Grafton Group plc
Final Results
For the Year Ended 31 December 2018

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Excellent Progress Towards Medium Term Financial Targets

Grafton Group plc ("the Group"), the international builders merchanting and DIY Group, announces its final results for the year ended 31 December 2018.

£m*	2018	2017	Change
Revenue	**2,953**	2,716	+9%
Adjusted**			
Operating profit before property profit	**189.6**	160.9	+18%
Operating profit	**194.5**	163.7	+19%
Profit before tax	**188.4**	157.2	+20%
Earnings per share – basic	**66.0p**	54.9p	+20%
Statutory results			
Operating profit	**187.5**	160.9	+17%
Profit before tax	**181.3**	154.5	+17%
Earnings per share – basic	**63.3p**	54.0p	+17%
Dividend	**18.0p**	15.50p	+16%
Net debt	**53.1**	62.9	(£9.8m)
Gearing	**4%**	5%	(100bps)
Adjusted operating margin	**6.6%**	6.0%	+60bps
Return on capital employed	**15.0%**	13.6%	+140bps

**Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 36 to 39.*
***The term "adjusted" means before amortisation of intangible assets arising on acquisitions, goodwill written off in the period and profit/(loss) on disposal of Group businesses.*

Highlights

- Revenue up 9% to £2.95 billion – 8% growth in constant currency
- Significant progress towards realising medium term financial objectives - operating profit margin up 60bps to 6.6% and ROCE up 140bps to 15.0%
- Strong organic growth in Ireland and Netherlands Merchanting
- 12% increase in profit in UK Merchanting with significant contribution from Leyland SDM acquisition
- Excellent performances in Woodie's Retailing in Ireland and Mortar Manufacturing in UK
- Strong cash flow of £209.2 million generated from operations
- 16% increase in dividend – sixth consecutive year of double-digit growth

Gavin Slark, Chief Executive Officer commented:

"2018 was another year of strong delivery against our medium-term targets achieved through a combination of organic and acquisition led initiatives. Grafton continues to benefit from exposure to the fast growing Irish and Dutch markets and from strong underlying demand fundamentals in the UK market. The Group's excellent cash generation from operations, good liquidity and strong balance sheet should continue to support the development of the business."

Webcast Details

An analysts and investors results presentation will be hosted by Gavin Slark and David Arnold at 10.00am (GMT) today 28 February 2019 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A, 3ED. A live webcast will be available on www.graftonplc.com/webcastfy18 and we recommend you register in advance. A recording of this webcast will also be available to replay later in the day. The results presentation can be viewed/downloaded at http://www.graftonplc.com

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Cautionary Statement
Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward looking statements. They appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses operated by the Group. The Directors do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Final Results
For the Year Ended 31 December 2018

Group Results

Grafton is pleased to report another set of good results and the delivery of strong growth in revenue, profitability and earnings per share. Broadly based organic growth in the merchanting, retailing and manufacturing businesses and the Leyland SDM acquisition contributed to the improved outcome. These record results demonstrate the benefit of the Group's market positions and exposure to multiple geographies with operating profit growth of 14 per cent in the UK, 25 per cent in Ireland and 27 per cent in the Netherlands.

We were very pleased to achieve a return on capital employed (ROCE) of 15 per cent in 2018, consistent with the medium term target we set ourselves in 2015. The Group's operating margin advanced towards our 7.0 per cent target, increasing by 60bps in the year to 6.6 per cent.

Merchanting

The **UK** merchanting business increased its market share through growing revenue organically in new Selco branches and through the Leyland SDM acquisition that completed in February 2018. The overall business responded well to generally subdued trading conditions in the residential RMI market and delivered a solid increase in profitability that included a good contribution from Leyland SDM.

The market leading merchanting business in **Ireland** delivered strong organic growth for the fifth consecutive year in a favourable market as house building increased and commercial construction activity strengthened. The operating profit margin before property profit advanced by 90bps to 9.4 per cent.

The **Netherlands** business, which has a leadership position in the ironmongery, tools and fixings segment of the merchanting market, performed strongly growing revenue organically and realising integration benefits from acquisitions made in 2017. The operating profit margin increased by 70bps to 10.3 per cent.

The results of the **Belgian** merchanting business were marginally lower in a stable market having absorbed non-recurring costs that should support the future profitable growth of the business.

Retailing

Woodie's, the clear market leader in the DIY, Home and Garden market in Ireland, celebrated the 30th anniversary of the opening of its first store with an exceptional level of organic growth in revenue and profitability, including a strong performance from seasonal ranges in the summer months. The operating profit margin increased by 230bps to 8.5 per cent.

Manufacturing

CPI EuroMix, the market leading mortar manufacturing business that operates nationally from ten plants in the UK, reported excellent growth in revenue and profitability and was a significant contributor to Group profitability. Segment operating profit margin increased by 150 basis points to 24.4 per cent.

Property Profit

The Group realised a profit of £4.9 million (2017: £2.7 million) and proceeds of £9.1 million on the disposal of properties that were no longer in use in the merchanting businesses in the UK and Ireland.

Cash Flow

The Group continued to be very cash generative with cashflow from operations of £209.2 million (2017: £210.7 million) and £23.8 million was realised from the disposal of property, one branch in Belgium and two small non-core businesses in the UK. A cash outflow of £147.4 million was committed to acquisitions and capital projects and the Group ended the year with net debt of £53.1 million (31 December 2017: £62.9 million).

Dividend

A second interim dividend of 12.00p (2017: 10.25p) was approved to give total dividends for the year of 18.00p. This is an increase of 16.1 per cent on dividends of 15.5p paid for 2017 and represents the sixth consecutive year of double-digit growth in dividend per share. The increase is based on the Board's policy of increasing dividends as earnings increase and reflects both the strong cashflow from operations and low level of net debt. Dividend cover was 3.7 times (2017: 3.5 times).

Outlook

Progress in the Group's merchanting business will again be focused on outperforming the market by identifying growth opportunities and increasing revenue and profitability in the 24 Selco stores that were opened over the past three years. Activity in the UK merchanting market is expected to be slightly weaker in the current year with housing RMI activity overall likely to be modestly lower on the basis of recent trends in the economy generally and housing transactions and mortgage approvals. A small increase in the supply of new homes is anticipated supported by underlying demand and the availability of mortgage finance.

The merchanting and DIY markets in Ireland should continue to benefit from the positive outlook for the economy although some moderation in the pace of growth in consumer spending is anticipated. Forward looking indicators point to sustained growth in house building and growth in overall building and construction.

The outlook for the Netherlands economy remains favourable with growth set to continue though easing slightly. Increased disposable income in a tight labour market should be supportive of growth in the new housing market and broadly based investment in property renovation.

The Belgian merchanting business should benefit from the initiatives and developments implemented in 2018.

Average daily like-for-like revenue growth in the period from 1 January 2019 to 17 February 2019 was 3.7 per cent in the overall Group, 1.9 per cent in the UK merchanting business, 10.5 per cent in the Irish merchanting business, 4.6 per cent in the Dutch merchanting business and 5.5 per cent in the Belgian merchanting business. Like-for-like revenue was ahead by 5.6 per cent in the retailing business in Ireland and by 1.3 per cent in the manufacturing business.

Our strategy remains to invest in organic growth opportunities and acquisitions that will create value for shareholders by delivering sustainable growth in attractive segments of the merchanting market, while maintaining a disciplined approach to the allocation of capital.

Operating Review

Merchanting Segment

	2018 £'m	2017 £'m	Actual Change
Revenue	**2,675.8**	2,469.4	+8.4%
Adjusted operating profit before property profit	**168.2**	148.9	+13.0%
Adjusted operating profit margin before property profit	**6.3%**	6.0%	+30bps
Adjusted operating profit	**173.0**	151.6	+14.1%
Adjusted operating profit margin	**6.5%**	6.1%	+40bps

The merchanting businesses in the UK, Ireland, the Netherlands and Belgium accounted for 91 per cent of Group revenue (2017: 91 per cent). Revenue grew by 4.0 per cent in the like-for-like business. Trading conditions were favourable in the merchanting markets in Ireland and Netherlands and relatively flat in the UK and Belgium merchanting markets.

UK Merchanting

	2018 £'m	2017 £'m	Actual Change
Revenue	**1,987.6**	1,845.1	+7.7%
Adjusted operating profit before property profit	**110.1**	100.9	+9.1%
Adjusted operating profit margin before property profit	**5.5%**	5.5%	-
Adjusted operating profit	**114.7**	102.6	+11.9%
Adjusted operating profit margin	**5.8%**	5.6%	+20bps

The UK merchanting business delivered a good overall result increasing operating profit by 11.9 per cent, including a good contribution from Leyland SDM.

The UK economy grew by an estimated 1.4 per cent in 2018 and there was a modest reduction in housing transactions. House prices registered marginal growth for the year while mortgage approvals were slightly down on the prior year. Housing starts and completions grew by an estimated one to two per cent.

Average daily like-for-like revenue increased by 2.7 per cent as customer activity gained some momentum in the second half of the year following a decline in volumes in the first half. Building materials price inflation for the year was estimated at approximately 3.5 per cent. New branches generated revenue growth of 2.9 per cent (£53.1 million) and Leyland SDM contributed revenue growth of 2.4 per cent (£43.9 million). The disposal of two small non-core businesses and branch consolidations reduced revenue by 0.6 per cent (£11.3 million) which combined with an extra trading day led to overall revenue growth of 7.7 per cent.

The positive mix effect of market share gains by the higher gross margin Selco business and the Leyland SDM acquisition increased the gross margin of the UK merchanting business by 30bps. Intense price competition and pressure on gross margins continued to be a feature of trading in the traditional UK merchanting market.

The adjusted operating profit margin before property profit was maintained at 5.5 per cent.

Selco Builders Warehouse, the retail style merchanting model for trade and business customers, reported double digit revenue growth and increased operating profit with the benefit of lower branch opening costs. Revenue growth was primarily driven by the opening of new branches. Comparatively, low revenue growth in the like-for-like business reflected general weakness in the UK economy, relatively flat trading conditions in the RMI market, house price declines in London and the transfer of revenue from a number of established branches in

London and other cities, that were operating close to capacity, to new branches that were opened within the catchment area of these branches.

Expansion of the Selco branch footprint continued with the opening of seven new branches taking the estate to 66 including 38 in the Greater London Area, which accounted for 72 per cent of revenue in 2018. The opening of 24 branches over the past three years has created a business of scale and one of the UK's largest and most successful merchanting brands with revenue exceeding £0.5 billion in 2018. There remains a significant opportunity to realise economies of scale over the coming years from growing revenue in branches that are currently in the early stages of development and from continued expansion of the network.

Prior to the year end, Selco successfully relocated its Cricklewood branch to a larger nearby facility when the current lease came to an end.

Leyland SDM, London's largest independent specialist decorators merchant, trading from a network of 21 high street branches in Central London, was acquired in February 2018. The acquisition reflects our focus on a resilient segment of the RMI market and an emphasis on developing a new channel from exceptional locations that complements the strong presence of Selco in the Greater London Area.

The performance of the business has met our expectations, delivering revenue in the year of £43.9 million and generating an operating profit of £6.5 million. We have secured the expected purchasing benefits between Leyland SDM and other Grafton businesses.

Buildbase experienced mixed trading conditions in the first half of the year reporting modest like-for-like revenue growth. Activity recovered somewhat in the second half and overall revenue growth for the year was driven by materials price inflation with volumes remaining broadly flat. The subdued trading conditions contributed to gross margin pressure in a highly competitive market and operating profit was down on the previous year's level due to the planned increase in costs associated with implementing the new trading and back office ERP system. Against a difficult market backdrop, there was a strong focus on cost control and cash flow generation. A number of back-office modules of the new ERP system have been successfully implemented and branch testing is currently ongoing with rollout expected to commence in the second quarter. The incremental costs of implementation and user training is circa £3.0 million in the current year.

Plumbase made excellent progress for the second successive year with a doubling of operating profit. The business made gains from streamlining its operating model and new marketing initiatives. The bathroom products distribution business experienced improved demand in the second half and delivered a good performance. The distribution centre in Bolton was relocated to a new facility with increased warehouse capacity.

Civils & Lintels, a distributor of heavyside building materials, grew revenue and profitability strongly from increasing its exposure to the house building market. It entered into a number of new annual and multi-year supply arrangements for groundworks and civil engineering products with national housebuilders and sub-contractors. The business also made gains in the steel and concrete lintels market where it is the UKs largest distributor and in the market for underground plastic drainage products. Market coverage was extended into the North of England with the opening of a new branch in Leeds which traded ahead of expectations. In Scotland, where the branches trade under the PDM brand, growth in the new housing market more than offset a slowdown in the hydroelectric and civils markets.

MacBlair, the Northern Ireland merchanting business, had a very good year increasing revenue and operating profit with the benefit of its strong exposure to the residential new build and RMI markets. The business also made procurement and category management gains and leveraged its brand to improve its market position in the region.

TG Lynes, a leading distributor of commercial pipes and fittings in London, reported a good performance in a strong market and established new records for revenue and operating profit. Its core customer base of commercial heating, plumbing and mechanical services contractors continued to develop and support a wide range of residential, commercial and public sector new build and refurbishment projects.

Irish Merchanting

	2018 £'m	2017 £'m	Actual Change	Constant Currency Change
Revenue	**441.1**	403.6	+9.3%	+8.4%
Operating profit before property profit	**41.3**	34.5	+19.8%	+18.9%
Operating profit margin before property profit	**9.4%**	8.5%	+90bps	
Operating profit	**41.5**	35.5	+16.9%	+16.0%
Operating profit margin	**9.4%**	8.8%	+60bps	

The Irish Merchanting business performed strongly delivering like-for-like revenue growth of 7.7 per cent. Constant currency operating profit before property profit increased by 18.9 per cent and operating efficiency of the overall business improved with a 90bps increase in the operating profit margin before property profit to 9.4 per cent.

Underlying market conditions were positive in the residential RMI and new build markets and in sectors of the non-residential construction market. An increase in the supply of building materials to all phases of house building was a key contributor to revenue growth. The number of housing units completed in 2018 increased to 18,000 from 14,436 units in 2017. Housing supply in Ireland is gradually picking up although it remains well short of medium term demand which is estimated at 40,000 units on the basis of demographic factors that included inbound migration and pent-up demand from a decade of under-supply. The level of house building is expected to increase over the coming years with planning consent received for almost 30,000 units over the past year which is two thirds higher than the current level of house building.

The business continued to strengthen its position in the housing RMI market as households responded to the increase in the equity in their homes and growth in employment and disposable incomes by upgrading their existing homes. There was also an increase in the number of transactions in the secondary housing market that created a further stream of RMI activity.

New build and refurbishment activity also increased in the retail, office and hotel sectors. The most active segments of the civil engineering market related to the provision of water services and transport infrastructure.

The three new branches that were opened in Dublin in 2017 established strong trading positions in their local markets in their first full year of trading, grew revenue ahead of expectation and produced a good return on investment. A new Trade Centre and Self Select Showroom trading format was successfully trialled and rolled out in five branches by the year-end and will be extended on a phased basis to the entire estate with a view to protecting and enhancing the businesses strong leadership position in the Irish merchanting market.

The business continued to consolidate its branch network onto a single trading system. The migration, when competed in April 2019, will provide greater insights from a single source of data, streamline processes, deliver strategic and financial benefits and enhance the user experience of employees and customers.

The contribution from an increase in like-for-like revenue by 7.7 per cent was partially offset by a small mix related dilution in the gross margin due to an increase in the proportion of delivered revenue to the new build sector and the creation of 50 new positions to support future growth in revenue. The operating profit margin in the second half of the year increased by 160bps to 10.6 per cent.

Netherlands Merchanting

	2018 £'m	2017 £'m	Actual Change	Constant Currency Change
Revenue	**155.5**	131.0	+18.7%	+17.6%
Adjusted operating profit	**16.0**	12.6	+26.9%	+25.9%
Adjusted operating profit margin	**10.3%**	9.6%	+70bps	

The continued expansion of the Dutch economy, driven by growth in employment and incomes, and sound demand fundamentals in the residential and non-residential construction markets provided a generally positive backdrop. Isero continued to strengthen its market leadership position through organic growth and acquisitions increasing revenue by 17.6 per cent in constant currency including growth of 6.6 per cent in the like-for-like business.

The four branch Amsterdam based Scholte & de Vries - Estoppey business acquired in November 2017 was successfully integrated into Isero and traded in line with expectations. The acquisition of two single branch businesses increased market coverage.

Organic growth included the openings of branches in Dordrecht and in Almere taking the total number of branches at the year end to 62. The upgrading of a number of showrooms was well received by customers leading to encouraging growth in revenue.

Procurement gains and efficiency improvements contributed to a significant increase in operating profit in the 14 branch Gunters en Meuser business that was acquired in January 2017. Very good progress was also made growing revenue and profitability in the Isero business despite incurring significant costs on a new Distribution Centre in Waddinxveen currently under construction that will double the size of the current facility and consolidate all central support functions onto a single site. A new business-to-business e-Commerce platform with improved functionality, product data and search engine optimisation features was successfully deployed prior to the year-end and provides an opportunity to increase revenue over the coming year from a strong digital platform.

Belgium Merchanting

	2018 £'m	2017 £'m	Actual Change	Constant Currency Change
Revenue	**91.6**	89.6	+2.2%	+1.3%
Operating profit	**0.8**	0.9	(12.2%)	(11.9%)
Operating profit margin	**0.9%**	1.0%	(10bps)	

After a slow start to the year the Belgian merchanting business saw better trading conditions in the second half leaving operating profit marginally behind the prior year.

Encouraging progress was made in improving the underlying performance of a number of branches. The branch in Central Brussels was relocated and a new satellite branch was opened. The result for the year was impacted by branch opening and relocation costs and a number of reorganisation initiatives that led to a reduction in the cost base of the business. The disposal of the non-core and geographically peripheral heavyside branch in St. Vith was completed in October 2018.

Retail Segment

	2018 £'m	2017 £'m	Actual Change	Constant Currency Change
Revenue	**198.2**	180.4	+9.9%	+8.8%
Operating profit	**16.8**	11.2	+50.1%	+48.7%
Operating profit margin	**8.5%**	6.2%	+230bps	

2018 was the third consecutive year of strong growth in revenue and profitability as Woodie's continued to build a sustainable business for the long term while also laying the foundations for further growth. The positive outcome for the year was driven by good market fundamentals and the benefit of the business transformation programme and investment in branches undertaken in recent years.

The pace of growth in retail spending was strong supported by broadly based growth in employment, income and consumer spending.

Woodie's improved its leadership position in the Irish DIY, Home and Garden market growing like-for-like revenue by 8.8 per cent with the number of transactions up by 4.1 per cent to 8.3 million and average transaction values 4.7 per cent higher in response to new and extended product ranges.

After a first half that was influenced by extremes of weather, trading patterns were more even in the second half and the business finished the year on a strong note with very good growth in the Christmas category driven by range innovation, availability, great value and service.

Improvements to Woodie's website and order fulfilment delivered sustainable online revenue growth of 70 per cent from a low base with significant potential for future growth.

The branch modernisation programme is now at an advanced stage. Seven stores were upgraded during the year and 85 per cent of retail space is now in the new trading format. This has provided a modern and more exciting shopping experience by changing the layout of how products are categorised and merchandised.

Woodie's continued to invest in colleagues to ensure that the business meets customers' expectations for great service with 170 colleagues graduating under the "Our Seeds for Success" programme and the business improving its Great Place to Work ranking for the third successive year.

Operating profit grew by 50.1 per cent and the operating profit margin increased by 230bps to 8.5 per cent. This follows growth of 150bps in the prior year and was driven by revenue growth, an increase in the gross margin, from an improved product mix, lower promotional activity and tight control of overheads.

Manufacturing Segment

	2018 £'m	2017 £'m	Actual Change	Constant Currency Change
Revenue	**78.8**	66.1	+19.3%	+19.2%
Operating profit	**19.2**	15.1	+27.3%	+27.2%
Operating profit margin	**24.4%**	22.9%	+150bps	

CPI EuroMix improved its position as the leading supplier of dry mortar in Great Britain. The performance for the year created new records for volumes, revenue and operating profit. Record output was supported by increased investment in silos placed on customer's sites and an increase in the distribution fleet.

Volume growth significantly outperformed the increase in housebuilding, the principal end-use market of the businesses that accounts for three quarters of total output. Positive conditions in the new housing market were supported by good underlying demand, the availability of attractive mortgage finance and the Government Help-to-Buy scheme.

Improved penetration of the market for packaged mortar and concrete products was achieved from extending the customer base and product supplied to a number of phases of the Thames Tideway project.

Competitive pricing, changes in product mix and increased fuel and energy costs saw the underlying gross margin unchanged for the year. Volume growth together with a flexible operating model and increased efficiency from leveraging spare capacity in the ten plants had a very positive impact on the operating profit margin which increased 150bps to 24.4 per cent. The operating profit margin has increased by 370bps over the past two years.

Financial Review

The Group produced a strong set of results and made good progress against all of the key metrics that we use to measure performance. Adjusted operating profit increased by 18.8 per cent, adjusted profit before taxation by 19.8 per cent and adjusted earnings per share by 20.3 per cent. Return on capital employed increased by 140bps to 15.0 per cent. Cash generation was strong with cash flow from operations of £209.2 million and the Group ended the year in a position of financial strength with low net debt to EBITDA, high EBITDA interest cover and shareholders' equity of £1.3 billion.

Revenue

Group revenue increased by 8.7 per cent to £3.0 billion (2017: £2.7 billion) and by 8.4 per cent in constant currency. Organic growth of £184.3 million included volume and price growth of £126.4 million (4.7 per cent) in the like-for-like business and £57.8 million from new branches. Acquisitions contributed revenue of £58.2 million. Branch consolidations and the disposal of two small businesses and a branch in Belgium reduced revenue by £12.7 million and a favourable currency translation gain, due to the strengthening of the euro, increased sterling revenue by £7.2 million.

Adjusted Operating Profit

Adjusted operating profit of £194.5 million (2017: £163.7 million) increased by 18.8 per cent due to strong organic growth and a contribution from the Leyland SDM acquisition. Operating profit before property profit increased by 17.8 per cent to £189.6 million (2017: £160.9 million).

The adjusted operating profit margin increased by 60bps to 6.6 per cent and by 50bps to 6.4 per cent before property profit. The improvement was due to a stable operating margin in the UK merchanting business and strong margin progression in the Irish and Netherlands merchanting businesses and in the retailing and manufacturing segments.

Property

A profit of £4.9 million (2017: £2.7 million) was realised on the disposal of surplus properties in the UK and Ireland that had ceased to be used for trading purposes and the proceeds of £9.1 million were redeployed to generate higher returns elsewhere in the business.

Net Finance Income and Expense

The net finance expense declined by £0.3 million to £6.1 million (2017: £6.4 million). Interest payable on gross debt of £5.9 million (2017: £4.9 million) comprised bank and loan note interest payable on borrowings that were drawn, undrawn facility commitment fees and facility arrangement fees. The gross interest charge increased due to the issue of unsecured senior notes in the US Private Placement market at an average coupon of 2.5 per cent that replaced euro denominated bank borrowings with an interest charge that was based on negative short term

money market rates. Interest income on cash deposits and cash balances increased by £0.3 million to £0.9 million due to increases in the sterling benchmark interest rate by the Bank of England.

There was a foreign exchange translation loss of £0.2 million on Euro and US dollar denominated cash and overdrafts, down from a loss of £1.0 million in 2017 and the net finance cost of pension scheme obligations declined by £0.2 million to £0.5 million.

Taxation

The income tax expense of £30.9 million (2017: £26.6 million) is equivalent to an effective tax rate of 17.1 per cent (2017: 17.2 per cent) and compares to the underlying tax rate for the year of 18.5 per cent. The effective tax rate benefitted from the utilisation of previously unrecognised losses brought forward to offset gains on the disposal of properties and a credit for prior year adjustments. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax where the highest proportion of Group profits are earned. The UK rate is currently 19 per cent and a two percentage point reduction to 17 per cent will take effect on 1 April 2020. It is expected that the underlying tax rate for the year ended 31 December 2019 will be 18.5 per cent.

Capital Expenditure, Investment in Intangible Assets and Acquisitions

Gross capital expenditure was £66.7 million (2017: £73.7 million) and there was expenditure of £6.9 million (2017: £7.7 million) on computer software which is classified as intangible assets, a total investment of £73.6 million (2017: £81.4 million). Proceeds of £10.9 million (2017: £8.8 million) were received on the disposal of property, plant and equipment. The investment in capital expenditure and computer software net of the proceeds on disposal of fixed assets was £62.7 million (2017: £72.6 million).

Development capital expenditure of £34.1 million (2017: £41.6 million) was incurred on seven new Selco branches, relocation of the large Selco Cricklewood and Central Brussels branches, the opening of new merchanting branches in the Netherlands, the UK and Belgium, upgrading Woodie's and Chadwick's branches in Ireland, Isero branches in the Netherlands and Buildbase branches in the UK and other development projects that should provide a sound platform for the future profitable growth of the Group.

Asset replacement capital expenditure of £32.7 million (2017: £32.1 million) compares to the depreciation charge for the year of £41.9 million (2017: £39.5 million) and related principally to replacement of the distribution fleet that supports delivered revenue, replacement of equipment, plant and tools that are hired to customers and other assets required to operate the Group's branch network.

The investment of £6.9 million (2017: £7.7 million) on computer software related to the new IT platform in Buildbase and other software development projects across the Group.

The cash outlay on acquisitions was £73.8 million (2017: £37.7 million) taking the total spend on acquisitions, capital expenditure and investment in intangible assets for the year to £147.4 million (2017: £119.1 million).

Pensions

The IAS 19 deficit on defined benefit pension schemes was £20.2 million at 31 December 2018, a reduction of £3.3 million from £23.5 million at 31 December 2017. The positive movement was due to a reduction in liabilities by £13.9 million which mainly arose in the UK schemes and related to changes in financial assumptions, principally an increase in the rate used to discount UK liabilities by 30 basis points to 2.9 per cent and experience gains related to the actual experience of the UK schemes being more favourable than originally estimated. The early payment of £1.2 million of contributions to the Irish schemes also contributed to the deficit reduction. These gains were partially offset by a negative return of £7.3 million on plan assets which compared to a projected return of £5.3 million.

In October 2018, the High Court of Justice of England and Wales issued a judgement that UK pension schemes should equalise benefits for men and women for the calculation of their guaranteed minimum pension liability. This ruling impacts the majority of companies with a UK defined benefit pension plan that was in existence before

1997. The impact of the equalisation, which is retrospective, on the Group's UK schemes is an increase in scheme liabilities by an estimated £1.0 million with a corresponding loss taken through Other Comprehensive Income.

Net Debt

Year-end net debt declined by £9.8 million to £53.1 million (2017: £62.9 million).

The Group remains in a very strong financial position with EBITDA interest cover of 48.0 times (2017: 48.4 times) and net debt was equivalent to 0.22 times EBITDA (2017: 0.31 times). The gearing ratio declined to four per cent at 31 December 2018 from five per cent at 31 December 2017.

The Group's policy is to maintain its current investment grade credit rating while maintaining a progressive dividend policy and investing in organic developments and acquisition opportunities that are expected to generate attractive returns on investment.

Financing

The Group had bilateral loan facilities of £489.4 million with six relationship banks at the year-end. An option was exercised in February 2018 to extend facilities of £422.3 million for a further year to March 2023. The maturity of the remaining facility of £67.1 million was extended by two years to March 2023.

In September 2018 the Group raised €160 million (£143.1 million) through an issue of unsecured senior notes in the US Private Placement market with ten and twelve year maturities at an average annual coupon of 2.5 per cent and used the proceeds received to refinance existing debt. The issue of these notes diversified the Group's sources of funding by re-entering the US Private Placement market, extended the maturity profile of debt and provided greater certainty over the cost of debt for an extended period at attractive rates.

The average maturity of committed bank facilities and unsecured senior notes at 31 December 2018 was 5.7 years.

The Group's key financing objective is to ensure that it has the necessary liquidity and resources to support the short, medium and long term funding requirements of the business. At 31 December 2018 the Group had undrawn bank facilities of £356.8 million (2017: £213.1 million) and cash balances and deposits of £223.0 million (2017: £253.7 million) which together with strong cash flow from operations provides good liquidity and the capacity to fund investment in working capital, replacement assets and development activity including acquisitions.

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

IFRS 16 Leases

IFRS 16 Leases, which replaces IAS 17 Leases, brings most leases onto the balance sheet and eliminates the distinction between operating and finance leases. This change will affect the presentation of many aspects of the Group's accounts including operating profit, earnings per share, net debt and return on capital employed.

All leases except for leases with a duration of less than one year will be recognised on the balance sheet as lease liabilities, calculated as the present value of future lease payments, and will be included as part of net debt. The corresponding right of use asset will be an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments and the onerous lease provision.

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

The operating leases that will be recorded on the balance sheet for the first time, following implementation of IFRS 16, principally relate to merchanting and DIY branch properties, office buildings, cars and distribution vehicles.

The Group has decided to reduce the complexity of implementation by availing of a number of practical expedients on transition on 1 January 2019.

The Group is currently assessing the impact of IFRS 16 and estimates that the value of right-of-use assets and the corresponding lease liability that will be brought onto the balance sheet at the transition date of 1 January 2019 will be in the region of £565 million to £585 million and comprises 2,400 individual lease agreements. This is estimated to be equivalent to circa 7.5 times the Group's 2018 operating lease charge of £77.0m.

The overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years. As an indication of the effect of the new leasing standard, based on the Group's leases as at 1 January 2019, the Group estimates that under IFRS 16 there will be a depreciation charge of c.£70 million and finance costs of c.£20 million in 2019. This compares to the expected 2019 operating lease charge of c.£80 million under IAS 17. Assuming no change in these leases, this finance cost will gradually decrease over the remaining lives. The overall effect on profit before tax is expected to be neutral after approximately four to five years, then becoming positive moving towards the end of the leases. It will not change overall cashflows or the economic effect of the leases to which the Group is a party. There is no effect on Grafton's existing banking covenants as a result of the implementation of IFRS 16.

Shareholders' Equity

The Group's balance sheet strengthened further with shareholders' equity increasing by £122.0 million (10.4%) in the year to £1.3 billion driven by profit after tax of £150.4 million and other positive movements of £10.2 million. The payment of dividends has reduced shareholders equity by £38.6 million.

Return on Capital Employed and Asset Turn

Return on Capital Employed increased by 140bps to 15.0 per cent (2017: 13.6 per cent) which was in line with the Group's medium term target. The increased returns were achieved through driving profitable growth in existing businesses and allocating development capital to projects that are expected to meet demanding hurdle rates of return on capital employed.

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 50 to 53 of the 2017 Annual Report and will be updated in the 2018 Annual Report.

The Group acknowledges the potential short-term disruption which could result from a "no-deal" Brexit at the end of March 2019 and which could impact consumer confidence and sentiment. We have taken steps to identify and mitigate against specific short term risk areas including the supply of certain products.

Grafton Group plc

Group Income Statement
For the year ended 31 December 2018

Continuing activities	**Notes**	**2018 £'000**	2017 £'000
Revenue	**2**	**2,952,743**	2,715,830
Operating costs		**(2,770,145)**	(2,557,654)
Property profits	**3**	**4,854**	2,722
Operating profit		**187,452**	160,898
Finance expense	**4**	**(7,071)**	(7,122)
Finance income	**4**	**944**	675
Profit before tax		**181,325**	154,451
Income tax expense	**17**	**(30,922)**	(26,622)
Profit after tax for the financial year		**150,403**	127,829
Profit attributable to:			
Owners of the Company		**150,403**	127,719
Non-controlling interests	**8**	**-**	110
Profit after tax for the financial year		**150,403**	127,829
Earnings per ordinary share - basic	**5**	**63.29p**	53.95p
Earnings per ordinary share - diluted	**5**	**63.12p**	53.80p

Grafton Group plc

Group Statement of Comprehensive Income
For the year ended 31 December 2018

	Notes	**2018 £'000**	2017 £'000
Profit after tax for the financial year		**150,403**	127,829
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**1,775**	4,146
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**92**	(202)
- net change in fair value of cash flow hedges transferred from equity		**337**	336
Deferred tax on cash flow hedges		**(45)**	(30)
		2,159	4,250
Items that will not be reclassified to the income statement			
Remeasurement gain on Group defined benefit pension schemes	**13**	**1,205**	7,438
Deferred tax on Group defined benefit pension schemes		**(386)**	(1,069)
		819	6,369
Total other comprehensive income		**2,978**	10,619
Total comprehensive income for the financial year		**153,381**	138,448
Total comprehensive income attributable to:			
Owners of the Company		**153,381**	138,338
Non-controlling interests	**8**	**-**	110
Total comprehensive income for the financial year		**153,381**	138,448

Grafton Group plc - Group Balance Sheet as at 31 December 2018

	Notes	31 Dec 2018	31 Dec 2017
ASSETS		**£'000**	£'000
Non-current assets			
Goodwill	**15**	**646,198**	591,746
Intangible assets	**16**	**79,809**	54,340
Property, plant and equipment	**9**	**521,631**	504,412
Investment properties	**9**	**15,048**	22,056
Deferred tax assets		**9,395**	11,867
Retirement benefit assets	**13**	**1,469**	1,527
Other financial assets		**123**	126
Total non-current assets		**1,273,673**	1,186,074
Current assets			
Properties held for sale	**9**	**11,595**	5,055
Inventories	**10**	**350,061**	328,525
Trade and other receivables	**10**	**451,245**	413,095
Cash and cash equivalents	**11**	**222,984**	253,659
Derivative financial instruments	**11**	**49**	-
Total current assets		**1,035,934**	1,000,334
Total assets		**2,309,607**	2,186,408
EQUITY			
Equity share capital		**8,514**	8,494
Share premium account		**213,430**	212,167
Capital redemption reserve		**621**	621
Revaluation reserve		**13,146**	13,327
Shares to be issued reserve		**11,220**	8,744
Cash flow hedge reserve		**(43)**	(427)
Foreign currency translation reserve		**79,280**	77,505
Retained earnings		**974,271**	858,053
Treasury shares held		**(3,897)**	(3,897)
Total equity attributable to owners of the Parent		**1,296,542**	1,174,587
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	**11**	**275,250**	315,165
Provisions		**21,651**	21,888
Retirement benefit obligations	**13**	**21,632**	25,006
Derivative financial instruments	**11**	**-**	484
Deferred tax liabilities	**17**	**42,444**	37,986
Total non-current liabilities		**360,977**	400,529
Current liabilities			
Interest-bearing loans and borrowings	**11**	**767**	916
Derivative financial instruments	**11**	**103**	-
Trade and other payables	**10**	**608,659**	572,130
Current income tax liabilities	**17**	**33,036**	27,613
Provisions		**9,523**	10,633
Total current liabilities		**652,088**	611,292
Total liabilities		**1,013,065**	1,011,821
Total equity and liabilities		**2,309,607**	2,186,408

Grafton Group plc - Group Cash Flow Statement
For the year ended 31 December 2018

	Notes	31 Dec 2018 £'000	31 Dec 2017 £'000
Profit before taxation		**181,325**	154,451
Finance income		**(944)**	(675)
Finance expense		**7,071**	7,122
Operating profit		**187,452**	160,898
Depreciation	**9**	**41,875**	39,455
Amortisation of intangible assets	**16**	**7,118**	4,032
Share-based payments charge		**6,193**	4,908
Movement in provisions		**(1,525)**	(3,094)
Asset impairment and fair value gains/losses	**9**	**1,159**	329
Goodwill written off on disposal of Group businesses	**14**	**3,580**	-
Loss/(profit) on sale of property, plant and equipment	**9**	**577**	(737)
Property profit	**9**	**(4,854)**	(2,722)
(Profit)/loss on disposal of Group businesses	**14**	**(1,649)**	3
Contributions to pension schemes in excess of IAS 19 charge		**(2,565)**	(1,840)
(Increase)/decrease in working capital	**10**	**(28,153)**	9,506
Cash generated from operations		**209,208**	210,738
Interest paid		**(6,628)**	(6,438)
Income taxes paid		**(24,299)**	(18,157)
Cash flows from operating activities		**178,281**	186,143
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	**9**	**7,350**	3,100
Proceeds from sales of properties held for sale	**9**	**2,614**	5,708
Proceeds from sales of investment properties	**9**	**934**	-
Proceeds from sale of Group businesses (net)	**14**	**12,951**	512
Interest received		**944**	675
		24,793	9,995
Outflows			
Acquisition of subsidiary undertakings (net of cash)	**14**	**(73,815)**	(37,732)
Investment in intangible asset – computer software	**16**	**(6,859)**	(7,687)
Purchase of property, plant and equipment	**9**	**(66,713)**	(73,729)
		(147,387)	(119,148)
Cash flows from investing activities		**(122,594)**	(109,153)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,283**	1,941
Proceeds from borrowings		**244,910**	34,355
		246,193	36,296
Outflows			
Repayment of borrowings		**(294,233)**	(31,439)
Dividends paid	**6**	**(38,598)**	(33,708)
Acquisition of non-controlling interest		**-**	(2,630)
Payment on finance lease liabilities		**(433)**	(439)
		(333,264)	(68,216)
Cash flows from financing activities		**(87,071)**	(31,920)
Net (decrease)/increase in cash and cash equivalents		**(31,384)**	45,070
Cash and cash equivalents at 1 January		**253,659**	205,857
Effect of exchange rate fluctuations on cash held		**709**	2,732
Cash and cash equivalents at the end of the year		**222,984**	253,659
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**222,984**	253,659

Grafton Group plc - Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash Flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total £'000	Non-Controlling Interests £'000	Total equity £'000
Year to 31 December 2018												
At 1 January 2018	8,494	212,167	621	13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587	-	1,174,587
Profit after tax for the financial year	-	-	-	-	-	-	-	150,403	-	150,403	-	150,403
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	819	-	819	-	819
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	384	-	-	-	384	-	384
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	1,775	-	-	1,775	-	1,775
Total other comprehensive income	-	-	-	-	-	384	1,775	819	-	2,978	-	2,978
Total comprehensive income	-	-	-	-	-	384	1,775	151,222	-	153,381	-	153,381
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(38,598)	-	(38,598)	-	(38,598)
Issue of Grafton Units	20	1,263	-	-	-	-	-	-	-	1,283	-	1,283
Share based payments charge	-	-	-	-	6,193	-	-	-	-	6,193	-	6,193
Tax on share based payments	-	-	-	-	(304)	-	-	-	-	(304)	-	(304)
Transfer from shares to be issued reserve	-	-	-	-	(3,413)	-	-	3,413	-	-	-	-
Transfer from revaluation reserve	-	-	-	(181)	-	-	-	181	-	-	-	-
	20	1,263	-	(181)	2,476	-	-	(35,004)	-	(31,426)	-	(31,426)
At 31 December 2018	8,514	213,430	621	13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542	-	1,296,542
Year to 31 December 2017												
At 1 January 2017	8,449	210,271	621	13,507	8,446	(531)	73,359	751,842	(3,897)	1,062,067	3,122	1,065,189
Profit after tax for the financial year	-	-	-	-	-	-	-	127,719	-	127,719	110	127,829
Total other comprehensive income												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	6,369	-	6,369	-	6,369
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	104	-	-	-	104	-	104
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	4,146	-	-	4,146	-	4,146
Total other comprehensive income	-	-	-	-	-	104	4,146	6,369	-	10,619	-	10,619
Total comprehensive income	-	-	-	-	-	104	4,146	134,088	-	138,338	110	138,448
Transactions with owners of the Company recognised directly in equity												
Dividends paid	-	-	-	-	-	-	-	(33,708)	-	(33,708)	-	(33,708)
Issue of Grafton Units	45	1,896	-	-	-	-	-	-	-	1,941	-	1,941
Share based payments charge	-	-	-	-	4,908	-	-	-	-	4,908	-	4,908
Tax on share based payments	-	-	-	-	439	-	-	-	-	439	-	439
Transfer from shares to be issued reserve	-	-	-	-	(5,049)	-	-	5,049	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	602	-	602	(3,232)	(2,630)
Transfer from revaluation reserve	-	-	-	(180)	-	-	-	180	-	-	-	-
	45	1,896	-	(180)	298	-	-	(27,877)	-	(25,818)	(3,232)	(29,050)
At 31 December 2017	8,494	212,167	621	13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587	-	1,174,587

Grafton Group plc
Notes to Final Results for the year ended 31 December 2018

1. General Information

Grafton Group plc ("Grafton" or "the Group") is an international distributor of building materials to trade customers who are primarily engaged in residential repair, maintenance and improvement projects and house building.

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

The Group's origins are in Ireland where it is headquartered, managed and controlled. It has been a publicly quoted company since 1965 and its Units (shares) are quoted on the London Stock Exchange where it is a constituent of the FTSE 250 Index and the FTSE All-Share Index.

The financial information presented in this preliminary release does not constitute full statutory financial statements. The preliminary release was approved by the Board of Directors. The annual report and financial statements will be approved by the Board of Directors and reported on by the auditors in due course. Accordingly, the financial information is unaudited. Full statutory financial statements for the year ended 31 December 2017 have been filed with the Irish Registrar of Companies. The audit report on those statutory financial statements was unqualified.

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU'); and those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

The financial information in this report has been prepared in accordance with the Group's accounting policies. Full details of the accounting policies adopted by the Group are contained in the consolidated financial statements included in the Group's annual report for the year ended 31 December 2017 which is available on the Group's website; www.graftonplc.com.

The accounting policies and methods of computation and presentation adopted in the preparation of the Group financial information are consistent with those described and applied in the annual report for the year ended 31 December 2017, except for those noted below.

The financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature. Certain tables in the financial information may not add precisely due to rounding.

(b) Estimates

In preparing the Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017. Actual results may differ from estimates calculated using these judgements and assumptions.

1. General Information (continued)

Basis of Preparation, Accounting Policies and Estimates (continued)

Impacts of standards and interpretations in issue but not yet effective

IFRS 16 – Leases (effective date: 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.

The standard is expected to have a material impact on the Group with the recognition of lease liabilities and right of use assets. Group Management have reviewed contracts to identify lease arrangements that would need to be recognised under IFRS 16. Based on the impact analysis performed, the Group expects to recognise a lease liability and corresponding right of use asset of approximately £565 million to £585 million at transition.

There will be a higher income statement charge in the earlier years post-implementation which will unwind over time such that the overall impact of IFRS 16 will be neutral on the income statement over the life of a lease.

Impacts of standards effective from 1 January 2018

IFRS 9 – Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group adopted *IFRS 9 - Financial Instruments* from 1 January 2018, with the practical expedient as stated below. In accordance with the transitional provisions, comparative figures have not been restated. The impact of adopting IFRS 9 was not material to the Group's consolidated financial statements and there was no adjustment to retained earnings on application at 1 January 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost or fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVPL). The classification is based on the business model for managing the financial assets and the contractual terms of the cash flows.

1. General Information (continued)

Impacts of standards effective from 1 January 2018 (continued)

IFRS 9 – Financial Instruments (continued)

On 1 January 2018 (the date of initial application of IFRS 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories as follows:

	Original Classification	New Classification	Carrying amount 1 January 2018 £m
Trade and other receivables	Loans and receivables	Amortised Cost	413.1
Cash and cash equivalents	Loans and receivables	Amortised Cost	253.7
Interest rate swaps	Cashflow hedge	FVOCI*	(0.5)

**when hedge accounting is applied*

Trade and other receivables and cash and cash equivalents that were classified as loans and receivables under *IAS 39 - Financial Instruments: Recognition and Measurement* are now classified at amortised cost as the Group's business model is to hold the financial asset to collect contractual cash flows. Interest rate swaps which were classified as cashflow hedges are now classified as FVOCI.

Trade receivables are subject to the new expected credit loss model in *IFRS 9 – Financial Instruments*. The Group has therefore revised its impairment methodology. The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and the commencement of legal proceedings.

The adoption of *IFRS 9 – Financial Instruments* has not had a significant impact on the Group's accounting policies related to financial liabilities and derivative financial instruments.

IFRS 9 - Financial Instruments requires that when a financial liability measured at amortised cost is modified without being derecognised, a gain or loss should be recognised in the income statement. This change in accounting policy did not have a material impact on the Group's financial results.

The Group has elected to adopt the new general hedge accounting model in IFRS 9. The new hedge accounting does not have an impact on the Group's accounting for hedging instruments. The Group's risk management practices and documentation has been assessed in line with the new standard and all current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9.

1. General Information (continued)

Impacts of standards effective from 1 January 2018 (continued)

IFRS 15 – Revenue from Contracts with Customers

The Group has adopted *IFRS 15 - Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes to the Group's accounting policies. This change in accounting policy did not have a material impact on the Group's financial results for 2018.

Accounting Policies

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 the Group has satisfied its performance obligations to the buyer and the buyer has obtained control of the goods or services being transferred. 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, rebates and any discounts granted.

2. Segmental Analysis

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

	2018 £'000	2017 £'000
Revenue		
Merchanting	**2,675,756**	2,469,350
Retailing	**198,174**	180,391
Manufacturing	**91,992**	78,009
Less: Inter-segment revenue - manufacturing	**(13,179)**	(11,920)
	2,952,743	2,715,830
Segment operating profit before exceptional items and intangible assets amortisation arising on acquisitions		
Merchanting	**168,179**	148,877
Retailing	**16,785**	11,179
Manufacturing	**19,248**	15,125
	204,212	175,181
Reconciliation to consolidated operating profit		
Central activities	**(14,588)**	(14,249)
	189,624	160,932
Property profits	**4,854**	2,722
Operating profit before exceptional items and intangible assets amortisation arising on acquisitions	**194,478**	163,654
Profit on the disposal of Group businesses (note 14)	**1,649**	-
Goodwill written off on disposal of Group businesses (note 14)	**(3,580)**	-
Amortisation of intangible assets arising on acquisitions	**(5,095)**	(2,756)
Operating profit	**187,452**	160,898
Finance expense	**(7,071)**	(7,122)
Finance income	**944**	675
Profit before tax	**181,325**	154,451
Income tax expense	**(30,922)**	(26,622)
Profit after tax for the financial year	**150,403**	127,829

The amount of revenue by geographic area is as follows:

	2018 £'000	2017 £'000
Revenue		
United Kingdom	**2,062,018**	1,907,159
Ireland	**643,625**	588,030
Belgium	**91,581**	89,613
Netherlands	**155,519**	131,028
	2,952,743	2,715,830

Revenue has been further disaggregated by segment with the Operating Review on pages 6 to 11.

2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	31 Dec 2018 £'000	31 Dec 2017 £'000
Segment assets		
Merchanting	**1,965,869**	1,816,532
Retailing	**64,260**	59,348
Manufacturing	**45,458**	43,349
	2,075,587	1,919,229
Unallocated assets		
Deferred tax assets	**9,395**	11,867
Retirement benefit assets	**1,469**	1,527
Other financial assets	**123**	126
Derivative financial instruments (current and non-current)	**49**	-
Cash and cash equivalents	**222,984**	253,659
Total assets	**2,309,607**	2,186,408

Operating segment liabilities are analysed below:

	31 Dec 2018 £'000	31 Dec 2017 £'000
Segment liabilities		
Merchanting	**574,209**	545,941
Retailing	**48,344**	43,657
Manufacturing	**17,280**	15,053
	639,833	604,651
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**276,017**	316,081
Retirement benefit obligations	**21,632**	25,006
Deferred tax liabilities	**42,444**	37,986
Current income tax liabilities	**33,036**	27,613
Derivative financial instruments (current and non-current)	**103**	484
Total liabilities	**1,013,065**	1,011,821

3. Operating Profit

The property profit of £4.9 million (2017: £2.7 million) relates to the disposal of seven properties in the UK and two properties in Ireland (2017: 11 UK properties).

4. Finance Expense and Finance Income

	2018 £'000		2017 £'000	
Finance expense				
Interest on bank loans, US senior notes and overdrafts	**5,865**	*	4,902	*
Net change in fair value of cash flow hedges transferred from equity	**337**		336	
Interest on finance leases	**165**		188	
Net finance cost on pension scheme obligations	**503**		721	
Foreign exchange loss	**201**		975	
	7,071		7,122	
Finance income				
Interest income on bank deposits	**(944)**	*	(675)	*
	(944)		(675)	
Net finance expense	**6,127**		6,447	

* Net bank/loan note interest of £4.9 million (2017: £4.2 million).

5. Earnings per Share

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

	Year Ended 31 Dec 2018 £'000	Year Ended 31 Dec 2017 £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year	**150,403**	127,829
Non-controlling interest	**-**	(110)
Numerator for basic and diluted earnings per share	**150,403**	127,719
Amortisation of intangible assets arising on acquisitions	**5,095**	2,756
Tax relating to amortisation of intangible assets arising on acquisitions	**(1,025)**	(618)
Goodwill written off on disposal of Group businesses	**3,580**	-
Profit on disposal of Group businesses	**(1,649)**	-
Tax relating to profit on disposal of Group businesses	**488**	-
Numerator for adjusted earnings per share	**156,892**	129,857

	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**237,626,735**	236,746,881
Dilutive effect of options and awards	**664,353**	662,760
Denominator for diluted earnings per share	**238,291,088**	237,409,641
Earnings per share (pence)		
- Basic	**63.29**	53.95
- Diluted	**63.12**	53.80
Adjusted earnings per share (pence)		
- Basic	**66.02**	54.85
- Diluted	**65.84**	54.70

6. Dividends

The payment in 2018 of a second interim dividend for 2017 of 10.25 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £24.3 million. A 2018 interim dividend of 6.00 pence per share was paid on 28 September 2018 on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income and amounted to £14.3 million.

A second interim dividend for 2018 of 12.00 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 8 March 2019 (the 'Record Date'). The dividend will be paid on 5 April 2019. A liability in respect of this second interim dividend has not been recognised at 31 December 2018, as there was no present obligation to pay the dividend at the year-end.

7. Exchange Rates

The results and cash flows of subsidiaries with euro functional currencies have been translated into sterling using the average exchange rate for the year. The balance sheets of subsidiaries with euro functional currencies have been translated into sterling at the rate of exchange ruling at the balance sheet date.

The average sterling/euro rate of exchange for the year ended 31 December 2018 was Stg88.47p (2017: Stg87.67p). The sterling/euro exchange rate at 31 December 2018 was Stg89.45p (2017: Stg88.72p).

8. Non-Controlling Interests

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

9. Property, Plant and Equipment, Properties Held for Sale and Investment Properties

	Property, plant and equipment £'000	Properties held for sale £'000	Investment properties £'000
Net Book Value			
As at 1 January 2018	**504,412**	**5,055**	**22,056**
Additions	66,713	-	-
Acquisitions (note 14)	1,490	-	-
Depreciation	(41,875)	-	-
Disposals	(3,670)	(2,075)	(876)
Disposal of Group businesses (note 14)	(3,213)	-	-
Impairments & property revaluations	(1,046)	(113)	-
Transfer to properties held for sale	(1,683)	8,708	(7,025)
Transfer to investment properties	(762)	-	762
Currency translation adjustment	1,265	20	131
As at 31 December 2018	**521,631**	**11,595**	**15,048**

10. Movement in Working Capital

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2018	328,525	413,095	(572,130)	169,490
Currency translation adjustment	1,069	977	(1,422)	624
Disposal of Group businesses (note 14)	(9,984)	(6,281)	7,820	(8,445)
Acquisitions (note 14)	6,692	3,083	(6,950)	2,825
Movement in 2018	23,759	40,371	(35,977)	28,153
At 31 December 2018	350,061	451,245	(608,659)	192,647

11. Interest-Bearing Loans, Borrowings and Net debt

	31 Dec 2018 £'000	31 Dec 2017 £'000
Non-current liabilities		
Bank loans	**131,138**	312,980
US senior notes	**142,338**	-
Finance leases	**1,774**	2,185
Total non-current interest-bearing loans and borrowings	**275,250**	315,165
Current liabilities		
Bank loans	**332**	478
Finance leases	**435**	438
Total current interest-bearing loans and borrowings	**767**	916
Derivatives		
Included in non-current assets	**(49)**	-
Included in non-current liabilities	**-**	484
Included in current liabilities	**103**	-
Total derivatives	**54**	484
Cash and cash equivalents	**(222,984)**	(253,659)
Net debt	**53,087**	62,906

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

	31 Dec 2018 £'000	31 Dec 2017 £'000
Assets/liabilities measured at fair value		
Designated as hedging instruments		
Interest rate swaps and other derivatives (Level 2)	**54**	484
Liabilities not measured at fair value		
Liabilities at amortised cost		
Bank loans	**131,470**	313,458
US senior notes	**142,338**	-
Finance leases	**2,209**	2,623
	276,017	316,081

Financial assets and liabilities recognised at amortised cost
Except as detailed above, it is considered that the carrying amounts of financial assets and liabilities including trade payables, trade receivables, net debt and deferred consideration, which are recognised at amortised cost in the year-end financial statements, approximate to their fair values.

Financial assets and liabilities carried at fair value
All of the Group's financial assets and liabilities which are carried at fair value are classified as Level 2 in the fair value hierarchy. There have been no transfers between levels in the current period. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

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

	31 Dec 2018 £'000	31 Dec 2017 £'000
Net (decrease)/increase in cash and cash equivalents	**(31,384)**	45,070
Net movement in derivative financial instruments	**430**	264
Bank loans and loan notes acquired with subsidiaries (note 14)	**(7,386)**	-
Cash-flow from movement in debt and lease financing	**49,756**	(2,477)
Change in net debt resulting from cash flows	**11,416**	42,857
Currency translation adjustment	**(1,597)**	(9,468)
Movement in net debt in the year	**9,819**	33,389
Net debt at 1 January	**(62,906)**	(96,295)
Net debt at end of the year	**(53,087)**	(62,906)
Gearing	**4%**	5%

13. Retirement Benefits

The principal financial assumptions employed in the valuation of the Group's defined benefit scheme liabilities for the current and prior year were as follows:

	Irish Schemes		**UK Schemes**	
	At 31 Dec 2018 %	At 31 Dec 2017 %	**At 31 Dec 2018 %**	At 31 Dec 2017 %
Rate of increase in salaries	**2.40%** *	2.65% *	**0.00%** **	0.00% **
Rate of increase of pensions in payment	**-**	-	**3.10%**	3.10%
Discount rate	**1.80%**	1.85%	**2.90%**	2.60%
Inflation	**1.20%**	1.45%	**2.10%** ***	2.10% ***

*2.40% applies from 2 January 2019 (31 December 2017: 2.65% from 2 January 2019)
** Pensionable salaries are not adjusted for inflation
*** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

13. Retirement Benefits (continued)

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

	Assets		Liabilities		Net asset/(deficit)	
	Year to 31 Dec 2018	Year to 31 Dec 2017	**Year to 31 Dec 2018**	Year to 31 Dec 2017	**Year to 31 Dec 2018**	Year to 31 Dec 2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**239,363**	221,966	**(262,842)**	(253,251)	**(23,479)**	(31,285)
Acquired in year	**-**	-	**-**	(198)	**-**	(198)
Interest income on plan assets	**5,328**	5,296	**-**	-	**5,328**	5,296
Contributions by employer	**5,499**	4,193	**-**	-	**5,499**	4,193
Contributions by members	**651**	688	**(651)**	(688)	**-**	-
Benefit payments	**(8,399)**	(8,179)	**8,399**	8,179	**-**	-
Current service cost	**-**	-	**(2,764)**	(2,677)	**(2,764)**	(2,677)
Other long term benefit (expense)/ gain	**-**	-	**(33)**	(56)	**(33)**	(56)
Past service credit	**-**	-	**34**	282	**34**	282
Settlement gain	**-**	-	**-**	98	**-**	98
Interest cost on scheme liabilities	**-**	-	**(5,831)**	(6,017)	**(5,831)**	(6,017)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**6,270**	183	**6,270**	183
-financial assumptions	**-**	-	**7,848**	(6,216)	**7,848**	(6,216)
-demographic assumptions	**-**	-	**(244)**	1,900	**(244)**	1,900
Return on plan assets excluding interest income	**(12,669)**	11,571	**-**	-	**(12,669)**	11,571
Translation adjustment	**898**	3,828	**(1,020)**	(4,381)	**(122)**	(553)
At 31 December	**230,671**	239,363	**(250,834)**	(262,842)	**(20,163)**	(23,479)
Related deferred tax asset (net)					**2,926**	3,581
Net pension liability					**(17,237)**	(19,898)

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

13. Retirement Benefits (continued)

The 2017 net pension scheme deficit of £23.5 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £25.0 million and retirement benefit assets (non-current assets) of £1.5 million. £13.0 million of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £12.0 million relates to one UK scheme. £1.0 million of the retirement benefit asset relates to a second UK scheme and £0.5 million to one scheme in Ireland.

14. Acquisitions & Disposals

Acquisitions

On 16 February 2018, the Group acquired the entire share capital (100%) of LSDM Limited ("Leyland SDM"). Leyland SDM is a very recognisable and trusted decorating and DIY brand 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 transaction was funded from the Group's cash and debt facilities. The business is incorporated in the merchanting segment.

On 1 June 2018, the Group acquired 100% of Freke Inbraakbeveiliging ("Freke"), a single branch full service security/access control specialist merchant in the Netherlands. The business is incorporated in the merchanting segment.

In September 2018, the Group acquired 100% of Smits' Ijzerhandel B.V., a single branch in the Netherlands trading as Probin Kaatsheuvel which offers ironmongery, tools and workwear products. The business is incorporated in the merchanting segment.

Details of the acquisitions made in 2017 are disclosed in the Group's 2017 Annual Report.

The provisional fair value of assets and liabilities acquired in 2018 are set out below:

	Leyland	Other	Total
	£'000	£'000	£'000
Property, plant and equipment	1,323	167	1,490
Intangible assets – customer relationships	23,033	-	23,033
Intangible assets – trade names	1,880	-	1,880
Intangible assets – computer software	701	-	701
Inventories	6,340	352	6,692
Trade and other receivables	2,558	525	3,083
Trade and other payables	(6,234)	(716)	(6,950)
Corporation tax (liability)	(703)	(7)	(710)
Deferred tax (liability)	(4,309)	-	(4,309)
Deferred tax asset	-	73	73
(Debt) acquired	(7,386)	-	(7,386)
Cash acquired	5,477	440	5,917
Net assets acquired	22,680	834	23,514
Goodwill	53,954	2,264	56,218
Consideration	76,634	3,098	79,732
Satisfied by:			
Cash paid	76,634	3,098	79,732
Net cash outflow – arising on acquisitions			
Cash consideration	76,634	3,098	79,732
Less: cash and cash equivalents acquired	(5,477)	(440)	(5,917)
	71,157	2,658	73,815

14. Acquisitions & Disposals (continued)

Acquisitions (continued)

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

The acquisition of Leyland SDM in February 2018 contributed revenue of £43.9 million and operating profit of £6.5 million for the period from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1 January 2018 it would have contributed revenue of £49.9 million and operating profit of £7.2 million in the year. The Group incurred acquisition costs of £0.7 million in 2018 (2017: £0.7 million) which are included in operating costs in the Group Income Statement.

Disposals

During the year the Group completed the disposal of a number of businesses which were no longer considered to be a strategic fit within the portfolio of the Group's businesses. These included Boole's Tools & Piping Fittings Limited and Online Home Retail Limited in the UK and Saint-Vith in Belgium.

Boole's Tools was disposed on 31 August 2018. Saint-Vith was disposed in 31 October 2018 and the disposal of Plumbworld was completed on 14 December 2018. As a result, the net assets of the Group decreased by £1.9 million representing an overall loss on disposal. The loss on disposal reflects the cash consideration of £13.5 million offset by the net book value of the assets disposed of £15.4 million. The net assets disposed include the write off of the carrying value of the allocated goodwill of £3.6 million.

The carrying value of assets and liabilities disposed in 2018 are set out below:

	£'000
Property, plant and equipment	**3,213**
Inventories	**9,984**
Trade and other receivables	**6,281**
Trade and other payables	**(7,820)**
Corporation tax (liability)	**(356)**
Cash disposed	**583**
Goodwill written off	**3,580**
Net assets disposed	**15,465**
Cash consideration received	**(13,534)**
Net loss on disposal of Group businesses	**1,931**

Analysis of loss on disposal of Group businesses	**£'000**
Goodwill written off	**(3,580)**
Profit on disposal	**1,649**
Net loss on disposal	**(1,931)**

Cash flow from disposal of Group businesses	**£'000**
Cash consideration received	**13,534**
Cash disposed	**(583)**
Net cash inflow - arising on disposals	**12,951**

15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. The Board is satisfied that the carrying value of goodwill has not been impaired.

	Goodwill £'000
Net Book Value	
As at 1 January 2018	**591,746**
Arising on acquisitions (note 14)	**56,218**
Disposal of Group businesses (note 14)	**(3,580)**
Currency translation adjustment	**1,814**
As at 31 December 2018	**646,198**

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships £'000	Total £'000
Net Book Value				
As at 1 January 2018	**31,233**	**2,743**	**20,364**	**54,340**
Additions	**6,859**	**-**	**-**	**6,859**
Arising on acquisitions (note 14)	**701**	**1,880**	**23,033**	**25,614**
Amortisation	**(2,023)**	**(511)**	**(4,584)**	**(7,118)**
Currency translation adjustment	**(4)**	**17**	**101**	**114**
As at 31 December 2018	**36,766**	**4,129**	**38,914**	**79,809**

The computer software asset of £36.8 million at 31 December 2018 (2017: £31.2 million) reflects the cost of the Group's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment. A number of these systems are not yet available for use in the business and are therefore not amortised.

The amortisation expense of £7.1 million (2017: £4.0 million) has been charged in 'operating costs' in the Group Income Statement. Amortisation on acquired intangibles amounted to £5.1 million (2017: £2.8 million).

17. Taxation

The income tax expense of £30.9 million (2017: £26.6 million) was equivalent to an effective tax rate of 17.1 per cent (2017: 17.2 per cent) and compares to the underlying tax rate for the year of 18.5 per cent (2017: 18.5 per cent). The effective tax rate benefitted from the utilisation of previously unrecognised losses forward to offset gains on the disposal of properties and a credit for prior year adjustments. 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 tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax where the highest proportion of Group profits are earned. The UK rate is currently 19 per cent and a two percentage point reduction to 17 per cent will take effect on 1 April 2020.

The liability shown for current taxation includes a liability for 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.

17. Taxation (continued)

Accounting estimates and judgements

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

Deferred tax

At 31 December 2018, there were unrecognised deferred tax assets in relation to capital losses of £1.9 million (31 December 2017: £0.6 million), trading losses of £3.3 million (31 December 2017: £3.4 million) and deductible temporary differences of £2.6 million (31 December 2017: £nil).

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

18. Related Party Transactions

There have been no new related party transactions. There were no other changes in related parties from those described in the 2017 Annual Report that materially affected the financial position or the performance of the Group during the year to 31 December 2018.

19. Events after the Balance Sheet Date

There have been no other material events subsequent to 31 December 2018 that would require adjustment to or disclosure in this report.

20. Board Approval

This announcement was approved by the Board of Grafton Group plc on 27 February 2019.

Supplementary Financial Information
Alternative Performance Measures

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

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS. The key Alternative Performance Measures ("APMs") of the Group are set out below. As amounts are reflected in £'m some non-material rounding differences may arise. Numbers that refer to 2017 are available in the 2017 Annual Report.

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

EBITDA Interest Cover	EBITDA divided by net bank/loan note interest.
Gearing	The Group net debt divided by the total equity attributable to owners of the Parent times 100.
Like-for-like revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating profit/EBITA margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Return on Capital Employed	Operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.

Adjusted Operating Profit/EBITA before Property Profit

	2018 **£'m**	2017 £'m
Revenue	**2,952.7**	2,715.8
Operating profit	**187.5**	160.9
Property profit	**(4.9)**	(2.7)
Goodwill written off / profit on disposal of Group businesses	**1.9**	-
Amortisation of intangible assets arising on acquisitions	**5.1**	2.8
Adjusted operating profit/EBITA before property profit	**189.6**	160.9
Adjusted operating profit/EBITA margin before property profit	**6.4%**	5.9%

Operating Profit/EBITA Margin

	2018 **£'m**	2017 £'m
Revenue	**2,952.7**	2,715.8
Operating profit	**187.5**	160.9
Operating profit margin	**6.4%**	5.9%

Adjusted Operating Profit/EBITA & Margin

	2018 **£'m**	2017 £'m
Operating profit	**187.5**	160.9
Goodwill written off / profit on disposal of Group businesses	**1.9**	-
Amortisation of intangible assets arising on acquisitions	**5.1**	2.8
Adjusted operating profit	**194.5**	163.7
Adjusted operating profit/EBITA margin	**6.6%**	6.0%

Adjusted Profit before Tax

	2018	2017
	£'m	£'m
Profit before tax	**181.3**	154.5
Goodwill written off / profit on disposal of Group businesses	**1.9**	-
Amortisation of intangible assets arising on acquisitions	**5.1**	2.8
Adjusted profit before tax	**188.4**	157.2

Adjusted Profit after Tax

	2018	2017
	£'m	£'m
Profit after tax for the financial year	**150.4**	127.8
Goodwill written off / profit on disposal of Group businesses	**1.9**	-
Related tax on disposal of Group businesses	**0.5**	-
Amortisation of intangible assets arising on acquisitions	**5.1**	2.8
Tax on amortisation of intangible assets arising on acquisitions	**(1.0)**	(0.6)
Adjusted profit after tax	**156.9**	130.0

Reconciliation of Profit to EBITDA

	2018	2017
	£'m	£'m
Profit after tax for the financial year	**150.4**	127.8
Net finance expense	**6.1**	6.4
Income tax expense	**30.9**	26.6
Depreciation	**41.9**	39.5
Intangible asset amortisation	**7.1**	4.0
EBITDA	**236.4**	204.4

Net debt to EBITDA

	2018	2017
	£'m	£'m
EBITDA	**236.4**	204.4
Net debt	**53.1**	62.9
Net debt to EBITDA - times	**0.22**	0.31

EBITDA Interest Cover

	2018	2017
	£'m	£'m
EBITDA	**236.4**	204.4
Net bank/loan note interest	**4.9**	4.2
EBITDA interest cover - times	**48.0**	48.4

Gearing

	2018	2017
	£'m	£'m
Total equity attributable to owners of the Parent	**1,296.5**	1,174.6
Group net debt	**53.1**	62.9
Gearing	**4%**	5%

Return on Capital Employed

	2018	2017
	£'m	£'m
Operating profit	**187.5**	160.9
Goodwill written off / profit on disposal of Group businesses	**1.9**	-
Amortisation of intangible assets arising on acquisitions	**5.1**	2.8
Adjusted operating profit	**194.5**	163.7
Total equity - current period end	**1,296.5**	1,174.6
Net debt - current period end	**53.1**	62.9
Capital employed - current period end	**1,349.6**	1,237.5
Total equity - prior period end	**1,174.6**	1,065.2
Net debt - prior period end	**62.9**	96.3
Capital employed - prior period end	**1,237.5**	1,161.5
Average capital employed	**1,293.6**	1,199.5
Return on capital employed	**15.0%**	13.6%

Capital Turn

	2018	2017
	£'m	£'m
Revenue	**2,952.7**	2,715.8
Average capital employed	**1,293.6**	1,199.5
Capital turn – times	**2.3**	2.3

Dividend Cover

	2018	2017
Group adjusted EPS – basic (pence)	**66.02**	54.85
Group dividend (pence)	**18.00**	15.50
Group dividend cover - times	**3.7**	3.5