remain at the rate of £230,000 per annum.

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 2017.

Annual Bonus

The maximum potential performance related bonus pay award for the Chief Executive Officer for 2018 is 120 per cent of basic salary and the maximum bonus opportunity for 2018 for the Chief Financial Officer is 100 per cent of salary. These limits also applied in respect of 2017. The measures and weightings for 2018 are as follows:

| CEO Bonus Based on | % of Salary 2018 | % of Salary 2017 |
|----------------------------|---------------------|---------------------|
| Operating profit | 84% | - |
| Earnings per share | - | 84% |
| Return on capital employed | 36% | 36% |

| CFO Bonus Based on | % of Salary 2018 | % of Salary 2017 |
|----------------------------|---------------------|---------------------|
| Operating profit | 70% | - |
| Earnings per share | - | 70% |
| Return on capital employed | 30% | 30% |

Operating profit is a key performance indicator for the business and replaces earnings per share which is a performance measure that applies to half of the awards granted under the LTIP.

The actual bonus targets are commercially sensitive and will be disclosed in the 2018 Annual Report.

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

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

Long-Term Incentives

Awards to be made in 2018 will be at the same level as 2017 being 200 per cent of salary for the CEO and 175 per cent of salary for the CFO. Vesting of the 2018 award will continue to be based on relative TSR (50 per cent) and on EPS (50 per cent) performance conditions.

The TSR performance condition will continue to be measured against a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts.

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

Annual Report on Remuneration (continued)

The performance measures were toughened for the 2017 award and are similarly stretching for the 2018 award as follows:

| TSR Rank | % of total award vesting |
|--------------------------|--------------------------|
| Below median | 0% |
| Median | 12.5% |
| Median - 80th percentile | 12.5%-50% |
| Above 80th percentile | 50% |

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 2018 LTIP award is 69p to 80p for the year ended 31 December 2020. The lower end of the target range (threshold) is above consensus Brokers Forecasts for 2020 of 68p which were available when the range was approved on 9 March 2018 and reflects changes made following the publication of the Final Results for 2017 on 1 March 2018. Consistent with prior years, the upper end of the range is appropriately stretching.

| EPS for Year Ending 31 December 2020 | % of Total Award Vesting |
|--------------------------------------|--------------------------|
| Below 69p | 0% |
| 69p | 12.5% |
| 69p - 80p | 12.5% - 50% |
| 80p or above | 50% |

A holding period of two years will apply to LTIP awards received by Executive Directors that vest, after taking into account any shares sold to pay tax and other statutory obligations in line with the new Remuneration Policy. Shares held during the two-year holding period will be deemed to be part of an executive directors' shareholding, for the purposes of monitoring the shareholding guidelines. The vesting period and the holding period will be five years in total.

Relative Importance of Spend on Pay

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2017 financial year compared with the prior year.

| | 2017 £'000 | 2016 £'000 | Percentage change |
|-----------------------------|----------------|---------------|----------------------|
| Dividends payable | 36,775 | 32,490 | 13.2% |
| Employee remuneration costs | 395,358 | 362,905 | 8.9% |

Percentage Change in CEO Pay

The table below 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.

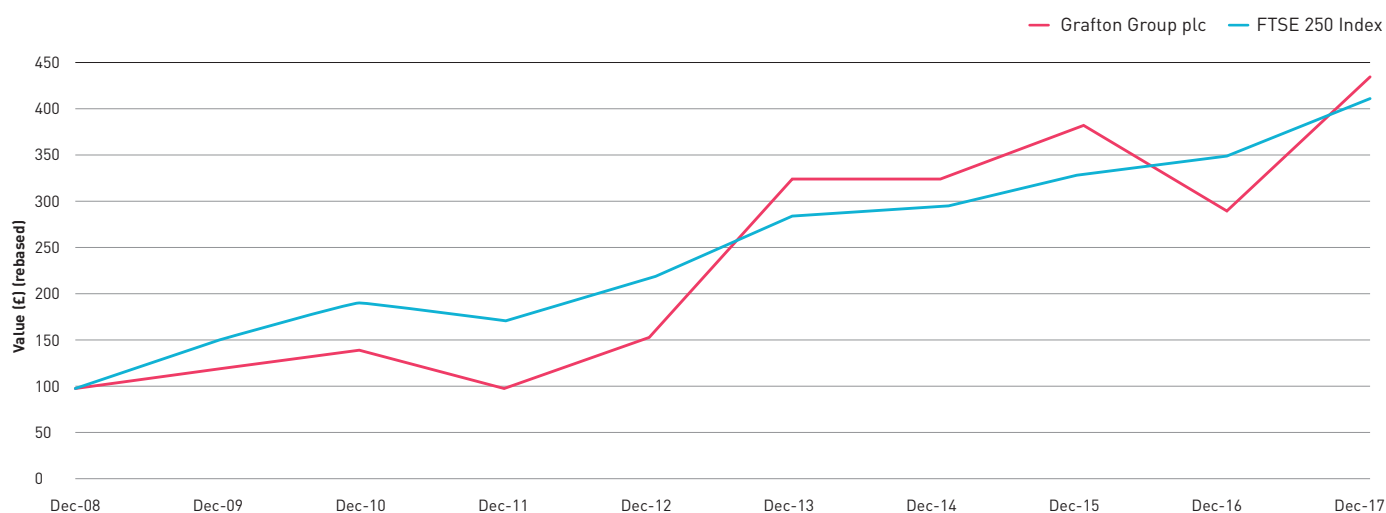
| | 2017 £'000 | 2016 £'000 | Percentage change |
|-----------------------------------|---------------|---------------|----------------------|
| Chief Executive Officer | | | |
| - Salary | 580 | 569 | 2.0% |
| - Benefits | 73 | 53 | 37.7% |
| - Bonus | 696 | 411 | 69.3% |
| Average employee | | | |
| - Salary, Benefits and Bonus (£)* | 28,264 | 26,997 | 4.7% |

* based on average number of persons employed during the year. The increase in constant currency was 2.5%.

Performance Graph and Single Total Figure of Remuneration

Total Shareholder Return

The graph below 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 2017.



Source: Datastream (Thomson Reuters)

The table below shows the total remuneration figure for the position of CEO over the nine years to 2017.

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------|------|-------|-------|-------|-------|-------|-------|--------------|
| CEO single total figure of remuneration (£'000) | 589 | 570 | 1,151 | 1,001 | 1,524 | 3,080 | 2,255 | 1,692 | 1,690 |
| Annual bonus payout relative to maximum | 0% | 0% | 16% | 49% | 49% | 98% | 53% | 60% | 100% |
| LTIP vesting | N/A | N/A | N/A | N/A | 45% | 100% | 87% | 50% | 26% |

Statement of Shareholder Voting at the 2017 AGM

The new Remuneration Policy received the following votes from shareholders:

| | Total Number of Votes | % of Votes Cast |
|--------------|-----------------------|-----------------|
| For | 154,103,858 | 96.88 |
| Against | 4,965,700 | 3.12 |
| Total | 159,069,558 | 100.00 |

The number of votes withheld was 33,435. 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.

The 2016 Annual Report on Remuneration received the following votes from shareholders:

| | Total Number of Votes | % of Votes Cast |
|--------------|-----------------------|-----------------|
| For | 158,340,815 | 99.52 |
| Against | 756,456 | 0.48 |
| Total | 159,097,271 | 100.00 |

The number of votes withheld was 5,722.

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

Annual Report on Remuneration (continued)

Directors' and Secretary's Interests

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

| Director | 31 December 2017 Grafton Units* | 31 December 2016 Grafton Units* | Unvested LTIP Awards** | Unvested SAYE Options*** |
|------------------|---------------------------------|---------------------------------|------------------------|--------------------------|
| G. Slark | 316,925 | 283,692 | 382,359 | - |
| D. Arnold | 53,628 | 24,100 | 222,504 | 1,329 |
| E. van Zanten | 3,000 | 3,000 | - | - |
| P. Hampden Smith | 32,990 | 32,990 | - | - |
| M. Roney | 11,529 | 11,529 | - | - |
| V. Crowley | 8,000 | 8,000 | - | - |
| S. Murray | - | - | - | - |
| Secretary | | | | |
| C. Rinn | 410,932 | 400,124 | 58,998 | - |

* At 31 December 2017 and at 31 December 2016, 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.

*** Option to buy shares at the agreed price at end of the three year period on 1 December 2020.

The closing price of a Grafton Unit on 31 December 2017 was 802p (31 December 2016: 550p) and the price range during the year was between 540.5p and 841p (2016: 440p and 752p).

There have been no changes in the interests of the Directors and Secretary between 31 December 2017 and the date of this report.

To further align the interests of senior management with those of shareholders, Executive Directors are subject to share ownership guidelines. Executive Directors are required to build a holding of shares in the Company with a minimum value of 200 per cent of their 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. Slark held shares at the year-end valued at 4.4 times his salary. Mr. Arnold held shares at the year-end valued at 1.1 times his salary.

During the year, Mr. Arnold exercised options to purchase 3,015 Grafton Units on the maturity of the 2014 SAYE scheme.

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 100,000 (31 December 2016: 200,000) Grafton Units at 31 December 2017 at a price of €1.66 subject to the rules of the 1999 Grafton Group Share Scheme. An interest to acquire 100,000 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.

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.

Directors' and Secretary's Interests under the 2011 Long Term Incentive Plan

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 2017 | EPS Condition | TSR Condition | Performance Period | Vesting Date** |
|------------------|---------------|------------------------------|-----------------|----------------|-----------------|-----------------|----------------|----------------|----------------|--------------------------|--------------------|----------------|
| | | | 1 January 2017 | Granted | Lapsed | Shares Received | | | | | | |
| G. Stark | 16 April 2014 | £6.20 | 134,181 | - | (67,090) | (67,091)* | - | - | - | 1 Jan 2014 - 31 Dec 2016 | 16 April 2017 | |
| | 17 April 2015 | £8.18 | 104,314 | - | - | - | 104,314 | 52,157 | 52,157 | 1 Jan 2015 - 31 Dec 2017 | 17 April 2018 | |
| | 14 April 2016 | £7.18 | 118,894 | - | - | - | 118,894 | 59,447 | 59,447 | 1 Jan 2016 - 31 Dec 2018 | 14 April 2019 | |
| | 12 April 2017 | £7.15 | - | 121,654 | - | - | 121,654 | 60,827 | 60,827 | 1 Jan 2017 - 31 Dec 2019 | 12 April 2020 | |
| | 10 May 2017 | £7.74 | - | 37,497 | - | - | 37,497 | 18,749 | 18,748 | 1 Jan 2017 - 31 Dec 2019 | 10 May 2020 | |
| | | | 357,389 | 159,151 | (67,090) | (67,091) | 382,359 | 191,180 | 191,179 | | | |
| D. Arnold | 16 April 2014 | £6.20 | 76,582 | - | (38,291) | (38,291)* | - | - | - | 1 Jan 2014 - 31 Dec 2016 | 16 April 2017 | |
| | 17 April 2015 | £8.18 | 59,534 | - | - | - | 59,534 | 29,767 | 29,767 | 1 Jan 2015 - 31 Dec 2017 | 17 April 2018 | |
| | 14 April 2016 | £7.18 | 67,857 | - | - | - | 67,857 | 33,929 | 33,928 | 1 Jan 2016 - 31 Dec 2018 | 14 April 2019 | |
| | 12 April 2017 | £7.15 | - | 69,432 | - | - | 69,432 | 34,716 | 34,716 | 1 Jan 2017 - 31 Dec 2019 | 12 April 2020 | |
| | 10 May 2017 | £7.74 | - | 25,681 | - | - | 25,681 | 12,841 | 12,840 | 1 Jan 2017 - 31 Dec 2019 | 10 May 2020 | |
| | | | 203,973 | 95,113 | (38,291) | (38,291) | 222,504 | 111,253 | 111,251 | | | |
| C. Rinn | 16 April 2014 | £6.20 | 21,616 | - | (10,808) | (10,808)* | - | - | - | 1 Jan 2014 - 31 Dec 2016 | 16 April 2017 | |
| | 17 April 2015 | £8.18 | 14,640 | - | - | - | 14,640 | 7,320 | 7,320 | 1 Jan 2015 - 31 Dec 2017 | 17 April 2018 | |
| | 14 April 2016 | £7.18 | 18,534 | - | - | - | 18,534 | 9,267 | 9,267 | 1 Jan 2016 - 31 Dec 2018 | 14 April 2019 | |
| | 12 April 2017 | £7.15 | - | 20,269 | - | - | 20,269 | 10,135 | 10,134 | 1 Jan 2017 - 31 Dec 2019 | 12 April 2020 | |
| | 10 May 2017 | £7.74 | - | 5,555 | - | - | 5,555 | 2,778 | 2,777 | 1 Jan 2017 - 31 Dec 2019 | 10 May 2020 | |
| | | | 54,790 | 25,824 | (10,808) | (10,808) | 58,998 | 29,500 | 29,498 | | | |

* The market price at the date of vesting was £7.92.

** This is the earliest date for vesting except for the vesting in 2017 which is the actual date of vesting. The actual date of vesting is subject to approval by the Remuneration Committee.

The Group's previous 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 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, 14 April 2016, 12 April 2017 and 10 May 2017.

Susan Murray

Chairman of the Remuneration Committee

12 March 2018

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2017.

Group Results

Group revenue increased by £0.2 billion to £2.7 billion in 2017. Adjusted operating profit before property profit increased 17 per cent to £160.9 million compared to £137.1 million in 2016.

The net finance expense was £6.4 million (2016: £5.9 million). Group statutory profit before taxation amounted to £154.5 million compared with £114.2 million in the previous year.

The income tax expense of £26.6 million (2016: £21.1 million) was equivalent to an effective tax rate of 17.2 per cent (2016: 18.5 per cent). The underlying rate for the year was 18.5 per cent (2016: 19.0 per cent). Non-recurring tax deductions accounted for the difference between the effective and underlying rate of 18.5 per cent.

Basic earnings per share were 54.0 pence compared with 39.6 pence in the previous year. Adjusted earnings per share (before intangible amortisation on acquisitions and before exceptional and non-recurring items) increased by 15 per cent to 54.9 pence from 47.7 pence in 2016.

The Group and Company financial statements for the year ended 31 December 2017 are set out in detail on pages 100 to 187.

Dividends

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

A second interim dividend for 2017 of 10.25 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 9 March 2018 (the 'Record Date'). The dividend will be paid on 6 April 2018. A liability in respect of this second interim dividend has not been recognised at 31 December 2017 as there was no present obligation to pay the dividend at the year-end.

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 2017, the outlook for 2018 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 conditions, 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. You should not place undue reliance on forward looking statements. These forward looking statements are made as at the date of this Directors Report. The Company and its Directors expressly disclaims 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 on pages 50 to 53 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

Mr. Roderick Ryan and Mr. Charles Fisher both retired from the Board at the conclusion of last year's Annual General Meeting. In line with the provisions contained in the UK Corporate Governance Code, all other Directors retired at the same meeting and being eligible offered themselves for election/re-election and all were elected/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 2018 Annual General Meeting and offer themselves for re-election.

Share Capital

At 31 December 2017, 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 2018 at 10.30am. Your attention is drawn to the circular on the Company's website, www.graftonplc.com which sets out details of resolutions to be considered at the Annual General Meeting, including the following:

Continuation in Office of Auditors

While it is not required under Irish law, an advisory, non-binding resolution is being presented in relation to the continuation of PwC in office as Auditors.

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 26 per cent of the issued share capital of the Company at 12 March 2018. 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 €594,760 representing five per cent of the nominal value of the issued ordinary share capital of the Company. Under the Articles of Association, shareholders are required to renew this power at each year's Annual General Meeting. The Directors confirm their intention to follow the provisions of the Pre-emption Principles regarding cumulative usage of authorities within a rolling three-year period. These principles provide that companies should consult shareholders prior to issuing, other than to existing shareholders, shares for cash representing in excess of 7.5% of the Company's issued share capital in any rolling three-year period.

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

At the 2017 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 have no present intention to exercise this authority. However, the Directors consider it appropriate to maintain the flexibility that this authority provides. 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 2019 or 15 months after the passing of these resolutions.

Report of the Directors (continued)

Report of the Remuneration Committee on Directors' Remuneration

In line with best practice, the Board is proposing to submit the Chairman's Annual Statement and the Annual Report on Remuneration of the Remuneration Committee (other than the Remuneration Policy Report which was approved at last year's AGM), as set out on pages 79 to 80 and 87 to 95, to a non-binding advisory vote.

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 of the Meeting.

Substantial Holdings

So far as the Company is aware, the following held shares representing 3 per cent or more of the ordinary share capital of the Company (excluding treasury shares) at 31 December 2017 and 12 March 2018:

| Name | 31 December 2017 | | 12 March 2018 | |
|--|------------------|-------|---------------|-------|
| | Holding | % | Holding | % |
| The Capital Group Companies, Inc* | 30,491,000 | 12.85 | 30,491,000 | 12.84 |
| Investec Asset Management Limited* | 21,282,251 | 8.97 | 18,700,194 | 7.88 |
| Mr. Michael Chadwick** | 21,926,409 | 9.24 | 21,926,409 | 9.24 |
| Franklin Templeton Institutional, LLC* | 18,886,930 | 7.96 | 18,886,930 | 7.96 |
| EdgePoint Investment Management Inc.* | 10,073,498 | 4.25 | 10,073,498 | 4.24 |
| Kames Capital plc *** | 7,193,797 | 3.03 | - | - |
| Blackrock, Inc.* | 7,121,919 | 3.00 | 7,121,919 | 3.00 |
| Dimensional Fund Advisors LP | 7,112,538 | 3.00 | 7,112,538 | 3.00 |

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

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

*** The Company has been advised that this holding has fallen below 3 per cent.

Apart from these holdings, the Company has not been notified at 12 March 2018 or at 31 December 2017 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, Ireland.

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, 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 66 to 72 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. This includes the Report of the Audit and Risk Committee. 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 50 to 53 and are deemed to be incorporated in this section of the Report of the Directors.

Transparency Regulations 2007 and applicable provisions of the European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017

The report on Corporate Social Responsibility set out on pages 54 to 61, 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 pages 186 to 187.

Political Contributions

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

Events after the Balance Sheet Date

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

There have been no other material events subsequent to 31 December 2017 that would require adjustment to or disclosure in this report.

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
12 March 2018

David Arnold

Director

Financial Statements

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Statement of Directors' Responsibilities

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

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 Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland) and Irish law.

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 as at the end of the financial year and the profit or loss of the Group for the financial 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 Group financial statements comply with IFRS as adopted by the European Union, and as regards the Company, have been prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland) and Irish law; 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, and financial position, 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 corporate and financial information included on the company's website (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 64 to 65 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 Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland) and Irish law, 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 2017 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 50 to 53; 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
12 March 2018

David Arnold

Director

Independent auditors' report to the members of Grafton Group plc

Report on the audit of the financial statements

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 2017 and of the Group's profit and 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 Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); 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.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Group Balance Sheet as at 31 December 2017;
- the Company Balance Sheet as at 31 December 2017;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in Note 3 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Independent Auditor's Report to the Members of Grafton Group plc (continued)

Our audit approach

Context

Overview



Materiality

- Overall Group materiality: £7.3 million (2016: £6.3 million) based on approximately 5% of profit before tax.
- Overall Company materiality: €7.2 million (2016: €5.5 million) based on 1% of total assets.

Audit scope

- We conducted an audit of the complete financial information of 14 of the Group's 18 reporting components across the United Kingdom, Ireland, Netherlands and Belgium. These accounted for 97% of revenue, 95% of profit before tax and 97% of total assets.

Key audit matters

- Valuation of goodwill
 - Recognition of supplier rebates
 - Valuation of inventory
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

[Key audit matter](#)**Valuation of goodwill**[How our audit addressed the key audit matter](#)

Refer to page 76 (Audit and Risk Committee Report), Note 1 Summary of significant accounting policies and Note 12, Goodwill.

Goodwill amounted to £591.7 million at 31 December 2017. Goodwill is allocated to 7 groups of Cash Generating Units (“CGUs”) in order to conduct impairment testing. These groups of CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Goodwill must be tested for impairment on at least an annual basis. 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 2018 to 2022 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 and estimates, in particular estimating the growth and gross margin in the period 2018 to 2022, long term growth rates used in calculating a terminal value and pre-tax discount rates for each CGU.

We focused on this area due to the significance of this asset, which accounts for 27% of total assets at 31 December 2017. The Directors’ assessment of the carrying value of goodwill involves complex and subjective judgements about the future results of the business.

We agreed the underlying cash flow forecast models for each of the groups of CGUs to the management approved budgets and checked the mathematical accuracy of the impairment models.

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 2018 - 2022. We compared the growth rates to external data and considered them to be in reasonable ranges. We considered the reliability of management’s forecasting process by reviewing how actual results compared to forecasts for the years 2014 to 2017, which we considered to be reasonable.

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.

We performed sensitivity analysis on key assumptions in the goodwill impairment model. In particular, we focused on the Belgium Merchanting group of CGUs which has lower headroom and consequently is most sensitive to changes in key assumptions. We assessed the disclosure of the sensitivities in the financial statements in respect of the Belgium Merchanting group of CGUs and found them to be appropriate.

We assessed the appropriateness of the other related disclosures in Note 12 to the Group’s financial statements.

Independent Auditor's Report to the Members of Grafton Group plc (continued)

Key audit matter

Recognition of supplier rebates

Refer to page 76 (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 finalised or 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 2017 involves the use of estimates and judgements due to the complex rebate arrangements in place.

How our audit addressed the key audit matter

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 related work performed by Internal Audit to ensure there was no findings that would impact our audit.

We assessed the reasonableness of any significant estimates and judgements made by management in the calculation of rebate income and rebate receivables.

On a sample basis, we recalculated rebate income and receivables by agreeing inputs to supplier agreements and purchases reports

For a sample of suppliers, we agreed the rebate receivable to third party confirmation of rebate income and rebates due at 31 December 2017. Where responses were not received we completed alternative procedures including obtaining rebate agreements and re-computing rebate income and rebates receivables.

We also considered the actual results of the collection of rebates during the year including those relating to the prior year, which we compared to the rebates receivable recognised at 31 December 2016 noting that there was no significant variance from the amount estimated.

Valuation of inventory

Refer to page 76 (Audit and Risk Committee Report), Note 1, Summary of significant accounting policies and Note 16, Inventories.

Inventory is carried at £328.5 million at 31 December 2017. The Group holds a significant number of product lines across its branch network in the UK, Ireland, Belgium and the 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 assessed the appropriateness of Group policy by reference to past experience and the provisions were considered reasonable. Where appropriate, we recomputed and agreed the provisions recorded in line with the Group policy.

We also 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 recalculated a sample of allocations of rebate deductions to inventory by reference to the volume and value of inventory sourced from specific suppliers and the related rebate arrangements with those suppliers. The rebate deducted from inventory was considered to be reasonable.

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 structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of 18 reporting components across 4 geographical markets. The Group's accounting process is structured around a local finance function for each of the reporting components. These functions maintain their own accounting records and controls and report to the head office finance team in Dublin.

In establishing the scope of the Group audit, we identified 3 reporting components, which in our view required an audit of their complete financial information due to their size and financial significance to the Group. A further 11 reporting components had an audit of their complete financial information based on our risk assessment, the materiality of the reporting component and statutory audit requirements.

This resulted in a total of 14 reporting components which were subject to an audit of their full financial information. For the remaining components, the Group audit team performed other procedures including analytics at a Group level to consider our assessment that there were no significant risks of material misstatement within these components.

The Group audit team performed the work on 4 components. 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. The group audit team visits the component teams on a rotational basis. During the year, senior members of the Group audit team visited 7 in scope locations. The Group audit team attended all of the 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 findings reports from all component teams. In addition, the Group audit team reviewed working papers of the auditors for the significant components.

The full scope audits of reporting components and Group functions accounted for 97% of revenue, 95% of profit before tax and 97% of total assets.

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 in aggregate on the financial statements as a whole.

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

| | Group financial statements | Company financial statements |
|--|---|---|
| Overall materiality | £7.3 million (2016: £6.3 million) | €7.2million (2016: €5.5 million) |
| How we determined it | Circa 5% of profit before tax | 1% of total assets |
| Rationale for benchmark applied | We have applied this benchmark as profit before tax is a key accounting benchmark, which is also a key performance indicator for the Group. | We considered total assets to be the most relevant benchmark as the Company is primarily an investment holding Company. The Company primarily holds investments in subsidiaries and receivables from Group companies. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality. The range of materiality allocated across components was between £0.1 million and £6.2 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £350,000 (Group audit) (2016: £250,000) and €360,000 (Company audit) (2016: €274,250) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditor's Report to the Members of Grafton Group plc (continued)

Going concern

In accordance with ISAs (Ireland) we report as follows:

Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's or the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the directors' statement relating to going concern in accordance with Rule 9.8.6R(3) of the Listing Rules of the UK Financial Conduct Authority is materially inconsistent with our knowledge obtained in the audit.

Outcome

We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Company's ability to continue as a going concern.

We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland), the Companies Act 2014 (CA14) and the Listing Rules applicable to the Company (Listing Rules) require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

Report of the Directors

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Directors. (CA14)

Corporate governance statement

- In our opinion, based on the work undertaken in the course of the 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 Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014. (CA14)
- Based on our knowledge and understanding of the Company and its environment obtained in the course of the 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 Corporate Governance Statement. (CA14)
- In our opinion, based on the work undertaken during the course of the audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Corporate Governance Statement. (CA14)

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

We have nothing material to add or to draw attention to regarding:

- The directors' confirmation on page 48 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 71 of the Annual Report 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.

We have nothing to report having performed a review of 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit. (Listing Rules)

Other code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors on page 102 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the 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 obtained in the course of performing our audit.
- The section of the Annual Report on pages 73 to 76 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Independent Auditor's Report to the Members of Grafton Group plc (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 102, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2014 opinions on other matters

- 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.

Companies Act 2014 exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures 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 this responsibility.

Appointment

We were appointed by the directors on 4 July 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2016 to 31 December 2017.

Paul O'Connor

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
12 March 2018

Group Income Statement

For the year ended 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--|-------|--------------------|---------------|
| Revenue | 2 | 2,715,830 | 2,507,276 |
| Operating costs – before exceptional items | 3 | (2,557,654) | (2,372,349) |
| Property profits | | 2,722 | 4,923 |
| Operating profit – before exceptional items | | 160,898 | 139,850 |
| Exceptional items | 4 | - | (19,713) |
| Operating profit | | 160,898 | 120,137 |
| Finance expense | 7 | (7,122) | (7,166) |
| Finance income | 7 | 675 | 1,276 |
| Profit before tax | | 154,451 | 114,247 |
| Income tax charge | 9 | (26,622) | (21,128) |
| Profit after tax for the financial year | | 127,829 | 93,119 |
| Profit attributable to: | | | |
| Owners of the Parent | | 127,719 | 93,347 |
| Non-controlling interests | | 110 | (228) |
| Profit after tax for the financial year | | 127,829 | 93,119 |
| Earnings per ordinary share - basic | 11 | 53.95p | 39.56p |
| Earnings per ordinary share - diluted | 11 | 53.80p | 39.44p |

On behalf of the Board

Gavin Slark

Director

12 March 2018

David Arnold

Director

Group Statement of Comprehensive Income

For the year ended 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|-------|----------------|---------------|
| Profit after tax for the financial year | | 127,829 | 93,119 |
| Other comprehensive income | | | |
| Items that are or may be reclassified subsequently to the income statement | | | |
| Currency translation effects: | | | |
| - on foreign currency net investments | | 4,146 | 20,374 |
| - on foreign currency borrowings designated as net investment hedges | | - | 1,221 |
| Fair value movement on cash flow hedges: | | | |
| - Effective portion of changes in fair value of cash flow hedges | | (202) | (461) |
| - Net change in fair value of cash flow hedges transferred from equity | | 336 | 258 |
| Deferred tax on cash flow hedges | 26 | (30) | 26 |
| | | 4,250 | 21,418 |
| Items that will not be reclassified to the income statement | | | |
| Remeasurement gain/(loss) on Group defined benefit pension schemes | 32 | 7,438 | (13,810) |
| Deferred tax on Group defined benefit pension schemes | 26 | (1,069) | 2,102 |
| | | 6,369 | (11,708) |
| Total other comprehensive income | | 10,619 | 9,710 |
| Total comprehensive income for the financial year | | 138,448 | 102,829 |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent | | 138,338 | 103,057 |
| Non-controlling interests | | 110 | (228) |
| Total comprehensive income for the financial year | | 138,448 | 102,829 |

On behalf of the Board

Gavin Slark
Director
12 March 2018

David Arnold
Director

Group Balance Sheet

As at 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--|-------|------------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 12 | 591,746 | 566,237 |
| Intangible assets | 15 | 54,340 | 44,584 |
| Property, plant and equipment | 13 | 504,412 | 461,660 |
| Investment properties | 13 | 22,056 | 21,749 |
| Deferred tax assets | 26 | 11,867 | 15,718 |
| Retirement benefit assets | 32 | 1,527 | 796 |
| Other financial assets | 14 | 126 | 125 |
| Total non-current assets | | 1,186,074 | 1,110,869 |
| Current assets | | | |
| Properties held for sale | 13 | 5,055 | 8,407 |
| Inventories | 16 | 328,525 | 292,681 |
| Trade and other receivables | 17 | 413,095 | 397,689 |
| Cash and cash equivalents | 20 | 253,659 | 205,857 |
| Total current assets | | 1,000,334 | 904,634 |
| Total assets | | 2,186,408 | 2,015,503 |
| EQUITY | | | |
| Equity share capital | 18 | 8,494 | 8,449 |
| Share premium account | 18 | 212,167 | 210,271 |
| Capital redemption reserve | 19 | 621 | 621 |
| Revaluation reserve | 19 | 13,327 | 13,507 |
| Shares to be issued reserve | 19 | 8,744 | 8,446 |
| Cash flow hedge reserve | 19 | (427) | (531) |
| Foreign currency translation reserve | 19 | 77,505 | 73,359 |
| Retained earnings | | 858,053 | 751,842 |
| Treasury shares held | 18 | (3,897) | (3,897) |
| Equity attributable to owners of the Parent | | 1,174,587 | 1,062,067 |
| Non-controlling interests | 19 | - | 3,122 |
| Total equity | | 1,174,587 | 1,065,189 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 20 | 315,165 | 300,426 |
| Provisions | 23 | 21,888 | 22,385 |
| Retirement benefit obligations | 32 | 25,006 | 32,081 |
| Derivative financial instruments | 22 | 484 | 675 |
| Deferred tax liabilities | 26 | 37,986 | 36,429 |
| Total non-current liabilities | | 400,529 | 391,996 |
| Current liabilities | | | |
| Interest-bearing loans and borrowings | 20 | 916 | 1,051 |
| Trade and other payables | 24 | 572,130 | 523,700 |
| Current income tax liabilities | | 27,613 | 21,224 |
| Provisions | 23 | 10,633 | 12,343 |
| Total current liabilities | | 611,292 | 558,318 |
| Total liabilities | | 1,011,821 | 950,314 |
| Total equity and liabilities | | 2,186,408 | 2,015,503 |

On behalf of the Board

Gavin Slark

Director

12 March 2018

David Arnold

Director

Group Cash Flow Statement

For the year ended 31 December 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--|-------|------------------|---------------|
| Profit before taxation | | 154,451 | 114,247 |
| Finance income | 7 | (675) | (1,276) |
| Finance expense | 7 | 7,122 | 7,166 |
| Operating profit | | 160,898 | 120,137 |
| Depreciation | 13 | 39,455 | 34,929 |
| Amortisation of intangible assets | 15 | 4,032 | 3,121 |
| Share-based payments charge | 33 | 4,908 | 3,232 |
| Movement in provisions | 23 | (3,094) | 5,802 |
| Asset impairment and fair value (gains)/losses | | 329 | 4,383 |
| (Profit)/loss on sale of property, plant and equipment | | (737) | 19 |
| Property profit | | (2,722) | (4,923) |
| Loss on sale of Group businesses | | 3 | 392 |
| Contributions to pension schemes in excess of IAS 19 charge | | (1,840) | (1,516) |
| Decrease in working capital | 27 | 9,506 | 3,010 |
| Cash generated from operations | | 210,738 | 168,586 |
| Interest paid | | (6,438) | (6,936) |
| Income taxes paid | | (18,157) | (16,269) |
| Cash flows from operating activities | | 186,143 | 145,381 |
| Investing activities | | | |
| Inflows | | | |
| Proceeds from sale of property, plant and equipment | | 3,100 | 1,740 |
| Proceeds from sale of properties held for sale | | 5,708 | 8,251 |
| Proceeds from sale of Group businesses (net) | | 512 | 881 |
| Interest received | | 675 | 1,276 |
| | | 9,995 | 12,148 |
| Outflows | | | |
| Acquisition of subsidiary undertakings and businesses (net of cash acquired) | 28 | (37,732) | (11,859) |
| Investment in intangible assets - computer software | 15 | (7,687) | (10,343) |
| Purchase of property, plant and equipment | 13 | (73,729) | (50,101) |
| | | (119,148) | (72,303) |
| Cash flows from investing activities | | (109,153) | (60,155) |
| Financing activities | | | |
| Inflows | | | |
| Proceeds from the issue of share capital | | 1,941 | 505 |
| Proceeds from borrowings | | 34,355 | 77,842 |
| | | 36,296 | 78,347 |
| Outflows | | | |
| Repayment of borrowings | | (31,439) | (145,577) |
| Dividends paid | 10 | (33,708) | (30,048) |
| Acquisition of non-controlling interest | | (2,630) | - |
| Payment on finance lease liabilities | | (439) | (409) |
| | | (68,216) | (176,034) |
| Cash flows from financing activities | | (31,920) | (97,687) |
| Net increase/(decrease) in cash and cash equivalents | | 45,070 | (12,461) |
| Cash and cash equivalents at 1 January | | 205,857 | 211,565 |
| Effect of exchange rate fluctuations on cash held | | 2,732 | 6,753 |
| Cash and cash equivalents at 31 December | | 253,659 | 205,857 |
| Cash and cash equivalents are broken down as follows: | | | |
| Cash at bank and short-term deposits | | 253,659 | 205,857 |

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 £'000 | Cash flow hedge reserve £'000 | Foreign currency translation reserve £'000 | Retained earnings £'000 | Treasury shares £'000 | Total £'000 | Non-controlling interests £'000 | Total equity £'000 |
|--|-------------------------------|--------------------------------|-------------------------------------|------------------------------|------------------------------|----------------------------------|---|----------------------------|--------------------------|----------------|------------------------------------|-----------------------|
| Year to 31 December 2016 | | | | | | | | | | | | |
| At 1 January 2016 | 8,405 | 209,810 | 621 | 13,674 | 9,168 | (354) | 51,764 | 696,479 | (3,897) | 985,670 | 3,350 | 989,020 |
| Profit after tax for the financial year | - | - | - | - | - | - | - | 93,347 | - | 93,347 | (228) | 93,119 |
| Total other comprehensive income | | | | | | | | | | | | |
| Remeasurement (loss) on pensions (net of tax) | - | - | - | - | - | - | - | (11,708) | - | (11,708) | - | (11,708) |
| Movement in cash flow hedge reserve (net of tax) | - | - | - | - | - | (177) | - | - | - | (177) | - | (177) |
| Currency translation effect on foreign currency net investments | - | - | - | - | - | - | 20,374 | - | - | 20,374 | - | 20,374 |
| Currency translation effect on foreign currency borrowings designated as net investment hedges | - | - | - | - | - | (177) | 1,221 | - | - | 1,221 | - | 1,221 |
| Total other comprehensive income | - | - | - | - | - | (177) | 21,595 | (11,708) | - | 9,710 | - | 9,710 |
| Total comprehensive income | - | - | - | - | - | (177) | 21,595 | 81,639 | - | 103,057 | (228) | 102,829 |
| Transactions with owners of the Parent recognised directly in equity | | | | | | | | | | | | |
| 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 | - | - | - | - |
| | 44 | 461 | - | (167) | (722) | - | - | (26,276) | - | (26,660) | - | (26,660) |
| At 31 December 2016 | 8,449 | 210,271 | 621 | 13,507 | 8,446 | (531) | 73,359 | 751,842 | (3,897) | 1,062,067 | 3,122 | 1,065,189 |

Notes to the Group Financial Statements

1. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated 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 IFRSs applied in these financial statements were those effective for accounting periods ending on 31 December 2017.

New Standards, Amendments and Interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017, have 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 2017, 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. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright-line hedge effectiveness tests. To qualify for hedge accounting, it requires an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that management actually uses for risk management purposes. Contemporaneous documentation is still required, but it is different from that currently prepared under IAS 39. There is an accounting policy choice to continue to account for all hedges under IAS 39.

The Group is working towards the implementation of IFRS 9 on 1 January 2018. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model. The Group's initial assessment is that there will be no material impact on adoption of the standard.

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. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognized when the uncertainty is resolved.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Group is working towards the implementation of IFRS 15 on 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process. Additional disclosures will be required under IFRS 15. The Directors anticipate there will be no material impact for the Group's revenue streams.

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.

The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lease accounting. The principal difference to lease accounting at present under IAS 17 is the requirement to bring almost all leases onto the balance sheet except for leases with a term of less than 12 months and leases of low value assets. The Group expects to adopt IFRS 16 by applying the modified retrospective approach and to recognise a lease liability and corresponding right of use asset. The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid as of that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Notes to the Group Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The standard is expected to have a material impact on the Group with the recognition of lease liabilities and right of use assets. As outlined in note 31, the total operating lease commitments of the Group at 31 December 2017 is £700.5 million (2016: £649.2 million).

In 2017, the operating lease expense recognised in the income statement was £68.7 million (2016: £59.6 million). In future periods, the operating lease charge will be replaced by a depreciation charge on the right of use asset recognised in operating expenses and an interest cost on the lease liability recognised in finance costs.

The Group expects to adopt IFRS 16 by applying the modified retrospective application as permitted by the standard.

The directors are in the process of reviewing contracts to identify lease arrangements that would need to be recognised under IFRS 16.

Basis of Preparation

The consolidated Financial Statements are presented in sterling, 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, 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.

Notes to the Group Financial Statements (continued)

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 of 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;
- The completion and implementation of the asset is technically feasible;
- 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:

| | |
|-----------------------------|-------------------------------|
| Freehold buildings | 50-100 years |
| Freehold land | Not depreciated |
| Leasehold buildings | Lease term or up to 100 years |
| Plant and machinery | 5-20 years |
| Motor vehicles | 5 - 10 years |
| Plant hire equipment | 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.

Notes to the Group Financial Statements (continued)

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.

Notes to the Group Financial Statements (continued)

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, Merchancing, Retailing and Manufacturing.

The Merchancing 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 649 branches in Britain, Ireland, the Netherlands and Belgium.

The aggregation of operating segments into the Merchancing 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.

Notes to the Group Financial Statements (continued)

2. Segment Information (continued)

Group Income Statement

| | Continuing operations – Year Ended 31 December | | | | | | | |
|---|--|-----------|----------------|---------|-----------------|----------|------------------|-----------|
| | Merchandising | | Retailing | | Manufacturing | | Group | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Segment revenue | 2,469,350 | 2,290,568 | 180,391 | 157,090 | 78,009 | 74,358 | 2,727,750 | 2,522,016 |
| Less: Inter-segment revenue | - | - | - | - | (11,920) | (14,740) | (11,920) | (14,740) |
| | 2,469,350 | 2,290,568 | 180,391 | 157,090 | 66,089 | 59,618 | 2,715,830 | 2,507,276 |
| Segment operating profit | 148,877 | 130,264 | 11,179 | 7,304 | 15,125 | 12,149 | 175,181 | 149,717 |
| Property profits | 2,722 | 4,923 | - | - | - | - | 2,722 | 4,923 |
| Amortisation of intangible assets arising on acquisitions | (2,756) | (2,198) | - | - | - | - | (2,756) | (2,198) |
| Exceptional items (Note 4) | - | (16,933) | - | (2,020) | - | - | - | (18,953) |
| Segment operating profit after exceptional and non-recurring items | 148,843 | 116,056 | 11,179 | 5,284 | 15,125 | 12,149 | 175,147 | 133,489 |

| | Group | |
|--|-----------------|----------|
| | 2017 | 2016 |
| | £'000 | £'000 |
| Reconciliation to consolidated operating profit | | |
| Segment operating profit after non-recurring items | 175,147 | 133,489 |
| Central activities | (14,249) | (12,592) |
| Central activities – exceptional items (Note 4) | - | (760) |
| Operating profit | 160,898 | 120,137 |
| Finance expense | (7,122) | (7,166) |
| Finance income | 675 | 1,276 |
| Profit before tax | 154,451 | 114,247 |
| Income tax | (26,622) | (21,128) |
| Profit after tax for the financial year | 127,829 | 93,119 |

2. Segment Information (continued)

Group Balance Sheet

| | Continuing operations – as at 31 December | | | | | | | |
|--|---|---------------|---------------|---------------|---------------|---------------|------------------|---------------|
| | Merchanting | | Retailing | | Manufacturing | | Group | |
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Segment assets | 1,816,532 | 1,695,668 | 59,348 | 55,570 | 43,349 | 41,769 | 1,919,229 | 1,793,007 |
| Reconciliation of total assets | | | | | | | | |
| Deferred tax assets | | | | | | | 11,867 | 15,718 |
| Retirement benefit assets | | | | | | | 1,527 | 796 |
| Other financial assets | | | | | | | 126 | 125 |
| Cash and cash equivalents | | | | | | | 253,659 | 205,857 |
| Total assets in the Group balance sheet | | | | | | | 2,186,408 | 2,015,503 |

| | Continuing operations – as at 31 December | | | | | | | |
|---|---|---------------|---------------|---------------|---------------|---------------|------------------|---------------|
| | Merchanting | | Retailing | | Manufacturing | | Group | |
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Segment liabilities | 545,941 | 502,871 | 43,657 | 41,451 | 15,053 | 14,106 | 604,651 | 558,428 |
| Reconciliation of total liabilities | | | | | | | | |
| Interest bearing loans and borrowings (current and non-current) | | | | | | | 316,081 | 301,477 |
| Retirement benefit obligations | | | | | | | 25,006 | 32,081 |
| Deferred tax liabilities | | | | | | | 37,986 | 36,429 |
| Current tax liabilities | | | | | | | 27,613 | 21,224 |
| Derivative financial instruments | | | | | | | 484 | 675 |
| Total liabilities in the Group balance sheet | | | | | | | 1,011,821 | 950,314 |

Notes to the Group Financial Statements (continued)

2. Segment Information (continued)

Other Segment Information

| | Continuing operations – Year Ended 31 December | | | | | | | |
|-----------------------------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Merchandising | | Retailing | | Manufacturing | | Group | |
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Capital expenditure | 67,087 | 44,937 | 3,491 | 2,790 | 3,151 | 2,374 | 73,729 | 50,101 |
| Investment in intangible assets | 7,628 | 10,343 | - | - | 59 | - | 7,687 | 10,343 |
| Intangible assets acquired | 5,508 | 2,815 | - | - | - | - | 5,508 | 2,815 |
| Depreciation | 34,462 | 29,931 | 2,635 | 2,661 | 2,358 | 2,337 | 39,455 | 34,929 |
| Amortisation of intangible assets | 4,030 | 3,121 | - | - | 2 | - | 4,032 | 3,121 |

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 | |
|---------------------------------|---|---------------|----------------|----------------|---------------|----------------|----------------|------------------|------------------|------------------|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| | Segment revenue (continuing operations) | 89,613 | 83,462 | 588,030 | 509,074 | 131,028 | 87,712 | 1,907,159 | 1,827,028 | 2,715,830 |
| Capital expenditure | 2,156 | 1,108 | 13,061 | 6,868 | 1,223 | 700 | 57,289 | 41,425 | 73,729 | 50,101 |
| Investment in intangible assets | - | - | - | - | - | - | 7,687 | 10,343 | 7,687 | 10,343 |
| Intangible assets acquired | - | - | - | - | 5,508 | - | - | 2,815 | 5,508 | 2,815 |
| Segment non-current assets | 25,066 | 23,264 | 298,556 | 282,046 | 79,830 | 49,649 | 769,102 | 739,271 | 1,172,554 | 1,094,230 |
| Properties held for sale | | | | | | | | | 5,055 | 8,407 |
| Inventories | | | | | | | | | 328,525 | 292,681 |
| Trade and other receivables | | | | | | | | | 413,095 | 397,689 |
| Total segment assets | | | | | | | | | 1,919,229 | 1,793,007 |
| Segment liabilities | 15,728 | 13,384 | 180,919 | 167,905 | 15,580 | 7,809 | 392,424 | 369,330 | 604,651 | 558,428 |

*Includes Poland which is immaterial

3. Operating Costs and Income

The following have been charged/(credited) in arriving at operating profit:

| | 2017 €'000 | 2016 €'000 |
|--|------------------|------------------|
| (Increase) in inventories | (24,481) | (2,160) |
| Purchases and consumables | 1,850,037 | 1,712,918 |
| Staff costs before non-recurring items (Note 6) | 395,358 | 362,905 |
| Auditor's remuneration - Group and subsidiaries | 996 | 808 |
| Depreciation | 39,455 | 34,929 |
| Lease rentals and other hire charges | 68,733 | 59,619 |
| Amortisation of intangible assets | 4,032 | 3,121 |
| (Profit)/loss on disposal of property, plant and equipment | (737) | 19 |
| Loss on disposal of Group businesses | 3 | 392 |
| Selling, distribution and administrative expenses | 224,258 | 199,798 |
| | 2,557,654 | 2,372,349 |

The following services were provided by the Group's Auditor:

| | 2017 €'000 | 2016 €'000 |
|--|---------------|---------------|
| Audit services (i) | | |
| - Group Auditor - PwC Ireland | 374 | 344 |
| - Other network firm - PwC | 601 | 443 |
| | 975 | 787 |
| Other assurance services (ii) | | |
| - Group Auditor - PwC Ireland | 9 | 13 |
| - Other network firm - PwC | 12 | 8 |
| | 21 | 21 |
| Auditor's remuneration - Group and subsidiaries (i) & (ii) | 996 | 808 |
| Other non-audit services | | |
| - Group Auditor - PwC Ireland | - | - |
| - Other network firm - PwC | - | 32 |
| | - | 32 |
| Tax advisory services | | |
| - Group Auditor - PwC Ireland | - | - |
| - Other network firm - PwC | - | - |
| | - | - |
| Total (including expenses) | | |
| - Group Auditor - PwC Ireland | 383 | 357 |
| - Other network firm - PwC | 613 | 483 |
| | 996 | 840 |

Notes to the Group Financial Statements (continued)

4. Exceptional Items, Non-Recurring Operating Income and Operating Costs

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Exceptional items | | |
| Exceptional items presented separately in the income statement | - | (19,713) |

Exceptional items

There were no exceptional items in 2017. Exceptional items of £19.7 million in 2016 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 off of inventory balances.

5. Directors' Remuneration, Pension Entitlements and Interests

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Emoluments | 2,909 | 2,357 |
| Benefits under Long-Term Incentive Plan (LTIP)* | 335 | 834 |
| Total emoluments | 3,244 | 3,191 |
| Emoluments above include the following pension payments/contributions | | |
| - Defined contribution ** | 207 | 206 |
| | 207 | 206 |

* For the year ended 31 December 2017, this is the value of LTIP awards that will vest in May 2018. The value of the awards is based on the average share price of £7.90 for the three months to 31 December 2017. The vesting of these awards was subject to performance conditions over the period from 1 January 2015 to 31 December 2017. For the year ended 31 December 2016, this is the value of LTIP awards that vested in May 2017. The value of this award has been updated from that disclosed last year to reflect the share price of £7.92 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 2017 (2016: 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 79 to 95.

6. Employment

The average number of persons employed during the year by segment was as follows:

| | 2017 | 2016 |
|-----------------|---------------|--------|
| Merchanting | 10,903 | 10,492 |
| Retailing | 1,077 | 1,080 |
| Manufacturing | 214 | 208 |
| Holding company | 28 | 29 |
| | 12,222 | 11,809 |

The aggregate remuneration costs of employees were:

| | £'000 | £'000 |
|--|----------------|---------|
| Wages and salaries | 345,439 | 318,804 |
| Social welfare costs | 36,466 | 33,316 |
| Share based payments charge | 4,908 | 3,232 |
| Defined benefit pension (Note 32) | 2,353 | 2,263 |
| Defined contribution pension and related costs | 6,192 | 5,290 |
| Staff costs charged to operating profit | 395,358 | 362,905 |
| Net finance cost on pension scheme obligations (Note 32) | 721 | 510 |
| Charged to income statement | 396,079 | 363,415 |
| Remeasurement (gain)/loss on pension schemes (Note 32) | (7,438) | 13,810 |
| Total employee benefit cost | 388,641 | 377,225 |

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 £2.7 million (2016: £2.5 million).

Key Management

The cost of key management including Directors is set out in the table below:

| | 2017 | 2016 |
|------------------------------------|--------------|-------|
| Number of Individuals | 10 | 11 |
| | 2017 | 2016 |
| | £'000 | £'000 |
| Short-term employee benefits | 3,255 | 2,581 |
| Share-based payment charge | 1,223 | 895 |
| Retirement benefits expense | 268 | 263 |
| Charged to operating profit | 4,746 | 3,739 |

Notes to the Group Financial Statements (continued)

7. Finance Expense and Finance Income

| | 2017 £'000 | 2016 £'000 |
|---|---------------|----------------|
| Finance expense: | | |
| Interest on bank loans and overdrafts | 4,902 * | 5,975 * |
| Net change in fair value of cash flow hedges transferred from equity | 336 | 258 |
| Interest on finance leases | 188 | 208 |
| Net finance cost on pension scheme obligations | 721 | 510 |
| Foreign exchange loss | 975 | 215 |
| | 7,122 | 7,166 |
| Finance income: | | |
| Interest income on bank deposits | (675)* | (1,276)* |
| | (675) | (1,276) |
| Net finance expense recognised in income statement | 6,447 | 5,890 |
| *Net bank/loan note interest of £4.2 million (2016: £4.7 million) | | |
| Amounts relating to items not at fair value through income statement | | |
| - Total finance expense on financial liabilities | 6,786 | 6,908 |
| - Total finance income on financial assets | (675) | (1,276) |
| Recognised directly in other comprehensive income | | |
| Currency translation effects on foreign currency net investments | 4,146 | 20,374 |
| Currency translation effects on foreign currency borrowings designated as net investment hedges | - | 1,221 |
| Effective portion of changes in fair value of cash flow hedges | (202) | (461) |
| Net change in fair value of cash flow hedges transferred to income statement | 336 | 258 |
| | 4,280 | 21,392 |

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 2017 was Stg87.67 pence (Year ended 31 December 2016: Stg81.95 pence). The sterling/euro exchange rate at 31 December 2017 was Stg88.72 pence (31 December 2016: Stg85.62 pence).

9. Income Tax

| | 2017 | 2016 |
|---|---------------|---------------|
| (a) Income tax recognised in income statement | £'000 | £'000 |
| Current tax expense | | |
| Irish corporation tax | 1,005 | 89 |
| UK and other corporation tax | 23,134 | 16,212 |
| | 24,139 | 16,301 |
| Deferred tax expense | | |
| Irish deferred tax expense relating to the origination and reversal of temporary differences | 1,765 | 1,902 |
| Deferred tax credit resulting from change in tax rates | (415) | (820) |
| UK and other deferred tax expense relating to the origination and reversal of temporary differences | 1,133 | 3,745 |
| | 2,483 | 4,827 |
| Total income tax expense in income statement | 26,622 | 21,128 |

Taxation

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

Taxation paid in 2017 of £18.2 million (2016: £16.3 million) reflected the availability of tax allowances and various reliefs carried forward from prior years.

The amount shown for current taxation reflects tax uncertainties and is based on the Directors' single best 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.

Notes to the Group Financial Statements (continued)

9. Income Tax (continued)

| | 2017 | 2016 |
|---|----------------|---------|
| | £'000 | £'000 |
| (b) Reconciliation of effective tax rate | | |
| Profit before tax | 154,451 | 114,247 |
| Profit before tax multiplied by the standard rate of tax of 12.5% (2016: 12.5%) | 19,306 | 14,281 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 3,652 | 5,670 |
| Differences in effective tax rates on overseas earnings | 6,094 | 5,353 |
| Effect of change in tax rates | (415) | (820) |
| Items not previously recognised for deferred tax | (2,999) | (2,917) |
| Other differences | 984 | (439) |
| Total income tax expense in income statement | 26,622 | 21,128 |

| | 2017 | 2016 |
|--|--------------|---------|
| | £'000 | £'000 |
| (c) Deferred tax recognised directly in equity/other comprehensive income | | |
| Actuarial movement on pension schemes | 1,069 | (2,102) |
| Employee share schemes | (439) | 349 |
| Financing - cash flow hedge | 30 | (26) |
| | 660 | (1,779) |

At 31 December 2017 the Group recognised deferred tax assets on tax losses of £4.2 million (2016: £6.2 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

| | 2017 | 2016 |
|--|---------------|--------|
| | £'000 | £'000 |
| Group | | |
| Interim dividend of 9.0p per Grafton Unit - paid 13 April 2017 | 21,267 | - |
| Interim dividend of 5.25p per Grafton Unit - paid 6 October 2017 | 12,441 | - |
| Interim dividend of 8.0p per Grafton Unit - paid 15 April 2016 | - | 18,825 |
| Interim dividend of 4.75p per Grafton Unit - paid 7 October 2016 | - | 11,223 |
| | 33,708 | 30,048 |

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

10. Dividends (continued)

The Board has agreed to pay a second interim dividend of 10.25 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 9 March 2018 (the 'Record Date') and the cash consideration will be paid on 6 April 2018. A liability in respect of this second interim dividend has not been recognised at 31 December 2017, as there was no present obligation to pay the dividend at the year-end. The dividend payable on 6 April 2018 of £24.3 million will be recognised in 2018.

11. Earnings per Share - Group

The computation of basic, diluted and adjusted earnings per share is set out below:

| | 2017 £'000 | 2016 £'000 |
|---|----------------------------|----------------------------|
| Numerator for basic, adjusted and diluted earnings per share: | | |
| Profit after tax for the financial year | 127,829 | 93,119 |
| Non-controlling interest | (110) | 228 |
| Numerator for basic and diluted earnings per share | 127,719 | 93,347 |
| Exceptional items (Note 4) | - | 19,713 |
| Tax relating to exceptional items | - | (2,231) |
| Amortisation of intangible assets arising on acquisitions | 2,756 | 2,198 |
| Tax relating to amortisation of intangible assets arising on acquisitions | (618) | (564) |
| Numerator for adjusted earnings per share | 129,857 | 112,463 |
| Denominator for basic and adjusted earnings per share: | | |
| | Number of Grafton Units | Number of Grafton Units |
| Weighted average number of Grafton Units in issue | 236,746,881 | 235,942,078 |
| Dilutive effect of options and awards | 662,760 | 726,245 |
| Denominator for diluted earnings per share | 237,409,641 | 236,668,323 |
| Earnings per share (pence) | | |
| - Basic | 53.95 | 39.56 |
| - Diluted | 53.80 | 39.44 |
| Adjusted earnings per share (pence) | | |
| - Basic | 54.85 | 47.67 |
| - Diluted | 54.70 | 47.52 |

The weighted average potential employee share entitlements over 707,588 Grafton Units (2016: 593,675) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

Notes to the Group Financial Statements (continued)

12. Goodwill

| | 2017 £'000 | 2016 £'000 |
|-----------------------------------|----------------|---------------|
| Cost | | |
| At 1 January | 566,237 | 521,521 |
| Arising on acquisitions (Note 28) | 17,671 | 5,380 |
| Measurement period adjustment | - | (500) |
| Disposal of Group businesses | (89) | (549) |
| Translation adjustment | 7,927 | 40,385 |
| At 31 December | 591,746 | 566,237 |

Goodwill Acquired

Goodwill acquired during the year in the amount of £17.7 million (2016: £5.4 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

There was no measurement period adjustment in the current year. In 2016, 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.

Disposal of Group Businesses

The branch closures in the traditional UK merchanting business in 2016 resulted in a write off of goodwill amounting to £0.5 million.

Goodwill Impaired

There were no impairments during the year (2016: £Nil). Total accumulated impairment losses at 31 December 2017 amounted to £Nil (2016: £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. 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. A total of seven CGUs (2016: seven) have been identified and these are analysed between the three reportable segments as follows:

| | Cash-generating units | | Goodwill | |
|---------------|-----------------------|----------------|----------------|---------------|
| | 2017 Number | 2016 Number | 2017 £'000 | 2016 £'000 |
| Merchanting | 4 | 4 | 589,582 | 564,073 |
| Retailing | 1 | 1 | - | - |
| Manufacturing | 2 | 2 | 2,164 | 2,164 |
| | 7 | 7 | 591,746 | 566,237 |

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 (2016: £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 2018 and management forecasts for each of the following years from 2019 to 2022 inclusive. The terminal value was calculated using a long-term growth rate in respect of the years after 2022. 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 9.1 per cent to 10.2 per cent (2016: 8.6 per cent to 10.9 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 (2016: 2 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 | | Irish Merchanting | |
|-----------------------------|---------------------|--------------|---------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Goodwill (£'000) | 363,878 | 363,967 | 161,283 | 155,648 |
| Recoverable amount basis | Value-in-use | Value-in-use | Value-in-use | Value-in-use |
| Revenue growth rate average | 2.8% | 2.4% | 7.3% | 8.1% |
| Long term growth rate | 2.0% | 2.0% | 2.0% | 2.0% |
| Discount rate (pre-tax) | 9.4% | 8.9% | 9.1% | 8.6% |

The remaining goodwill balance of £66.6 million (2016: £46.6 million) is allocated across three CGUs and the goodwill amounts of these CGUs are not significant either individually or in aggregate.

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 appropriate. 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.

Notes to the Group Financial Statements (continued)

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 |
|--|--|---|---|----------------|
| Cost | | | | |
| At 1 January 2016 | 306,805 | 85,333 | 305,020 | 697,158 |
| Additions | 854 | 10,610 | 38,637 | 50,101 |
| Acquisitions | 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 |
| At 1 January 2017 | 323,803 | 102,286 | 351,162 | 777,251 |
| Additions | 6,400 | 13,862 | 53,467 | 73,729 |
| Acquisitions (Note 28) | 4,699 | 148 | 738 | 5,585 |
| Disposals | (443) | (362) | (22,942) | (23,747) |
| Reclassifications | (4,699) | 4,323 | 376 | - |
| Reclassification to properties held for sale | (223) | - | - | (223) |
| Reclassification from properties held for sale | 497 | - | - | 497 |
| Reclassification from investment properties | 757 | - | - | 757 |
| Exchange adjustment | 4,528 | 1,449 | 5,715 | 11,692 |
| At 31 December 2017 | 335,319 | 121,706 | 388,516 | 845,541 |
| Depreciation and impairment | | | | |
| At 1 January 2016 | 33,483 | 38,148 | 195,411 | 267,042 |
| Charge for year | 3,453 | 3,835 | 27,641 | 34,929 |
| Disposals | (771) | (82) | (13,105) | (13,958) |
| Reclassifications 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 |
| At 1 January 2017 | 39,583 | 45,614 | 230,394 | 315,591 |
| Charge for year | 4,747 | 4,591 | 30,117 | 39,455 |
| Disposals | (199) | (336) | (20,848) | (21,383) |
| Reclassifications | (783) | 783 | - | - |
| Reclassification to properties held for sale | (9) | - | - | (9) |
| Reclassification from investment properties | 371 | - | - | 371 |
| Impairment | 300 | - | - | 300 |
| Exchange adjustment | 926 | 962 | 4,916 | 6,804 |
| At 31 December 2017 | 44,936 | 51,614 | 244,579 | 341,129 |
| Net book amount | | | | |
| At 31 December 2017 | 290,383 | 70,092 | 143,937 | 504,412 |
| At 31 December 2016 | 284,220 | 56,672 | 120,768 | 461,660 |

* 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 | |
|------------------------------|--|---------------|----------------------|---------------|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Cost | - | 198 | 6,718 | 6,610 |
| Accumulated depreciation | - | (198) | (3,922) | (3,544) |
| Net book amount | - | - | 2,796 | 3,066 |
| Depreciation charge for year | - | 30 | 273 | 266 |

The Group repaid finance leases amounting to £0.4 million (2016: £0.4 million) and entered new leases during the year of £Nil (2016: £Nil).

13. (b) Properties Held for Sale

| | Carrying Amount £'000 |
|--|--------------------------|
| At 1 January 2016 | 10,805 |
| Transfers from property, plant and equipment | 1,701 |
| Transfers from investment properties | (930) |
| Impairment during the year | (314) |
| Disposals | (3,328) |
| Translation adjustment | 473 |
| At 31 December 2016 | 8,407 |
| Transfers from property, plant and equipment | 214 |
| Transfers to investment properties | (157) |
| Transfers to property, plant & equipment | (497) |
| Disposals | (2,986) |
| Translation adjustment | 74 |
| At 31 December 2017 | 5,055 |

During the year one Irish and 10 UK held for sale properties were sold. One property was transferred from property, plant and equipment. One property was transferred to investment properties. The total number of properties held for sale at 31 December 2017 was 11 (2016: 22), of which 10 (2016: 19) are located in the UK and one (2016: two) in Ireland. In 2016 one property was located in Belgium. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Three properties are included at a fair value of £2.8 million (2016: six properties at £4.5 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 in an orderly manner.

Notes to the Group Financial Statements (continued)

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

13. (c) Investment Properties

| | Fair Value £'000 |
|--|---------------------|
| At 1 January 2016 | 17,797 |
| Transfers from properties held for sale | 930 |
| Transfers from property, plant & equipment | 617 |
| Fair value gain | 302 |
| Translation adjustment | 2,103 |
| At 31 December 2016 | 21,749 |
| Transfers from properties held for sale | 157 |
| Transfers to property, plant & equipment | (386) |
| Fair value gains/(losses) | (29) |
| Translation adjustment | 565 |
| At 31 December 2017 | 22,056 |

Following completion of a review of the Group's estate in 2017 a reduction in the fair value was recorded on a number of Irish properties, as a result of an increase in the rate of stamp duty giving rise to a fair value loss of £0.4m. One Irish investment property was revalued with a fair value gain of £0.4 million. One property in Belgium was transferred to investment property from properties held for sale. The total number of investment properties at 31 December 2017 was 23 (2016: 22) of which six (2016: six) are located in the UK, 16 (2016: 16) in Ireland and one (2016: Nil) in Belgium. 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 £22.1 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, consideration of residual value 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 121, 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 and Ireland. Investment properties, comprising land and buildings located in the UK, Ireland and Belgium, 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 carrying amount of £2.2 million (2016: £3.9 million) and properties held at a fair value of £2.8 million (2016: £4.5 million). Investment properties are held at a fair value of £22.1 million (2016: £21.7 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.

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 2017

| | Comparable market transactions £'000 | Offers from third parties £'000 | Total 2017 £'000 |
|---------------------------------|---|--|------------------------|
| Properties Held for Sale | | | |
| Merchanting segment | 2,595 | 248 | 2,843 |
| | Comparable market transactions £'000 | Other methods £'000 | Total 2017 £'000 |
| Investment Properties | | | |
| Merchanting segment | 17,978 | - | 17,978 |
| Manufacturing segment | 2,871 | 1,207 | 4,078 |
| Total | 20,849 | 1,207 | 22,056 |

At 31 December 2016

| | Comparable market transactions £'000 | Offers from third parties £'000 | Total 2016 £'000 |
|---------------------------------|---|--|------------------------|
| Properties Held for Sale | | | |
| Merchanting segment | 3,707 | 745 | 4,452 |
| | Comparable market transactions £'000 | Other methods £'000 | Total 2016 £'000 |
| Investment Properties | | | |
| Merchanting segment | 17,665 | - | 17,665 |
| Manufacturing segment | 2,890 | 1,194 | 4,084 |
| Total | 20,555 | 1,194 | 21,749 |

Notes to the Group Financial Statements (continued)

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 2017 balance for level 3 fair values:

| | Properties held for sale 2017 £'000 | Investment properties 2017 £'000 |
|--|--|---|
| Balance at beginning of year | 8,407 | 21,749 |
| Transfers from property, plant and equipment | 214 | - |
| Transfers to property, plant and equipment | (497) | (386) |
| Transfers to investment properties | (157) | 157 |
| Disposals | (2,986) | - |
| Fair value gains/(losses) | - | (29) |
| Foreign exchange movement | 74 | 565 |
| Balance at end of year | 5,055 | 22,056 |
| Recorded at fair value | 2,843 | 22,056 |
| Recorded at cost | 2,212 | - |
| Total | 5,055 | 22,056 |

During 2017 one Irish investment property was revalued with a fair value gain of £0.4 million. A fair value movement of £0.4m was recognised on a number of Irish properties as a result of an increase in the rate of stamp duty.

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 |
| Balance at end of year | 8,407 | 21,749 |
| 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.

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>Comparable market transactions - price per square metre:</p> <p>The value is based on comparable market transactions after discussion with independent agents and/or with reference to other information sources.</p> | <p>UK - Regional (excluding major cities)</p> <ul style="list-style-type: none"> • Comparable warehouse market prices of £130 - £456 per square metre. • Comparable industrial development land prices of £200,000 - £1,000,000 per acre. | <p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> • Comparable market prices per square metre were higher/(lower). |
| <p>Offers from third parties:</p> <p>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>UK - Regional (excluding major cities)</p> <ul style="list-style-type: none"> • Two offers for warehouse property at £130 - £411 per square metre. • One offer for industrial land at £198,000 per acre <p>UK - Urban (major cities)</p> <ul style="list-style-type: none"> • One retail property under offer at £3,125 per square metre | <p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> • Final offer price increased/(decreased). |
| <p>Residual Valuation:</p> | <p>Ireland - Urban</p> <ul style="list-style-type: none"> • Redevelopment site residual valuation of £1.901m per acre | <p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> • Comparable market prices per square metre were higher/(lower). |

Notes to the Group Financial Statements (continued)

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>Comparable market transactions - price per square metre:</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>Ireland - Urban</p> <ul style="list-style-type: none"> • Comparable minimum office market prices of £477 per square metre. • Comparable minimum warehouse market prices of £231 per square metre. • Comparable agricultural land market prices of £13,308 per acre. • Comparable industrial or development land prices of £88,720 - £295,733 per acre. <p>Ireland - Regional</p> <ul style="list-style-type: none"> • Comparable warehouse market prices of £29 - £434 per square metre. • Comparable market prices of development land £44,360 - £443,600 per acre. <p>UK - Regional (excluding major cities)</p> <ul style="list-style-type: none"> • Comparable warehouse market price of £228 - £350 per square metre. • Comparable market prices for development sites of between £150,000 and £1,500,000 per acre. | <p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Comparable market prices per square metre were higher/(lower). |

14. Other Financial Assets

| | Other Investments €'000 |
|----------------------------|-------------------------------|
| At 1 January 2016 | 122 |
| Translation adjustment | 3 |
| At 31 December 2016 | 125 |
| Translation adjustment | 1 |
| At 31 December 2017 | 126 |

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 |
|----------------------------|-------------------------------|-------------------------|------------------------------------|----------------|
| Cost | | | | |
| At 1 January 2016 | 15,869 | 2,343 | 15,468 | 33,680 |
| Additions | 10,343 | - | - | 10,343 |
| Acquisitions | - | 225 | 2,590 | 2,815 |
| Translation adjustment | 13 | 255 | 1,719 | 1,987 |
| At 1 January 2017 | 26,225 | 2,823 | 19,777 | 48,825 |
| Additions | 7,687 | - | - | 7,687 |
| Acquisitions (Note 28) | 91 | 534 | 4,883 | 5,508 |
| Translation adjustment | (3) | 83 | 591 | 671 |
| At 31 December 2017 | 34,000 | 3,440 | 25,251 | 62,691 |
| Amortisation | | | | |
| At 1 January 2016 | 570 | 66 | 404 | 1,040 |
| Charge for the year | 923 | 274 | 1,924 | 3,121 |
| Translation adjustment | (3) | 12 | 71 | 80 |
| At 1 January 2017 | 1,490 | 352 | 2,399 | 4,241 |
| Charge for the year | 1,276 | 336 | 2,420 | 4,032 |
| Translation adjustment | 1 | 9 | 68 | 78 |
| At 31 December 2017 | 2,767 | 697 | 4,887 | 8,351 |
| Net book amount | | | | |
| At 31 December 2017 | 31,233 | 2,743 | 20,364 | 54,340 |
| At 31 December 2016 | 24,735 | 2,471 | 17,378 | 44,584 |

Computer software of £31.2 million at 31 December 2017 (2016: £24.7 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 8 years (2016: 9 years).

The amortisation expense of £4.0 million (2016: £3.1 million) has been charged in operating costs in the income statement. Amortisation on acquired intangibles amounted to £2.8 million (2016: £2.2 million).

Notes to the Group Financial Statements (continued)

16. Inventories

| | 2017 £'000 | 2016 £'000 |
|----------------------------|----------------|----------------|
| Raw materials | 1,325 | 1,117 |
| Finished goods | 1,350 | 1,307 |
| Goods purchased for resale | 325,850 | 290,257 |
| | 328,525 | 292,681 |

The inventory provision at 31 December 2017 was £36.4 million (31 December 2016: £31.7 million).

17. Trade and Other Receivables

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Amounts falling due within one year: | | |
| Trade receivables | 290,045 | 282,551 |
| Other receivables | 123,050 | 115,138 |
| | 413,095 | 397,689 |

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 | |
|----------------|-----------------|----------------|
| | 2017 £'000 | 2016 £'000 |
| United Kingdom | 298,676 | 302,459 |
| Ireland | 75,558 | 66,072 |
| Netherlands | 23,914 | 15,529 |
| Belgium | 14,947 | 13,629 |
| | 413,095 | 397,689 |

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. A number of businesses also have credit insurance policies in place which provide cover for the most significant amounts receivable from customers in the UK and Ireland.

17. Trade and Other Receivables (continued)

The ageing of trade and other receivables at 31 December was:

| | Gross Value 2017 £'000 | Impairment 2017 £'000 | Carrying Amount 2017 £'000 | Gross Value 2016 £'000 | Impairment 2016 £'000 | Carrying Amount 2016 £'000 |
|---------------------|------------------------------|-----------------------------|-------------------------------------|------------------------------|-----------------------------|-------------------------------------|
| Not Past Due | 293,471 | - | 293,471 | 280,715 | - | 280,715 |
| Past Due | | | | | | |
| 0-30 days | 96,823 | (1,411) | 95,412 | 89,592 | (734) | 88,858 |
| 30-60 days | 17,737 | (1,418) | 16,319 | 17,991 | (2,117) | 15,874 |
| +60 days | 15,200 | (7,307) | 7,893 | 18,373 | (6,131) | 12,242 |
| | 129,760 | (10,136) | 119,624 | 125,956 | (8,982) | 116,974 |
| | 423,231 | (10,136) | 413,095 | 406,671 | (8,982) | 397,689 |

Movement in Impairment Provision

| | 2017 £'000 | 2016 £'000 |
|--------------------------|----------------|---------------|
| At 1 January | 8,982 | 7,943 |
| Written-off during year* | (4,829) | (4,189) |
| Additional provision | 5,843 | 4,688 |
| Translation adjustment | 140 | 540 |
| At 31 December | 10,136 | 8,982 |

*Includes an amount of £0.1 million in 2016 written off as a result of the branch closures in the traditional UK merchanting business.

18. Share Capital and Share Premium

| Group and Company | 2017 €'000 | 2016 €'000 |
|---|---------------|---------------|
| Authorised: | | |
| Equity shares | | |
| 300 million ordinary shares of 5c each | 15,000 | 15,000 |
| 30 billion 'A' ordinary shares of 0.001c each | 300 | 300 |
| | 15,300 | 15,300 |

Notes to the Group Financial Statements (continued)

18. Share Capital and Share Premium (continued)

Year ended 31 December 2017

| | Issue Price | Number of Shares | 2017 Nominal Value £'000 |
|---|-------------|----------------------|--------------------------------|
| Issued and fully paid: | | | |
| Ordinary shares | | | |
| At 1 January | | 236,795,887 | 8,427 |
| Issued under UK SAYE scheme* | | 322,165 | 12 |
| 2011 Long Term Incentive Plan | | | |
| Date awards granted | | | |
| April 2014 LTIP | Nil | 667,497 | 33 |
| At 31 December | | 237,785,549 | 8,472 |
| 'A' ordinary shares | | | |
| At 1 January | | 4,025,530,079 | 22 |
| 'A' ordinary shares issued in year | | 16,824,254 | - |
| At 31 December | | 4,042,354,333 | 22 |
| Total nominal share capital issued | | | 8,494 |

* Refer to Note 33 which outlines the issue price of both the 2017 and 2014 SAYE Schemes.

Year ended 31 December 2016

| | Issue Price | Number of Shares | 2016 Nominal Value £'000 |
|---|-------------|----------------------|--------------------------------|
| Issued and fully paid: | | | |
| Ordinary shares | | | |
| At 1 January | | 235,721,435 | 8,383 |
| Issued under UK SAYE scheme* | | 193,060 | 8 |
| 2011 Long Term Incentive Plan | | | |
| Date awards granted | | | |
| April 2013 LTIP | Nil | 881,392 | 36 |
| At 31 December | | 236,795,887 | 8,427 |
| 'A' ordinary shares | | | |
| At 1 January | | 4,007,264,395 | 22 |
| 'A' ordinary shares issued in year | | 18,265,684 | - |
| At 31 December | | 4,025,530,079 | 22 |
| Total nominal share capital issued | | | 8,449 |

18. Share Capital and Share Premium (continued)

Share Premium

| | 2017 | 2016 |
|---|----------------|---------|
| Group | £'000 | £'000 |
| At 1 January | 210,271 | 209,810 |
| Premium on issue of shares under UK SAYE scheme | 1,896 | 461 |
| At 31 December | 212,167 | 210,271 |

Grafton Units Issued During 2017

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 989,662 (2016: 1,074,452) and the total consideration received amounted to £1,941,000 (2016: £505,000). Costs relating to the issues were £Nil (2016: £Nil).

Grafton Units

At 31 December 2017 and 31 December 2016, a Grafton Unit comprised one ordinary share of Euro five 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.

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 2017, 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 (2016: 500,000) Grafton Units at a cost of £3,897,000 (2016: £3,897,000) as treasury shares.

Notes to the Group Financial Statements (continued)

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

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

20. Interest-Bearing Loans and Borrowings

| | 2017 £'000 | 2016 £'000 |
|--------------------------------|----------------|---------------|
| Non-current liabilities | | |
| Euro bank loans | 312,980 | 297,870 |
| Finance leases | 2,185 | 2,556 |
| | 315,165 | 300,426 |
| Current liabilities | | |
| Euro bank loans | 478 | 442 |
| Sterling bank loans | - | 203 |
| Finance leases | 438 | 406 |
| | 916 | 1,051 |

The increase in non-current interest bearing loans and borrowings largely reflects net borrowings drawn during the year and the foreign exchange movement on translation of the Group's euro denominated 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 2017 £'000 | Finance leases 2017 £'000 | Total 2017 £'000 | Bank loans 2016 £'000 | Finance leases 2016 £'000 | Total 2016 £'000 |
|------------------------------|-----------------------------|---------------------------------|------------------------|-----------------------------|---------------------------------|------------------------|
| Due within one year | 478 | 438 | 916 | 645 | 406 | 1,051 |
| Between one and two years | 254 | 438 | 692 | 343 | 406 | 749 |
| Between two and three years | 207 | 438 | 645 | 136 | 406 | 542 |
| Between three and four years | 51,071 | 438 | 51,509 | 89 | 406 | 495 |
| Between four and five years | 261,428 | 438 | 261,866 | 297,302 | 406 | 297,708 |
| After five years | 20 | 433 | 453 | - | 932 | 932 |
| | 313,458 | 2,623 | 316,081 | 298,515 | 2,962 | 301,477 |
| Derivatives | | | 484 | | | 675 |
| Gross debt | | | 316,565 | | | 302,152 |
| Cash and short term deposits | | | (253,659) | | | (205,857) |
| Net debt | | | 62,906 | | | 96,295 |
| Shareholders' equity | | | 1,174,587 | | | 1,062,067 |
| Gearing | | | 5% | | | 9% |

The following table indicates the effective interest rates at 31 December 2017 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% | 9,771 | 9,771 | - | - | - | - |
| Sterling deposits | 0.37% | 59,273 | 59,273 | - | - | - | - |
| Cash at bank | (0.40%) - 0.45% | 184,615 | 184,615 | - | - | - | - |
| Total cash and cash equivalents | | 253,659 | 253,659 | - | - | - | - |
| Floating rate debt: | | | | | | | |
| Euro loans | 0.84% | (251,354) | (251,354) | - | - | - | - |
| Total floating rate debt | | (251,354) | (251,354) | - | - | - | - |
| Fixed rate debt: | | | | | | | |
| Euro loans | 1.41% | (62,104) | (62,104) | - | - | - | - |
| Finance leases | 6.00% | (2,623) | (219) | (219) | (438) | (1,314) | (433) |
| Total fixed rate debt | | (64,727) | (62,323) | (219) | (438) | (1,314) | (433) |
| Derivatives | | (484) | (484) | - | - | - | - |
| Total Net Debt | | (62,906) | (60,502) | (219) | (438) | (1,314) | (433) |

Notes to the Group Financial Statements (continued)

20. Interest-Bearing Loans and Borrowings (continued)

Borrowing Facilities

The Group had an undrawn committed borrowing facility at 31 December 2017 of £213.1 million (2016: £217.6 million) in respect of which all conditions precedent were met. The Group had bilateral loan facilities of £528.3 million with six relationship banks at the year end. In March 2017, an option was exercised to extend facilities of £430.7 million with five banks for a further year to March 2022. The average maturity of committed facilities of £528.3 million, including a facility of £97.6 million maturing in March 2021, was 4.0 years at 31 December 2017. A further one-year extension option was exercised in February 2018 for facilities of £430.7 million with five of the Group's six relationship banks.

The following table indicates the effective interest rates at 31 December 2016 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 |
|--|----------------------------|------------------|------------------------------|----------------------------|--------------------|--------------------|-------------------------------|
| 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 | - | - | - | - |
| Total cash and cash equivalents | | 205,857 | 205,857 | - | - | - | - |
| Floating rate debt: | | | | | | | |
| Euro loans | 0.84% | (238,378) | (238,378) | - | - | - | - |
| Sterling loans | 2.00% | (203) | (203) | - | - | - | - |
| Total floating rate debt | | (238,581) | (238,581) | - | - | - | - |
| Fixed rate debt: | | | | | | | |
| 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) | - | - | - | - |
| Total Net Debt | | (96,295) | (93,536) | (203) | (406) | (1,218) | (932) |

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 2017 | 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* | 126 | - | - | - | - | 126 | - |
| Trade and other receivables* | - | - | - | 413,095 | - | 413,095 | - |
| Cash and cash equivalents* | - | - | - | 253,659 | - | 253,659 | - |
| | 126 | - | - | 666,754 | - | 666,880 | - |
| Interest rate swaps | - | (484) | - | - | - | (484) | (484) |
| Euro bank loans | - | - | - | - | (313,458) | (313,458) | (316,495) |
| Finance leases | - | - | - | - | (2,623) | (2,623) | (2,623) |
| Trade and other payables* | - | - | - | - | (572,130) | (572,130) | - |
| | - | (484) | - | - | (888,211) | (888,695) | (319,602) |

21. Financial Instruments and Financial Risk (continued)

| 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) |

*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 (Interest rate swaps)

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

Notes to the Group Financial Statements (continued)

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.

| | 2017 Total £'000 | 2017 Level 1 £'000 | 2017 Level 2 £'000 | 2017 Level 3 £'000 |
|--|------------------------|--------------------------|--------------------------|--------------------------|
|--|------------------------|--------------------------|--------------------------|--------------------------|

Liabilities measured at fair value

Designated as hedging instruments

| | | | | |
|---------------------|-------|---|-------|---|
| Interest rate swaps | (484) | - | (484) | - |
|---------------------|-------|---|-------|---|

Liabilities not measured at fair value

Liabilities at amortised cost

| | | | | |
|-----------------|------------------|---|------------------|---|
| Euro bank loans | (316,495) | - | (316,495) | - |
| Finance leases | (2,623) | - | (2,623) | - |
| | (319,118) | - | (319,118) | - |

| | 2016 Total £'000 | 2016 Level 1 £'000 | 2016 Level 2 £'000 | 2016 Level 3 £'000 |
|--|------------------------|--------------------------|--------------------------|--------------------------|
|--|------------------------|--------------------------|--------------------------|--------------------------|

Liabilities measured at fair value

Designated as hedging instruments

| | | | | |
|---------------------|-------|---|-------|---|
| 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) | - |
| | (301,477) | - | (301,477) | - |

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 |
|--|---|---------------------------------|---|
| Financial assets and liabilities measured at fair value | | | |
| 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 |
| Financial assets and liabilities not held at fair value | | | |
| 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 and Irish merchanting businesses. 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.

Notes to the Group Financial Statements (continued)

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 2017.

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 2017 and 31 December 2016 was:

| | 2017 £'000 | 2016 £'000 |
|-----------------------------|----------------|----------------|
| Trade and other receivables | 413,095 | 397,689 |
| Cash and cash equivalents | 253,659 | 205,857 |
| | 666,754 | 603,546 |

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 | |
|---------------------------|-----------------|----------------|
| | 2017 £'000 | 2016 £'000 |
| United Kingdom banks | 208,926 | 168,428 |
| Republic of Ireland banks | 41,220 | 34,900 |
| Netherlands banks | 2,617 | 1,005 |
| Belgian banks | 896 | 1,524 |
| | 253,659 | 205,857 |

The cash on deposit and cash balances are 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.

| | 2017 £'000 | 2016 £'000 |
|--|----------------|----------------|
| Gross amounts of cash and cash equivalents | 280,845 | 245,742 |
| Amounts set off in the balance sheet * | (27,186) | (39,885) |
| Net amounts of cash and cash equivalents in the balance sheet | 253,659 | 205,857 |

*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 their functional currencies. 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 proportion of the Group's net worth is denominated in euro. This is reflected in 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 |
|--|-----------------|---------------------------|
| 31 December 2017 | | |
| 10% strengthening of sterling currency against the euro | (23,784) | (3,436) |
| 31 December 2016 | | |
| 10% strengthening of sterling currency against the euro | (19,045) | (1,851) |

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 £62,104,000 (2016: £59,934,000) and the period hedged is from December 2014 to May 2019 (2016: 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 2017 was a liability of £0.5 million (31 December 2016: a liability of £0.7 million). A net credit of £134,000 (31 December 2016: charge of £203,000) was recorded in the cash flow hedge reserve in other comprehensive income and a balance of £Nil (31 December 2016: £Nil), being the ineffective portion of the hedge, was taken to the Group Income Statement (Note 7).

Notes to the Group Financial Statements (continued)

21. Financial Instruments and Financial Risk (continued)

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 £1.6 million (2016: £1.5 million) on the basis of the Group's gross debt of £316.6 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 £0.8 billion at 31 December 2017.

At 31 December 2017 the net debt to equity ratio was 5 per cent and shareholders' equity was £1.2 billion. EBITDA for the year was £204.4 million and underlying EBITDA interest cover for 2017 was 48.4 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 £253.7 million (31 December 2016: £205.9 million) which together with undrawn bank facilities of £213.1 million (2016: £217.6 million) and cash-flow from operations provides flexibility in financing its operations.

The following are the undiscounted contractual maturities of financial liabilities, including interest payments.

| 31 December 2017 | 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 |
|---|--------------------------|---------------------------------|------------------------|--------------------------------|--------------------------------|-------------------------------|
| Non-Derivative Financial Liabilities | | | | | | |
| Bank loans | 313,458 | 328,404 | 3,476 | 3,244 | 321,664 | 20 |
| Finance lease liabilities | 2,623 | 10,103 | 755 | 755 | 2,264 | 6,329 |
| Trade and other payables | 572,130 | 572,130 | 572,130 | - | - | - |
| Derivative Financial Instruments | | | | | | |
| Interest rate swaps used for hedging | 484 | 443 | 333 | 110 | - | - |
| | 888,695 | 911,080 | 576,694 | 4,109 | 323,928 | 6,349 |

*Includes interest based on the rates in place at 31 December 2017.

| 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 |
|---|--------------------------|---------------------------------|------------------------|--------------------------------|--------------------------------|-------------------------------|
| Non-Derivative Financial Liabilities | | | | | | |
| 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 | - | - | - |
| Derivative Financial Instruments | | | | | | |
| Interest rate swaps used for hedging | 675 | 644 | 313 | 237 | 94 | - |
| | 825,852 | 848,826 | 528,190 | 4,104 | 309,401 | 7,131 |

*Includes interest based on the rates in place at 31 December 2016.

Notes to the Group Financial Statements (continued)

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 2017 | 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 | (484) | (443) | (170) | (163) | (110) | - | - | - |
| 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 |
| Interest rate swaps | (675) | (644) | (160) | (153) | (237) | (94) | - | - |

22. Derivatives

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Included in non-current liabilities: | | |
| Fair value of interest rate swaps | (484) | (675) |

The decrease in derivatives (non-current) at 31 December 2017 is due to movements in the fair values of the interest rate swaps.

Nature of derivative instruments as at 31 December 2017

| | 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 | - | (484) |

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 |
|--------------------|----------------------|---|--|---|---------------------------|-------------------------------|
| Interest Rate Swap | Dec 2014 to May 2019 | Floating interest rate to fixed interest rate | €70,000,000 | €70,000,000 | - | (675) |

23. Provisions

| | 2017 £'000 | 2016 £'000 |
|--------------------------------|---------------|---------------|
| Non-current liabilities | | |
| Insurance provision | 9,453 | 9,110 |
| Onerous lease provision | 7,111 | 9,144 |
| Dilapidations provision | 5,324 | 4,131 |
| | 21,888 | 22,385 |
| Current liabilities | | |
| Insurance provision | 3,791 | 3,951 |
| Onerous lease provision | 2,738 | 3,519 |
| Dilapidations provision | 1,663 | 3,415 |
| Other provisions | 2,441 | 1,458 |
| | 10,633 | 12,343 |

| Provisions | Insurance | | Onerous Leases | | Dilapidations | |
|-----------------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| At 1 January | 13,061 | 11,942 | 12,663 | 7,980 | 7,546 | 4,350 |
| Charge in year | 6,437 | 4,496 | 577 | 5,007 | 1,439 | 3,225 |
| Utilised/released | (3,601) | (2,805) | (3,737) | (1,599) | (2,053) | (219) |
| Paid during the year | (3,120) | (2,525) | - | - | - | - |
| Foreign exchange | 467 | 1,953 | 346 | 1,275 | 55 | 190 |
| At 31 December | 13,244 | 13,061 | 9,849 | 12,663 | 6,987 | 7,546 |
| Non-current | 9,453 | 9,110 | 7,111 | 9,144 | 5,324 | 4,131 |
| Current | 3,791 | 3,951 | 2,738 | 3,519 | 1,663 | 3,415 |

| Provisions | Restructuring | | Other Provisions | | Total | |
|-----------------------|---------------|---------------|------------------|---------------|----------------|---------------|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| At 1 January | - | - | 1,458 | 1,190 | 34,728 | 25,462 |
| Charge in year | - | 4,180 | 964 | 1,244 | 9,417 | 18,152 |
| Utilised/released | - | (4,180) | - | (1,022) | (9,391) | (9,825) |
| Paid during the year | - | - | - | - | (3,120) | (2,525) |
| Foreign exchange | - | - | 19 | 46 | 887 | 3,464 |
| At 31 December | - | - | 2,441 | 1,458 | 32,521 | 34,728 |
| Non-current | - | - | - | - | 21,888 | 22,385 |
| Current | - | - | 2,441 | 1,458 | 10,633 | 12,343 |

Notes to the Group Financial Statements (continued)

23. Provisions (continued)

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 both individual and aggregate 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 2018 is expected to be at a similar level to 2017. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2017 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.

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 it 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 related 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 related to the branch closures in the traditional UK merchanting business.

Restructuring Provision

The restructuring provision recognised in 2016 primarily related to the branch closures in the traditional UK merchanting business and includes severance payments.

Other Provisions

Other provisions relate to pension 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

| | 2017 £'000 | 2016 £'000 |
|---------------------|----------------|---------------|
| Trade payables | 440,616 | 409,020 |
| Accruals | 91,888 | 78,610 |
| Social welfare | 4,384 | 3,936 |
| Employee income tax | 6,748 | 6,079 |
| Value added tax | 28,494 | 26,055 |
| | 572,130 | 523,700 |

25. Obligations under Finance Leases

| | 2017 | | | 2016 | | |
|--------------------------------------|------------------------------------|-------------------|--------------------|------------------------------------|-------------------|--------------------|
| | Minimum lease payments £'000 | Interest £'000 | Principal £'000 | Minimum lease payments £'000 | Interest £'000 | Principal £'000 |
| Leasehold Property | | | | | | |
| Committed finance lease obligations: | | | | | | |
| Within one year | 755 | 317 | 438 | 673 | 267 | 406 |
| Between one and five years | 3,019 | 1,267 | 1,752 | 2,692 | 1,068 | 1,624 |
| Later than five years | 6,329 | 5,896 | 433 | 7,131 | 6,199 | 932 |
| | 10,103 | 7,480 | 2,623 | 10,496 | 7,534 | 2,962 |

Under the terms of the leases, no contingent rents are payable.

26. Deferred Taxation

| | Assets | Liabilities | Net (assets)/ liabilities | Assets | Liabilities | Net (assets)/ liabilities |
|---|-----------------|---------------|------------------------------|---------------|---------------|------------------------------|
| | 2017 £'000 | 2017 £'000 | 2017 £'000 | 2016 £'000 | 2016 £'000 | 2016 £'000 |
| Recognised deferred tax assets and liabilities | | | | | | |
| Property, plant and equipment | (2,501) | 31,177 | 28,676 | (3,175) | 31,244 | 28,069 |
| Employee share schemes | (667) | - | (667) | (528) | - | (528) |
| Financing | (55) | - | (55) | (85) | - | (85) |
| Other items | (901) | 953 | 52 | (1,000) | 827 | (173) |
| Intangibles | - | 5,856 | 5,856 | - | 4,358 | 4,358 |
| Tax value of losses carried forward | (4,162) | - | (4,162) | (6,231) | - | (6,231) |
| Pension | (3,581) | - | (3,581) | (4,699) | - | (4,699) |
| (Assets)/liabilities | (11,867) | 37,986 | 26,119 | (15,718) | 36,429 | 20,711 |

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 a decrease in the deferred tax asset on the pension schemes deficit.

At 31 December 2017, there were unrecognised deferred tax assets in relation to capital losses of £0.6 million (31 December 2016: £1.2 million), trading losses of £3.4 million (31 December 2016: £3.2 million) and deductible temporary differences of £nil (31 December 2016: £2.6 million). Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits and the Directors cannot foresee such profits arising in the foreseeable future with reasonable certainty. The trading losses and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors have no certainty as to when there will be sufficient taxable profits in the relevant entities against which they can be utilised.

Notes to the Group Financial Statements (continued)

26. Deferred Taxation (continued)

| | Balance 1 Jan 17 | Recognised in profit or loss | Recognised in other comprehensive income | Foreign exchange retranslation | Arising on acquisitions | Balance 31 Dec 17 |
|--|---------------------|---------------------------------|---|--------------------------------------|----------------------------|----------------------|
| Analysis of Net Deferred Tax (asset)/liability | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Property, plant and equipment | 28,069 | (77) | - | 684 | - | 28,676 |
| Employee share schemes | (528) | 300 | (439) | - | - | (667) |
| Financing | (85) | - | 30 | - | - | (55) |
| Other items | (173) | 408 | - | 38 | (221) | 52 |
| Intangibles | 4,358 | (616) | - | 144 | 1,970 | 5,856 |
| Tax value of losses carried forward | (6,231) | 2,268 | - | (199) | - | (4,162) |
| Pension | (4,699) | 200 | 1,069 | (101) | (50) | (3,581) |
| | 20,711 | 2,483 | 660 | 566 | 1,699 | 26,119 |

| | Balance 1 Jan 16 | Recognised in profit or loss | Recognised in other comprehensive income | Foreign exchange retranslation | Arising on acquisitions | Balance 31 Dec 16 |
|--|---------------------|---------------------------------|---|--------------------------------------|----------------------------|----------------------|
| Analysis of Net Deferred Tax (asset)/liability | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 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) |
| | 14,765 | 4,827 | (1,779) | 1,628 | 1,270 | 20,711 |

27. Movement in Working Capital

| | Inventory £'000 | Trade and other receivables £'000 | Trade and other payables £'000 | Total £'000 |
|------------------------------|--------------------|---|--------------------------------------|----------------|
| At 1 January 2016 | 276,229 | 355,752 | (465,914) | 166,067 |
| Translation adjustment | 13,980 | 13,084 | (21,923) | 5,141 |
| Acquisitions | 872 | 1,853 | (3,300) | (575) |
| Disposal of Group businesses | (560) | (1,433) | 1,040 | (953) |
| Movement in 2016 | 2,160 | 28,433 | (33,603) | (3,010) |
| At 1 January 2017 | 292,681 | 397,689 | (523,700) | 166,670 |
| Translation adjustment | 4,008 | 3,631 | (5,752) | 1,887 |
| Disposal of Group businesses | (342) | (245) | 161 | (426) |
| Acquisitions (Note 28) | 7,697 | 6,667 | (3,499) | 10,865 |
| Movement in 2017 | 24,481 | 5,353 | (39,340) | (9,506) |
| At 31 December 2017 | 328,525 | 413,095 | (572,130) | 169,490 |

28. Acquisition of Subsidiary Undertakings and Businesses

On 5 January 2017, the Group completed the acquisition of 100 per cent of the issued share capital of Gunters en Meuser B.V. ("G&M"), the market leader in the distribution of ironmongery, tools and fixings in the Greater Amsterdam Area. G&M trades from 14 branches. In April 2017, a small single branch business was acquired in Wijchen, Eastern Netherlands which provides a good platform to develop a strong market position in the town. On 21 November 2017, 100% of the issued share capital of Scholte & de Vries - Estoppey B.V. ("SV-E") was also acquired. SV-E is a third generation family business that distributes ironmongery, tools and fixings from four branches located primarily in the Greater Amsterdam Area.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies that should be realised as part of the enlarged Group. The acquisitions completed during the year are not considered individually material to require separate disclosure.

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

| | Total €'000 |
|--|----------------|
| Property, plant and equipment (Note 13) | 5,585 |
| Intangible assets - customer relationships (Note 15) | 4,883 |
| Intangible assets - trade names (Note 15) | 534 |
| Intangible assets - computer software (Note 15) | 91 |
| Inventories (Note 27) | 7,697 |
| Trade and other receivables (Note 27) | 6,667 |
| Trade and other payables (Note 27) | (3,499) |
| Retirement benefit liabilities | (198) |
| Deferred tax liability (Note 26) | (1,970) |
| Deferred tax asset (Note 26) | 271 |
| Cash acquired | 51 |
| Net assets acquired | 20,112 |
| Goodwill (Note 12) | 17,671 |
| Consideration | 37,783 |
| Satisfied by: | |
| Cash paid | 37,783 |
| Net cash outflow - arising on acquisitions | |
| Cash consideration | 37,783 |
| Less: cash and cash equivalents acquired | (51) |
| | 37,732 |

Acquisitions would have contributed revenue of £45.5 million and operating profit of £3.1 million in the year ended 31 December 2017 on the assumption that they had been acquired on 1 January. Acquisitions completed in 2017 contributed revenues of £32.3 million and operating profit of £3.0 million for the period from the date of acquisition until the year end.

In 2017, the Group incurred acquisition costs of £0.7m (2016: £0.7m). These have been included in operating costs in the Group Income Statement.

Notes to the Group Financial Statements (continued)

28. Acquisition of Subsidiary Undertakings and Businesses (continued)

The fair value of identifiable net assets acquired in 2017 was £20.1 million.

| | Fair Value £'000 | Consideration £'000 | Goodwill £'000 |
|--------------------|---------------------|------------------------|-------------------|
| Total acquisitions | 20,112 | 37,783 | 17,671 |

Any adjustments to these provisional fair values within the twelve month timeframe from the date of acquisition will be disclosed in the 2018 Annual Report as stipulated by IFRS3 Business Combinations.

There were no adjustments processed during the year to the fair value of business combinations completed during the year ended 31 December 2016.

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

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

30. Capital Expenditure Commitments

At the year end the following commitments authorised by the Board had not been provided for in the financial statements:

| | 2017 £'000 | 2016 £'000 |
|--------------------|---------------|---------------|
| Contracted for | 7,935 | 5,773 |
| Not contracted for | 71,180 | 67,505 |
| | 79,115 | 73,278 |

Capital expenditure commitments are analysed by geography in the table below:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| UK | 73,436 | 67,678 |
| Ireland | 2,944 | 2,873 |
| Netherlands | 547 | 421 |
| Belgium | 2,188 | 2,306 |
| | 79,115 | 73,278 |
| Amounts relating to intangibles included above | 2,450 | 3,025 |

31. Operating Leases

Total commitments payable under non-cancellable operating leases are as follows:

| | Land and buildings | Other | Total | Land and buildings | Other | Total |
|--------------------------------------|-----------------------|---------------|----------------|-----------------------|--------|---------|
| | 2017 | 2017 | 2017 | 2016 | 2016 | 2016 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Operating lease payments due: | | | | | | |
| Within one year | 64,521 | 6,722 | 71,243 | 56,042 | 5,940 | 61,982 |
| Between two and five years | 234,579 | 9,489 | 244,068 | 208,219 | 10,136 | 218,355 |
| Over five years | 385,199 | - | 385,199 | 368,875 | - | 368,875 |
| | 684,299 | 16,211 | 700,510 | 633,136 | 16,076 | 649,212 |

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 2017 £68.7 million (2016: £59.6 million) was recognised as an expense in the income statement in respect of operating leases.

32. Pension Commitments

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.

Notes to the Group Financial Statements (continued)

32. Pension Commitments (continued)

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.

Financial Assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

| | At 31 Dec 2017 Irish schemes | At 31 Dec 2017 UK schemes | At 31 Dec 2016 Irish schemes | At 31 Dec 2016 UK schemes |
|---|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| Valuation method | Projected Unit | Projected Unit | Projected Unit | Projected Unit |
| Rate of increase in salaries | 2.65%* | 0.00%** | 2.50%* | 0.00%** |
| Rate of increase of pensions in payment | - | 3.10% | - | 3.10% |
| Discount rate | 1.85% | 2.60% | 1.80% | 2.90% |
| Inflation rate increase | 1.45% | 2.10%*** | 1.30% | 2.20%*** |

*2.65% applies from 2 January 2019 (31 December 2016: 2.50% 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 2017 and 2016 year end IAS 19 disclosures are as follows:

| 2017 Mortality (years) | | Ireland | UK | 2016 Mortality (years) | | Ireland | UK |
|-----------------------------------|---------------|-------------|-------------|----------------------------|--------|---------|------|
| Future Pensioner aged 65: | Male | 22.5 | 22.2 | Future Pensioner aged 65: | Male | 22.4 | 22.5 |
| | Female | 24.8 | 24.3 | | Female | 24.7 | 24.8 |
| Current Pensioner aged 65: | Male | 21.2 | 21.6 | Current Pensioner aged 65: | Male | 21.1 | 21.7 |
| | Female | 23.7 | 23.5 | | Female | 23.6 | 23.8 |

32. Pension Commitments (continued)

Scheme Assets

The assets in these schemes are analysed below:

| | % | 2017 £'000 | % | 2016 £'000 |
|--------------------------------|------------|------------------|-----|---------------|
| UK equities | 3 | 7,424 | 23 | 50,271 |
| Overseas (non- UK) equities | 43 | 104,374 | 42 | 92,264 |
| Government bonds | 15 | 34,890 | 10 | 23,258 |
| Corporate bonds | 3 | 6,734 | 4 | 9,595 |
| Property | 3 | 8,195 | 4 | 10,129 |
| Diversified growth funds | 31 | 74,877 | 9 | 20,313 |
| Other | 1 | 1,616 | 5 | 10,158 |
| Cash | 1 | 1,253 | 3 | 5,978 |
| | 100 | 239,363 | 100 | 221,966 |
| Actuarial value of liabilities | | (262,842) | | (253,251) |
| Deficit in the schemes | | (23,479) | | (31,285) |
| Represented by: | | | | |
| Retirement benefit assets | | 1,527 | | 796 |
| Retirement benefit obligations | | (25,006) | | (32,081) |
| | | (23,479) | | (31,285) |

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 2017 (31 December 2016: £Nil).

The net pension scheme deficit of £23,479,000 is shown in the Group balance sheet as (i) retirement benefit obligations (non-current liabilities) of £25,006,000 of which £13,038,000 relates to the Euro schemes and £11,968,000 relates to a UK scheme and (ii) retirement benefit assets (non-current assets) of £1,527,000 relating to another UK scheme (£1,040,000) and a Euro scheme (£487,000).

In 2016, 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 a UK scheme and (ii) retirement benefit assets (non-current assets) of £796,000 relating to another UK scheme (£449,000) and a Euro scheme (£347,000).

The actual return on plan assets is set out below:

| | 2017 £'000 | 2016 £'000 |
|------------------------------|---------------|---------------|
| Actual return on plan assets | 16,867 | 22,535 |

Plan assets are comprised as follows:

| | 2017 Quoted £'000 | 2017 Unquoted £'000 | 2017 Total £'000 | 2016 Quoted £'000 | 2016 Unquoted £'000 | 2016 Total £'000 |
|--------------------------|-------------------------|---------------------------|------------------------|-------------------------|---------------------------|------------------------|
| Equity - UK | 7,114 | 310 | 7,424 | 49,870 | 401 | 50,271 |
| Equity - Other | 103,846 | 528 | 104,374 | 91,877 | 387 | 92,264 |
| Bonds - Government | 34,559 | 331 | 34,890 | 23,100 | 158 | 23,258 |
| Bonds - Corporate | 6,201 | 533 | 6,734 | 9,029 | 566 | 9,595 |
| Property | 8,089 | 106 | 8,195 | 10,000 | 129 | 10,129 |
| Cash | 1,237 | 16 | 1,253 | 5,925 | 53 | 5,978 |
| Diversified growth funds | 74,877 | - | 74,877 | 20,313 | - | 20,313 |
| Other | - | 1,616 | 1,616 | 8,652 | 1,506 | 10,158 |
| Total | 235,923 | 3,440 | 239,363 | 218,766 | 3,200 | 221,966 |

Notes to the Group Financial Statements (continued)

32. Pension Commitments (continued)

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 2.7% |
| Life expectancy | Increase by 1 year | Increase by 3.7% |

*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.

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

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

Expense Recognised in Income Statement

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Current service cost | 2,677 | 2,411 |
| Other long term benefit expense/(gain) | 56 | (148) |
| Settlement gain | (98) | - |
| Past service credit | (282) | - |
| Total operating charge | 2,353 | 2,263 |
| Net finance costs on pension scheme obligations | 721 | 510 |
| Total expense recognised in income statement | 3,074 | 2,773 |

32. Pension Commitments (continued)

Recognised Directly in Other Comprehensive Income

| | 2017 £'000 | 2016 £'000 |
|--|----------------|---------------|
| Remeasurement gain/ (loss) on pensions | 7,438 | (13,810) |
| Deferred tax on pensions | (1,069) | 2,102 |
| | 6,369 | (11,708) |

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 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 2018 total approximately £4.0 million.

Average duration and scheme composition

| | Ireland | | UK | |
|--|--------------|-------|--------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Average duration of defined benefit obligation (years) | 19.00 | 19.00 | 18.96 | 18.90 |

Allocation of total defined benefit obligation by participant

| | 2017 | 2016 |
|----------------------------|-------------|------|
| Active plan participants | 36% | 36% |
| Deferred plan participants | 29% | 29% |
| Retirees | 35% | 35% |
| | 100% | 100% |

Notes to the Group Financial Statements (continued)

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 £4,908,000 (2016: £3,232,000), analysed as follows;

| | 2017 £'000 | 2016 £'000 |
|----------------|---------------|---------------|
| LTIP | 4,574 | 3,046 |
| UK SAYE Scheme | 334 | 186 |
| | 4,908 | 3,232 |

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 79 to 95. Awards over 876,455 Grafton Units were granted under the plan on 12 April 2017 and awards over 68,733 Grafton Units were granted under the plan on 10 May 2017 (2016: 837,007 on 14 April 2016).

A summary of the awards granted on 12 April 2017 and 10 May 2017 is set out below:

| | Grafton Group LTIP 2017 10 May 2017 | Grafton Group LTIP 2017 12 April 2017 | Grafton Group LTIP 2016 14 April 2016 |
|--|--|--|--|
| Share price at date of award | £7.74 | £7.15 | £7.25 |
| Exercise price | N/A | N/A | N/A |
| Number of employees | 3 | 211 | 215 |
| Number of share awards | 68,733 | 876,455 | 837,007 |
| Vesting period | 3 years | 3 years | 3 years |
| Expected volatility | 28.1% | 27.9% | 23.7% |
| Award life | 3 years | 3 years | 3 years |
| Expected life | 3 years | 3 years | 3 years |
| Risk free rate | 0.38% | 0.42% | 0.45% |
| Expected dividends expressed as dividend yield | 1.74% | 1.91% | 1.75% |
| Valuation model - EPS | Binomial model | Binomial model | Binomial model |
| Valuation model - TSR | Black Scholes/ Monte-Carlo | Black Scholes/ Monte-Carlo | Black Scholes/ Monte-Carlo |
| Fair value of share award - EPS component | £7.34 | £6.75 | £6.88 |
| Fair value of share award - TSR component | £5.79 | £4.98 | £3.94 |

The expected volatility, referred to above, is based on 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 for 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:

| | 2017 Number | 2016 Number |
|-----------------------------------|------------------|----------------|
| Outstanding at 1 January | 2,343,298 | 2,563,157 |
| Granted in year | 945,188 | 837,007 |
| Forfeited# | (121,609) | (144,797) |
| Expired unvested | (116,190) | (30,677) |
| Exercised | (667,497) | (881,392) |
| Outstanding at 31 December | 2,383,190 | 2,343,298 |

#Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

At 31 December 2017 and 31 December 2016 none of the LTIPs were exercisable as the conditions for exercise were not fulfilled before the year-end.

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 (2016: Nil). Entitlements outstanding at 31 December 2017 amounted to 1,505,001 (2016: 2,440,001). Grafton Units may be acquired, in accordance with the rules of the scheme, at a price of €1.66 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:

| | 2017 | | 2016 | |
|-----------------------------------|------------------|---|-----------|---|
| | Number | Weighted average exercise price € | Number | Weighted average exercise price € |
| Outstanding at 1 January | 2,440,001 | 4.27 | 3,524,501 | 5.94 |
| Forfeited# | - | - | (257,000) | 3.86 |
| Expired* | (935,000) | 8.48 | (827,500) | 11.50 |
| Outstanding at 31 December | 1,505,001 | 1.66 | 2,440,001 | 4.27 |

#Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

*Performance conditions not met.

Notes to the Group Financial Statements (continued)

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 1.2 years (2016: 1.6 years).

At 31 December 2017 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

UK SAYE Scheme

Options over 1,395,276 (2016: 593,675) Grafton Units were outstanding at 31 December 2017, pursuant to a new 2017 and existing 2014 three year saving contract under the Grafton Group (UK) plc 2011 Approved SAYE Plan at a price of £6.77 and £5.97 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being December 2020 for the 2017 SAYE scheme and December 2017 for the 2014 SAYE scheme.

The number of Grafton Units issued during the year under the 2014 SAYE Scheme was 322,165 (2016: 4,925) and the total consideration received amounted to £1,923,000 (2016: £30,000). Options forfeited in the year were 43,878 (2016: 127,375).

A reconciliation of options granted under the 2014 Grafton Group (UK) plc 2011 Approved SAYE Plan is as follows:

| | Number | 2017 Option price £ | Number | 2016 Option price £ |
|-----------------------------------|----------------|---------------------------|-----------|---------------------------|
| Outstanding at 1 January | 593,675 | 5.97 | 725,975 | 5.97 |
| Forfeited | (43,878) | 5.97 | (127,375) | 5.97 |
| Exercised | (322,165) | 5.97 | (4,925) | 5.97 |
| Outstanding at 31 December | 227,632 | | 593,675 | |

A reconciliation of options granted under the 2017 SAYE is as follows:

| | Number | 2017 Option price £ |
|-----------------------------------|------------------|---------------------------|
| Outstanding at 1 January | - | - |
| Granted | 1,175,426 | 6.77 |
| Forfeited | (7,782) | 6.77 |
| Outstanding at 31 December | 1,167,644 | |

The weighted average share price for the period was £7.31.

At 31 December 2017 none of the 2017 UK SAYE shares were exercisable. The weighted average remaining life is 2.8 years.

34. Accounting Estimates and Judgements

The Group's main accounting policies affecting its results and financial condition are set out on pages 117 to 125. 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:

Goodwill

The Group has capitalised goodwill of £591.7 million at 31 December 2017 (2016: £566.2 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. 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. There were no such adjustments in 2017.

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 £262.8 million at 31 December 2017 (2016: £253.3 million). Plan assets at 31 December 2017 amounted to £239.4 million (2016: £222.0 million) giving a net scheme deficit of £23.4 million (2016: £31.3 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 £13.2 million (2016: £13.1 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 £9.8 million (2016: £12.7 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 reflects tax uncertainties and is based on the Directors' single best 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 £22.1 million (2016: £21.7 million) and properties held for sale of £5.1 million (2016: £8.4 million). Details of the fair value of investment properties and properties held for sale are set out 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 income 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 supplier confirmations.

Notes to the Group Financial Statements (continued)

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 2017 amounting to £36.4 million (2016: £31.7 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 2017 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 79 to 95 provides detailed disclosure for 2017 and 2016 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, two Directors resigned from 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 16 February 2018, the Group completed the acquisition of LSDM Limited ("Leyland SDM"). Leyland SDM is regarded as one of the most recognisable and trusted decorating and DIY brands in Central London selling paint, tools, ironmongery and accessories. The Leyland SDM "small box" convenience trading format is a proven business model in Central London that complements the Group's larger Selco branches located in Greater London. Leyland SDM trades from 21 branches. The total consideration paid was £82.4 million on a debt-free, cash-free basis and was funded from the Group's cash and debt facilities. 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 value of assets and liabilities or the goodwill amount associated with this acquisition.

There have been no other material events subsequent to 31 December 2017 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 111 to 176 on 12 March 2018.

Company Balance Sheet

As at 31 December 2017

| | Notes | 2017 €'000 | 2016 €'000 |
|--|-------|------------------|---------------|
| Fixed assets | | | |
| Intangible assets | 4 | 126 | 130 |
| Tangible assets | 4 | 421 | 578 |
| Financial assets | 5 | 535,130 | 531,186 |
| Total fixed assets | | 535,677 | 531,894 |
| Current assets | | | |
| Debtors (including €12.7m (2016: €14.0m) due after more than one year) | 6 | 1,159,400 | 1,103,336 |
| Cash at bank and in hand | | 6,091 | 5,372 |
| Total current assets | | 1,165,491 | 1,108,708 |
| Creditors: amounts falling due within one year | 7 | (453,723) | (391,364) |
| Net current assets | | 711,768 | 717,344 |
| Total assets less current liabilities | | 1,247,445 | 1,249,238 |
| Net assets | | 1,247,445 | 1,249,238 |
| Capital and reserves | | | |
| Called-up share capital | 11 | 11,930 | 11,880 |
| Share premium account | 11 | 302,508 | 300,345 |
| Capital redemption reserve | | 905 | 905 |
| Shares to be issued reserve | | 10,433 | 10,617 |
| Profit and loss account | | 927,415 | 931,237 |
| Treasury shares held | | (5,746) | (5,746) |
| Shareholders' equity | | 1,247,445 | 1,249,238 |

There was a loss after tax of €9.6 million (2016: profit of €577.0 million) attributable to the parent undertaking for the financial year.

On behalf of the Board

Gavin Slark
Director
12 March 2018

David Arnold
Director

Company Statement of Changes in Equity

| | Equity share capital €'000 | Share premium account €'000 | Capital redemption reserve €'000 | Shares to be issued reserve €'000 | Profit and loss account €'000 | Treasury shares €'000 | Total equity €'000 |
|--|----------------------------------|--------------------------------------|---|--|-------------------------------------|-----------------------------|-----------------------|
| Year to 31 December 2017 | | | | | | | |
| At 1 January 2017 | 11,880 | 300,345 | 905 | 10,617 | 931,237 | (5,746) | 1,249,238 |
| Loss after tax for the financial year | - | - | - | - | (9,604) | - | (9,604) |
| Total other comprehensive income | | | | | | | |
| Remeasurement loss on pensions (net of tax) | - | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | (9,604) | - | (9,604) |
| Transactions with owners of the Company recognised directly in equity | | | | | | | |
| Issue of Grafton Units | 50 | 2,163 | - | - | - | - | 2,213 |
| Share based payments charge | - | - | - | 5,598 | - | - | 5,598 |
| Transfer from shares to be issued reserve | - | - | - | (5,782) | 5,782 | - | - |
| | 50 | 2,163 | - | (184) | 5,782 | - | 7,811 |
| At 31 December 2017 | 11,930 | 302,508 | 905 | 10,433 | 927,415 | (5,746) | 1,247,445 |
| Year to 31 December 2016 | | | | | | | |
| 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) | - | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | 576,985 | - | 576,985 |
| Transactions with owners of the Company recognised directly in equity | | | | | | | |
| 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 |
| At 31 December 2016 | 11,880 | 300,345 | 905 | 10,617 | 931,237 | (5,746) | 1,249,238 |

Notes to the Company Financial Statements

1. Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention in accordance with the Companies Act 2014 and Generally Accepted Accounting Practice in the Republic of Ireland (Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101)). Note 2 describes the principle accounting policies under FRS101, which have been applied consistently.

For the financial year ended 31 December 2017, the Company transitioned from IFRS to FRS101. In the transition to FRS101, the Company has applied IFRS 1 First-time Adoption of International Financial Reporting Standards, whilst ensuring that its assets and liabilities are measured in compliance with FRS 101.

The Company's date of transition was 1 January 2016. There were no adjustments to the total equity of the Company on transition or to the profit for the financial years ending 31 December 2016 and 31 December 2017 between IFRS as previously reported and FRS 101.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- The option to take tangible and intangible assets at deemed cost;
- Disclosures in respect of transactions with wholly-owned subsidiaries;
- Disclosures in respect of financial risk management;
- Disclosure of key management compensation;
- An opening Statement of Financial Position at the date of transition;
- Certain requirements of IAS 1 Presentation of Financial Statements;
- Disclosures required by IFRS 7 Financial Instrument Disclosures;
- Disclosures required by IFRS 13 Fair Value Measurement; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of Grafton Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosure:

- IFRS 2 Share Based Payments in respect of group settled share based payments.

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.

2. Accounting Policies

Key accounting policies which involve estimates, assumptions and judgements

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Financial assets

Investments in subsidiaries, are stated at cost less any accumulated impairment and are reviewed for impairment if there are any indicators that the carrying value may not be recoverable. Impairment assessment is considered as part of the Group's overall impairment assessment.

Notes to the Company Financial Statements (continued)

2. Accounting Policies (continued)

Loans receivable and payable

Intercompany loans receivable and payable are initially recognised at fair value. These are subsequently measured at amortised cost, less any provision for impairment.

Other significant accounting policies

Operating income and expense

Operating income and expense arises from the Company's principal activities as a holding company for the Group and are accounted for on an accruals basis.

Foreign currencies

The functional and presentation currency of the Company is euro. Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account.

Share issue expenses and share premium account

Costs of share issues are written off against the premium arising on issues of share capital.

Share-based payments

The Company has applied the requirements of Section 8 of FRS 101. The accounting policy applicable to share-based payments is addressed in detail on page 124 of the Consolidated Financial Statements.

Treasury Shares

Own equity instruments (i.e. Ordinary Shares) acquired by the Company are deducted from equity and presented on the face of the Company Balance Sheet. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's Ordinary Shares.

Dividends

Dividends on Ordinary Shares are recognised as a liability in the Company's Financial Statements in the period in which they are declared by the Company.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated over their useful economic life on a straight line basis in line with Group policy as noted in Note 1 to the Consolidated Financial Statements.

2. Accounting Policies (continued)

Intangible assets (computer software)

Acquired computer software is stated at cost less any accumulated amortisation and any accumulate impairment losses. Cost comprises of purchase price and any other directly attributable costs. Computer software is recognised in line with the criteria as outline in Note 1 to the Consolidated Financial Statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held for the purpose of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts are included within creditors falling due within one year in the Company Balance Sheet.

3. Statutory and Other Information

The following items have been charged to the company income statement:

| | 2017 €'000 | 2016 €'000 |
|---|---------------|---------------|
| Statutory audit (refer to Note 3 of Group Financial Statements) | 60 | 60 |
| Depreciation | 207 | 205 |
| Intangible asset amortisation | 33 | 28 |
| Operating lease costs | 114 | 114 |
| Directors' remuneration | 4,589 | 3,866 |

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 79 to 95.

The average number of persons employed by the Company during the year was 28 (2016: 29).

| | 2017 €'000 | 2016 €'000 |
|---|---------------|---------------|
| The aggregate remuneration costs of employees were: | | |
| Wages and salaries | 5,478 | 5,099 |
| Social welfare costs | 297 | 313 |
| Share-based payments charge | 1,654 | 1,292 |
| Defined contribution and pension related costs | 563 | 439 |
| Charged to operating profit | 7,992 | 7,143 |
| Net finance cost on pension scheme obligations | - | - |
| Charged to income statement | 7,992 | 7,143 |
| Actuarial loss on pension scheme | - | - |
| Total employee benefit cost | 7,992 | 7,143 |

Notes to the Company Financial Statements (continued)

4. Tangible & Intangible Assets

| | Plant and Equipment 2017 €'000 | Intangible Assets* 2017 €'000 |
|------------------------|---|--|
| Company Cost | | |
| At 1 January | 3,019 | 158 |
| Additions | 50 | 29 |
| At 31 December | 3,069 | 187 |
| Depreciation | | |
| At 1 January | 2,441 | 28 |
| Charge for year | 207 | 33 |
| At 31 December | 2,648 | 61 |
| Net book amount | | |
| At 31 December | 421 | 126 |
| At 1 January | 578 | 130 |

*The computer software additions reflects the cost of the Company's investment on upgrading the IT systems and infrastructure.

5. Financial Assets

| | Other investments €'000 | Investments in subsidiary undertakings €'000 | Total €'000 |
|---|-------------------------------|---|----------------|
| At 1 January 2016 | 13 | 373,768 | 373,781 |
| 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) |
| At 31 December 2016 | 13 | 531,173 | 531,186 |
| Capital contribution - share-based payments | - | 3,944 | 3,944 |
| At 31 December 2017 | 13 | 535,117 | 535,130 |

* During 2016 the Company acquired shares in a number of subsidiary companies which were satisfied by the assignment of intercompany receivables.

** The impairment charge during 2016 largely relates to subsidiaries which were liquidated.

Other investments represent sundry equity investments at cost less provision for impairment.

6. Debtors

| | 2017 €'000 | 2016 €'000 |
|---|------------------|---------------|
| Amounts falling due within one year: | | |
| Amounts owed by subsidiary undertakings | 1,141,848 | 1,081,436 |
| Deferred tax | 214 | 362 |
| Other receivables | 4,606 | 7,547 |
| | 1,146,668 | 1,089,345 |
| Amounts falling due after one year: | | |
| Amounts owed by subsidiary undertakings | 12,732 | 13,991 |

7. Creditors

| | 2017 €'000 | 2016 €'000 |
|---|----------------|---------------|
| Amounts falling due within one year: | | |
| Accruals | 7,096 | 6,749 |
| Deferred tax | - | 26 |
| Amounts owed to subsidiary undertakings | 446,627 | 384,589 |
| | 453,723 | 391,364 |

8. Deferred Taxation

| Recognised deferred tax (assets) and liabilities | Net (assets)/ | | | Net (assets)/ | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| | Assets | Liabilities | liabilities | Assets | Liabilities | liabilities |
| | 2017 €'000 | 2017 €'000 | 2017 €'000 | 2016 €'000 | 2016 €'000 | 2016 €'000 |
| Other items | (214) | - | (214) | (362) | 26 | (336) |

| Other items | Balance | | Recognised in other comprehensive income €'000 | Foreign exchange retranslation €'000 | Arising on acquisitions €'000 | Balance 31 Dec 17 €'000 |
|-------------|----------|----------------------------------|--|---|-------------------------------------|-------------------------------|
| | 1 Jan 17 | Recognised in income €'000 | | | | |
| | €'000 | €'000 | | | | |
| | (336) | 122 | - | - | - | (214) |

| Other items | Balance | | Recognised in other comprehensive income €'000 | Foreign exchange retranslation €'000 | Arising on acquisitions €'000 | Balance 31 Dec 16 €'000 |
|-------------|----------|----------------------------------|--|---|-------------------------------------|-------------------------------|
| | 1 Jan 16 | Recognised in income €'000 | | | | |
| | €'000 | €'000 | | | | |
| | (440) | 104 | - | - | - | (336) |

Notes to the Company Financial Statements (continued)

9. Operating Leases

Total commitments payable under non-cancellable operating leases are as follows:

| | Land and Buildings / Other 2017 €'000 | Land and Buildings / Other 2016 €'000 |
|-------------------------------|--|--|
| Operating lease payments due: | | |
| Within one year | 142 | 114 |
| Between two and five years | 660 | 217 |
| Over five years | 141 | - |
| | 943 | 331 |

10. 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 2017 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 2017 Company scheme | At 31 Dec 2016 Company scheme |
|---|----------------------------------|----------------------------------|
| Valuation Method | Projected Unit | Projected Unit |
| Rate of increase of pensions in payment | - | - |
| Discount rate | 1.85% | 1.80% |
| Inflation rate increase | 1.45% | 1.30% |

The Company's obligations to the scheme at the end of 2017 and 2016 were limited to providing a pension to an executive who retired in 2009 on a fixed pension.

10. Pension Commitments (continued)

| | Assets | | Year ended 31 December | | Net asset/(deficit) | |
|-------------------------------------|--------------|-------|------------------------|---------|---------------------|-------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| At 1 January | 1,356 | 1,306 | (1,356) | (1,306) | - | - |
| Interest income on plan assets | 24 | 30 | - | - | 24 | 30 |
| Benefit payments | (76) | (76) | 76 | 76 | - | - |
| Interest cost on scheme liabilities | - | - | (24) | (30) | (24) | (30) |
| Remeasurement gains/(losses) | 5 | 96 | (5) | (96) | - | - |
| At 31 December | 1,309 | 1,356 | (1,309) | (1,356) | - | - |
| Related deferred tax asset (net) | | | | | - | - |
| Net pension liability | | | | | - | - |

No contributions are expected to be paid to the Company's defined benefit scheme in 2018 (2017: €Nil).

11. 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 | 2017 | 2016 |
|---|-------------|----------------------|------------------------|------------------------|
| | | | Nominal Value €'000 | Nominal Value €'000 |
| Issued and fully paid: | | | | |
| Ordinary shares | | | | |
| At 1 January | | 236,795,887 | 11,841 | 11,787 |
| Issued under UK SAYE scheme* | | 322,165 | 16 | 10 |
| 2011 Long Term Incentive Plan | | | | |
| Date awards granted | | | | |
| April 2014 LTIP | Nil | 667,497 | 33 | - |
| April 2013 LTIP | Nil | - | - | 44 |
| At 31 December | | 237,785,549 | 11,890 | 11,841 |
| 'A' ordinary shares | | | | |
| At 1 January | | 4,025,530,079 | 39 | 39 |
| 'A' ordinary shares issued in year | | 16,824,254 | 1 | - |
| At 31 December | | 4,042,354,333 | 40 | 39 |
| Total nominal share capital issued | | | 11,930 | 11,880 |

* Refer to Note 33 to the Group Financial Statements which outlines the issue price of both the 2017 and 2014 SAYE Schemes.

Share Premium

| | 2017 | 2016 |
|---|----------------|---------|
| Company | €'000 | €'000 |
| At 1 January | 300,345 | 299,782 |
| Premium on issue of shares under UK SAYE scheme | 2,163 | 563 |
| At 31 December | 302,508 | 300,345 |

Notes to the Company Financial Statements (continued)

12. Share-Based Payments

Please refer to the Group Share-Based Payments Note 33 set out on pages 172 to 174.

13. 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

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 its subsidiaries of €11.7 million (2016: €11.0 million) for the year ended 31 December 2017; and Loans were granted to and by the Company to its subsidiaries.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 10 to the Company Financial Statements.

14. 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 |

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.

14. Principal Operating Subsidiaries (continued)

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 registered office of Binje Ackermans S.A. is Rue Nestor Martin 315, BE-1082 Brussel, Belgium.

The principal operating subsidiaries in the Netherlands are Isero IJzerwarengroep B.V., Pijnenburg Bouw en Industrie B.V. and Gunters en Meuser 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. The registered office of Gunters en Meuser B.V. is Egelantiersgracht 2-6, 1015 RL Amsterdam, the Netherlands.

15. Section 357 Guarantees

Each of the following Irish registered subsidiaries of the Company, whose registered office is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18 may avail of the exemption from filing its statutory financial statements for the year ended 31 December 2017 as permitted by section 357 of the Companies Act 2014 and, if any these Irish registered subsidiaries of the Company elects to avail of this exemption, there will be in force an irrevocable guarantee from the Company in respect of all commitments entered into by such wholly-owned subsidiary, including amounts shown as liabilities (within the meaning of section 357 (1) (b) of the Companies Act 2014) in such wholly-owned subsidiary's statutory financial statements for the year ended 31 December 2017:

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, Deltana 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 Treasury 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, 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.

16. Other Guarantees

The company has declared and assumes joint and several liability for any obligations arising from the legal acts of Grafton Holding Netherlands B.V., Isero B.V., Isero IJzerwarengroep B.V., Pijnenburg Bouw en Industrie B.V., Gunters en Meuser B.V., Toolrent Midrecht B.V. and Scholte & De Vries - Estoppey B.V. 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 €355.3 million at the balance sheet date. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

17. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2017 on 12 March 2018.

MacBlair

Your **LOCAL** Builders' Merchant



Supplementary Information

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Supplementary Financial Information

Alternative Performance Measures

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

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

The key Alternative Performance Measures (“APMs”) of the Group are set out below. As amounts are reflected in £’m some non-material rounding differences may arise. Numbers that refer to 2016 are available in the 2016 Annual Report.

| APM | Description |
|--|--|
| Adjusted operating profit/EBITA | Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense. |
| Adjusted operating profit/EBITA before property profit | Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense. |
| Adjusted operating profit/EBITA margin before property profit | Adjusted operating profit/EBITA before property profit as a percentage of revenue. |
| Adjusted profit before tax | Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense. |
| Adjusted profit after tax | Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense. |
| Capital turn | Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end). |
| Constant currency | Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group’s results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers. |
| Dividend cover | Group earnings per share divided by the total dividend per share for the Group. |
| EBITDA | 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. |
| EBITDA interest cover | EBITDA divided by net bank/loan note interest. |
| Free cash flow | Cash generated from operations less replacement capital expenditure (net of disposal proceeds), less interest paid (net) and income taxes paid. |
| Gearing | The Group net debt divided by the total equity attributable to owners of the Parent times 100. |

Alternative Performance Measures (continued)

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

Adjusted Operating Profit/EBITA before Property Profit

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

Operating Profit/EBIT Margin

| | 2017 £'m | 2016 £'m |
|-------------------------------------|----------------|-------------|
| Revenue | 2,715.8 | 2,507.3 |
| Operating profit | 160.9 | 120.1 |
| Operating profit/EBIT margin | 5.9% | 4.8% |

Adjusted Operating Profit/EBITA & Margin

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

Supplementary Financial Information (continued)

Adjusted Profit before Tax

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

Adjusted Profit after Tax

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

Reconciliation of Profit to EBITDA

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

Net debt to EBITDA

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

EBITDA Interest Cover

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

Free Cash Flow

| | 2017 | 2016 |
|---|--------------|--------------|
| | £'m | £'m |
| Cash generated from operations | 210.7 | 168.6 |
| Replacement capital expenditure | (32.2) | (22.9) |
| Proceeds on sale of property, plant and equipment | 3.1 | 1.7 |
| Proceeds on sale of properties held for sale | 5.7 | 8.3 |
| Interest received | 0.7 | 1.3 |
| Interest paid | (6.4) | (6.9) |
| Income taxes paid | (18.2) | (16.3) |
| Free cash flow | 163.5 | 133.8 |

Gearing

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

Return on Capital Employed

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

Capital Turn

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

Dividend Cover

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

Grafton Group plc Financial History - 1996 to 2017

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012† | 2011 | 2010 | 2009 | 2008 | 2007 |
|--------------------------------|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Group Income Statements | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Revenue | 2,715.8 | 2,507.3 | 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 |
| Operating profit | 158.2 | 134.9 | 121.5 | 110.1 | 77.2 | 59.1 | 47.5 | 41.5 | 21.3 | 92.7 | 180.4 |
| Operating margin % | 5.8% | 5.4% | 5.5% | 5.3% | 4.1% | 3.4% | 2.7% | 2.4% | 1.2% | 4.4% | 8.2% |
| Restructuring (costs)/credit | - | (19.7) | - | - | 2.8 | (21.2) | (27.8) | (13.2) | (17.0) | (13.7) | - |
| Property profit | 2.7 | 4.9 | 6.7 | - | - | - | - | - | - | - | 5.0 |
| Finance (expense)/income (net) | (6.4) | (5.9) | (7.9) | (8.9) | (12.3) | (12.9) | (10.8) | (6.4) | 7.8 | (28.0) | (24.0) |
| Profit before taxation | 154.5 | 114.2 | 120.3 | 101.2 | 67.7 | 25.0 | 8.9 | 21.9 | 12.1 | 51.0 | 161.4 |
| Taxation | (26.6) | (21.1) | (23.8) | (21.2) | (5.6) | 6.6 | (6.7) | 33.0 | (0.2) | (5.1) | (21.0) |
| Profit after taxation | 127.8 | 93.1 | 96.5 | 80.0 | 62.1 | 31.6 | 2.2 | 54.9 | 11.9 | 45.9 | 140.4 |

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|----------------|---------|---------|--------|---------|--------|---------|---------|---------|---------|---------|
| Group Balance Sheets | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Capital employed | | | | | | | | | | | |
| Goodwill and intangibles | 646.1 | 610.8 | 554.2 | 485.9 | 481.0 | 476.2 | 474.9 | 479.7 | 489.3 | 516.0 | 448.7 |
| Property, plant and equipment | 504.4 | 461.7 | 430.1 | 423.4 | 413.4 | 458.3 | 471.9 | 489.6 | 537.1 | 603.2 | 516.1 |
| Financial assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 3.4 | 3.5 | 0.2 | 0.6 |
| Net current assets** | 136.3 | 141.5 | 149.6 | 112.8 | 136.5 | 133.7 | 121.2 | 122.2 | 122.6 | 193.0 | 256.9 |
| Other net non-current liabilities | (49.4) | (52.6) | (31.3) | (40.6) | (23.0) | (85.9) | (58.4) | (22.8) | (56.4) | (69.9) | (35.7) |
| | 1,237.5 | 1,161.5 | 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 |
| Financed as follows: | | | | | | | | | | | |
| Shareholders' equity | 1,174.6 | 1,062.1 | 985.7 | 902.3 | 870.3 | 813.5 | 821.0 | 852.5 | 809.7 | 827.6 | 783.0 |
| Non-controlling interest | - | 3.1 | 3.4 | 4.0 | 4.0 | 4.1 | - | - | - | - | - |
| Net debt/(cash) | 62.9 | 96.3 | 113.6 | 75.3 | 133.7 | 164.9 | 188.7 | 219.6 | 286.4 | 414.9 | 403.6 |
| | 1,237.5 | 1,161.5 | 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 |
| Other Information | | | | | | | | | | | |
| Acquisitions & investments | 40.4 | 11.9 | 98.6 | 33.1 | 5.9 | 17.6 | 11.1 | 2.1 | 6.1 | 22.4 | 61.0 |
| Purchase of fixed assets / investment in intangible assets | 81.4 | 60.4 | 51.6 | 46.9 | 24.7 | 23.0 | 30.6 | 8.2 | 11.0 | 62.6 | 71.7 |
| | 121.8 | 72.3 | 150.2 | 80.0 | 30.6 | 40.6 | 41.7 | 10.3 | 17.1 | 85.0 | 132.7 |
| Depreciation and intangible amortisation | 43.5 | 38.1 | 33.1 | 32.5 | 31.5 | 33.9 | 37.1 | 40.1 | 44.7 | 45.0 | 40.4 |

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012† | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Financial Highlights | | | | | | | | | | | |
| Adjusted EPS*** (pence) | 54.9 | 47.7 | 41.2 | 34.4 | 22.3 | 15.1 | 13.4 | 15.9 | 4.8 | 25.6 | 57.7 |
| Dividend/share purchase per share (pence) | 15.5 | 13.8 | 12.5 | 10.8 | 8.5 | 7.0 | 6.5 | 6.0 | 4.5 | 11.9 | 15.1 |
| Cashflow per share (pence)# | 72.4 | 64.0 | 54.9 | 48.4 | 39.5 | 29.9 | 24.9 | 44.8 | 26.6 | 39.6 | 74.1 |
| Net assets per share (pence) | 495.0 | 449.5 | 419.0 | 387.9 | 374.4 | 350.6 | 354.1 | 368.5 | 351.0 | 359.5 | 341.2 |
| Underlying EBITDA interest cover (times) | 48.4 | 37.9 | 27.3 | 19.4 | 11.0 | 8.6 | 6.4 | 10.0 | 5.6 | 4.5 | 8.2 |
| Dividend/share purchase cover | 3.5 | 3.5 | 3.3 | 3.2 | 2.6 | 2.2 | 2.1 | 2.6 | 1.1 | 2.1 | 3.8 |
| Net debt to shareholders' funds | 5% | 9% | 12% | 8% | 15% | 20% | 23% | 26% | 35% | 50% | 52% |
| ROCE | 13.6% | 12.5% | 12.2% | 11.1% | 7.8% | 6.1% | 4.6% | 3.8% | 1.8% | 7.6% | 16.1% |

* The summary financial information is stated under IFRS for 2004 to 2017 and under Irish GAAP for all years from 1994 to 2003.

** Excluding net debt/(cash)

*** Before amortisation of intangible assets arising on acquisitions in 2017. 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

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|--|---------|---------|---------|---------|--------|--------|--------|-------|-------|-------|-------|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Group Income Statements | | | | | | | | | | | |
| Revenue | 2,000.0 | 1,798.1 | 1,270.5 | 1,035.2 | 724.6 | 614.9 | 506.2 | 408.6 | 289.7 | 239.1 | 197.1 |
| Operating profit | 165.4 | 146.2 | 109.3 | 80.1 | 56.4 | 48.1 | 39.4 | 30.5 | 22.4 | 18.7 | 15.4 |
| Operating margin % | 8.3% | 8.1% | 8.6% | 7.7% | 7.8% | 7.8% | 7.8% | 7.5% | 7.7% | 7.8% | 7.8% |
| Restructuring (costs)/credit | - | - | - | - | - | - | - | - | - | - | - |
| Property profit | 25.9 | 6.6 | 5.1 | 2.4 | 2.3 | 1.4 | - | - | - | - | 1.5 |
| Finance (expense)/income (net) | (21.4) | (21.4) | (15.5) | (11.9) | (8.3) | (7.7) | (7.2) | (5.4) | (3.3) | (1.8) | (1.1) |
| Profit before taxation | 169.9 | 131.4 | 98.9 | 70.6 | 50.4 | 41.8 | 32.2 | 25.1 | 19.1 | 16.9 | 15.8 |
| Taxation | (22.0) | (17.8) | (13.5) | (10.6) | (7.5) | (5.4) | (4.2) | (3.0) | (2.7) | (2.5) | (2.3) |
| Profit after taxation | 147.9 | 113.6 | 85.4 | 60.0 | 42.9 | 36.4 | 28.0 | 22.1 | 16.4 | 14.4 | 13.5 |
| Group Balance Sheets | | | | | | | | | | | |
| Capital employed | | | | | | | | | | | |
| Goodwill and intangibles | 400.3 | 375.4 | 174.2 | 148.6 | 65.3 | 38.0 | 32.3 | 19.7 | 6.9 | - | - |
| Property, plant and equipment | 460.8 | 427.1 | 286.4 | 244.4 | 196.6 | 153.0 | 130.8 | 109.4 | 99.2 | 42.1 | 37.8 |
| Financial assets | 0.3 | 0.2 | 33.2 | 23.7 | 21.9 | 20.5 | 11.7 | 11.8 | 0.1 | 8.5 | 0.1 |
| Net current assets** | 225.4 | 207.8 | 137.6 | 139.9 | 93.9 | 78.8 | 66.5 | 47.4 | 42.5 | 20.1 | 16.7 |
| Other net non-current liabilities | (35.8) | (52.4) | (35.8) | (19.9) | (11.7) | (10.8) | (10.0) | (8.8) | (8.7) | (0.8) | (0.9) |
| | 1,051.0 | 958.1 | 595.6 | 536.7 | 366.0 | 279.5 | 231.3 | 179.5 | 140.0 | 69.9 | 53.7 |
| Financed as follows: | | | | | | | | | | | |
| Shareholders' equity | 681.1 | 557.7 | 349.4 | 317.0 | 209.5 | 160.9 | 135.1 | 112.7 | 98.6 | 53.6 | 55.0 |
| Non-controlling interest | - | - | - | - | - | - | - | - | - | - | - |
| Net debt/(cash) | 369.9 | 400.4 | 246.2 | 219.7 | 156.5 | 118.6 | 96.2 | 66.8 | 41.4 | 16.3 | (1.3) |
| | 1,051.0 | 958.1 | 595.6 | 536.7 | 366.0 | 279.5 | 231.3 | 179.5 | 140.0 | 69.9 | 53.7 |
| Other Information | | | | | | | | | | | |
| Acquisitions & investments | 59.4 | 326.7 | 60.2 | 152.3 | 55.8 | 38.4 | 34.5 | 41.9 | 36.2 | 21.7 | 6.5 |
| Purchase of fixed assets / investment in intangible assets | 84.8 | 68.8 | 60.3 | 48.0 | 42.8 | 26.1 | 26.3 | 19.4 | 14.0 | 10.7 | 6.1 |
| | 144.2 | 395.5 | 120.5 | 200.3 | 98.6 | 64.5 | 60.8 | 61.3 | 50.2 | 32.4 | 12.6 |
| Depreciation and intangible amortisation | 37.8 | 34.5 | 23.5 | 26.0 | 16.7 | 13.6 | 10.1 | 8.3 | 4.9 | 3.9 | 3.4 |
| Financial Highlights | | | | | | | | | | | |
| Adjusted EPS*** (pence) | 53.2 | 46.4 | 38.1 | 31.2 | 23.3 | 20.0 | 15.8 | 12.8 | 9.6 | 8.5 | 7.3 |
| Dividend/share purchase per share (pence) | 12.8 | 10.8 | 8.8 | 7.3 | 5.3 | 4.7 | 3.7 | 3.0 | 2.2 | 2.0 | 1.7 |
| Cashflow per share (pence)# | 68.4 | 60.4 | 49.1 | 40.6 | 32.7 | 27.9 | 22.1 | 18.1 | 13.1 | 11.5 | 9.9 |
| Net assets per share (pence) | 284.7 | 234.9 | 163.7 | 149.1 | 118.1 | 91.4 | 77.6 | 65.2 | 59.9 | 33.3 | 34.4 |
| Underlying EBITDA interest cover (times) | 10.2 | 9.4 | 9.9 | 9.1 | 9.1 | 8.2 | 6.9 | 7.2 | 8.3 | 12.9 | 20.2 |
| Dividend/share purchase cover | 4.2 | 4.3 | 4.3 | 4.3 | 4.4 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Net debt to shareholders' funds | 54% | 72% | 70% | 69% | 75% | 74% | 71% | 59% | 42% | 30% | - |
| ROCE | 16.5% | 18.8% | 19.3% | 17.1% | 16.5% | 17.4% | 17.4% | 16.9% | 18.2% | 23.1% | 22.2% |

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

| | |
|--|---|
| Auditor | PricewaterhouseCoopers |
| Bankers | Bank of Ireland HSBC Bank plc Ulster Bank Barclays Bank plc ABN AMRO Bank N.V. Lloyds Bank plc |
| Solicitors | Arthur Cox, Dublin A&L Goodbody, Dublin Squire Patton Boggs, London Allen & Overy, Amsterdam Lyons Davidson, Bristol |
| Stockbrokers | Goodbody, Dublin Numis Securities Limited, London |
| Corporate & Registered Office | Heron House Corrig Road Sandyford Industrial Estate, Dublin 18 Phone: 00353-1-216 0600 Fax: 00353-1-295 4470 Email: email@graftonplc.com |
| Registrars | Link Asset Services Link Registrars Limited 2 Grand Canal Square, Dublin 2, D02 A342 Phone: 00353-1-553 0050 Email: enquiries@linkgroup.ie www.linkassetservices.com |

Financial Calendar

Results

| | |
|----------------------------|----------------|
| Half-Year Results for 2017 | 31 August 2017 |
| Final Results for 2017 | 1 March 2018 |
| Annual General Meeting | 9 May 2018 |
| 2018 Half-Year Results | 22 August 2018 |

Interim Dividends

| | |
|-------------|------------------|
| Record date | 8 September 2017 |
| Record date | 9 March 2018 |

Location of Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 9 May 2018 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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