



Building Progress Together



Building Progress Together



Our Business

We demonstrated the strength and resilience of our organisation by responding to the challenges of 2020 while continuing to evolve our business and strategy.

.....
[More information on page 30](#)



Operating Safely During Covid-19

Health and safety is a fundamental priority. Our branches, stores and manufacturing locations continue to operate to the highest health and safety standards in line with Covid-19 guidance.

.....
[More information on page 29](#)

Grafton Group plc is an international distributor of building materials to trade customers and has leading positions in its markets in the UK, Ireland and the Netherlands. Grafton is also the market leader in the DIY, Home and Garden market in Ireland and is the largest manufacturer of dry mortar in the UK.



Sustainability

We made good progress during the year on the implementation of our sustainability strategy.

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More information on page 66 to 75

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Highlights

Resilient Performance and Good Progress on Strategic Initiatives

Despite the challenges related to the pandemic, the Group has worked hard to strengthen the long term prospects of the business and we are well placed for continued growth.

Ambition

Acquisition of StairBox, GDC Paints and Daly Brothers

Three acquisitions completed during the year in line with our strategy of acquiring specialist high quality businesses with attractive returns.

More information on page 27

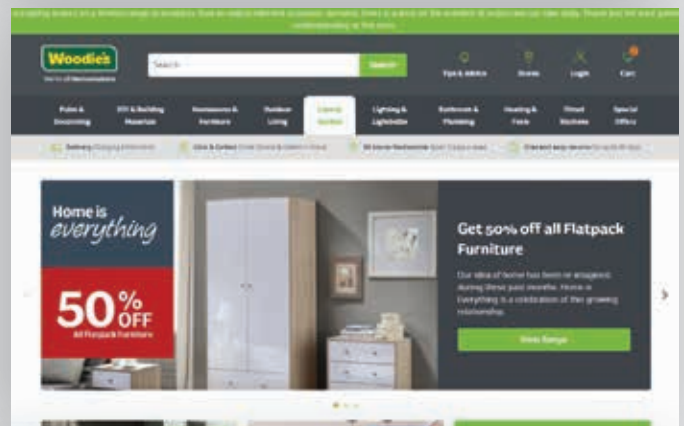


Innovation

Accelerated Investment in E-commerce Capabilities

The Group's businesses accelerated the adoption of digital technologies to create an improved online experience for our customers.

More information on page 40



Sustainability

Good Progress Advancing the Sustainability Agenda

We are working with our businesses to do much more on sustainability and to establish realistic but ambitious goals for the short and medium term.

More information on page 66



Financial Highlights – Continuing Operations

Revenue £2.51bn -6.1% 20 <u>£2.51bn</u> 19 <u>£2.67bn</u>	Adjusted Operating Profit⁽ⁱ⁾ £193.3m -5.6% 20 <u>£193.3m</u> 19 <u>£204.8m</u>	Adjusted Operating Profit Margin⁽ⁱⁱ⁾ 7.6% +20bps 20 <u>7.6%</u> 19 <u>7.4%</u>
Cash Generation from Operations £377.7m +29.7% 20 <u>£377.7m</u> 19 <u>£291.1m</u>	Dividend 14.5p -23.7% 20 <u>14.5p</u> 19 <u>19.0p</u>	Net Cash (pre-IFRS 16) £181.9m +£174.1m 20 <u>£181.9m</u> 19 <u>£7.8m</u>
Return on Capital Employed (pre-IFRS 16) 13.6% -80bps 20 <u>13.6%</u> 19 <u>14.4%</u>	Adjusted Earnings per Share – Basic (i) 56.7p -9.8% 20 <u>56.7p</u> 19 <u>62.8p</u>	Free Cash Conversion 157% +42.7% 20 <u>157.0%</u> 19 <u>110.0%</u>

(i) The term "Adjusted" means before exceptional items and amortisation of intangible assets arising on acquisitions in both years

(ii) Before property profit

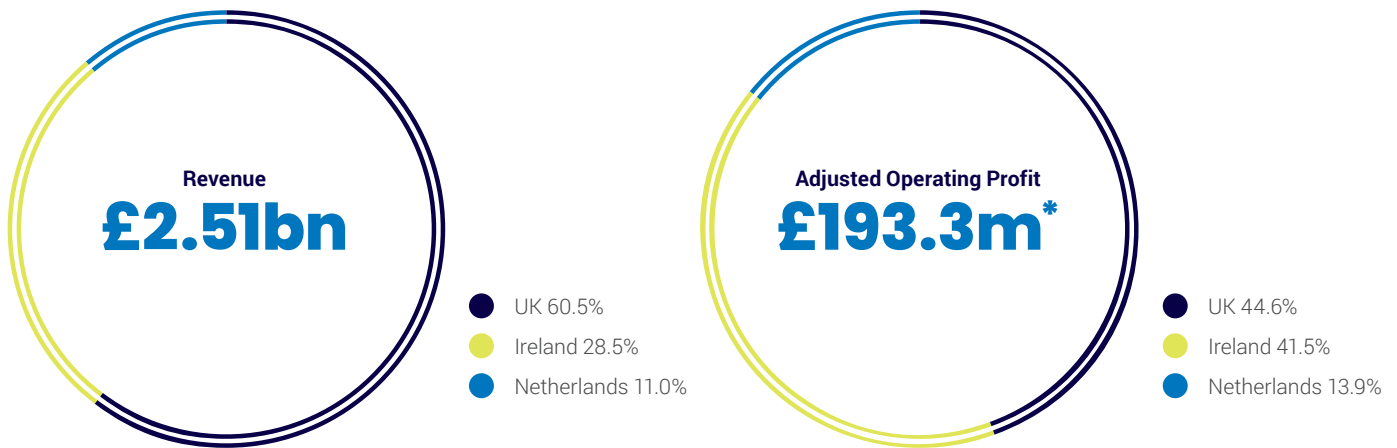
Statutory Highlights

Statutory Operating Profit £159.7m 20 <u>£159.7m</u> 19 <u>£197.8m</u>	Net Debt £355.0m 20 <u>£355.0m</u> 19 <u>£533.8m</u>	Statutory Operating Profit Margin 6.4% 20 <u>6.4%</u> 19 <u>7.4%</u>
Statutory Earnings per Share – Basic 45.1p 20 <u>45.1p</u> 19 <u>60.5p</u>	Return on Capital Employed 10.4% 20 <u>10.4%</u> 19 <u>10.8%</u>	

Resilience and Agility

Group Performance

In 2020, the Group reported revenue from continuing operations of £2.51 billion (2019: £2.67 billion), adjusted profit before tax of £166.4 million (2019: £179.6 million) and adjusted Earnings Per Share ("EPS") of 56.7p (2019: 62.8p).



* after central activities of £11.4 million in 2020 (2019: £11.5 million), including property profit

Distribution



Number of Branches

487





UK



Number of Branches	Revenue	Adjusted Operating Profit*	Adjusted Operating Profit Margin	Market Positions	
335	£1,517.1m 60.5%	£88.6m 44.6%	5.8%	3rd Building Materials Distribution	1st Mortar manufacturing

IRELAND



Number of Branches	Revenue	Adjusted Operating Profit*	Adjusted Operating Profit Margin	Market Positions	
86	£715.4m 28.5%	£85.0m 41.5%	11.9%	1st Building Materials Distribution	1st DIY, Home and Garden

NETHERLANDS



Number of Branches	Revenue	Adjusted Operating Profit*	Adjusted Operating Profit Margin	Market Positions	
113	£276.6m 11.0%	£28.5m 13.9%	10.3%	1st Ironmongery, Tools and Fixings Segment of Distribution Market	

* Pre property profit and central activities of £11.4 million

Retailing



Number of Branches

35

Woodie's

Manufacturing



Number of Plants

12



Our Top Brands

Revenue by Sector



Adjusted Operating Profit by Sector*



* after central activities of £11.4 million in 2020 (2019: £11.5 million), including property profit

Distribution

The Distribution segment distributes building materials from 487 branches in the UK, Ireland, and the Netherlands.



Distribution Revenue

£2.2bn

-7.8%

20 £2.2bn

19 £2.4bn



Chadwicks Group

Chadwicks Group operates from 50 branches in the Republic of Ireland where it is the number one distributor of building materials.

chadwicks.ie



Selco

Trading from 69 branches, including 39 in London. Selco is a trade and business only distributor of building materials that operates a retail style self-select format. Its unique products and service model is primarily focused on customers engaged in small residential RMI projects.

selcobw.com

Buildbase

Buildbase is the UK's third largest distributor of building materials trading from 149 branches with a strong presence in the South East, Midlands and North of England.

buildbase.co.uk

Leyland SDM

Leyland SDM is one of the most recognisable and trusted decorating and DIY brands in Central London where it distributes paint, tools, ironmongery and accessories from 29 branches.

leylandsgm.co.uk



MacBlair

MacBlair is the leading distributor of building materials in Northern Ireland where it trades from 17 branches. The business supplies the trade, DIY and self-build markets with building materials, timber, doors and floors, plumbing and heating, bathrooms and landscaping products.

macblair.com

Isero

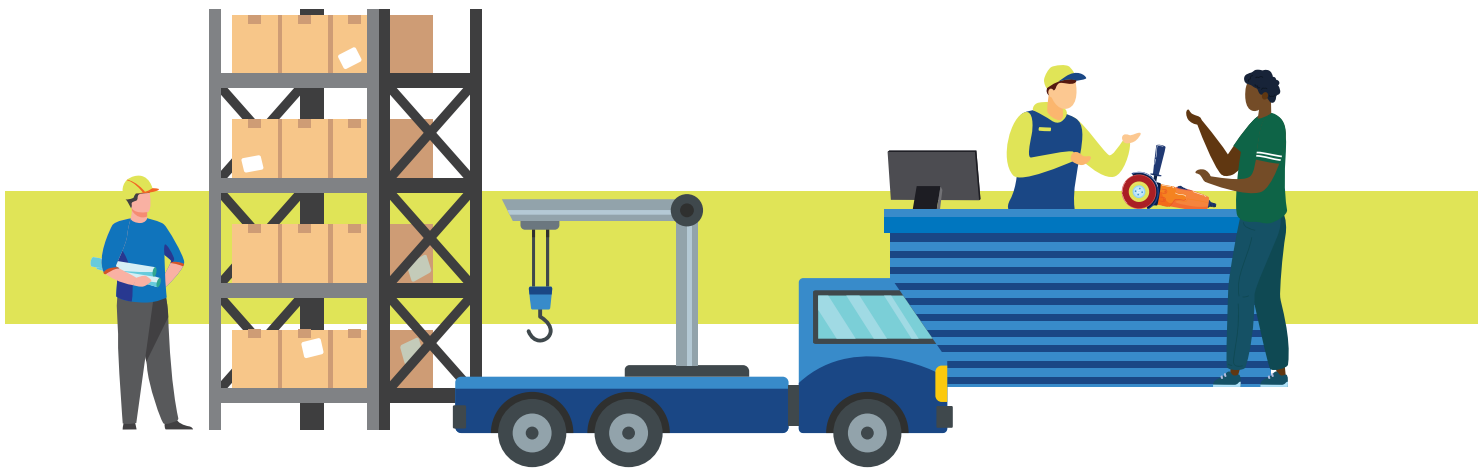
Isero is the leading specialist distributor of tools, ironmongery and fixings in the Netherlands. Isero trades from 62 branches and offers a comprehensive range of quality products to trade professionals supported by an exceptional level of customer service.

isero.nl

Polvo

Polvo is the third largest distributor of ironmongery, tools, fixings and related products in the Netherlands. Polvo trades from 51 branches located in the Southern, Western and Eastern regions where Isero is under represented.

polvo.nl



Retailing

The Group is the largest DIY, Home and Garden retailer in Ireland trading from 35 branches and online.



Retailing Revenue
£246.6m

+20.0%
(up 17.5% in constant currency)



Woodie's

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

woodies.ie

Manufacturing

The Manufacturing segment is comprised of dry mortar and wooden staircase manufacturing businesses.



Manufacturing Revenue
£61.3m

-22.7%



CPI Mortars

CPI Mortars is the market leader in dry mortar manufacturing in the UK, operating from ten strategically located factories that provide almost national coverage.

cpieuromix.com



StairBox

StairBox is an industry leading UK manufacturer and distributor of bespoke wooden staircases operating from a state-of-the-art production facility in Stoke-on-Trent.

stairbox.com

Our Story So Far

1902

William Thomas Chadwick establishes his first business called Chadwicks (Dublin) Limited to supply builders' merchants and major building contractors with Irish and imported cement and plaster.

1930

William Thomas Chadwick acquires control of a small firm engaged in the manufacture of concrete blocks and roof tiles, in Dolphins Barn, Dublin. Concrete Products of Ireland (CPI) is subsequently registered as a private limited company.

1981

The Chadwicks branch network throughout Ireland increases to 14.

1985

Michael Chadwick is appointed Executive Chairman of CPI.

1988

Grafton makes its first UK acquisition, Williams (Southwest), a small heating and plumbing business which gives the Group familiarity with the large UK merchanting market.



1945

William Thomas Chadwick dies, leaving his son Terence Chadwick in charge of the business.

1965

CPI becomes a public company and is quoted on the Dublin Stock Exchange, incorporating the Chadwicks business that was developed by Finton Chadwick, son of William Thomas Chadwick.

1975

Michael Chadwick joins the business and is appointed to the Board in 1979.



1987

The Group opens its first DIY retailing store in the Irish market.



The Group changes its name to Grafton Group plc.

1994

The Group acquires H. Bradley Limited, a six-branch plumbing and heating merchant in central London.

1995

Grafton acquires P.P.S. Mortars, a single plant silo mortar business based in Glasgow.

1996

The Group acquires R. J. Johnson in Oxford, its first builders merchanting branch in Great Britain.

1998

The UK merchanting operations expand substantially with the acquisition of British Dredging plc, the first time that an Irish company acquires a listed UK plc. This acquisition included Selco which traded from five branches.



“Although our longstanding Grafton G has stood us well, spanning four decades of progression and expansion of the Group, it is fitting to start this new decade with a fresh version.

As we move towards a more digital future, our new G represents a modern Grafton that encompasses a wider, more diverse family of businesses and colleagues.”

Gavin Slark
Group CEO

2002

The number of UK trading outlets exceeds 200.



2016–2017

Retirement of Michael Chadwick as Chairman and Director after 41 years with the Group.



2003

Group turnover now exceeds £1 billion.

The acquisition of Jacksons Building Centres Limited strengthens Grafton’s position as Britain’s fourth largest merchant.

2013

Listing moves from the Dublin Stock Exchange to a sole listing on the London Stock Exchange.

David Arnold succeeds Colm O’Nualláin as CFO who retired after 23 years in the role.

Michael Roney joins Board in May 2016 as Chairman Designate and assumes the role of Chairman on 1 January 2017.

2018

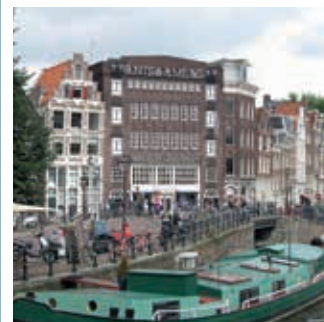
The Group acquires Leyland SDM, London’s largest independent specialist decorators’ merchant.

2005

Grafton completes the takeover of Heiton Group plc in Ireland for a total consideration of €359 million in cash and shares. This business includes, among others, the No.1 builders merchandising operation and the No.2 DIY retailing brand in Ireland. It is a very good strategic fit with Grafton’s existing operations and consolidates its position as the leading player in the Irish distribution and DIY markets.

2015

Entry into the Netherlands Distribution Market with the acquisition of Isero BV, the leading specialist distributor of tools, ironmongery and fixings trading from 38 branches.



2017–2019

Further expansion in the Netherlands with the acquisition of Gunters en Meuser BV and Polvo BV.

2020

The Group adopts a fresh new logo and branding.

Grafton acquires StairBox, an industry leading UK manufacturer and distributor of bespoke wooden staircases.

2011

Gavin Slark succeeds Michael Chadwick as CEO.



Our Purpose and Values

A Shared Passion for Building Progress Together



For more than one hundred years, a passion for progress has been the driving force behind the success of our business.

Our Story

From that very first yard in Dublin, supplying cement and plaster for local builders, to a multinational portfolio – it's a journey built on entrepreneurship, dedication and innovation. Today the Grafton Group includes many market leading brands. We have strong regional and national market positions in the segments in which we operate, and our ambitious strategy continues to deliver strong value for shareholders and investors.

.....
Read more about our story on pages 8 and 9

Our Purpose – Building Progress Together

Our desire to progress remains as powerful today as it always has been.

Our colleagues are vital to that progress, and the Group is focused on making sure that Grafton is a place where everyone genuinely

has the chance to contribute, to take ownership of what they do, develop their skills and abilities, and build a career to be proud of.

We are equally focused on making progress delivering brilliant service for our customers. Without them we have no business, it's as simple as that. We work tirelessly to make sure that they know that we have what they need when they need it. Our customers know that they can trust us to deliver reliable products, support and advice, so they can make progress on all kinds of jobs.

In 2020 our dedication to our colleagues and customers was demonstrated in our response to the Covid-19 pandemic and our implementation of the highest health and safety standards in line with guidance provided locally by Governments and health authorities in the countries where we operate.

Integrating sustainability into our business processes is critical to achieving our strategic priorities, because when our customers and our colleagues thrive, so does our business. This is how our commitment to progress becomes a virtuous circle. This year saw good development of our sustainability strategy as we moved to embed our sustainability targets within each of our businesses.

Our passion for progress reflects the scale of our ambitions, and even in a very challenging year, our businesses demonstrated their resilience and ability to evolve, with a strong recovery and performance leaving the Group well placed for continuing progress in the year ahead.

Case Study: Our Values

Polvo BV installs smart access solutions for care homes

In collaboration with Eurocom Group, the communications solutions provider, Polvo installed over 400 smart locks for home care clients in the Slim Langer Thuis healthcare infrastructure program, meaning that authorised home care workers can enter client homes using their mobile phone instead of a key.

.....
More information about community and charity on page 74

Our Core Values

Our Core Values help ensure that everything we do as a business is aligned with what we stand for as a Group.



Sustainable, Trustworthy and Responsible

The Group leadership team sets the right example with a transparent, ethical approach, and our colleagues back us up all the way – they earn the trust of customers, colleagues and communities and shareholders alike, by doing the right thing. Our sustainability strategy demonstrates our commitment to conducting our business in a safe, socially responsible and ethical way.

Read more about our sustainability strategy on pages 66 to 75



Be Brilliant for our Customers

Doing a brilliant job for our customers is what makes us what we are.

We build a loyal customer base by building strong relationships, listening to their needs, getting them what they want, exceeding their expectations, making the interaction easy and sending them home happy. Our customers know they can rely on us to do this time after time.



Entrepreneurial and Empowering

We trust our people to take ownership, and to play their part in improving performance, seizing opportunities and adding value.

The best ideas in our business come from the people that see our customers every day – and it's those new ideas that help us to innovate and stay ahead of the competition.



Value our People

Our people are our greatest asset, and across the Group we will always support, protect and develop them. The safety of our people is a fundamental priority which was demonstrated in our response to the Covid-19 pandemic.

People feel proud to work here, because they are supported, recognised and valued for what they do.

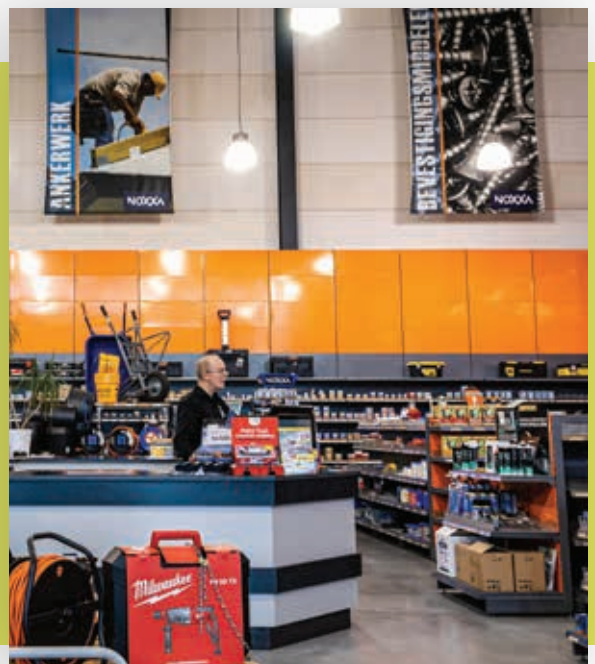


Ambitious

As individuals, teams, businesses, and as a Group, we're always ambitious for success. By striving to always do things better tomorrow than we did today we can be the first choice for our customers and for people who want a brilliant place to work. Ultimately we want to be leaders in what we do. We want to be number one.

“We have received positive feedback from care workers. They are very pleased that they can go directly to the client and have access with their smartphone, especially with regard to coronavirus. That way, no valuable time is lost and the risk of Covid-19 contamination is reduced.”

Wim Scheepers
Project Manager, Polvo BV



What Makes Us Different?

Leading Market Positions

- Leading market positions and strong portfolio of brands
- Scale and breadth of operations create a competitive advantage in local markets
- Geographically diverse businesses

Acquisition Capability

- Ambition backed up by track record of acquisitions and integration
- High calibre management teams with skills and experience in acquiring and integrating businesses

Responsibility

- Our commitment to responsible and ethical business and strong corporate governance
- Making a positive contribution to the communities and customers we serve

Excellence in Service

- Innovative solutions to support our customer focused approach
- Superior quality of product offering backed up by a strong service culture

Federated Structure

- Decentralised organisational structure with autonomous local management supported by tight control at Group level

People and Culture

- Strong, capable, highly motivated and experienced management teams
- Loyal and engaged colleagues
- Competitive pay and rewards

Strong Financial Base

- Maximising long term returns for shareholders
- Strong cash flow from operations
- Investment grade credit rating
- Strong balance sheet

Group Revenue

£2.51bn

-6.1%

20	£2.51bn
19	£2.67bn
18	£2.60bn
17	£2.70bn
16	£2.50bn

Group Adjusted Operating Profit*

£193.3m

-5.6%

20	£193.3m
19	£204.8m
18	£187.6m
17	£163.7m
16	£142.0m

* 2016-2018 are presented on a pre-IFRS 16 basis

Case Study: Excellence in Service

Chadwicks ePOD

As part of the ongoing digital transformation within the Irish distribution business, Chadwicks introduced electronic proof of delivery (ePOD) to its logistics operations.

This technology will transform the current paper-based proof of delivery system and will greatly enhance Chadwicks' service to its customers. With the new ePOD system, customers will have instant access to documents that they have signed electronically, to allow for much faster reconciliation of their account through the Chadwicks online documents portal. The system will also provide much greater visibility to determine the precise position of the delivery fleet at any given time and to provide customers with accurate delivery times. This functionality will be highly beneficial for existing operations and will also support the Chadwicks digital transformation process.

The new solution has the added benefit of contributing towards Grafton's overall aim of reducing paper usage, as part of our sustainability strategy.

More information about our Strategy on pages 26 to 29

“Working in Grafton as a Trade Sales Advisor has empowered me with the knowledge and intelligence to do everything right when serving our customers. Investment in colleagues is why Chadwicks is known for delivering the best service to their customers. I am proud to be a colleague in Grafton.”

Omotayo Bello
Trade Sales, Chadwicks

Group Adjusted EPS*

	56.7p
-9.8%	
20	56.7p
19	62.8p
18	63.7p
17	54.9p
16	47.7p

*2016-2018 are presented on a pre-IFRS 16 basis



Building a Sustainable Future, for Everyone



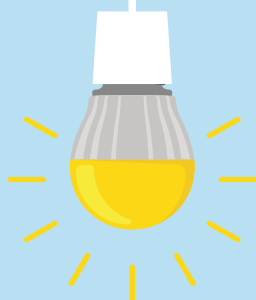
The framework below highlights the key areas of activity for the Group, organised around our five key focus areas.

They were determined through a process of consultation and materiality analysis and they are designed to support and underpin our overall strategy.

These key focus areas help us concentrate on the issues that matter most to our business and stakeholders.

Customer and Product	People	Resources	Community	Ethics
Providing our customers with ethical, sustainable and high quality products	Creating the culture for everyone to thrive inside and outside our business	Reducing, reusing and recycling across our operations	Making a positive contribution to the communities and customers we serve	Ensuring every part of our business operates with integrity
<p>Suppliers Supplier engagement (Packaging, modern slavery and traceability)</p> <p>Products & Services Eco-product range and customers choices</p> <p>Circular economy, sustainable product design & life cycle</p> <p>Product safety & quality</p>	<p>Health, safety and wellbeing</p> <p>Diversity, inclusion and equality</p> <p>Training and development</p> <p>Sustainable living and working</p>	<p>Energy Carbon and climate change</p> <p>Fleet and logistics</p> <p>Pollution and Waste Plastic and other packaging materials</p> <p>Pollution prevention and air quality</p>	<p>Volunteering and fundraising</p> <p>Contributing to the local communities where our branches and stores are located</p>	<p>Ethical business behaviour</p> <p>Privacy and data security</p>





Our Sustainability Strategy is aligned to the UN Sustainable Development Goals (“SDGs”).

The following five SDGs have been adopted within our Group Strategy. Individual businesses may also contribute to other SDGs as part of their local strategy.



How does our Sustainability Strategy support our overall Business Model, Strategy and Purpose?

The overall aim of our sustainability strategy is “Building a sustainable future, for everyone”. This aim is intrinsically linked to having a sustainable, value generating business model that supports and promotes progress for all of our stakeholders and underpins our purpose of Building Progress Together.

Our long term strategy is to be a leading international distributor of building products and related products, and our sustainability strategy supports this in a number of ways:

- Investing in our colleagues and making sure that Grafton is and remains an inclusive and welcoming place to work;
- Providing a wide network of branch locations and online service offerings through which we can be brilliant for our customers, ensuring that they remain satisfied and loyal;
- Making strong connections with the local communities in the locations where we operate;
- Building strong and lasting supplier relationships that enable us to provide quality products and services to our customers; and
- Ensuring the highest standards of integrity and behaviour throughout our business operations.

Progress in our sustainability strategy builds resilience in our business, improves our service offering to customers, supports long term value generation and promotes our overall purpose of Building Progress Together for the benefit all our stakeholders.

.....
Read more about our Business Model on pages 24 to 25

Read more about Sustainability on pages 66 to 75

Read more about our Purpose and Values on pages 10 to 11



Engaging with our Stakeholders

The success of our business is dependent on the support of all of our stakeholders. We believe that building positive relationships with our stakeholders is a vital part of our ability to deliver long term sustainable success.

Our federated Group structure means that each of our business units have extensive engagement with their own unique stakeholders as well as with other businesses in the Group. The Group governance framework delegates authority to local management teams supported by a tight control environment at Group level, allowing individual businesses to take appropriate account of the needs of their own stakeholders in their decision-making.

The Management of each business and the Group have regard to the likely consequences on all stakeholders of their decisions and actions, and each business reports regularly to executive management on strategy, performance and operations.

Details of the Group's key stakeholders and how we engage with them are set out below.



Shareholders



Through our Annual General Meeting ("AGM"), ongoing investor relations activity and shareholder consultation process, we maintain an open dialogue with our shareholders and ensure that the views of our shareholders are considered and factored into key decisions taken by the Board. Shareholder feedback and details of significant movements in our shareholder register are regularly reported to and considered by the Board.

Colleagues



Our people are key to the success of the Group and the Board has established structures to provide for effective engagement with the wider workforce. These include colleague feedback surveys, and the establishment of Colleague Forums which provide the opportunity for Non-Executive Directors to meet colleagues from across the Group and enable their views to be considered at Board level. We also engage with and listen to our people through briefings and town hall meetings, internal social media platforms, internal communications and newsletters. Colleagues also have the opportunity to report any concerns through our anonymous and independently run SpeakUp reporting line.

Customers



We value the loyalty and engagement of our customers. Our businesses conduct surveys and review feedback from customers in order to drive improvements in the quality of our service proposition, our product offering and to ensure that customer expectations are met. We aim to build strong lasting relationships with our trade and retail customers, to understand their needs and views and listen to how we can improve our product offer and service. Customers may also report concerns of any wrongdoing by the Group via SpeakUp, the contact details for which are available on the Group's website.

Decision Making in Practice

To provide insight into the approach taken by the Group to stakeholder engagement, a summary of stakeholder views and conclusions is set out below.

Stakeholder	Stakeholder views/concerns	How we addressed these concerns in 2020
Shareholders	Our shareholders want us to maximise returns in a responsible way and to take appropriate decisions in the long term interests of the Group.	We responded with resilience and agility to the pandemic, delivering on our operational targets and finishing the year in an excellent financial position.
Colleagues	Our colleagues want to be listened to, kept informed, and to know that they will be provided with a safe working environment.	The health and safety of our people was a key priority during the year in order to provide a safe environment and we focused on increasing communication channels to ensure that colleagues were kept informed as events developed as a result of the Covid-19 pandemic.
Customers	Our customers want to know that we will continue to meet their expectations in a safe and efficient way.	We accelerated our investment in digital platforms and in our branch network to improve functionality and customer service. We implemented a range of measures in response to the Covid-19 pandemic to provide a safe environment for customers in our branches and stores.
Suppliers	Our suppliers want strong and lasting relationships that are mutually beneficial.	Our businesses maintained effective communication with suppliers.
Communities	Our communities want us to continue supporting local and national causes.	Our businesses continued to support local and national charities through a wide range of fundraising activity during the year.

Suppliers



Our businesses work to maintain an efficient dialogue with suppliers to build strong, long term relationships. Engagement with suppliers is primarily through a series of interactions and formal reviews. Key areas of focus include innovation, product development, health and safety and compliance with our ethical standards.



Communities



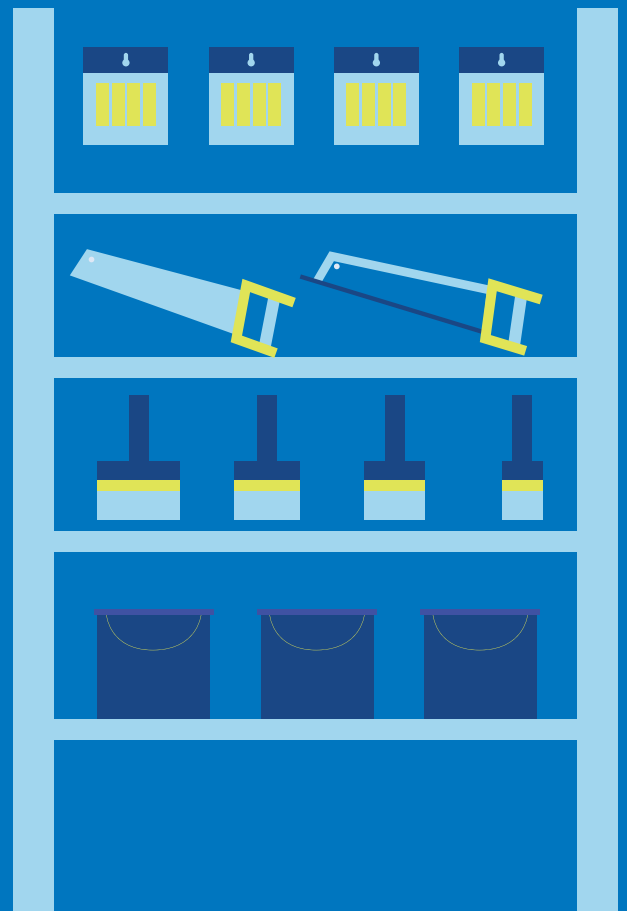
As part of our sustainability strategy we aim to make a positive contribution to our local communities through charity fundraising and community involvement. Key areas of focus include how we can support local and national causes and issues, opportunities to support and develop local people and help to look after the environment.



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Strategic Report





Continuing to Build on Success

Dear Shareholder,

This has been an exceptional year that evolved in a way that none of us could have foreseen with the closure of the majority of our branches in the UK and Ireland for a period in the second quarter. Our management teams across the Group did a remarkable job and worked tirelessly to prepare our stores and branches for reopening in a safe way that protected our colleagues and customers.



I would like to thank Gavin Slark and David Arnold for their outstanding leadership of the Group in extraordinary circumstances and also the Chief Executives and Managing Directors of all of our businesses for the leadership that they provided to their management teams and colleagues in overcoming significant day to day challenges in unprecedented times.

I have huge admiration for the exceptional support, commitment and hard work of colleagues in our branches, stores, distribution centres and offices and thank them sincerely for the way that they responded to the pandemic and for working collaboratively to enable our businesses to support customers in a safe environment. The health and safety of colleagues, customers and partners is always our primary concern.

The pandemic has had a significant effect on our business since March, and Grafton was very well placed coming into the year to navigate its way through the very challenging circumstances that we encountered. We were very encouraged by the strength of the recovery in revenue across the Group in the second half of the year following the full reopening of our branches and stores during May and June.

The overall Group benefitted from strategic investments made in recent years in the more resilient businesses in our portfolio that generate high operating margins and good returns on invested capital. Increased household spending on home and garden repair, maintenance and improvement projects contributed to the strong revenue growth in the second half of the year.

Despite the closure of branches and stores and the significant disruption to our business during the second quarter, the Group's operating profit for the year was only marginally lower than the result reported for last year. The Group's cash generative businesses and the resourceful management of working capital contributed very strong cashflow from operations for the year.

There were also notable strategic achievements over the course of the year including further investment in digital, that increased online revenue as customer trading patterns in our sectors evolved due to the pandemic, and the acquisition of a number of specialist businesses.

Results Review

Revenue in the continuing operations was down by six per cent to £2.51 billion (2019: £2.67 billion) due to branch and store closures in the second quarter. Adjusted operating profit, before property profit was down by four per cent to £190.7 million (2019: £197.9 million) reflecting a decline of 58.9 per cent in the first half and an increase of 47.5 per cent in the second half. Adjusted earnings per share in continuing operations fell by ten per cent to 56.7p (2019: 62.8p).

Dividend

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February 2021 in the amount of £29.9 million.

The Board is acutely aware of the need to balance the interests of all stakeholders and of the importance of dividends to the Group's shareholders. Following the decision not to declare an interim dividend, and in light of the Group's profitable trading in the second half of 2020 and net cash position at the end of the year, the Board has given much consideration to the payment of a final dividend for the 2020 financial year. A final dividend for the year ended 31 December 2020 of 14.5p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 28 April 2021. This is down 23.7 per cent on total dividends of 19.0p paid for 2019. Dividend cover was 3.9 times (2019: 3.3 times).

The final dividend for 2020 and future dividends will be paid by Grafton Group plc following the simplification of the Grafton Unit which was approved by shareholders at the EGM on 21 January 2021 and which took effect at 6.00pm on 7 March 2021.

It is proposed to pay the final dividend for 2020 on 5 May 2021 to shareholders on the Register of Members at the close of business on 9 April 2021, the record date. The Ex-dividend date is 8 April 2021.

A liability in respect of any future dividend has not been recognised at 31 December 2020, as there was no present obligation to pay any dividends at year end.

Cash Flow and Balance Sheet

The Group ended the year in a very strong financial position with net cash, before lease liabilities, of £181.9 million having started the year with net cash of £7.8 million. Cashflow from operations for year of £377.7 million marked a substantial advance on cashflow of £291.1 million generated in the prior year. The Group's very strong balance sheet also saw shareholders' equity increase by £104.4 million to £1.47 billion.

Free cash flow is used to drive organic growth in the existing branch and store estate and to fund development opportunities, that meet demanding strategic and financial objectives, while also maintaining a progressive dividend policy.

Strategy

We continued to make solid progress implementing the Group's development strategy notwithstanding the constraints imposed by the pandemic.

The Polvo business in the Netherlands had a successful first full year trading under Grafton ownership and performed in line with plan with the benefit of procurement synergies.

We continued to invest in our high-performance Selco distribution business in the UK increasing the branch footprint to 69 with the opening of two new branches while also developing a pipeline of branch opening opportunities for the coming years. We also committed significant additional resources and investment to Selco's digital capability and established a strong base on which to build online revenue.



"I have huge admiration for the exceptional support, commitment and hard work of colleagues in our branches, stores, distribution centres and offices and thank them sincerely for the way that they responded to the pandemic and for working collaboratively to enable our businesses to support customers in a safe environment."



The acquisition of the StairBox staircase manufacturing business in Stoke-on-Trent was in line with our strategy of acquiring high quality specialist businesses that generate attractive returns. This dynamic business has a pioneering focus on the use of technology and supports customers with a software application on its website that can design, visualise and price bespoke staircases.

The specialist Leyland SDM paint distribution business in London increased its estate to 29 stores with the acquisition of five branches in a single transaction and the opening of a new branch in the City.

Development of our best-in-class distribution and DIY, Home and Garden businesses in Ireland is primarily focused on organic development complemented by bolt-on acquisitions. Coverage of the distribution market was improved with an in-fill acquisition and earlier this month we completed the acquisition of a specialist distributor of high-quality architectural ironmongery products for doors which extends the range of products and services offered by the business.

The creation of a more balanced portfolio of businesses internationally continues to be a high strategic priority for the Board. Establishing a presence in new geographic markets would create new platforms for future growth. Health and safety considerations related to the pandemic and restrictions on international travel to contain the spread of Covid-19 limited the opportunities available to us during the year to evaluate, negotiate and complete acquisition transactions outside of the UK, Ireland and Netherlands.

The Group's excellent cash generation from operations, good liquidity and strong balance sheet provide resources to fund strategic growth opportunities.

Board Composition and Evaluation

Grafton has a strong Board of Directors that drives performance and growth of the business. The membership of the Board is broadly based and reflects a diverse range of backgrounds, education, cultures, experience, expertise and perspectives. An internal evaluation of the Board, its Committees and individual Directors was conducted during the year and the results demonstrate that the

Board and its Committees continue to operate effectively and to a high standard of governance.

As referred to in last year's report, Dr. Rosheen McGuckian was appointed as a Non-Executive Director with effect from 1 January 2020 and Mr. Frank van Zanten retired as Non-Executive Director at the conclusion of the Annual General Meeting in April 2020. Frank decided to join the Board of a major international retailer in the Netherlands, his home country. We thank him for his strong and greatly valued contribution during his seven years on the Grafton Board and wish him continued success in the future.

Culture, Colleagues and Purpose

Our corporate culture defines who we are and how we do business. Grafton's culture is based on the principle of entrepreneurial local management teams operating to high ethical and professional standards within a strong centralised Group management, reporting and governance framework.

In line with provisions of the 2018 Corporate Governance Code on workforce engagement, Colleague Forums are in place at national level in the UK, Ireland and the Netherlands. Meetings of the forums held during the year provided Non-Executive Directors who attended with valuable insights on the views of colleagues on a range of issues that were subsequently considered by the Board.

Our commitment to our culture and values helps to differentiate us from our competitors. Our colleagues, under the leadership of Gavin Slark, Group CEO, play a key role in the development of a strong and healthy culture.

The theme of our purpose statement is "Building Progress Together" and reflects our commitment to all our stakeholders and a strategic approach intended to deliver strong returns for our shareholders.

Sustainability Strategy

Grafton is committed to building a sustainable business for all of its stakeholders. The Board and the management teams in the Group's businesses recognise that sustainability is a core element of our strategy and is critical to the long term success of our portfolio of businesses. Our sustainability agenda is based

on reflecting the interests of stakeholders in our business decisions and focusing on those areas in our distribution, manufacturing and retailing businesses that are likely to have the most success and where we can deliver tangible results and outcomes that make a real difference to our stakeholders.

The Group made good progress during the year on the development and implementation of its sustainability strategy. The objective of this strategy is to build a sustainable future for everyone and is aligned with the UN Sustainable Development Goals. Our strategy identifies five key areas of focus and activity for the Group and its businesses which are Customers and Products; People; Resources; Communities; and Ethics. In addition, several of our businesses have implemented wellness initiatives to support our colleagues in their work and personal lives.

While we have made good progress during the year through a range of initiatives linked to these goals, many of which are described later in this Annual Report, we acknowledge that this is a multi-year project on which we will report progress each year.

Annual General Meeting

In line with the Group's policy, all Directors will retire and seek re-election at the 2021 AGM. As referred to in the Nomination Committee Report, each Director continues to perform effectively and has demonstrated a strong commitment to the role and I strongly recommend that each of the Directors is re-elected at the Annual General Meeting.

Outlook

We are very encouraged by the Group performance in the second half and strong finish to the year, and, while we remain cautious about first half trends in our markets, we expect to make further progress in the year ahead. Grafton is well placed to implement its development strategy supported by cash generative businesses and a strong financial position.

Michael Roney

Chairman
8 March 2021

Creating Value for our Stakeholders

Inputs

The continued success of the Group is based on:

Our ambition to grow whilst maintaining a disciplined approach to capital allocation

Ambition



Investing in solutions to continually improve our customer service

Innovation



Our commitment to building a sustainable future for everyone

Sustainability



Building strong and trusting relationships with all of our stakeholders.

Engagement



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

Financial



Business Activities

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

Key strengths

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

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

A geographically diversified network of 534 branches with opportunities for further growth through acquisition and organic development.

A portfolio of highly cash generative and profitable businesses.

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

Strong, capable, highly motivated and experienced management teams.

Skills and experience in acquiring and integrating businesses.

Our Core Values



Sustainable, Trustworthy and Responsible



Be Brilliant for our Customers

Operating segments

Distribution



Retailing



Manufacturing



More information our business segments and their performance on pages 38-51

Outputs

Growing our business sustainably

Revenue

£2.51bn

Adjusted Group Operating Profit, including property profit

£193.3m

Our People

c.11,000

colleagues in 534 branches plus support offices

Emissions

(14.5%)

in CO₂e Emissions per £'m of revenue

Giving back

>£500,000

raised for charities

Outcomes

Building Progress Together

Shareholders

Maximising shareholder returns in a responsible and sustainable way.

Customers

Being Brilliant for our Customers by continuing to meet their needs, innovatively, safely and efficiently.

Colleagues

Being a welcoming, inclusive place to work and retaining a loyal and motivated workforce.

Suppliers

Working with our suppliers to drive sustainability and innovation.

Communities

Engaging with our local communities and supporting local and national causes.



Value our People



Entrepreneurial and Empowering



Ambitious

Our Strategy

Our overall strategy is to be a leading international distributor of building materials and related activities. This strategy is supported by our five pillars.

Excellence in Service



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

Link to Risk

- Competition
- Colleagues
- IT Systems and Infrastructure
- Cyber Security & Data Protection
- Supplier Management & Rebates
- Internal Controls & Fraud
- Sustainability
- Pandemic Risk – Covid-19 virus



Case Study

Selco Superbrands award

Following significant service enhancements and branch expansion in recent years, Selco was awarded 'Superbrands' status for its excellent reputation in the builders' merchant industry.

Companies shortlisted for Superbrands accreditation are measured on three core areas – quality, reliability and distinction. Other factors taken into consideration include a brand's profile, marketing activities and new product or service developments. The Superbrands organisation identifies and pays tribute to exceptional brands in over 85 different countries.

"We're thrilled to have received this award and it's a huge credit to the entire team throughout Selco. Whether it is opening new branches to help establish a true nationwide brand, creating a revamped and fully operational website or establishing digital transactional platforms such as Click & Collect or Click & Deliver. Receiving recognition through awards such as Superbrands is just reward for the efforts of everyone to grow the Selco name."

Howard Luft
Selco Chief Executive

Strong Financial Base



- Maximising long term returns for shareholders supported by three financial pillars:
 - Revenue growth in new and existing markets;
 - Operating profit margin growth; and
 - Optimising capital turn and return on capital employed.
- Generating strong cash flow from operations and maintaining a strong balance sheet are key financial metrics.

Link to Risk

- Macro Economic Conditions
- Competition
- Acquisition and Integration of New Businesses
- Supplier Management & Rebates
- Internal Controls & Fraud
- Sustainability
- Pandemic Risk – Covid-19 virus

Organic Growth and Acquisitions



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

Link to Risk

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

Case Study

Acquisition of StairBox

The Group announced the acquisition of StairBox, the innovative manufacturer of customised staircases, on 30th November 2020. Founded in 1994, StairBox has a pioneering focus on the use of technology, operational expertise and a culture dedicated to continuous improvement that enables it to cost effectively manufacture an extensive range of high quality customised staircases.

StairBox delivers staircase solutions directly to primarily trade customers in the residential repair, maintenance and improvement market and has a strong market position and brand that is synonymous with quality, value and exceptional customer service, supported by a team of technical advisors.

“StairBox is a dynamic manufacturing business with a best in class online solution at its core. It has an efficient production process, nationwide distribution and strong growth potential. The acquisition is in line with our strategy of acquiring specialist high quality businesses with attractive returns. We are delighted with this acquisition opportunity and the skills and experience that the management team under the leadership of Alex Hancock brings to the Group”

Gavin Slark
Grafton CEO



Our Strategy continued

A Supportive Organisational Structure and Management



- Group Management and the Board develops and implements the overall strategy of the Group.
- Utilising the Group Corporate Office in Dublin to support the Group's international operations.
- A decentralised structure that confers significant autonomy on local management within a tight Group control environment.
- High calibre management teams with an appropriate mix of operational and management expertise.
- Driving colleague engagement across the Group through clear, open and honest communication.

Link to Risk

- Colleagues
- IT Systems and Infrastructure
- Cyber Security & Data Protection
- Health & Safety
- Acquisition and Integration of New Businesses
- Internal Controls & Fraud
- Sustainability & Climate Change
- Pandemic Risk – Covid-19 virus



Ethics and Integrity



- Conducting business to a high standard of integrity for the benefit of all stakeholders and in a responsible way.
- This includes a commitment to achieving the highest practical standards of health and safety for colleagues, customers and visitors to Group locations.
- Recognising the importance of trust to its stakeholders and the sustainability of our business.

Link to Risk

- Colleagues
- Health & Safety
- Sustainability
- Internal Controls & Fraud
- Pandemic Risk – Covid-19 virus



Case Study

Covid-19 Response

The Covid-19 pandemic and the measures taken to contain it had a significant impact on our businesses during the year.

The health and safety of our colleagues and customers is a fundamental priority for the Group and this informed and shaped our response from the outset of the crisis.

A wide range of health and safety protocols and social distancing measures were implemented in our branches and stores. We also sought to support essential services and the emergency needs of households with the supply of building materials and we took immediate steps to protect the Group's strong financial position.

The safety of colleagues and customers has guided the Group's response to managing the Covid-19 pandemic who were reassured by the phased resumption of trading to allow for modifications to branches and the implementation of comprehensive safety and social distancing measures including:

- Limiting numbers in the branches and stores at any one time;
- Using signage to guide customers to maintain 2-metre distancing when queuing, shopping and at the checkouts;
- Installation of perspex screens in front of trade counters and cashiers; and
- Queue management.

An Extraordinary Performance by our Colleagues

Gavin Slark
Chief Executive Officer



As we all know too acutely, things didn't turn out as anyone had planned for 2020 and Covid-19 swept across the globe causing much pain, disruption and damage in the process. For Grafton to emerge as a better business at the end of the year, is testament to the tremendous fortitude, resilience, resourcefulness and sheer hard work of all of our 11,000 colleagues; we are very grateful to all our colleagues for their exceptional support and commitment.

Health and safety was our priority

From the very start of the pandemic our focus has been on the health and safety of our colleagues, customers and suppliers. At the end of March 2020, we responded quickly and decisively to the rapidly changing situation. In Ireland and the UK we closed all of our locations except those required to provide emergency supplies and our estate was not fully reopened for normal trading until the middle of June. In the Netherlands, our business was categorised as an essential service and remained open.

Benefit of our strategic focus

Inevitably the trading performance of the Group suffered in the first half, reflected in reported adjusted operating profit that was 61 per cent lower than the prior year at £39.4m.

Our strategic growth focus over several years has been to invest into higher returning businesses where we have or can achieve good market positions and provide a differentiated offering to our customers. Many of these businesses are principally targeting the more resilient construction sectors of repair, maintenance and improvement and we saw the benefits of our investment focus in the recovery. As a result, when trading resumed after the first wave of the pandemic and the UK and Irish economies gradually reopened, we were able to benefit from strong underlying market growth in the second half that helped to drive a recovery in trading across our businesses and to report adjusted operating profit for the year of £193.3m, only 6 per cent lower than 2019.

Over 90 per cent of profit was derived from businesses reporting operating margins in excess of 7 per cent

When we look at the relative financial performance of the Group's businesses during 2020, it is notable that our businesses which have strong market positions and have been the focus for ongoing reinvestment in recent

years have performed the most strongly. Included in this category are Chadwicks, Woodie's and MacBlair on the island of Ireland, Selco and CPI Mortars in Great Britain and businesses that were more recently acquired and grown, namely the Netherlands business, Leyland SDM and TG Lynes. Collectively, these businesses were the foundation of the Group's financial returns for 2020, contributing over 90 per cent of adjusted operating profit at an operating margin greater than the Group's target of 7 per cent. They accounted for just over two thirds of Group revenue.

Strong cash performance

The Group's net cash position (pre leases) significantly improved from £7.8m at the start of the year to £181.9m at the year end. This demonstrates the continued strong cash conversion and our discipline of reducing working capital when activity levels turn down. This a very robust position to be in and one which provides a very strong platform to invest in further growth. The pandemic restricted opportunities to evaluate acquisitions and our transaction spend was lower than anticipated at the start of the year.

Excellent progress advancing strategic and operational objectives

Our original financial plan for 2020 targeted a continued increase in the level of Group profitability, with further expansion of the Group through acquisitions of good businesses and with a firm eye on our long term Group financial objectives to deliver a 7 per cent operating margin and 15 per cent return on capital employed (both on a pre-IFRS 16 basis).

In an extraordinary year, we may not have achieved the financial objectives that we set in December 2019, but we think everyone across the Group can feel justifiably proud of the financial achievements we are able to report today. But perhaps what is even more remarkable, and is solely attributable to the determination of our colleagues, is that when we look back at the objectives we set ourselves in December 2019 we can say we have delivered on our 2020 operational targets, as follows:

- We accelerated our digital investment programme by an agile deployment of platforms that have improved functionality for customers and we recruited colleagues with data analytics skills;
- In many of our businesses we made excellent progress upgrading our core trading systems;
- We improved the quality of our customer proposition with investment in the branch estate, our logistics capabilities and colleague training;
- We made further progress on the broad sustainability agenda; and
- Despite restrictions which prevented us undertaking physical due diligence of targets in new geographies, we made some excellent acquisitions in the UK and Ireland, with a new acquisition in the Netherlands completing shortly after the year end.

We enter 2021 with stretching targets and are confident in both our strategy and in the capability of our colleagues to respond to the opportunities and challenges that lie in the year ahead.

The results for the year reflect the significant impact of the pandemic on our markets and the resilience and agility of our response to this unique event.

A significant investment was made to ensure that all of our locations operate to the highest standards of health and safety and a wide range of protocols and social distancing measures were implemented and operated effectively.

During the lockdowns we supported essential services and the emergency needs of households with the supply of building materials. We also took a range of steps to protect and further strengthen the financial position of the overall Group.

Trading was in line with expectations until the second half of March. The Group was heavily impacted by the closure of all branches and stores in Ireland and the majority in the UK, except for emergency supplies, from the end of March. There was an immediate recovery in some of our businesses and a steady recovery in others on reopening during the months of May and June. Trading was stronger than anticipated in the second half and we were very encouraged by the level of activity across the overall Group.

First half revenue was down by 19.4 per cent to £1.06 billion (2019: £1.31 billion) and adjusted operating profit before property profit declined by 58.9 per cent to £39.1 million (2019: £95.1 million).

Second half revenue increased by 6.8 per cent to £1.45 billion (2019: £1.36 billion) and adjusted operating profit before property profit increased by 47.5 per cent to £151.6 million

"Grafton today is a stronger, more resilient, more digitally and sustainability savvy business than it was before the outset of the Covid-19 pandemic. That evolution reflects not just the commitment and hard work of our colleagues and the agility and resolve of our businesses in a challenging year, but also our multi-year transformation and investment journey."



Chief Executive Officer's Review continued

(2019: £102.8 million). The second half operating profit margin was 10.4 per cent, an increase of 280 basis points from 7.6 per cent in the second half of 2019.

Distribution

The majority of the UK Distribution branches were closed on 24 March and reopened on a phased basis between the beginning of May and the end of June. The overall business returned to growth in the second half and profitability recovered strongly. The significant strategic investment we have made over recent years into Selco paid off as the large, well stocked and strategically located branches and self-select operating model was ideally placed to support an increased level of spending on home and garden improvement projects. Profitability recovered strongly in Buildbase in the second half supported by an increase in gross margin and cost control that included a number of branch closures.

Chadwicks, our market leading distribution business in Ireland, was closed between 28 March and 18 May except for essential deliveries. Second half trading was very strong across its nationwide network with revenue up by 12.0 per cent as households spent more time in their homes and invested in a wide range of maintenance and improvement projects. The recovery in house building progressed through the second half while the non-residential construction market remained weak.

Following the acquisition of Polvo in 2019, our market leading business in the Netherlands performed well, despite pandemic related disruption to the economy, supported by its designation as an essential service.

Retailing

Woodie's market leading DIY, Home and Garden business in Ireland was closed for 51 days between 28 March and 18 May, except for digital transactions. Colleagues across the business responded magnificently to the exceptional trading experienced in the second half to report record annual revenue. The operating profit margin was up by 600 basis points to 17.0 per cent for the year.

Manufacturing

Demand in the market leading CPI EuroMix mortar manufacturing business in Great Britain was affected by the closure of its plants during

the lockdown and by the slower recovery in house building in the second half. The business has a flexible and resilient operating model and produced an operating margin of 21.3 per cent for the year. The StairBox business acquired on 30 November 2020 traded strongly prior to acquisition and this trend continued in December.

Exceptional Charge

Branch and organisational changes were implemented in our traditional UK merchanting business in the second half of 2020. These measures provide sustainable benefits to the business and resulted in an exceptional charge of £24.7 million including changes related to defined benefit pension scheme arrangements. These measures are expected to result in a net cash outflow of £15.2 million inclusive of a cash inflow from unwinding working capital and disposal of freehold property in the branches affected.

Repayment of Government Support

For those businesses which were able to continue to trade throughout the pandemic, or where there was a sufficiently strong recovery in our markets to deliver profitability at or above 2019 levels, Grafton repaid Government employment subsidies totalling £8.9 million which had been received in Ireland under the Temporary Wage Subsidy Scheme or in the UK under the Job Retention Scheme ("JRS").

The effect of this approach was that no Government subsidy was received in The Netherlands, that all businesses South and North of the border on the island of Ireland repaid all job subsidies received and that Leyland SDM, an essential supplier with a retail exposure in Central London which remained open throughout 2020, also repaid the amount received under the JRS. The UK trade businesses with branches that were closed in the first half of 2020 as a result of the pandemic received support of £19.6 million under the JRS which partially offset their losses during this period.

Cash Flow

The Group had net cash of £181.9 million before lease liabilities at the year end having started the year with net cash of £7.8 million. This outcome was driven by better trading in the Group's cash generative businesses and included cashflow of £81.2 million released

from working capital. The reduction in working capital related primarily to lower receivables from trade customers and a decline in procurement rebates due from suppliers. Net debt on an IFRS 16 basis including lease liabilities was £355.0 million (31 December 2019: £533.8 million), an improvement of £178.8 million over the course of the year.

Implementing our Sustainability Strategy

Our sustainability strategy commits Grafton to building a sustainable future, for everyone. Grafton has a federated Group structure and our strategy is therefore designed to be purposeful, inclusive, useful and relevant across our businesses and to our stakeholders. We intend to play a leading role on sustainability in the DIY and construction materials sectors.

In 2020, our Sustainability team worked actively with each of our businesses to do much more on sustainability and to establish realistic but ambitious goals for the short and medium term. Our intention is to set a high standard and we recognise that we have much work to do with our supplier base, our colleagues and our customers to progress our sustainability strategy.

Using the UN Sustainable Development Goals ("SDGs") framework as our foundation, Grafton adopted five SDGs as part of our Group Strategy although individual businesses may also contribute to other SDGs as part of their local strategies. The Group's five key focus areas are:

Customer and Product – providing our customers with ethical, sustainable and high quality products

People – creating the culture for everyone to thrive inside and outside our business

Resources – reducing, reusing and recycling across our operations

Community – making a positive contribution to the communities and customers we serve

Ethics – ensuring every part of our business operates with integrity

An investment of £3.2 million was made to install LED lighting in the 30 remaining Selco branches that operated with traditional light fittings. This investment resulted in a substantial reduction in power usage and a significant improvement in energy efficiency. Other projects undertaken during the year as part of the sustainability agenda included a pilot trial of compressed natural gas trucks in

Selco, investment in electric vans in Isero and the addition of electric vehicle options for colleagues in the UK and the Netherlands.

The Netherlands and Irish distribution businesses contracted for the supply of 100 per cent green energy. The overall waste diverted away from landfill across the Group improved from 84 per cent in 2019 to 90 per cent in 2020 following the engagement of a new waste management supplier in the UK distribution business and investment in training and awareness. As a result of the Group's investment in initiatives aimed at reducing our carbon footprint, Group carbon emissions per £'m of turnover reduced by 13.7 per cent since 2019.

Woodie's Heroes campaign raised over €400,000 for four Charities in Ireland and Selco raised £100,000 for Global's Make Some Noise, a UK charity that helps disadvantaged children and young people living with illness, disability or lack of opportunity.

Outlook

Whilst the outlook for the Group's businesses remains uncertain we are optimistic that the successful rollout of vaccines over the coming months will mean that overall economic and construction related activity increases. It is likely that Governments and health authorities will require social distancing and other prevention measures to remain in place for some time, including local or national lockdowns, which may have a bearing on productivity for our end customers.

In the UK, construction activity has been allowed to continue despite the Covid-19 restrictions imposed on other parts of the economy and the Group's branches continue

to trade. Nevertheless, activity is softer than it would have been if a lockdown had not been in operation. The UK housing RMI market benefitted in 2020 from pent-up demand, home working and reduced spending on travel, leisure and hospitality. We believe that this trend is likely to continue in the coming months given the phased exit from lockdown with longer term demand driven by broader economic fundamentals. The recovery in housebuilding is expected to continue, supported by strong underlying demand, but will remain sensitive to the confidence of households to make long term commitments of this nature and in particular the availability of mortgage finance to first time buyers.

While the current lockdown measures in Ireland have seen the temporary closure of most construction activity since 9 January, the Chadwicks branches have remained open albeit operating at a lower level of activity to support those elements of construction that are permitted to continue operating. The lifting of the current restrictions on construction sector should see activity in Chadwicks revert to the pre-lockdown level. The revenue trends in the DIY, Home and Garden market seen in the final months of last year have continued in the current year and the near term outlook remains positive for Woodie's.

We expect subdued growth in the Netherlands economy in the coming months and a gradual recovery later in the year. Our businesses continued to operate during the crisis and were less impacted by the pandemic and are therefore expected to see modest revenue growth in the current year.

Average daily like-for-like Group revenue reduced by 1.0 per cent in the period from 1 January to 21 February. This comprised a decrease of 0.9 per cent in UK Distribution, a decrease of 12.7 per cent in Irish Distribution and an increase of 1.1 per cent in the Netherlands Distribution. Average daily like-for-like revenue increased by 40.8 per cent in Retailing and reduced by 29.8 per cent in Manufacturing.

Grafton continues to benefit from its strong strategic focus and financial discipline as well as its agility to respond to a changing market environment. We are very encouraged by the strong performance that was sustained by the overall Group through the second half of last year and while we remain cautious about first half revenue trends in our markets, we expect to make further progress in the current year.

Our Purpose – Building Progress Together

A shared passion for progress is at the heart of everything we do at Grafton. From our constant focus on innovating for our customers, to our deep commitment to developing our people; from the entrepreneurial spirit that powers our growth to the strategic approach that delivers strong value for our shareholders; progress in all its forms makes us what we are. This energetic, ambitious outlook is who we are as a Group, and it guides how we build our wider relationships.

That's why our purpose is "Building Progress Together".

Gavin Slark
Chief Executive Officer
8 March 2021

"We are very encouraged by the Group's strong performance through the second half of last year and while we remain cautious about first half revenue trends in our markets in light of Covid-19 uncertainty, we expect to make further progress in the current year and are confident that our 11,000 colleagues will continue to deliver for our customers. We finished last year in an excellent financial position that provides a strong platform for the future growth and development of our Group."

Key Performance Indicators

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

Risk Management

More information page 56 to 65

Supplementary Financial Information

More information page 202 to 211

Financial KPIs*

Revenue

Group revenue for the year is a measure of overall growth.

Strategic Links



£2.5bn

20	£2.5bn
19	£2.7bn
18	£2.6bn
17	£2.7bn
16	£2.5bn

Risks

- Macro-Economic Conditions
- Competition
- Pandemic Risk – Covid-19 virus

Revenue from continuing operations decreased by 6.1 per cent to £2.5bn, reflecting the impact of the first half branch closures in response to the Covid-19 pandemic.

Adjusted Operating Profit Margin Before Property Profit

Adjusted Operating Profit before profit on disposal of Group properties as a percentage of revenue provides a good measure of performance.

Strategic Links



7.6%

20	7.6%
19	7.4%
18	7.0%
17	5.9%
16	5.5%

Risks

- Macro-Economic Conditions
- Competition
- Pandemic Risk – Covid-19 virus

The term “adjusted” means before amortisation of intangible assets arising on acquisitions and exceptional items. The adjusted pre-property operating margin increased by 20bps as a result of the strong recovery in profitability in the second half of the year.

Adjusted Operating Profit Margin

Adjusted Operating Profit as a percentage of revenue.

Strategic Links



7.7%

20	7.7%
19	7.7%
18	7.2%
17	6.0%
16	5.7%

Risks

- Macro-Economic Conditions
- Competition
- Pandemic Risk – Covid-19 virus

The adjusted operating profit margin remained constant at 7.7 per cent as trading was stronger in the second half of the year. The second half margin was 10.4 per cent an increase of 280 bps from the second half in 2019.

Capital Turn

Revenue divided by average capital employed where capital employed is the sum of total equity and net debt at each period end.

Strategic Links



1.3x

20	1.3x
19	1.4x
18	2.0x
17	2.3x
16	2.2x

Risks

- Macro-Economic Conditions
- Competition

Capital turn declined to 1.3 times from 1.4 times in 2019 as revenue and average capital employed decreased.

* 2016-2018 are presented on a pre-IFRS 16 basis.

Strategic Links



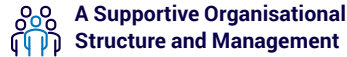
Excellence in Service



Strong Financial Base



Organic Growth and Acquisitions



A Supportive Organisational Structure and Management



Ethics and Integrity

More information page 26 to 29

Adjusted Operating Profit

Profit before intangible asset amortisation on acquisitions, exceptional items, net finance expense and income tax expense.

Strategic Links



£193.3m

20	£193.3m
19	£204.8m
18	£187.6m
17	£163.7m
16	£142.0m

Risks

- Macro-Economic Conditions
- Competition
- Pandemic Risk – Covid-19 virus

Adjusted operating profit, including property profit, decreased by 5.6 per cent to £193.3m as a result of the impact of Covid-19 on the first half results. There was a strong recovery in profitability in the second half of the year.

Free Cash Flow

Cash generated from operations less interest, tax and replacement capital expenditure net of disposal proceeds. Free cash flow provides a good measure of the cash generating capacity of the Group's businesses.

Strategic Links



£304.1m

20	£304.1m
19	£224.6m
18	£157.4m
17	£163.5m
16	£133.8m

Risks

- Macro-Economic Conditions
- Competition

Free cash flow increased by £79.5m to £304.1m as a result of record cashflow from operations reflecting strong day-to-day management of working capital.

Adjusted Earnings Per Share

A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares.

Strategic Links



56.7p

20	56.7p
19	62.8p
18	63.7p
17	54.9p
16	47.7p

Risks

- Macro-Economic Conditions
- Competition
- Pandemic Risk – Covid-19 virus

Adjusted earnings per share from continuing operations was down 9.8 per cent on prior year.

Return on Capital Employed ("ROCE")

A measure of the Group's profitability and the efficiency of its capital employed. Adjusted operating profit is divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.

Strategic Links



10.4%

20	10.4%
19	10.8%
18	14.7%
17	13.6%
16	12.5%

Risks

- Macro-Economic Conditions
- Competition

ROCE declined by 40 basis points and reflects the fall in profitability in the first half caused by the Covid-19 pandemic.

On a pre-IFRS 16 basis, ROCE for 2020 was 13.6 per cent, a decline of 80 basis points on 2019 (14.4 per cent).

Key Performance Indicators continued

The Non-Financial Key Performance Indicators (“KPIs”) below are used to measure our commitment to responsible business practices.

Non-Financial KPIs

Health and Safety

Keeping our people safe.

Lost Time Injury Frequency Rate:

20	0.98
19	1.01
18	1.04
17	1.09
16	1.16

Our Aim

Our commitment for health and safety is to send our colleagues, customers and everyone we work with home safely at the end of each day.

We believe that there is nothing we do that is so urgent we cannot do it safely.

Our Progress

In 2020 our commitment to the health and safety of our colleagues and customers was demonstrated by our response to the Covid-19 pandemic and our implementation of the highest health and safety standards in line with measures and guidance adopted by governments in the countries where we operate.

During the year the Group’s Lost Time Injury Frequency Rate, a measure of the number of lost time injuries per 100,000 hours worked, reduced by a further three per cent from 1.01 to 0.98.

Environmental

Reducing our carbon footprint.

CO₂e Emissions per £’m of Revenue:

20	26.8 tonnes
19	31.4 tonnes
18	32.4 tonnes
17	31.2 tonnes
16	35.0 tonnes

Our Aim

Our aim is to run our businesses in an environmentally responsible manner.

We will reduce our carbon footprint and decrease the amount of waste we send to landfill.

Our Progress

An investment of £3.2 million was made to install LED lighting in the 30 remaining Selco branches that operated with traditional light fittings, resulting in a substantial reduction in energy usage and a significant improvement in efficiency.

The Netherlands and Irish distribution businesses entered into contracts for the supply of green renewable energy during the year.

We commenced a trial of compressed natural gas trucks in Selco, invested in electric vans in Isero and added electric vehicle options for colleagues in the UK and the Netherlands.

As a result of our investment in initiatives aimed at reducing our carbon footprint, Group CO₂e emissions per £’m of revenue reduced by 14.5 per cent from 31.4 tonnes in 2019 to 26.8 tonnes in 2020, partly as a result of the closure of branches and stores for part of the second quarter.

The Group also increased the percentage of waste diverted away from landfill from 84 per cent in 2019 to 90 per cent in 2020.

Diversity and Inclusion

Being a welcoming, inclusive place to work.

Our Aim

Our aim is that our workforce will be truly representative of all sections of society.

We will ensure that everyone in Grafton Group is respected and can give of their best, irrespective of who they are or what job they do.

Our Progress

During the year the Group launched an internal communications drive to highlight the importance of diversity and inclusion in all of our businesses. We also launched a diversity action team made up of representatives from each of the Group's businesses and focused on gender, ethnicity, disability and LGBTQI+. The purpose of these groups is to support the businesses and encourage an inclusive culture that promotes diversity.

The Group has signed the Social Mobility Pledge, the campaign aimed at increasing social mobility through outreach, access to opportunities and recruitment practices. We also joined the Valuable 500, the global CEO community aimed at promoting disability inclusion.

Customer and Product

Providing our customers with sustainable and high quality products.

Our Aim

Our aim is to collaborate with our suppliers to increase our eco product offering, reduce packaging by volume and seek out reusable packaging solutions.

We will work with our suppliers with a focus on ensuring that the principles of our sustainability code are met.

Our Progress

Our businesses are working to establish realistic but ambitious goals designed to increase our range of sustainable products and to reduce the use of packaging.

In 2020 the Group commenced a process for the implementation of a third-party risk management and compliance management solution with a view to developing a consistent, risk-based approach to managing supplier compliance across all of our business units.

“Grafton is an inclusive place to work and we are proud to work for a company that acknowledges the importance of diversity.”

Binish Bashir Kiyani & Jaskiren Sandhu
HR Assistants, Grafton Group plc



Distribution Segment

(88% of Group Revenue)

The distribution businesses in the UK, Ireland and the Netherlands contributed 88 per cent of Group Revenue (2019: 89 per cent). UK distribution generated 58 per cent (2019: 64 per cent) of Group revenue.

	2020 £'m	2019* £'m	Change
Revenue	2,201.2	2,387.4	(7.8%)
Adjusted operating profit before property profit	146.8	168.1	(12.7%)
Adjusted operating profit margin before property profit	6.7%	7.0%	(30bps)
Adjusted operating profit	149.4	175.0	(14.6%)
Adjusted operating profit margin	6.8%	7.3%	(50bps)

* Excludes Plumbase and the Belgium distribution business in 2019.



UK Distribution

The UK distribution segment trades from 324 branches, principally under the Selco and Buildbase brands in the SouthEast, Midlands and North of England, and under the MacBlair brand in Northern Ireland.

	2020 £'m	2019* £'m	Change
Revenue	1,460.7	1,710.8	(14.6%)
Adjusted operating profit before property profit	76.4	105.1	(27.3%)
Adjusted operating profit margin before property profit	5.2%	6.1%	(90bps)
Adjusted operating profit	79.1	108.0	(26.7%)
Adjusted operating profit margin	5.4%	6.3%	(90bps)

* Excludes Plumbase business disposed of in 2019.

Revenue in the UK distribution business was down for the year because of the measures adopted in the second quarter to contain the spread of Covid-19 that resulted in closure of the majority of branches on 24 March. The reopening of branches started on a phased basis at the beginning of May and was gradually extended to a full service offering in all branches by the end of June. First half revenue in the like-for-like business declined by £258.6 million due to the pandemic.

The very gradual recovery in construction activity in May and June gathered pace over the summer months as Covid-19 restrictions and social distancing measures were eased. The overall UK distribution business returned to growth in the second half and like-for-like revenue increased by £23.7 million.

The GDC Paints acquisition contributed revenue of £4.2 million and revenue from new Selco and Leyland branches was £9.1 million. The consolidation and closure of branches in the traditional merchanting business reduced revenue by £28.9 million.

First half operating profit before property profit declined by almost 96 per cent to £2.3 million (H1 2019: £55.5 million). Second half operating profit increased by 49.3 per cent

to £74.1 million (H1 2019: £49.6 million). The second half operating profit margin was up by 280 basis points on the prior year to 8.7 per cent from 5.9 per cent.

The UK distribution business received support of £18.7 million through the Coronavirus Job Retention Scheme for colleagues who were furloughed when branches were closed or operating at reduced capacity principally during the second quarter. The UK distribution business also received rates relief of £9.0 million.

Gross margin increased in the second half by 170 basis points due to both the stronger growth experienced in the higher gross margin businesses such as Selco and Leyland SDM as well as improvements in mix within the distribution businesses more generally. This more than offset a first half decline of 150 basis points that was mainly driven by competitive market conditions in the traditional distribution market. Gross margin for the year was up by 30 basis points with the benefit of a higher weighting of revenue in the second half.

Proportion of Group Revenue

58.2%

Proportion of Group Adjusted Operating Profit

40.9%



Market position

Building Materials Distribution

No.3

Key Brands



Case study: Be Brilliant for our Customers

Selco accelerates investment in e-commerce

As part of the ongoing digital transformation within the business, Selco invested in website improvements with a major upgrade to its website. The website now incorporates several new features that make it easier for customers to transact online, such as real time stock checking and streamlining of the checkout process.

“The launch of the new website has been a major project and is a result of extensive research carried out with our customers.

This is just the first in a number of exciting changes we are making as we constantly adjust to the changing shopping habits of our customers.”

Carine Jessamine
Marketing Director, Selco

More information about our strategy on page 26 to 29



Selco Builders Warehouse

Selco Builders Warehouse traded in line with expectations in the period up to the lockdown on 24 March 2020 when all branches were closed. 42 branches reopened for Click & Collect and Click & Delivered trading on 6 May and the remaining 26 branches on 18 May. All branches were open for self-select trading by 22 June 2020 and Sunday trading resumed on 9 August 2020. First half revenue declined by 30.7 per cent.

Selco traded strongly in the second half increasing average daily like-for-like revenue by 13.1 per cent and total revenue by 14.1 per cent. The growth rate was stronger in branches located outside of the M25 as commercial construction activity in central London was slower to return. A backlog of work following the lockdown, home working and a higher proportion of disposable income available for home improvement projects provided favourable trading conditions for Selco which has a trading format that is ideally suited to maintaining social distancing.

Revenue and gross margin growth, together with a close attention to the cost base by Selco's management team delivered a second half operating profit margin of 11.3 per cent. Selco accelerated its investment to improve the digital experience for its customers with a major upgrade to its website in February. The Selco class leading website now incorporates several new features that make it easier for customers to transact online. This investment increased web traffic and customer registrations. There was significant growth in online sales, which accounted for 5.3 per cent of second half revenue, of which 80 per cent was click-and-deliver.

Selco opened new branches in Orpington and Salford and now trades from 69 locations. New branches are scheduled to open in Liverpool and Canning Town in the first half of 2021. The Bristol branch was relocated to an enlarged facility, configured with online activity in mind and the Chessington branch was extended into an adjoining unit. A major upgrade was completed to the Wimbledon branch as part of a rolling investment programme that will include the Barking, Ruislip and Catford branches in the current year. Mini upgrades will be also completed this year on 15 branches.



Designed to support the improvements to Selco's e-commerce investment, the new distribution centre in Oxford is now providing a branch fulfilment service for over 6,000 lightside products sourced from almost 100 suppliers. This development halved the number of inbound branch deliveries and freed up capacity in branches. The delivery hub in Edmonton centralised customer deliveries for six branches in North London and a second hub to support deliveries for the seven branches in the Birmingham Area will be operational next month. These hubs increase the efficiency fulfilling Click & Deliver orders placed online.

Buildbase

Buildbase, which operates from a network of 149 locations across England, reported modest growth in average daily revenue in the period up to the lockdown on 24 March. A limited service was maintained from 40 branches during the lockdown to provide materials for public infrastructure and essential supplies for homes. The phased reopening of branches commenced in early May and all branches were fully operational by mid-June. First half revenue was down by 30.1 per cent.

Second half revenue in the like-for-like business recovered well but was marginally down on the prior year. With its national coverage and traditional builders merchandising model, Buildbase serves a broad spread of generally locally based customers. A stronger recovery was seen with builders focused on private residential repair, maintenance and improvement whilst activity levels with local developers engaged in new housing construction and public sector maintenance activities were slightly softer than the prior year.

Management priorities from a financial perspective were focused on the gross margin and cost control throughout 2020. Second half operating profit was substantially ahead of the same period in 2019 due to an increase in the gross margin by 160 basis points as a combination of management initiatives, a reduction in pricing pressure and favourable changes in mix delivered a beneficial outcome. As indicated in the half year results, a number of underperforming branches were closed as part of the strong focus on cost control and profit improvement.

Whilst operating in the traditional merchandising segment of the market, the Buildbase management team have placed systems at the heart of its modernisation programme. Improvements in the website were accelerated in response to the pandemic and, as a consequence, there was a significant increase in online revenue from £0.5m in 2019 to £7.0m in 2020.

The significant multi-year investment programme to transform the branch operating system and processes took an important step forward when the Microsoft AX ERP system went live in a number of branches prior to the lockdown and was operational in 29 branches at the year end. The new system is scheduled to be deployed across the majority of the branch network by the end of 2021 and will provide better and more timely information for decision making as well as supporting profit improvement opportunities.

Distribution Segment continued



Civils & Lintels

Civils & Lintels, a distributor of heavyside building materials and lintels to groundworks and civils sub-contractors operating in the new housing market, was materially impacted by the closure of its branch network between 24 March and 11 May and by the moderate rate of recovery over the remainder of the first half. The pace of demand for groundworks materials and lintels picked-up in the second half and the business finished the year strongly, sustained by the phased reopening of housing sites and the commencement of work on new developments. Demand for new houses was supported by the help to buy scheme and the stamp duty holiday that ends on 1 April 2021. Second half revenue was in line with the prior year.

PDM Buildbase

PDM Buildbase branches in Scotland were significantly impacted by the prolonged lockdown. Trading recovered well in the months following reopening and revenue was up by 2.1 per cent in the second half on the prior year driven by the house building and RMI sectors with good demand for a broad range of landscaping products.

MacBlair

The Northern Ireland distribution business traded well up to the lockdown on 24 March. Branches were closed for an average of six weeks and reopened on a phased basis between 30 April and 13 May. The business traded strongly in the period to the end of the half year and this trend continued through the second half. Revenue for the year declined by 6.0 per cent comprising a decline of 20.0 per cent in the first half and growth of 8.5 per cent in the second half.

MacBlair's strong market position and customer proposition meant it was well placed to respond to strong demand in the residential RMI market where a focus by households and trades people on outdoor projects saw exceptional demand for landscaping, fencing, decking, timber and paint products from both trade and private customers. Revenue growth from internal projects was centred on bathrooms, flooring and hardware products. The recovery in the new housing and commercial markets was slower and revenue from these markets was marginally down in the second half while infrastructure projects showed good growth. Changes to end-use markets supplied and product mix contributed to a favourable gross margin outcome and the operating profit margin for the year was up by 50 basis points to 8.6 per cent on lower revenue.

Leyland SDM

Leyland SDM, London's largest specialist decorators' merchant, was categorised as an essential business and continued to trade during the year while observing strict social distancing and health and safety measures. Revenue declined by 1.0 per cent but tight control of overheads contributed to an increase in operating profit and the operating margin widened by 70 basis points to 17.8 per cent.

Trading in the Central London stores was impacted by the decline in construction activity and reduced footfall by trade customers while stores located in the commuter belt made gains from increased spending by households and trade customers on painting and decorating products. The Farringdon Road and Goodge Street stores were upgraded.

In July, GDC Paints, a decorator's merchant trading from five complementary locations in London, was acquired and performed ahead of expectation in the second half. Leyland SDM reached an agreement with Farrow & Ball to supply its premium paint brand to all Leyland SDM stores in addition to the five GDC Paints stores that it already supplied.

The new stores that were opened last year in Maida Vale and Streatham performed well and a new store was opened in Kingston-Upon-Thames in November increasing the estate to 29 stores.

TG Lynes

TG Lynes, a leading distributor of commercial pipes and fittings in London, supported essential services during the lockdown and fully reopened in late April. Revenue recovered to 80 per cent of the prior year level in the

month of June and was down by 30 per cent in the first half. Second half revenue and profitability recovered almost to the prior year level. Product pricing was maintained in a more competitive market and a high double-digit operating profit margin was reported for the year. Demand from subcontractors engaged in upgrades to existing properties, residential new build, public sector and RMI projects held up reasonably well despite project delays caused by the pandemic. Activity in the hotel, leisure, retail and office sub-sectors of the market was concentrated on projects that were already committed and many pipeline projects were delayed or put on hold until there is greater clarity on the outlook for these markets.



Distribution Segment continued

Ireland Distribution

The Irish distribution segment trades from 50 branches, principally under the Chadwicks brand.

	2020 £'m	2019 £'m	Change	Constant Currency Change
Revenue	463.9	464.8	(0.2%)	(1.7%)
Adjusted operating profit before property profit	41.8	43.1	(2.8%)	(5.1%)
Adjusted operating profit margin before property profit	9.0%	9.3%	(30bps)	
Adjusted operating profit	41.8	47.1	(11.2%)	(12.7%)
Adjusted operating profit margin	9.0%	10.1%	(110bps)	

Chadwicks revenue was marginally ahead of the prior year in January and February. The rate of growth gathered pace in the period to 28 March when all branches were closed, except for nineteen that remained partially open to provide emergency supplies. Revenue in the first quarter was ahead of the prior year by 2.9 per cent.

Revenue was materially lower during the lockdown which ended on 18 May with the reopening of all branches on a full-service basis. Average daily like-for-like revenue was down by 5.0 per cent between 18 May and the month end and increased by 7.3 per cent in June. Revenue declined by 33.9 per cent in quarter two and by 16.0 per cent in the first half.

Our market leading business generated a second half revenue increase of 12.0 per cent supported initially by the strength in the residential RMI market as customers benefited from a healthy pipeline of work and pent up demand following the reopening of the

economy. Households spent more time in their homes because of the pandemic and home working and invested in a wide variety of home maintenance and improvement projects. Demand during the summer months was initially focused on external projects including decking and landscaping.

The recovery in the new housing market gained momentum through the second half as house builders focused on completing phases in existing developments. There was good demand for starter homes and house completions were stronger than anticipated for the year at 20,676 units, two per cent below the outturn for 2019.

Construction continued on commercial and civil engineering projects that were already underway, but the disruption caused by the pandemic led to some projects being deferred with challenging trading conditions impacting investment in the non-food retail, tourism, travel and hospitality sectors in particular.



Market Position

Building Materials Distribution

No.1



Proportion of Group Revenue

18.5%

Proportion of Group
Adjusted Operating Profit

21.6%

Key Brand



The programme for rebranding the distribution branches in Ireland under the Chadwicks brand continued with the upgrading and rebranding of six more branches. An additional Chadwicks Fixing Centre was opened in the Cork City branch, following a successful launch in the Thomas Street branch in Central Dublin. Fixing Centres supply a broad range of fixings and tools to builders, engineers and specialist tradespeople.

In July Daly Brothers (North East) Ltd., a single branch builders distribution business located in Dundalk, County Louth, was acquired. The revenue and operating profit contribution were in line with the forecast for the second half. The acquisition of Proline Architectural Hardware, a leading distributor of a wide range of high quality traditional and contemporary ironmongery products for doors, completed earlier this month.

Development commenced during the year on a new digital platform that will provide click and collect and click and deliver functionality for

trade customers. A Product Information Management System that enables suppliers to provide enriched product data through a dedicated portal was developed to support the sale of products across all market channels. An electronic proof of delivery system that captures customers signatures digitally and provides real time visibility on deliveries and assists with route planning was also developed and is currently being trialled ahead of rollout to over 200 drivers of delivery vehicles operating across the branch estate.

The phased replacement of forklift trucks continued with a fleet of 100 energy efficient models now in use in branches and, as part of its commitment towards creating a sustainable future, Chadwicks entered an agreement for the supply of 100 per cent green energy with Energia, a leading energy provider focused on renewable technology.



Case study: Excellence in Service

Chadwicks Continues with Rebranding Programme

The rebrand programme which commenced in 2018 continues to be a key project for Chadwicks. The €5 million investment progressed during the year with Heiton Buckley Limerick and Gorey, Eddie's Hardware in Drogheda and Market Hardware in Ennis completing their move to the new branding.

Along with extensive refurbishment of the sites, the business also extended their ranges in these branches to ensure they have the best product range possible.

Sustainability is a key factor in the refurbishment programme.

.....
More information about sustainability on pages 66 to 75

“We successfully applied for the Exceed programme through the Sustainable Energy Authority of Ireland for the upgrade of the heating mechanical system in branches. At the forefront of our consideration was the energy efficiency of our buildings but also the long term saving for the Group.”

Niall Reynolds
 Head of Group Building Services (Ireland)

Distribution Segment continued

Netherlands Distribution

The Netherlands distribution segment trades from 113 branches under the Isero, Polvo and Gunters en Meuser brands.

	2020 £'m	2019 £'m	Change	Constant Currency Change
Revenue	276.6	211.8	30.6%	28.8%
Adjusted operating profit	28.5	19.9	43.3%	40.8%
Adjusted operating profit margin	10.3%	9.4%	+90bps	

The Isero and Polvo ironmongery, tools and fixings business continued to trade over the course of the year as construction was classified as an essential activity and permitted to continue operating provided health and safety and social distancing measures were put in place.

Average daily like-for-like revenue in Isero was down by 0.7 per cent for the half year reflecting modest growth in January and February, market weakness in March and April and a return to growth in May and June. Average daily like-for-like revenue increased by 1.8 per cent in the second half and by 0.7 per cent for the year despite a fall of three per cent in residential new build and renovation volumes.

The Dutch economy suffered a milder decline in economic activity than other European economies but is nevertheless estimated to have contracted by four to five per cent for the

year as a whole. Demand for houses was strong with transactions up by over seven per cent to near record annual levels. House prices were nine per cent higher than a year earlier as the labour market held up well and a shortage of houses under construction, at a time of strong demand and low mortgage rates, contributed to the rise.

Lockdown measures put in place at the end of March were eased over the summer months with the reopening of most of the economy. Measures to contain the spread of the virus were reintroduced in October and extended in mid-December.

There was good demand from core customers operating in the domestic RMI market and from national key account customers engaged in house building, commercial construction and renovation projects. In the first half revenue from corporations that undertake

Market Position

**Building Materials Distribution
(Ironmongery, Tools and Fixings)**

No.1





repairs and maintenance on social housing was down due to restricted access to these properties and delays to major projects saw key customers defer purchases of power tools, scaffolding, PPE and other products. Demand was weaker in the tourism, leisure and entertainment sectors due to the pandemic. Revenue shortfalls in these segments of the market was offset by stronger demand from the core customer base of tradespeople engaged in private residential RMI projects whose customers used the lockdown as an opportunity to undertake home renovations.

The Group's strategy for the integration of its market leading Netherlands business continued in line with plan for the year despite the challenges presented by the pandemic. The Polvo business acquired on 1 July 2019 performed in line with plan in its first full year under Grafton ownership despite the pandemic. Integration was focused on supplier consolidation and harmonisation of procurement terms.

The Gunters en Meuser branches in Amsterdam were transferred to the Isero Microsoft AX ERP system. This development facilitated twice daily stock replenishment and access to a wider range of products from the distribution centre that opened last year in Waddinxveen, North East Rotterdam. The Gunters en Meuser branches were aligned with the Isero branch operating model and customer deliveries in the Amsterdam Area were centralised from a single location. The Schiphol branch acquired in November 2019 was integrated into the Polvo branch network.

One of the Rotterdam branches was relocated, and a number of branches were upgraded. Since the year end, Polvo acquired Van den Anker IJzerhandel Katwijk B.V., a distributor of tools, ironmongery, hinges, locks and fasteners from a single branch in Katwijk aan Zee, on the mid-western coast of the Netherlands.

Proportion of Group Revenue

11.0%

Proportion of Group Adjusted Operating Profit

14.7%

Key Brands



POLVO
BOUW EN INDUSTRIE

“For Isero it was a very conscious choice to introduce electric vehicles to our commercial fleet. It is not only important for us to limit our emissions, but this is also an important topic for many customers. To this end, we like to work together to reduce our emissions.”



Retail Segment

Retail Segment

(10% of Group Revenue)

Woodie's is Ireland's market leading DIY, Home and Garden retailer with 35 stores nationwide and online. Woodie's is also a leading retailer of seasonal categories including gardening and Christmas ranges.

	2020 £'m	2019 £'m	Change	Constant Currency Change
Revenue	246.6	205.5	20.0%	17.5%
Operating profit	42.0	22.6	85.6%	79.1%
Operating profit margin	17.0%	11.0%	+600bps	



The Group’s retailing strategy is based on maintaining Woodies’ clear market leadership position and strong brand recognition, focusing on core strengths in the DIY, Home and Garden categories, and utilising spare capacity in the branch network to increase revenue, operating margin and return on capital employed.

Market Position

DIY, Home and Garden

No.1

Key Brand



We're all Homemakers

Proportion of Group Revenue

9.8%

Proportion of Group Adjusted Operating Profit

21.7%



Woodie’s, Ireland’s leading DIY, Home and Garden retailer, embarked on a programme of change several years ago that was centred around customers and colleagues. The physical environment was updated in nearly all stores and colleagues were provided with the leadership and training to provide a superior shopping experience for customers. Woodie’s colleagues reached out to support customers during a challenging year by introducing new measures to create a very safe shopping environment and this added a new dimension to the customer experience. Customers were reassured by the response to the pandemic from an empathic management team and store colleagues and they rewarded the business with an exceptional level of trust and loyalty.

Woodie’s position as a community minded retailer was reflected in its heart-warming Christmas ad which told the story of a simple act of kindness by a teenager for his elderly neighbour and captured the imagination of millions of viewers in Ireland and overseas. Woodie’s Heroes campaign raised over €400,000 in vital funds for four Charities in Ireland in a year when many charities had to cancel traditional fund-raising events.

Woodie’s was for the fifth successive year ranked as A Great Place to Work in Ireland with a 99 per cent colleague participation rate. This recognition was measured by a definitive international standard and benchmarked against the country’s major international and domestic employers.

2020 was a year of exceptional growth for Woodie’s that established new records for revenue, operating profit and the operating margin which increased by 600 basis points to 17.0 per cent.

There was a marginal decline in revenue in January and February that was more than offset by growth in March as customers engaged in forward buying ahead of the closure of all stores on 28 March and overall constant currency revenue growth was 4.1 per cent in the first quarter.

Stores remained closed for 51 days and reopened on 18 May to a surge in demand that saw revenue for the 14 trading days to the month end increase by 153 per cent on the same period in the prior year. The rate of growth moderated to 62 per cent in June and half year revenue was down by 1.5 per cent.

Woodie’s experienced exceptional demand in the second half increasing constant currency revenue by 35.6 per cent. The rate of growth moderated in November and December from the remarkable levels reported in the months that followed the lifting of restrictions and reopening of the business.

Growth in revenue for the year of 17.5 per cent comprised an increase in average transaction values by 19.5 per cent and a decline in the number of transactions by two per cent to 8.2 million.

Revenue growth was driven by exceptional levels of demand for decorative products including interior and exterior paint, speciality paint, woodcare products and accessories. Range innovation contributed to record demand for Christmas products. The DIY category also showed good growth due to strong demand for power and hand tools, workwear and ironmongery products. There was also very strong demand for shrubs and plants, garden furniture, barbeques, outdoor sheds, fencing and tools.

An increase in the gross margin was driven by a change in mix including increased revenue from seasonal products.

Operating costs were marginally up as store operating cost savings during the lockdown, a lower spend on marketing and renewal of a number of leases on terms that restored rents to current open market levels were reinvested in Covid-19 costs to protect customers and colleagues and increased payroll costs to support the high level of customer demand in the second half.

An investment in LED lighting in stores created an improved backdrop for showcasing products, generated cost savings and reduced carbon emissions.

Woodie’s digital revenue increased to 3.6 per cent of revenue from 1.6 per cent in 2019 as the pandemic caused consumer behaviour and shopping patterns to change. The business is accelerating the adoption of digital technology to create a more seamless online experience and is using data analytics to strengthen its connection to customers. In November 2020, 50,000 click and collect transactions were completed compared to 6,000 in November 2019.

In response to the fast moving pace of the pandemic in March 2020, Woodie’s accelerated its transition to an upgrade of its established Microsoft ERP system that delivers the latest retail technology at the point of sale and provides improved technology to support the planned growth in digital revenue.

Manufacturing Segment

Manufacturing Segment

(2% of Group Revenue)

CPI Euromix is the market leading mortar manufacturing business in the UK, operating from ten plants in Great Britain. StairBox is an industry leading UK manufacturer and distributor of bespoke wooden staircases operating from a facility in Stoke-on-Trent.

	2020 £'m	2019 £'m	Change	Constant Currency Change
Revenue	61.3	79.4	(22.7%)	(22.8%)
Operating profit	13.3	18.6	(28.6%)	(28.7%)
Operating profit margin	21.7%	23.4%	(170bps)	



The Manufacturing strategy is based on maintaining our clear market leadership position in the UK mortar market and leveraging scale and expertise in the UK manufacturing market to expand into related products and markets.

Trading in CPI EuroMix, the market leading dry mortar manufacturing business that operates nationally from ten plants in Great Britain, was in line with expectations in the period to 24 March 2020 when a decision was taken to temporarily close all plants due to the pandemic. The nine plants in England were reopened on a phased basis during late April and early May and the plant in Scotland reopened at the end of June.

Volumes were negligible in April, recovered to one-third of the prior year level in May and seventy per cent in June as house building sites gradually reopened. There was an overall double digit decline in average daily like-for-like revenue in the second half as volumes recovered. A good recovery in demand for new houses in the second half was aided by the temporary reduction in stamp duty and fulfilled from the existing stock of finished units and the completion of houses that were at an advanced stage of construction when sites reopened.

There was significant disruption to house building as the lockdown delayed building programmes and reduced the number of sites that were actively under construction. Housing starts, which are a key driver of mortar volumes, are estimated to have declined by

32.4 per cent for the year and completions by 21.8 per cent as house builders focused on closing transactions for units that were contractually agreed or reserved.

Underlying demand remains strong in the new housing market supported by a shortage of supply, a broadly favourable lending environment and support for first time buyers through a new phase of the Help to Buy Scheme.

The CPI EuroMix resilient and flexible operating model was responsive to the decline in volumes and delivered an excellent operating margin, good returns on invested capital and strong cash flows despite the substantial decline in revenue due to the pandemic.

StairBox, the innovative staircase manufacturer, was acquired on 30 November 2020 and the manufacturing segment incorporates its results for December 2020. Demand for staircase solutions in the residential RMI market was very strong in the second half of the year and this trend continued in December. StairBox supported its customer base in Great Britain through its pioneering use of technology to design and manufacture an extensive range of high-quality customised staircases from its facility in Stoke-on-Trent.

Proportion of Group Revenue

2.5%

Proportion of Group Adjusted Operating Profit

6.9%



Market Position

Mortar Manufacturing UK

No.1

Key Brands



Operating Review – Discontinued Operations

On 1 October 2019 the Group completed the disposal of Plumbase, a specialist UK plumbing and heating business, and on 4 October 2019 the disposal of the Group’s distribution business in Belgium was completed. These businesses were reported within discontinued operations in the 2019 financial statements. An exceptional loss after tax of £24.7 million was recognised within discontinued operations, comprising a loss of £24.7 million after tax on the disposal of the Belgium distribution business including disposal costs and net of the profit after tax for the period to 4 October 2019, and a profit after tax of £26,000 on the disposal of Plumbase including disposal costs and net of the profit after tax for the period to 1 October 2019. 2019 revenue from discontinued operations was £251.8 million and operating profit was £6.5 million.

Resilient Performance

Cash generated from operations increased to £377.7 million (2019: £291.1 million) comprising EBITDA of £305.7 million (2019: £312.6), the release of £81.2 million from working capital (2019: £23.3 million investment in working capital) and £9.2 million movement from other sources (2019: £1.8 million).

David Arnold
Chief Financial Officer



Revenue

Group revenue from continuing operations declined by 6.1 per cent to £2.51 billion (2019: £2.67 billion) and by 6.6 per cent in constant currency. Revenue in the like-for-like business declined by £228.2 million (8.6 per cent). Acquisitions contributed revenue of £69.8 million and new branches £9.5 million. Revenue was reduced by £28.5 million from branch consolidations and closures. Currency translation gain increased revenue by £15.2 million.

The UK accounted for 60.5 per cent (2019: 66.8 per cent) of Group revenue, Ireland for 28.5 per cent (2019: 25.3 per cent) and the Netherlands 11.0 per cent (2019: 7.9 per cent).

20	£2.51bn
19	£2.67bn

Adjusted Operating Profit

Adjusted operating profit from continuing operations of £193.3 million (2019: £204.8 million) declined by 5.6 per cent due principally to a decline in profitability in the UK distribution and manufacturing businesses.

Adjusted operating profit before property profit of £190.7 million (2019: £197.9 million) declined by 3.6 per cent.

The adjusted operating profit margin before property profit increased by 20 basis points to 7.6 per cent and was unchanged at 7.7 per cent including property profit.

20	£193.3m
19	£204.8m

Net Finance Income and Expense

The net finance expense increased by £1.8 million to £26.9 million (2019: £25.1 million). The recognition of leases on the balance sheet under IFRS 16 created an interest charge on lease liabilities of £18.3 million (2019: £19.7 million).

Interest payable on bank borrowings and US Private Placement Senior Unsecured Notes, net of bank interest received on deposits, increased by £1.5 million to £7.5 million (2019: £6.0 million). The increase was mainly due to the temporary drawdown of £261.1 million in revolving bank facilities as a precautionary measure to increase liquidity in the early stages of the Covid-19 crisis. The rate of interest receivable on bank deposits declined during the year because of excess liquidity in the banking system which led to lower interest rates on sterling deposits and more negative rates on euro deposits.

The net finance expense included a foreign exchange translation loss of £0.8 million which compares to a gain of £1.2 million in the same period last year. Other components reduced the net finance expense by £0.2 million.

Taxation

The income tax expense of £25.2 million (2019: £28.7 million) is equivalent to an effective tax rate of 19.0 per cent on profit from continuing operations (2019: 16.6 per cent). This is a blended rate of corporation tax on profits in the countries where the Group operates and is lower than the rate of 19.5 per cent guided at the time of our 2019 Final Results Announcement due to the higher proportion of profit in Ireland which is taxed at the rate of 12.5 per cent and a favourable outcome in respect of prior years.

Legislation that was passed in 2016 to reduce the UK rate of corporation tax by two per cent to 17 per cent with effect from 1 April 2020 was reversed leading to a one-off increase in the charge for deferred tax which increased the Group rate by 1.4 per cent for the year.

Certain items of expenditure charged in arriving at profit before tax, including depreciation on buildings, are not eligible for a tax deduction. This factor increased the rate of tax payable on profits above the headline rates that apply in the UK, Ireland and the Netherlands.

Cashflow

Cash generated from operations increased to £377.7 million (2019: £291.1 million) comprising EBITDA of £305.7 million (2019: £312.6 million), the release of £81.2 million from working capital (2019: £23.3 million investment in working capital) and £9.2 million movement from other sources (2019: £1.8 million).

Expenditure on acquisitions and capital expenditure amounted to £84.6 million (2019: £145.0 million).

Capital Expenditure and Investment in Intangible Assets

In response to the pandemic, very close control was maintained on the level of capital expenditure with priority maintained on any health and safety investment whilst discretionary expenditure was under tighter scrutiny. Gross capital expenditure was £35.2 million (2019: £50.4 million) and there was also expenditure of £1.9 million (2019: £2.1 million) on intangible assets. Proceeds of £7.2 million (2019: £17.4 million) were received on disposal of fixed assets and the net investment on capital expenditure and intangible assets was £29.9 million (2019: £35.1 million).

The Group incurred capital expenditure of £15.1 million (2019: £23.1 million) on development initiatives that included new Selco branches, upgrades to Woodie's and Chadwicks branches in Ireland, energy-efficient lighting systems and other projects of a development nature.

Asset replacement capital expenditure of £20.1 million (2019: £27.3 million) compares to the pre-IFRS 16 depreciation charge for the period of £45.0 million (2019: £44.2 million) and related principally to replacement of the distribution fleet that supports customer deliveries, replacement of fixtures and fittings, plant and machinery, forklifts, plant and tools for hire by customers and other assets required to operate the Group's branch network. An investment of £1.9 million (2019: £2.1 million) was made on software development projects including Woodie's IT system upgrade.

Pensions

The defined benefit pension schemes are valued under IAS 19 while the funding of the schemes is determined by the Trustees' triennial valuations or funding proposals as required. The IAS 19 deficit was £50.6 million at 31 December 2020, an increase of £29.4 million from £21.2 million at 31 December 2019.

The increase in the deficit comprised actuarial losses on scheme liabilities of £27.9 million due to changes in assumptions, experience losses on liabilities of £4.4 million and an exceptional charge that increased liabilities by £7.5 million. The effect of these was partly offset by actuarial gains on assets of £10.6 million.

“The Group’s net cash position, pre-IFRS 16 leases, significantly improved from £7.8m at the start of the year to £181.9m at the year end. This demonstrates the continued strong cash conversion and our discipline of reducing working capital. This a very robust position to be in and one which provides a very strong platform to invest in further growth.”

Financial Review continued

The fall in corporate bond yields over the period has resulted in a lower discount rate, placing a higher value on scheme liabilities. The rate used to discount UK liabilities fell by 70 basis points since the end of 2019 to 1.4 per cent and the rate used to discount Irish liabilities fell by 35 basis points to 0.70 per cent. These changes in the discount rates increased scheme liabilities by £27.8 million.

The UK scheme was closed to future accrual at 31 December 2020 which increased scheme liabilities by £2.5 million, which is expensed as an exceptional item in the income statement, as 89 members who were previously active but not receiving increases to pensionable salary will now receive deferred revaluations. As part of the closure to future accrual process, a further increase in liabilities of £6.5 million has been recognised comprising £5.0 million that has also been expensed as an exceptional item in the income statement and £1.5 million of an experience loss that is included in the Group Statement of Comprehensive Income.

The actuarial gain on assets of £10.6 million was due to the investment performance in the year exceeding the assumed interest income on assets.

Net Cash/Debt

The Group's net cash position, before recognising lease liabilities, increased to £181.9 million at 31 December 2020 from £7.8 million at 31 December 2019. The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 30.7 times (31 December 2019: 39.9 times).

Net debt including IFRS 16 lease obligations declined by £178.8 million to £355.0 million at 31 December 2020 from £533.8 million at 31 December 2019.

The Group's policy is to retain its investment grade credit rating while investing in acquisitions and organic development opportunities that are expected to generate attractive returns and to maintain a progressive dividend policy.

20	£181.9m
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19	£7.8m
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Liquidity

Grafton started the year in a very strong financial position and was well placed to respond to the adverse impact that the pandemic had on trading in the second quarter with excellent liquidity, a net cash position before IFRS 16 lease liabilities and a robust balance sheet.

The Group had liquidity of £811.2 million at 31 December 2020 (31 December 2019: £616.2 million) of which £452.0 million (31 December 2019: £344.8 million) was held in accessible cash and £359.2 million (31 December 2019: £271.4 million) in undrawn revolving bank facilities.

The Group had bilateral loan facilities of £490.7 million with six relationship banks at 31 December 2020 (31 December 2019: £476.7 million) and debt obligations of £143.8 million (31 December 2019: £136.1 million) from the issue of unsecured senior notes in the US Private Placement market.

The average maturity of the committed bank facilities and unsecured senior notes at 31 December 2020 was 3.7 years.





The Group secured access to the Bank of England's Covid Corporate Financing Facility as a precautionary measure and was approved to borrow up to £300 million. This facility was not utilised and a decision was made to allow it to lapse prior to the year end.

The Group's key financing objective continues to be to ensure that it has the necessary liquidity and resources to support the short, medium and long term funding requirements of the business. These resources together with strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, routine capital expenditure and development activity including acquisitions.

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

IFRS 16 leases

Leases that are recorded on the balance sheet principally relate to distribution and DIY branch properties, office buildings, cars and distribution vehicles.

IFRS 16 increased operating profit by £13.0 million (£12.8 million before exceptional loss) and the finance (interest) expense by £18.1 million in the year. Profit before tax was reduced by £5.1 million and profit after tax by £4.3 million as a result of IFRS 16. A bridge showing the impact of IFRS 16 is set out within the APM's.

It should be noted that the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years.

The right-of-use asset in the balance sheet at 31 December 2020 was £505.9 million (31 December 2019: £522.2 million) and lease liabilities were £536.9 (31 December 2019: £543.4 million).

IFRS 16 did not alter the overall cashflows or the economic effect of the leases to which the Group is a party. Similarly, there was no effect on Grafton's banking covenants as a result of the implementation of IFRS 16 in 2019.

Shareholders' Equity and Balance Sheet

The Group's balance sheet strengthened further with shareholders' equity up by £104.4 million to £1.47 billion (31 December 2019: £1.36 billion). Profit after tax increased shareholders' equity by £107.5 million and there was a gain of £11.8 million on translation of euro denominated net assets to sterling. Shareholders' equity was reduced by £18.1 million for a remeasurement loss on pension schemes and other changes increased equity by £3.2 million.

Return on Capital Employed

Return on Capital Employed declined by 80 basis points to 13.6 per cent (2019: 14.4 per cent) and by 40 basis points to 10.4 per cent (2019: 10.8 per cent) including right of use assets under IFRS 16. The decline reflects the fall in profitability in the first half caused by the Covid-19 pandemic.

20	10.4%
19	10.8%

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 59 to 65 of this report.

David Arnold

Chief Financial Officer
8 March 2021

Managing Grafton's Principal Risks

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

Grafton's Risk Management Process

Risk management is a key factor in the successful delivery of the Group's strategic objectives.

The Group has established a risk management process, which is closely aligned with the overall strategic development of the Group, to ensure effective and timely identification, reporting and management of risk events that could materially impact upon the

achievement of Grafton's strategic objectives and financial targets.

A process for identifying, evaluating and managing significant risks faced by the Group, in accordance with the UK Corporate Governance Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, has been in place throughout the accounting period and up

to the date the financial statements were approved. These risks are reviewed by the Audit and Risk Committee and by the Board, who also consider any emerging risks for inclusion on the Corporate Risk Register. Executive management is responsible for implementing strategy and for the continued development of the Group's businesses within the parameters set down by the Board.

Risk Management Framework

The Board of Directors

- Establishing and maintaining risk management and internal control systems;
- Evaluating the effectiveness of the Group's risk management and internal control systems;
- Determining and reviewing risk appetite, and establishing risk management strategies; and
- Monitoring principal risks.



Audit and Risk Committee

- Monitoring and reviewing the effectiveness of the Group's risk management and internal control systems;
- Receiving reports from management on its review of risk management and internal controls;
- Reviewing principal risks as documented on the Corporate Risk Register and monitoring emerging risks;
- Approving the internal audit plan and reviewing reports from Group Internal Audit; and
- Receiving reports on internal control from the External Auditors.



Group Risk Committee

- Reviewing and updating the Corporate Risk Register;
- Determining and maintaining risk management policies and procedures;
- Performing "deep dive" reviews of specific risk areas and scanning for emerging risks which may impact the Group;
- Reviewing Business Unit risk registers and sharing risk management practices between businesses;
- Initiating Group-wide risk management actions; and
- Reporting to the Audit & Risk Committee.

Internal Audit

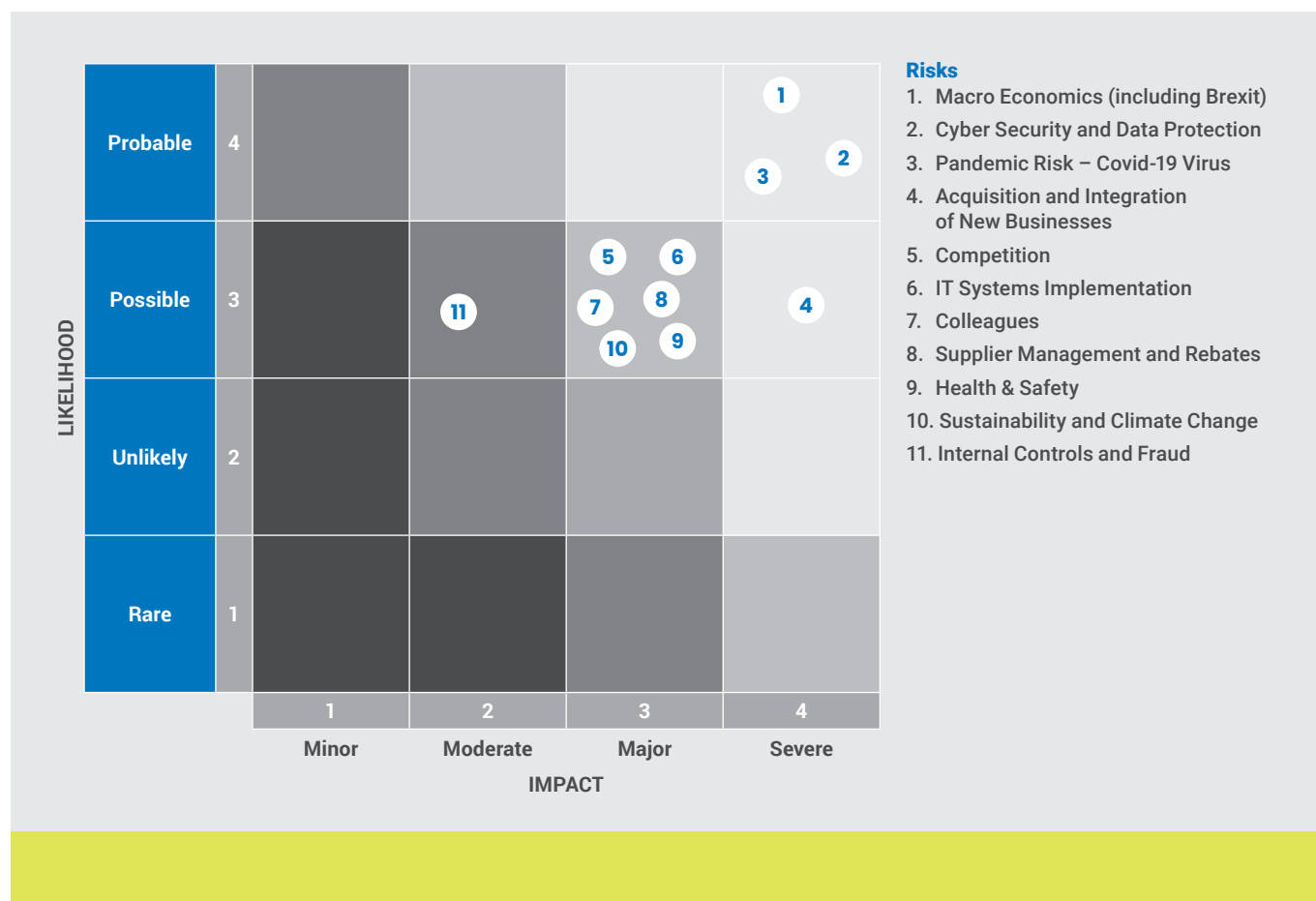
- Establishing and delivering a risk based annual Internal Audit plan;
- Reviewing internal controls as part of the Internal Audit plan and reporting the results to Management and the Board; and
- Reporting to the Audit and Risk Committee, including on the completion of internal control actions.

Business Units, Group Functions and Colleagues

- Sharing responsibility for effective management of risk;
- Maintaining risk registers and monitoring the management of risk at Business Unit and functional levels;
- Identifying and reporting emerging risks; and
- Implementing actions to address Internal Audit control findings.



Group Principal Risks



The Group’s Risk Management Framework is designed to facilitate the development, maintenance, operation and review of risk management processes that fulfil the Board’s corporate governance obligations and support the Group’s strategic objectives.

Group Risk Committee (“GRC”)

The GRC is an internal committee comprised of representatives of the Group’s businesses and Group Office functions. The GRC and executive management are responsible for the oversight of risk management in the Group. The committee is chaired by the Group CFO and reports to the Audit and Risk Committee.

The Group Risk Committee met three times during the year to review the risk management processes in the businesses and to oversee the Corporate Risk Register (“CRR”). This included a lessons learnt exercise on the Group’s pandemic response and rolling out a new online risk awareness and management course to all colleagues during the year.

Corporate Risk Register (“CRR”)

The CRR records the Group’s material risks and the actions and controls in place and required to manage each to an acceptable level of risk consistent with the Group’s risk appetite. The Principal risks facing the Group are set out in detail on pages 59 to 65. All updates to the CRR are reported to the Audit and Risk Committee.

Key Changes During the Year to the CRR

The risk environment in which the Group operates does not remain static. As part of the ongoing risk review process, the GRC and the Board identify new risks for the Group, assess the inherent risk associated with each principal risk, and determine whether the risk trend facing the Group is increasing, decreasing or unchanged. Whilst the risk profile for the Group remains relatively stable, the following key changes were identified in 2020:

Sustainability and Climate Change was increased to a high risk. Cyber Security and Data Protection risk has also increased in severity during the year due to the general threat of criminal activity in this area. In addition, the Acquisition of New Businesses risk has been increased in severity in the context of the Group potentially considering larger acquisitions or targets in new territories. IT systems implementation risk has moved down the register in light of ongoing governance over business unit projects, as has the Competition risks with the investment and progress businesses have made with their online sales platforms during the year.

Risk Management continued

The Covid-19 pandemic has increased the potential impact of certain of the Group's key risks and the longer term impacts will depend on a range of factors including the duration and scope of the pandemic, the impact of the pandemic on economic activity in the UK, Ireland and the Netherlands and the nature and severity of measures adopted by governments in these countries, including restrictions on or temporarily requiring the closure of the Group's businesses including, distribution branches, DIY, Home and Garden stores and mortar manufacturing plants, travel, regulations that require avoiding large gatherings and recommendations to self-quarantine or self-isolate.

Emerging Risks

The Board is required to undertake a robust assessment of the emerging risks that may impact the Group under the 2018 UK Corporate Code. In response to this requirement, consideration of emerging risk has been integrated into the Group's risk management practices. Each Business Unit is required to maintain an individual Business Risk Register. Changes to Business Risk Registers, including any new risks or risks that have increased in severity, are reported and discussed at GRC meetings. The GRC also carries out an annual Horizon Scanning exercise to identify any new or emerging risks and the Audit and Risk Committee performs a review of the CRR each January which includes a consideration of any emerging risks.

Internal Control System

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

- Review, discussion and approval of the Group's strategy by the Board;
- Defined structures and authority limits for the operational and financial management of the Group and its businesses;
- A comprehensive system of reporting on trading, on operational issues and on financial performance incorporating monthly results, cash flows, working capital management, return on capital employed and other relevant measures of performance;
- Written reports from the CEO and the CFO that form part of the papers considered by the Board at every board meeting;
- Review and approval by the Board of annual budgets incorporating operating performance and cash flows;
- Board approval of major capital expenditure proposals and significant acquisition proposals. Capital expenditure proposals below Board level are delegated to a Management Committee comprising the CEO, CFO and Group Financial Controller/ Company Secretary; and
- Review by senior management and the Audit and Risk Committee of Internal Audit Report findings, recommendations and follow up actions.

The preparation and issue of financial reports, including the Group's annual and interim results, is managed by the Group Finance team based in the Group Corporate Office in Dublin. The Group's financial reporting process is controlled by reference to the Group Financial Accounting Policies and Procedures Manual, which sets out the general accounting principles, requirements and internal controls applicable to all Group businesses.

In line with best practice, the Group's Risk Management and internal control procedures are subject to a review of their effectiveness by an independent third party on a periodic basis. The next review of the effectiveness of Risk Management and Internal Audit will take place in 2021.

The Audit and Risk committee is responsible for approving the internal audit budget and is satisfied that internal audit has the appropriate resources. The role of Internal Audit is articulated in the Group Internal Audit Charter, which is available on request.

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

Key Risks

The Audit and Risk Committee and the Board have carried out a robust assessment of the principal risks facing the Group. It is not practical to document every risk that could affect the Group in this report.

The risks identified below are those that could have a material adverse effect on the Group's business model, future performance, solvency or liquidity. The actions taken to mitigate the risks cannot provide assurance that other risks will not materialise and adversely affect the operating results and financial position of the Group.

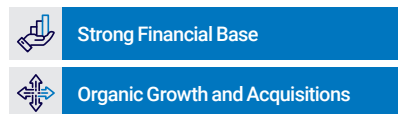
These principal risks are incorporated into the modelling activity performed to assess the ability of the Group to continue in operation and meet its liabilities as they fall due for the purposes of the Viability Statement on page 87.

Macro-Economic Conditions in the UK, Ireland and the Netherlands including the impact of Brexit

Risk Movement



Link to Strategy



Risk Description

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

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

The agreement of a deal between the UK and the European Union ("EU"), prior to the UK's departure on 1 January 2021 significantly reduced Brexit risk for Grafton.

Mitigation

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

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

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

With specific regard to the risks relating to Brexit, the Group is managing the short term impacts principally relating to the supply chain, by working with suppliers and customs agents to provide for continuity of supply of key products. In addition, the Group has made provision for the continuation of data flows between the UK and EU; and is assisting EU nationals working in the UK businesses to obtain settled status.

Risk Management continued

Colleagues

Risk Movement



Link to Strategy

	Excellence in Service
	Organisational Structure and Management
	Ethics and Integrity

Risk Description

The Group has in the region of 11,000 colleagues engaged in the operations and management of its portfolio of businesses. Employees are fundamental to the long term success and development of the business. Attracting and retaining employees with the relevant skills and experience and investing in training and development is essential to sustaining the existing operations and providing a platform for the longer term development of the Group.

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

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

Mitigation

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

Significant resources and time are devoted to training and development. Turnover is closely monitored and processes are in place to provide development opportunities and actively manage succession planning. The Group made a number of appointments in recent years in planning for the succession of key executives and to support its longer term development enabling a number of Business Unit CEO and senior management roles to be filled internally. Succession plans are mainly in place for key management roles.

The Group has established working groups on gender, sexual orientation, ethnicity and disability to encourage better representation of diversity amongst colleagues. Annual engagement surveys are carried out which cover over 95 per cent of Group colleagues, which allow colleagues to provide feedback to management. Action plans to address key issues arising from the surveys are developed and monitored. In 2021 it is planned for surveys to cover 100 per cent of colleagues. The Group has established local and national colleague forums in all countries.

Pandemic Risk – Covid-19 Virus

Risk Movement



Link to Strategy

	Excellence in Service
	Strong Financial Base
	Organisational Structure and Management
	Ethics and Integrity

Risk Description

The Group is exposed to the impact of the Covid-19 virus epidemic in the countries where it operates and also in countries where some of its suppliers are based.

There is a risk to profitability from interruption to operations if Governments impose national or local lockdowns resulting in the closure of our branches, stores and plants or due to an absence of a significant number of colleagues for a period due to contracting the virus. The Group recognises the wider risk of a fall in revenue and profitability due to lower general economic activity in the countries where it operates as a result of the pandemic. The Group has also recognised the risk to the safety and wellbeing of its colleagues and customers from the virus and the changes to working practices required to maintain adequate levels of protection and social distancing.

Finally, the Group recognises a risk to the supply of products as a result of the pandemic because suppliers are unable to supply or deliver their products.

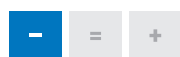
Mitigation

The Group successfully managed the impact of the first wave of the virus in spring 2020 with the closure of the majority of its trading branches and offices for the safety of colleagues and customers. The majority of the Group's office-based support colleagues have continued to work effectively from home.

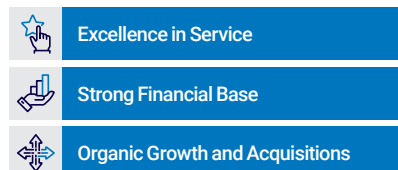
The health, safety and wellbeing of our colleagues, customers and business partners was the highest priority influencing our preparations for the reopening of branches and stores. Best in class operating procedures and protocols were designed and implemented across our businesses in line with or exceeding guidance provided by Governments and health authorities and are evident to anyone visiting our branches or engaging with our people. Some of the measures implemented to ensure that the Group's branches have the highest health, safety and wellbeing in place include: sanitation stations for colleagues and customers, the installation of durable protective screens at trade counters and customer checkouts, extensive signage to assist customers to safely navigate branches while observing social distancing, frequent cleaning of high frequency touch points, making personal protective equipment, including masks, face shields, gloves, and hand sanitiser, available to colleagues, the regulation of queues and limiting the number of customers in branches and stores at any one time.

Competition in Distribution, Retailing and Manufacturing Markets

Risk Movement



Link to Strategy



Risk Description

Grafton faces volume and price competition in its markets. The Group competes with builders' merchants and retailers of varying sizes, and faces competition from existing general and specialist merchants including the national builders' merchandising chains in the UK together with retailers, regional merchants and independents. The Group also faces the risk of new entrants to its markets, for example, by way of competition from new competitors with low cost business models and/or new technologies.

Actions taken by the Group's competitors, as well as actions taken by the Group to maintain its own competitiveness and reputation for value for money, may exert pressure on product pricing, margins and profitability.

Some of the Group's competitors may have access to greater financial resources, greater purchasing economies and a lower cost base, any of which may confer a competitive advantage that could adversely impact the Group's revenues, profits and margins.

The Group remains alert to threats from new business models in its markets and invests in businesses such as Selco and the Netherlands business in response to changing customer needs and trends.

Mitigation

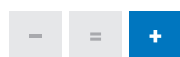
The Group's businesses monitor gross margins and, where possible, develop appropriate tactical and trading responses to changes in the competitive and pricing environment. Mitigation of this risk is achieved through ensuring a value proposition for customers through the review of customer pricing metrics, monitoring pricing developments in the marketplace and the active management of pricing.

The Group has established and continues to develop an online sales capability to respond to changing customer requirements. During 2020 the Group has invested in its online platforms which supported a significant rise in online revenue from a low base. This includes activities to further develop the digital capabilities of colleagues. Promotional and marketing activity is also a feature of revenue and margin management. Procurement strategies are focused on reducing costs through supplier consolidation and sourcing, as appropriate, through overseas markets.

The Group maintains an open dialogue with suppliers in order to mitigate the impact on customers and Group profitability from commodity related cost pressures. The Group's businesses conduct surveys and review feedback from customers in order to improve the quality of the overall product and service proposition and to ensure that customer expectations are met.

Sustainability and Climate Change

Risk Movement



Link to Strategy



Risk Description

The Group recognises its responsibility to minimise the impact its operations have on the environment and to promote sustainable and ethical business practices amongst its customers, suppliers and colleagues. The Group is also committed to being an inclusive employer and promoting diversity in its workforce.

The Group also recognises the potential financial and operational impact of wider climate change on its business activities.

Mitigation

The Group has developed a sustainability strategy covering five key focus areas: customer and product; people; resources; communities; and ethics. The strategy is in the process of being rolled out with each Business Unit setting targets, which will be monitored and reported on, to align with the overall Group goals.

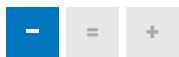
The Group continues to monitor its exposure to climate change risks and take steps to improve its resilience, including improved flood defences for at risk branches.

The Group engages in numerous charitable and community activities across its Business Units. Environmental regulations are complied with and reported on as required. Opportunities to reduce, recycle, and reuse are promoted within the Group.

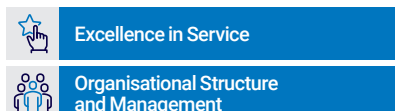
The Group has a Code of Business Conduct and Ethics which is supported by policies including for Equality, Diversity and Inclusion, Anti-Bribery and Corruption, Modern Slavery, and Timber Sourcing, which are reinforced through mandatory training. During the year, Business Units within the Group completed numerous inclusion and wellbeing initiatives. These will continue into 2021 with campaigns to promote sustainable living.

Information Technology Systems and Infrastructure

Risk Movement



Link to Strategy



Risk Description

The Group's businesses are dependent on IT systems and supporting infrastructure to trade. Either the failure of key systems or the inability to compete through not having up to date trading platforms could have a serious impact on the business and could potentially result in the loss of revenue and reduced profitability.

The rate and scale of IT change is increasing as the Group undertakes a programme to replace legacy systems in the traditional UK Distribution business and CPI Mortars. These changes have the potential to disrupt operations.

Mitigation

Back-up facilities and Business Continuity Plans are in place and tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access.

The replacement and updating of systems and technologies is supported by a full strategy and business case analysis, planning and risk analysis for each project. Implementation is supported by subject matter experts and colleagues from a cross section of functions to ensure that projects are managed to deliver technical, functional and business solutions within an appropriate cost and timeframe.

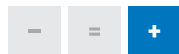
During the year several system implementations have either successfully completed in the case of Woodie's or have made considerable progress in the case of Buildbase and Selco with strong governance maintained.

System changes are subject to rigorous testing and confirmation that they meet defined business acceptance criteria prior to full implementation. Systems are in place for the testing of critical IT infrastructure and ERP applications.

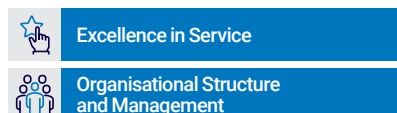
IT controls are tested by internal audit and findings are reported to the Audit and Risk Committee. Regular progress reports are made to the Board and planning and implementation is subject to review by Group Internal Audit, with lessons learnt from those reviews shared with colleagues working on other projects.

Cyber Security and Data Protection

Risk Movement



Link to Strategy



Risk Description

Increased levels of cybercrime represent a threat to the Group's businesses and may lead to business disruption or loss of data. The Group is exposed to the risk of external parties gaining access to Group systems and deliberately disrupting its business. This includes the risk of ransom demands, a material loss of revenue and profitability while systems are being restored, stolen information or fraudulent acts.

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

Mitigation

The Group has a number of IT security controls in place including gateway firewalls, intrusion prevention systems and virus scanning. The Group has a suite of information security policies, which are communicated to colleagues, through mandatory online training and regular security awareness campaigns. Regular IT audits are carried out in the Group's businesses. The Group has put in place a Security Incident Management Plan and a Cyber Insurance Policy to provide a degree of cover against cyber risk.

Further initiatives to improve defences will continue into 2021 to manage the continual threat of a cyber attack.

A Group-wide programme to oversee the implementation of GDPR was completed in 2018 and compliance activity has now been embedded into business processes, with roles established in each Business Unit to co-ordinate ongoing activities.

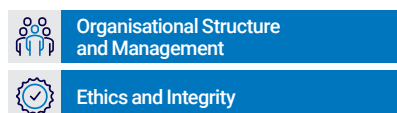
Disaster recovery systems and data centres have been implemented to ensure business critical systems are recoverable in the event of a major disaster.

Health and Safety

Risk Movement



Link to Strategy



Risk Description

The nature of the Group's operations exposes colleagues and third parties to health and safety risks.

The prevention of injury or loss of life to colleagues, customers and third parties is an absolute priority for the Board and executive management. Health and safety risks in branch locations concern the manual handling of products, slips, trips and falls and incidents involving forklift trucks and delivery vehicles. Outside of the branch locations, the main health and safety risks relate to vehicles engaged in transferring building materials from branch locations to customers' sites.

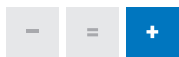
Mitigation

Health and safety forms part of the agenda at all Board meetings and statistics covering accident frequency rates, lost time, management of risks and the cost of accidents and incidents are reviewed by the Board on a regular basis. The individual businesses invest significant resources in health and safety management, training and awareness, and actively work to minimise health and safety risks. Accidents are monitored and corrective action taken when appropriate to reduce or eliminate the risk of recurrence. The Group Director of Safety, Health, Environment and Quality, who reports to the Group CEO, sets standards for the businesses in conjunction with Business Unit management teams and co-ordinates actions and initiatives to continuously improve the management of health and safety risks across the Group.

Risk Management continued

Acquisition and Integration of New Businesses

Risk Movement



Link to Strategy



Risk Description

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

The Group recognises an elevated risk where it completes larger transactions and/or transactions in new countries.

Travel restrictions into and out of the UK and Ireland to curtail the spread of Covid-19 have prevented the Group from actively pursuing acquisition opportunities outside existing markets.

Mitigation

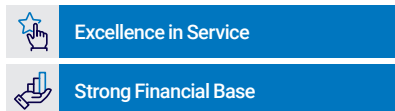
Acquisitions are made in the context of the Group's overall strategy. The Group has a long established, experienced and skilled acquisition capability that has significant relevant experience in all aspects of acquisition transactions and in managing post acquisition integration. This process is underpinned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

Supplier Management and Rebates

Risk Movement



Link to Strategy



Risk Description

Product availability is a key factor for all Group businesses, therefore the Group is exposed to the risk of failure to supply by key suppliers. In addition, the total value of income the Group receives from its suppliers in the form of volume rebates and other amounts, including product and marketing support, represents a material percentage of its operating profit. There is a risk that the Group does not collect all supplier rebates receivable or that rebates are accounted for incorrectly.

Mitigation

The Group seeks to maintain good relations with key suppliers and, to proactively manage instances of supplier shortages and allocations.

The risk of over-reliance on single suppliers is mitigated by dual sourcing or identifying alternative suppliers for key products.

The Group's policy is to have written agreements with all key suppliers detailing the terms and conditions of rebate arrangements. Finance and procurement teams work closely to validate amounts due from suppliers based on these agreements and quantities purchased. Rebates receivable are regularly reviewed and Business Units engage in dialogue with suppliers regarding collection. A proportion of rebate agreements provide for repayment of rebates at regular intervals throughout the year thereby reducing the amount receivable by the Group at the year end. In view of its materiality, rebates receivable are reviewed annually after the year end by Group Internal Audit.

Internal Controls and Fraud

Risk Movement



Link to Strategy

-  Excellence in Service
-  Strong Financial Base
-  Organisational Structure and Management
-  Ethics and Integrity

Risk Description

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

Mitigation

The Group has established a framework of controls incorporating a “three lines of defence” model to protect against significant control deficiencies and the risk of fraud. This includes documented policies and procedures for key financial and operational processes, ongoing monitoring of management accounts both at Group and Business Unit level, monthly sign-off of Business Unit accounts by local finance directors and an annual compliance statement signed by Business Unit Chief Executives and Finance Directors. Business Units also complete an annual self-assessment of key financial controls which is subject to validation by Group Internal Audit. Branch procedures are subject to regular review and audit by Business Unit internal audit and loss prevention teams. A programme to perform fraud risk assessments across key business units and Group Finance commenced in 2019 and will continue into 2021. Where instances of attempted fraud occur within the Group, lessons learnt are identified and shared across businesses.

Sustainability

Our approach to sustainability is critical to achieving our strategic priorities and underpins the Group's purpose of Building Progress Together.

Our commitment to sustainability is demonstrated in the way we engage with our colleagues, customers, shareholders, suppliers and with the communities in which we operate.

Our Sustainability Strategy

In 2019 we established a working group tasked with progressing our sustainability agenda, comprising colleagues from a range of functions. We carried out a materiality assessment involving consultation with a range of stakeholders. Our approach to sustainability was benchmarked against competitors and leaders from other industries. Changing industry needs, upcoming regulation and macro-economic trends were also taken into account. Every colleague in the Group was given an opportunity to give their opinion on the sustainability issues that matter most to them and this was a key element in the formation of the strategy.

The materiality assessment process culminated in the identification of the key areas of commitment for us as a Group, helping us to focus our resources and attention on the issues that matter most to our business and stakeholders.

Progress in 2020

During 2020 the Group continued to progress the implementation of its sustainability strategy through close engagement with the individual Group businesses, executive management and the Board. Activity was focused on embedding the strategy within the Group's businesses and our Group sustainability team worked actively with each of our businesses to do much more on sustainability and to establish realistic but ambitious goals for the short and medium term.

Our intention is to set a high standard and we recognise that we have much work to do with our supplier base, our colleagues and our customers to progress our sustainability strategy.

Assessing Climate-related Financial Risk

During the year we established a working group tasked with assessing the climate-related risks and opportunities most pertinent for the Group.

Work is now underway to disclose climate-related financial risk in the 2021 Annual Report in line with the recommendations of the Taskforce for Climate-related Financial Disclosure ("TCFD").

The European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017

The European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017 requires that we identify and report on those non-financial areas that are material to our business performance, including environmental matters, social and employee matters, diversity, respect for human rights and bribery and corruption. This Sustainability Report, and other sections of the Annual Report, addresses the requirements of that legislation as detailed in the Report of the Directors on page 119.



Our five key focus areas

Customer and Product



Providing our customers with ethical, sustainable and high quality products

People



Creating the culture for everyone to thrive inside and outside our business

Resources



Reducing, reusing and recycling across our operations

Community



Making a positive contribution to the communities and customers we serve

Ethics



Ensuring every part of our business operates with integrity

Customer and Product



Sustainable Products

The Group recognises the increasing importance of supplying renewable and sustainable products. Product ranges designed to provide sustainable building solutions have been introduced in a number of businesses including solar thermal and solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems. Woodie's offers a range of environmentally friendly products including energy-saving lamps, solar garden lights and composters for recycling garden and household waste. The distribution branches sell condensing boilers which reduce demand for fossil fuels, energy-saving insulation materials and controlled ventilation systems.

Timber Sourcing

The Group has implemented a Timber Sourcing Policy which sets out our commitment to the sourcing of sustainable timber products and to meeting international certification standards. Under this Policy, Grafton businesses that source timber products must produce an annual summary specifying either the certification (FSC and/or PEFC) or the chain of custody of the timber products sourced.

A number of Grafton Group businesses have FSC and/or PEFC certification in place which is specific to individual timber categories or timber types. The Timber Group are active members of the Timber Trade Federation ("TTF") and their compliance includes FORS Silver, FSC and PEFC Chain of Custody, ISO 9001 & 14001.



Supply Chain Integrity

The Group's Code of Business Conduct and Ethics states that we will not purchase from suppliers that procure products for us from countries that are subject to trade sanctions, or if the supplier or its sources are listed in connection with a trade sanctions programme. Grafton requires all its suppliers to comply with its anti-slavery policy as published on the Group website www.graftonplc.com.

We continue to work to embed our responsible business objectives into our sourcing and supplier activities. The Group currently uses an external due diligence screening solution to assist with prioritising, monitoring and mitigating the risks associated with supplier relationships. Non-EU suppliers are screened annually against relevant sanctions lists, watch lists, lists of Politically Exposed Persons or adverse media reports. During 2020 the Group commenced a process to identify a suitable third party compliance management and risk assessment system.

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

Customer Service

Being Brilliant for our Customers is one of our core values. Customer satisfaction surveys in place in a number of businesses allow for better understanding of customer experiences and help to identify areas for improvement.

During 2020, Group businesses implemented a number of initiatives aimed at improving customers' experience while also responding to the challenges of the Covid-19 pandemic: The phased resumption of trading across the Group's branch network following closure imposed by lockdown allowed for modifications to branches and the implementation of comprehensive safety and social distancing measures to ensure the safety of colleagues and customers.

Businesses across the group upgraded and expanded their digital capability in response to the shift in consumer behaviour caused by the pandemic.

New Stores, Branch Upgrades and Refurbishment

Selco continued to increase its market coverage with the opening of new stores in Orpington and Salford. A new distribution centre that was opened during the year in Oxford is successfully providing a fulfilment service for lightside products to all Selco branches.

The programme for rebranding the distribution branches in Ireland under the Chadwicks brand continued with the upgrading and rebranding of six more branches.

Branch upgrades were also completed in Leyland SDM and in Isero.



Sustainability continued

People



Our people are at the very heart of what we do as a Group, and the success of our business is closely aligned with the contribution and commitment of each of our colleagues.

We recognise the fundamental importance of colleague engagement and talent management to the future growth and success of the Group.

Health, Safety and Wellness

We are committed to creating a culture where everyone can thrive and be safe inside and outside our businesses.

We believe there is nothing we do that is so urgent we cannot do it safely. This belief is central to our leadership of the health, safety and wellbeing agenda across all Group businesses alongside our commitment to send our colleagues, customers and everyone we work with home safely at the end of each day.

We believe that leadership of the health and safety agenda is most effective when it is integrated into routine business leadership behaviours, and we continue to drive this approach by integrating safety support teams directly into each business. This federated approach creates autonomous local management teams owning their own health, safety and wellbeing agenda, appropriately supported and challenged at Group level.

All colleagues are encouraged to take an active part in maintaining and developing their own health, safety and wellbeing by raising any concerns they may have and making suggestions to further improve our health, safety and wellbeing performance. This is achieved through focus groups, team meetings, committee meetings and through the Group Risk Committee.

A key priority in 2020 was the creation of a Covid-safe environment in all of our business locations to ensure that we could keep all our colleagues, customers and suppliers safe.

Although many of our businesses were classified as providing essential services, the Group took the decision in March to close the majority of our branches for several weeks. During that time we completed bespoke risk assessments at each site and reorganised yard, warehouse and trade counter areas to ensure that safe distances could be maintained. We installed screens at counters, sourced appropriate face coverings and hand sanitisers and we further developed online 'click and collect' capacity within our businesses to be able to serve customers safely at their vehicle.

Our Covid-safe systems were clearly displayed on business websites and we produced advice leaflets, instructions and short videos for customers, suppliers and colleagues to help them understand the new safe systems.

Group Lost Time – Injury Frequency Rate

	Lost time injuries per 100,000 hours worked	% change
2020	0.98	3.0%
2019	1.01	
2018	1.04	

Group Lost Days – Severity Rate

	Days lost per 2,000 hours worked	% change
2020	0.31	(10.7%)
2019	0.28	
2018	0.44	

Colleagues were fully involved in the risk assessment process which was utilised as effective refresher training on the importance of risk assessment and safe systems of work.

Over 100 branch locations were reviewed by enforcement authorities to check Covid-19 safety systems during the year with no major issues highlighted in any branch. Indeed, many of our branches were commended by the authorities for the Covid-19 prevention measures in place.



Following the reopening of branch locations, the Group's businesses increased the focus on existing routine health and safety procedures to remind colleagues of the importance of their health, safety and wellbeing. Some examples of this were:

- As part of the Buildbase Health & Safety Restart Campaign, each Buildbase branch closed for an afternoon to hold a full review of health and safety issues and standards. Each branch team identified three key actions to improve health and safety in their branch and committed to complete and maintain these in future.
- The continued focus on forklift truck driving behaviours across our businesses. Chadwicks introduced regular safety observations in its yards and warehouses, focusing on forklift truck behaviours, using a newly developed app to log positive behaviours and areas for improvement or re-training.
- In anticipation of significantly increased footfall following re-opening, Woodie's re-launched an e-learning course to ensure that colleagues were refreshed in safe manual handling techniques.

The Group has continued to focus on existing priority areas including traffic management, product storage and handling, and the safe and efficient delivery of products to customers' sites.

Each business is committed to maintaining a focus on these priority areas to ensure we continue to eliminate and reduce the potential for injuries to our colleagues, customers and third parties.

During 2020, the Group Lost Time Injury Frequency Rate improved by a further 3 per cent although the Lost Days Severity Rate deteriorated by 10.7 per cent against 2019, mainly as a result of a small number of longer term absences.

Colleague Wellness

Colleague wellness continued to be a key area of focus across the Group's businesses with a wide range of initiatives offering support to colleagues to be healthier and more content both at work and at home.

As part of Stress Awareness November, colleagues were encouraged to complete "Start the Conversation" training to promote awareness of good mental health. Businesses across the Group also shared a series of ideas and suggestions to promote awareness of mental health.

A number of Group businesses and the Group Corporate Offices took part in step challenges to promote colleagues' health and wellbeing while also raising funds for charity.

The Irish distribution business launched a series of wellness initiatives during the year including mental health first aid training, facilitated by Mental Health First Aid Ireland with the aim of having trained Mental Health

First Aiders in every branch nationwide who are educated on how to notice and support a colleague who may be going through a difficult time with their mental health.

All Group colleagues have access to a confidential professional advice service to provide assistance with any issues or personal difficulties. Helplines in each of the countries where we operate are available 24 hours a day, 365 days a year.

In response to the changing business environment and in recognition of the changing ways colleagues live and work, we encourage our colleagues to embrace flexible working where appropriate to business needs.

During 2020 as a result of the Covid-19 pandemic, colleagues were requested to work from home wherever possible. The Group supported colleagues with access to materials and webinars covering time and energy management, prioritisation, daily habits and managing family and life commitments.

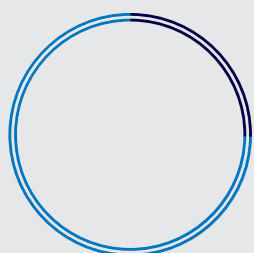
Inclusion, Diversity and Equality

We believe that having a diverse workforce brings not only diversity of thought, but it also drives innovation and progress, which is key to everything we do.

During October 2020 the Group ran an internal communications drive highlighting the importance of diversity and inclusion in all our businesses. This included communications on colleague stories and highlighted the importance of diversity and inclusion in all our businesses.

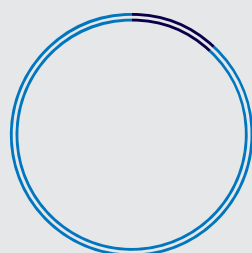
Gender Breakdown

- Female 25%
- Male 75%



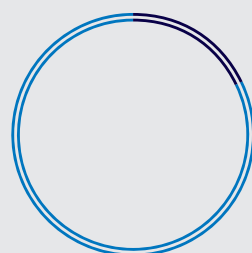
Gender Breakdown – Senior Management

- Female 12%
- Male 88%



Part Time/Full Time

- Part time 17%
- Full time 83%



Age Breakdown

- Under 21 5%
- 21-30 20%
- 31-40 23%
- 41-50 23%
- 51-60 22%
- Over 60 7%



Sustainability continued

People continued

As part of our ongoing strategy to improve diversity, the Group launched a diversity action team with representatives from each of the Group's businesses focusing on four key areas: gender, ethnicity, disability and LGBTQI+. The purpose of these groups is to support the businesses and encourage an inclusive culture that promotes diversity.

During the year the Group has signed the Social Mobility Pledge, the campaign aimed at increasing social mobility through outreach, access to opportunities and recruitment practices.

The Group also joined the Valuable 500, the global CEO community aimed at promoting disability inclusion.

Monitoring the pay between men and women is an important step to ensuring that all colleagues are fairly rewarded for their work and their contribution to our business.

Chadwicks works closely with EmployAbility Ireland, an employment support service that gives employers access to a pool of potential colleagues with varying levels of skills, abilities and training. Through EmployAbility, the business has gained the benefit of hiring colleagues to roles that suit their abilities.

Woodie's was officially accredited as an Investor in Diversity by the Irish Centre for Diversity, an organisation that is focused on measuring, improving and recognising efforts to improve diversity and inclusion.

Training and Development

Training and development is a key part of our continued investment in our colleagues and is fundamental to our ability to attract, retain and develop top talent. Colleagues are provided with opportunities to maximise their experience, expertise and skills both for their own career development and for the success of the Group.

2020 saw further rollout of the Group's new Learning Management System across all businesses, providing online learning modules and online classroom facilities to all colleagues.

Some examples of training and development initiatives undertaken by Group businesses during 2020:

- Chadwicks continued to run its Management Development Programme and Sales Academy.
- Selco enrolled 128 colleagues on their newly established 'Selco Stars' Management Training Programme, a 3-tiered programme aimed at creating opportunities for colleagues to develop management career paths that align with Selco's strategic goals. The initiative was temporarily suspended due to lockdown restrictions but will be resumed when restrictions are lifted.
- The Isero business in the Netherlands continued its in-house academy to train apprentice customer service representatives.
- Buildbase secured 30 placements through the Kickstart Scheme, a new Government scheme that provides funding to create new job placements for 16 to 24 year olds who are at risk of long term unemployment.

Benefits and Reward

We are committed to high standards of employment practice across our businesses and we aim to reward colleagues fairly by reference to skills, performance, peers and market conditions. We provide incentives to employees through remuneration policies that promote commitment and reward achievement.

UK Colleagues have access to "Reward Gateway", an online communications and benefits platform. Colleagues in Ireland have access to Wrkit, a similar platform that

provides colleague discounts across a number of retail outlets. Colleagues in Ireland and the UK also receive a Colleague Discount Card which provides generous reductions in Group businesses.

The Group operates a Save as You Earn Scheme that enables eligible UK colleagues to share in the success of the overall Group. The Irish distribution business also operates a Revenue-approved profit-sharing scheme that is open to all eligible colleagues.

During the year the Group launched a pensions awareness campaign to highlight and inform colleagues of their pension rights and entitlements.

Colleague Engagement

Following the introduction in 2019 of Colleague Forums as a means of ensuring that the voice of colleagues are heard at Board level, Country Colleague Forums were held during the year. Meetings were held online due to Covid-19 restrictions and each Country Forum was attended by colleague representatives and a Non-Executive Director of Grafton Group plc. Topics discussed included sustainability, wellbeing and feedback on the Group's response to the Covid-19 pandemic.

The majority of Group businesses took part in colleague engagement surveys during the year.

Following the successful rollout of the Workvivo internal communications platform in Woodie's in 2019, the app was introduced for Group colleagues and in a number of Group businesses during 2020. Selco also successfully rolled out their Boost engagement platform.

Colleague Recognition

Colleague recognition programmes are run across a number of our businesses. During the year Chadwicks continued to celebrate colleague loyalty milestones, while Woodie's



and Selco have also introduced programmes whereby colleagues receive awards for service with the company.

Leyland held their second annual colleague recognition awards with a number of awards recognising exceptional service by colleagues and branches, while Woodie's held their third annual "Woscars" awards ceremony which was held online for 2020. The awards were introduced in 2018 to honour dedicated colleagues, teams and management from across the 35 stores and support office.

Great Place to Work

Woodie's were proud to be officially named as a Great Place to Work for the fifth consecutive year, with a 99 per cent colleague participation rate.

"I am pleased to be part of Leyland SDM and I am proud that, even though we are quite a large company, it still feels like a family business and we always celebrate our team members diversity and contribution."

Renata Prochaszka

Warehouse Supervisor, Leyland SDM

Case study: Inclusion, Diversity and Equality

Woodie's celebrate Pride, June 2020

In a special Pride edition of their internal newsletter, Woodie's Whispers, the company shared stories and experiences from colleagues who are, or who have family that are, part of the LGBTQI+ community. Woodie's also marked the occasion with Pride cupcakes being sent to all colleagues to enjoy, and asked colleagues to share their proudest moment via Workvivo, the internal communications app, receiving over 150 comments and colleague posts as well as over 1,000 likes.

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More information about Equality, Diversity and Inclusion on page 69 to 70

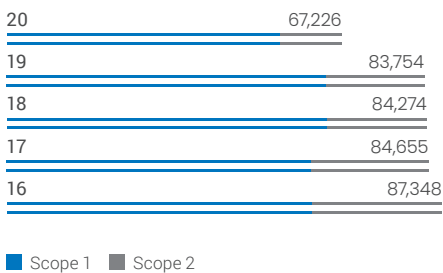


Sustainability continued

Resources



Protecting our natural resources, minimising waste and reducing our carbon footprint are all fundamental parts of our sustainability agenda and we acknowledge our responsibilities and the part we can play in effective management of the wider environment.

Group CO₂ Emissions (Tonnes of CO₂e)(Tonnes of CO₂e)

Year	Scope 1	Scope 2
2020	54,763	67,226
2019	64,042	83,754
2018	64,189	84,274
2017	61,028	84,655
2016	61,205	87,348

Scope 1 emissions are direct emissions from all our owned and/or controlled resources and activities – predominantly our vehicles and our buildings. Scope 2 emissions are indirect emissions from the generation of energy we purchase.

CO₂e emissions per £'m of revenue reduced from 31.35 tonnes in 2019 to 26.80 tonnes in 2020, a reduction of 14.5 per cent.

Covid-19 had a positive impact on the Group's direct and indirect emissions in 2020 due to a significant part of our operations being closed for several weeks during the first lockdown.

Tonnes of CO₂e per £'m of Revenue

Year	CO ₂ e per £'m of Revenue (Tonnes)
20	26.8 tonnes
19	31.4 tonnes
18	32.4 tonnes
17	31.2 tonnes
16	35.0 tonnes

Many office-based colleagues continued to work from home during 2020 with the majority of meetings being held virtually. This directly

reduced emissions from our own fleet of cars as well as the indirect impact from significantly reduced personal mileage to and from work.

The Group has continued to remove fluorescent and halogen lighting from many locations, replacing them with LED lighting which has resulted in a reduction of energy usage by approximately 30 per cent. Our investment in LED lighting during 2019 and 2020 continues to contribute further to the reduction in Scope 2 emissions.

The development and communication of our sustainability strategy during 2019 and 2020 has also increased colleague awareness of the part they play in conserving energy.

As part of the Group's broader commitment to sustainability, all businesses remain committed to ensuring that their energy contracts exclude fossil fuel generation.

Chadwicks entered into an agreement during the year with Energia, Ireland's leading business energy company for the supply of 100 per cent green power to Chadwicks' 50 locations in Ireland while Isero also entered into a contract for the supply of 100 per cent green energy.

Case study: Resources

Chadwicks Move to Green Energy

Chadwicks entered into an agreement during the year with Energia, Ireland's leading business energy company for the supply of 100 per cent green power to Chadwicks across its 50 locations in Ireland.

The agreement with Energia forms part of Chadwicks' broader commitment to sustainability. Other initiatives includes the replacement of 100 forklift trucks with new energy efficient vehicles and the replacement of all fluorescent and halogen lighting with LED lighting which has resulted in a reduction of energy usage by approximately 30 per cent.

“As a business we are committed to sustainability and working with our colleagues, customers and suppliers to help reduce our carbon footprint. Partnering with a green energy supplier who can help us reach our sustainability goals is hugely important. This marks another milestone in our sustainability story, and we look forward to working with Energia.”

John McGowan
Head of Business Support, Chadwicks

Fleet and Logistics

Over recent years, many older, less-efficient commercial vehicles have been replaced by Euro 6 low emission standard vehicles. This replacement programme continued during 2020, with the addition of 88 vehicles.

Investment by Selco in Compressed Natural Gas commercial vehicles is an exciting development as part of the Group’s long term commitment to reduce our carbon footprint.

Isero expanded it’s commercial fleet during the year with the addition of six fully electric vans.

During 2020 hybrid and plug-in hybrids were added to the company car choice list and a further review carried out during the year resulted in the addition of electric vehicles to all grades in the UK and Netherlands for 2021. The majority of vehicles on the UK choice list now have CO₂ emissions of less than 50g/km. This will start to impact on our overall emissions as we replace the existing diesel vehicles over their four-year cycle.

Electric vehicle charging points have been installed in several business locations and their usage will be assessed as part of this pilot project.

Pollution and Waste

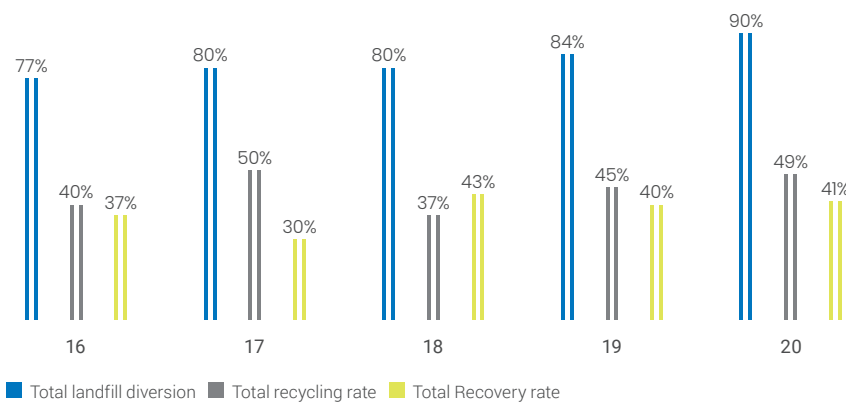
We fully acknowledge our responsibility to protecting our natural resources, to minimise waste sent to landfill and to reduce our carbon footprint.

During the year, Group businesses maintained their focus on waste segregation and recycling to further reduce the quantity of waste sent to landfill.

The Group landfill diversion rate (a measure of the amount of waste that is diverted away from landfill) improved from 84 per cent in 2019 to 90 per cent in 2020, primarily as a result of ongoing work with Biffa and Reconomy to recover and recycle more of the waste generated by Group businesses in the UK.

We will continue to manage our resources to minimise our impact on the wider environment as part of our sustainability agenda.

Waste data by year



Case study: Resources

Selco Invests in CNG Vehicles

Selco made good progress towards the Group’s aim of reducing our carbon footprint as part of our sustainability strategy by adding Compressed Natural Gas (“CNG”) vehicles to their fleet for the first time. The investment in alternative fuels was made by purchasing four Iveco vehicles for use in the Bristol area.

“This is an exciting development for us and one which reaffirms our commitment to our sustainability targets. We have a long term strategy to reduce our carbon footprint in the communities in which we operate and this is a step on the road towards achieving that.

It’s hard to make any precise predictions on the potential size of the environmental benefits but we are very confident these will be substantial and the hope is this will be a successful pilot which will then be rolled out across the rest of the business over time.”

Richard Evans
Head of Transport Operations, Selco

Sustainability continued

Community and Charity



Grafton and its businesses are proud to support a range of community and charity initiatives both in Group Office locations and through the branch network. Colleagues around the Group took part in a wide range of fundraising and volunteering activity during the year, raising a total of over £500,000.

During 2020 Selco colleagues raised over £100,000 for Global's Make Some Noise, an organisation that supports small charities across the UK working with children and young people living with illness, disability or lack of opportunity.



Woodie's raised €416,000 for their four nominated charities – Autism Assistance Dogs Ireland, ISPC Childline, Down Syndrome Ireland and Cystic Fibrosis Ireland, bringing the total raised by the campaign to €1.97m over the past six years.

Leyland and GDC Paints were delighted to raise £24,278 for Macmillan Cancer Support through their 'Add a pound for Macmillan' campaign which ran in October. The initiative asked customers to increase the value of their purchase by £1 to make a donation to the charity and the money raised will help Macmillan provide vital support for those in need.

Colleagues across the Grafton Group plc Corporate Offices raised a total of over £14,000 for their nominated charities through a range of initiatives throughout the year. Grafton Group colleagues also walked 10,000 km during November to raise funds for Down Syndrome Ireland and Mad Hatter's Children's Charity.

Chadwicks Group colleagues walked 150,353,618 steps as part of their ChadWalks Challenge, raising a total of €25,000 for four Irish charities: Irish Cancer Society, Children's Health Foundation Temple Street, Field of Dreams (Cork) and Penny Dinners (Cork).

CPI Mortars also held a step challenge in September raising £1,000 for their nominated charity St Clare Hospice.

The Ballymoney branch of MacBlair was delighted to help Balnamore Primary School by donating free paint for their new discovery room.

Polvo BV collaborated with the Slim Langer Thuis healthcare infrastructure program on the installation of smart access solutions for home care clients, allowing authorised home care workers to enter the homes of clients by mobile phone, reducing the risk of Covid-19 contamination.

Case study: Community and charity

Buildbase supports local charities at Christmas

Buildbase supported local communities by donating thousands of hot drinks to homeless people over the Christmas period.

Due to the safe working restrictions introduced as a result of the Covid-19 pandemic, vending machines were not operational in branches leaving excess stock of hot drinks. Buildbase teamed up with its waste and resource management partner, Reconomy, to find a creative re-use solution that offered both environmental and social benefits. Working together with Centrepoin, the UK charity that provides housing and support for young people, over 90,000 vending machine drinks were donated to people in need over the festive period.

Total raised for charity

>£500,000



Ethics



Ethical Business Behaviour

The Group Code of Business Conduct and Ethics reflects our responsibility as a market leader to uphold high standards of ethics and integrity, and it sets the standard of behaviour which colleagues, contractors, agents and businesses are expected to follow. The Code was updated during the year following a review by Group management and the Group Risk Committee. Our commitment to ethical business behaviour and good governance was further strengthened during 2020:

- The Group's online Learning Management System was rolled out to all of the Group's businesses. This includes a number of mandatory ethics training courses which are completed as part of colleague induction training with two-year repeat frequency. Completion rates, for which the target is 100 per cent, for these mandatory courses are recorded by the systems and reported to the GRC every six months. Group Internal Audit also review course completions as part of annual compliance audits.
- Short animated awareness videos, which emphasise the key aspects of the SpeakUp and the Group Equality, Diversity and Inclusion policies, were developed and circulated to colleagues via the learning management system and other engagement platforms.
- Activity was commenced to identify a suitable third party classification and risk assessment system to assist with the implementation of a consistent, group-wide, supplier and third party compliance and risk management process.

- A programme of fraud risks assessments continued to identify any additional anti-fraud controls which may be required at significant Business Units, including the Group Corporate Office.

Human Rights and Modern Slavery

We are committed to conducting all our activities in a way that values and respects human rights. The Group has established stringent policies and controls to ensure that the rights of all colleagues are fully respected. The Group's Modern Slavery Policy Statement is available on the Group website and describes the Group's policy on forced or involuntary labour and the safeguards in place to mitigate against the risk of modern slavery in its businesses or supply chains.

SpeakUp Reporting Service

The Group's SpeakUp policy sets out the duty of colleagues to report any concerns they may have about suspected wrongdoing. The policy encourages colleagues to raise any concerns with their manager or another member of management in the first instance. The Group also provides an independently run SpeakUp service which allows colleagues to raise concerns anonymously if they wish, either via phone or a website. All reports are logged by the third party and passed to Group Internal Audit for investigation, with information on the reports made to SpeakUp and the outcome of investigations reported to the Audit and Risk Committee. Individuals who make reports will also be informed about the completion of investigations through the SpeakUp service. The contact details for the SpeakUp service

are publicised to colleagues through posters and newsletters, on engagement platforms, and via the awareness video and mandatory training. Third parties, including customers and suppliers, can also raise any concerns about suspected wrong doing by the Group or its colleagues through SpeakUp, via a link to the service provided on the Group's website.

Anti-Bribery and Corruption

The Group Anti-Bribery and Corruption Policy sets out the Group's zero tolerance approach to all forms of bribery and corruption, and the standards expected of all colleagues. It includes thresholds and approval requirements for the offering and receiving of gifts and hospitality to and from third parties by colleagues, and requires that a declaration of independence be signed annually by senior management and other individuals who are considered to be exposed to higher risk of conflicts of interest, including colleagues who have responsibility for contract negotiations with customers and suppliers. Colleagues are made aware of the policy requirement through mandatory training and videos. Compliance with the policy and the management of potential conflicts of interest is reviewed by Group Internal Audit through annual compliance audits.

Privacy and Data Protection

We continued to build on the progress of previous years in respect of our process improvements and investment in information technology to detect and protect our data and systems. Both data protection and information security are key areas of focus, underpinned by comprehensive policies and ongoing awareness campaigns to ensure that all colleagues play their part in keeping information safe and secure.

Each business has its own cyber attack incident plan setting out the steps to be taken to react to and recover from a cyber incident. During 2020 the Group ran a series of quarterly phishing awareness campaigns, and we carry out regular penetration tests on all external facing websites to identify and resolve any vulnerabilities. The status of Information Security and Data protection Programmes is monitored by the Group Risk Committee who will also review reports of any cyber incidents that occur in the Group.





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Corporate Governance

Board of Directors

Governing our Business



Michael J. Roney
(USA), MBA

Non-Executive Chairman

Michael Roney was appointed to the Board as Non-Executive Director, Deputy Chairman and Chairman Designate on 1 May 2016 and assumed the role of Non-Executive Chairman on 1 January 2017.

Career

Mr. Roney was Chief Executive of Bunzl plc from 2005 until his retirement in April 2016. Prior to joining Bunzl he was Chief Executive Officer of Goodyear Dunlop Tires Europe, having previously been President of Goodyear's Eastern European, African and Middle Eastern businesses. He was formerly Non-Executive Director of Johnson Matthey Plc.



Gavin Slark
(UK)

Chief Executive Officer

Gavin Slark joined the Group and the Board as Chief Executive Designate on 1 April 2011 and was appointed Chief Executive Officer on 1 July 2011.

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



David Arnold
(UK), BSc, FCMA, FCT

Chief Financial Officer

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

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



Paul Hampden Smith
(UK), FCA

Senior Independent Director

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

Mr. Hampden Smith was Group Finance Director of Travis Perkins plc from 1996 until his retirement in February 2013. He joined the Travis Perkins Group in 1988 and has 25 years' senior level management experience in the UK merchanting industry. He was previously Non-Executive Director of Pendragon plc, Redrow plc, DX Services plc and Clipper Logistics plc.

Current External Appointments

Non-Executive Chairman of Next plc, the FTSE 100 listed UK retailer;
Non-Executive Director of Brown-Forman Corporation, the US based spirits business.

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

None.

Appointed Non-Executive Chairman of Bellway plc on 12 December 2018 having been appointed Non-Executive Director in 2013.

Board Length of Service as at 8 March 2021

4.9 years

9.9 years

7.5 years

5.5 years

Committee Membership

Nomination Committee (Chair)

Finance Committee (Chair)

Finance Committee

Audit and Risk Committee (Chair)
Nomination Committee
Remuneration Committee



**Susan Murray
(UK)**

Non-Executive Director

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



**Vincent Crowley
(IRL), BA, FCA**

Non-Executive Director

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



**Dr. Rosheen McGuckian
(IRL), BSc, MA, PhD**

Non-Executive Director

Rosheen McGuckian was appointed to the Board on 1 January 2020.



**Charles Rinn
MBA, FCCA**

Group Financial Controller & Secretary

Career

Mrs. Murray is a former Chief Executive of Littlewoods Stores Limited and former Worldwide President and Chief Executive of The Pierre Smirnoff Company, part of Diageo plc. She is a former Chairman of Farrow & Ball and a former Non-Executive Director of Compass Group plc, 2 Sisters Food Group, Pernod Ricard S.A., Imperial Brands plc, El Group plc, Aberdeen Asset Management plc, SSL International plc and Wm Morrison Supermarkets plc.

In the course of a 24 year career with Independent News & Media PLC, a leading Irish newspaper and media business, Mr. Crowley held a number of leadership positions including Chief Executive Officer and Chief Operating Officer and member of the Board. Prior to joining Independent News & Media PLC, he held senior roles in KPMG and Arthur Andersen.

Dr. McGuckian is Chief Executive Officer of NTR plc, an unquoted Irish company that acquires, constructs and manages sustainable infrastructure assets. Immediately prior to joining NTR, Dr. McGuckian was Chief Executive Officer of GE Money Ireland, the consumer finance division of General Electric. Dr. McGuckian previously served as Non-Executive Director of Green REIT plc, the Social Innovation Fund of Ireland, the Irish Aviation Authority and the Strategic Banking Corporation of Ireland.

Current External Appointments

Non-Executive Director of Mitchells & Butlers plc, a leading operator of restaurants and pubs; Non-Executive Director of Hays plc, a provider of recruitment and human resource services; and Non-Executive Director of William Grant & Sons, a privately owned distiller and distributor of premium spirits.

Non-Executive Director of C&C Group plc, an international manufacturer and distributor of branded drinks; Executive Chairman of Altas Investments plc, an Irish company that holds investments in infrastructure and related businesses.

Chief Executive Officer of NTR plc; Non-Executive Director of Sicon Limited, the parent company of John Sisk & Son.

Board Length of Service as at 8 March 2021

4.4 years

4.4 years

1.2 years

N/A

Committee Membership

Remuneration Committee (Chair)
Audit and Risk Committee
Nomination Committee

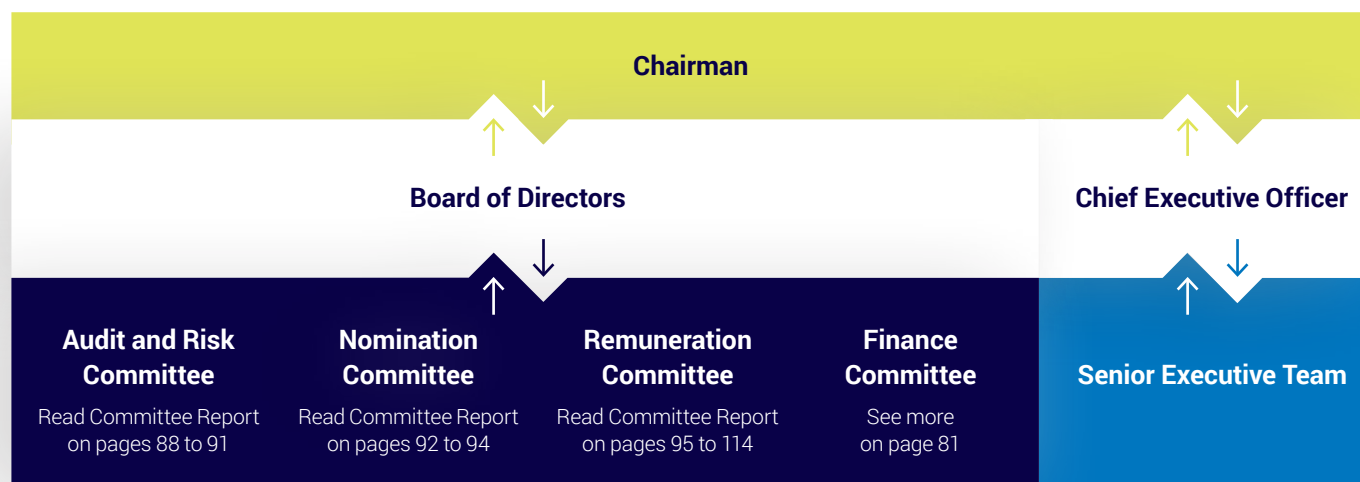
Audit and Risk Committee
Nomination Committee
Remuneration Committee

Audit and Risk Committee
Nomination Committee
Remuneration Committee

Finance Committee

Directors' Report on Corporate Governance

Governance Framework



What the Board did in 2020

The following table provides a general summary of the significant matters considered by the Board during the year.

January

- Group CEO Review
- Update on strategy and corporate developments
- Trading and financial performance review
- Health & safety
- Update on business operations management changes and competitor activity
- Approval of new logo and branding for Grafton Group plc

February

- Group CEO Review
- Update on strategy and corporate developments
- Trading and financial performance review
- Health & safety
- Approval of new purpose statement "Building Progress Together"
- 2019 Final Results Announcement
- 2019 Annual Report, Notice of AGM and interim dividend proposal
- Guarantee of the liabilities of certain Group subsidiaries
- Approval of updated Modern Slavery Statement
- Updates on developments related to CREST settlement system

March

- Covid-19 update, colleague and customer health and safety and branch closures
- Update on trading and liquidity
- Suspension of second interim dividend for 2019
- Annual General Meeting

April

- Regular updates on Group's response to Covid-19, colleague and customer health and safety, current trading, branch closures and branch reopening plans

- Annual General Meeting
- Group CEO Review
- Update on trading and liquidity
- Update on reopening the Group's businesses
- Health and safety
- Update on strategy and corporate developments
- Group CFO Report
- Update on covenants
- Noting the retirement of Frank van Zanten from the Board

May

- Regular updates on Group's response to Covid-19, colleague and customer health and safety, current trading, branch closures and branch reopening plans

June

- Group CEO Review
- Update on strategy and corporate developments
- Trading and financial performance review
- Health & safety
- Update on market background and reopening of major businesses
- Group CFO update
- Update on Group liquidity and covenants
- Nature and classification of exceptional items and additional expenditure arising from Covid-19
- Update on Netherlands Pension Scheme
- Approval of Group sustainability strategy

August

- Group CEO Review
- Update on strategy and corporate developments
- Trading and financial performance review
- Health & safety
- Organisational changes to traditional UK distribution businesses

- Received a report from the Audit and Risk Committee Chair on the External Auditor's and the Committee's review of the Interim Results for 2020
- Approval of the Interim Results for 2020
- Approval of a proposal for a grant of options under the UK SAYE scheme
- Migration of the Group's shares from CREST to Euroclear Bank

October

- Group CEO Review
- Noting of 2020 LTIP awards
- Update on strategy and corporate developments
- Trading and financial performance review
- Health, safety and environment
- Discussion of Covid-19 restrictions preventing Board Meetings being held in Dublin
- Migration of the Group's shares from CREST to Euroclear Bank

November

- Preliminary consideration of the proposed Budget for 2021

December

- Group CEO Review
- Group Budget for 2021
- Update on strategy and corporate developments
- Trading and financial performance review
- Health, safety and environment
- Update on implementation of the Group's Sustainability strategy
- Migration of the Group's shares from CREST to Euroclear Bank

Compliance with the 2018 UK Corporate Governance Code

Grafton Group plc ("the Company") is incorporated in Ireland and is subject to Irish company law. Its Units (shares) are listed on the London Stock Exchange and the Group is subject to the 2018 UK Corporate Governance Code ("the Code") which sets out the key principles and specific provisions which establish standards of good governance practice in relation to leadership, effectiveness, accountability, remuneration and relations with shareholders. This report describes how the Company has applied principles of the Code during the year.

The Board considers that the Company has, throughout the accounting period, complied with the provisions of the Code. Below is a summary of how the Company has complied with each individual principle and provision of the Code.

1. Board Leadership and Company Purpose

Board Leadership

The Board is responsible for the oversight and success of the Group's business. The Board's responsibilities include:

- Ensuring that appropriate management, development and succession plans are in place;
- Reviewing the environmental and health and safety performance of the Group;
- Approving the appointment of Directors and the Company Secretary;
- Approving policies relating to Directors' remuneration and severance; and
- Ensuring that satisfactory dialogue takes place with shareholders.

Board Meetings

The Board met on 11 occasions during 2020, and the attendance of individual directors at each meeting is set out in the table on page 85. The Board also received updates on developments from management between meetings as appropriate. The Board takes the major decisions as set out in the schedule of matters reserved to it for decision, while allowing management sufficient scope to run the business within a tight reporting framework. The Group has arranged insurance cover up to a specified limit in respect of legal actions against directors and officers.

Board Committees

The Board is assisted by Committees that focus on specific responsibilities as delegated by the Board. The Terms of Reference of the Audit and Risk Committee, Remuneration Committee and Nomination Committee are on the Group's website at www.graftonplc.com. Membership and length of service of Board Committees is shown within each of the Committee reports. Ms. Susan Lannigan, Deputy Company Secretary, is Secretary to the Audit and Risk Committee. Ms. Paula Harvey, Group HR Director, is Secretary to the Remuneration Committee. Mr. Charles Rinn is Secretary to the Nomination Committee.

The Finance Committee is chaired by Mr. Gavin Slark, CEO and also comprises Mr. David Arnold, CFO and Mr. Charles Rinn, Group Financial Controller and Secretary. The Committee considers the financing requirements of the Group, considers amendments to the terms of existing bank facilities, approval of leases for assets other than property up to a specified level and litigation matters.

The Board is briefed on key discussions and decisions by each Committee Chairman at the Board meeting following the relevant committee meeting and minutes of committee meetings are circulated to the Board.

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

Company Purpose, Values and Strategy

A description of the Group's purpose of "Building Progress Together", along with information on our core values and strategy is available on pages 10 to 11 and 26 to 29.

Objectives and Controls

The Group's strategic objectives are set out on pages 26 to 29 and a summary of performance against the Group's KPIs is at pages 34 to 37.

The Board also receives regular updates across a broad range of internal KPIs and performance metrics.

The Group has a clear risk management framework in place as described on page 56 to identify and manage the key risks to the Group's business.

Engagement

A description of how the Board engages with its stakeholders is set out on pages 16 and 17.

Workforce Concerns

The Board has established structures to provide for effective engagement by the Board with the wider workforce. These include the rollout of confidential colleague feedback surveys to all businesses with results presented annually to the Board, and the establishment of Colleague Forums with meetings attended by Non-Executive Directors. These Forums provide the opportunity for Non-Executive Directors to meet colleagues from across the Group and enable their views to be considered at Board level.

Business Model and Risks

The Group's Business model is set out on pages 24 and 25. The Risk Management Report on pages 56 to 65 contains an overview of the principal and emerging risks facing the Group and a description of how they are managed.

Directors' Report on Corporate Governance continued

Assessing and Monitoring Culture

The Board recognises the importance of communication and engagement with the wider workforce as a means of assessing and monitoring culture. While the Board was not able to visit branches or physically meet with senior management from across the Group in person during the year due to the Covid-19 pandemic, Colleague Forums provided opportunities for Directors to meet colleagues and enable their views on culture to be heard at Board level. During 2020, Colleague Forums were held via Teams meetings.

The Board, via the Audit and Risk Committee, receives and considers whistleblowing reports received on matters raised through 'SpeakUp', the independent Group wide confidential reporting service, and through reports and observations from Internal Audit reporting. Colleague engagement is also monitored through engagement survey results.

Shareholder Engagement

The Company recognises the importance of regular dialogue and communication with shareholders. Meetings are held with existing and prospective institutional shareholders principally after the release of half-yearly and annual results. During the year these meetings were held virtually. The Group also issued trading and liquidity updates in January, March, April, June, July and November of 2020.

A presentation to analysts was held in London on 27 February 2020 following the announcement of the Final Results for 2019, and a presentation was held via webcast on 27 August 2020 following the announcement of the Interim results for 2020.

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

While the Chairman takes overall responsibility for ensuring that the views of shareholders are communicated to the Board as a whole, contact with major shareholders is maintained through the CEO and the CFO. The Chairman and the Senior Independent Director are available to meet with shareholders if they have concerns which have not been resolved through the normal channels of CEO or CFO or where such contacts are not appropriate. The Board receives feedback from investors following meetings with management following the announcement of the Final Results and the Interim Results and also receives analysts' reports on the Group. The Chairman normally attends the presentation of the interim and annual results other than where this is not possible due to travel restrictions and is available to meet with major shareholders.

All shareholders are invited to attend the AGM which provides an opportunity for shareholders to put questions to the Chairman, the Chair of each of the Board Committees and Executive Directors and to meet informally with Directors before and after the meeting.

The Company Secretary communicates with shareholders on corporate governance matters, particularly in the lead up to the AGM.

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

All other general meetings are called Extraordinary General Meetings ("EGMs"). An EGM called for the passing of a special resolution must be called by at least 21 clear days' notice. Provided shareholders have passed a special resolution at the immediately preceding AGM and the Company allows shareholders to vote by electronic means, an EGM to consider an ordinary resolution may, if the Directors deem it appropriate, be called at 14 clear days' notice. In view of the Group's international shareholder base, it is the Board's policy to give 21 days' notice of EGMs unless the Directors believe that a period of 14 days is merited by the business of the meeting and the circumstances surrounding the business of the meeting.

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

Shareholders have the right to attend, speak, ask questions and vote at general meetings. In accordance with Irish company law, the Company specifies the record date for the general meeting, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the notice of general meeting. Shareholders may exercise their right to vote by appointing a proxy/proxies, by electronic means or in writing, to vote some or all of their shares. The requirements for the receipt of valid proxy forms are set out in the Notice convening the meeting.

A shareholder, or a group of shareholders, holding at least five per cent of the issued share capital of the Company, has the right to requisition a general meeting. A shareholder, or a group of shareholders, holding at least three per cent of the issued share capital of the Company, has the right to put an item on the agenda of an AGM or to table a draft resolution for inclusion on the agenda of a general meeting, subject to any contrary provision in Irish company law.

2021 EGM

At an EGM of the Company held on 21 January 2021 ("the EGM"), shareholders approved certain changes to the way shareholders may hold and settle trades in shares in the Company. These changes are a direct consequence of the UK's departure from the EU. As a result, the Company will migrate from the CREST securities settlement system to a new arrangement involving a combination of Euroclear Bank in Brussels and the CREST system.

Shareholders also approved resolutions relating to the simplification of the Grafton Unit by the cancellation of the 'A' Ordinary Shares in the Company and the purchase of the 'C' Ordinary Shares in Grafton Group (UK) plc and related waiver of rights. As a result, the Grafton Unit consisted only of an Ordinary Share with effect from the close of business on 7 March 2021.

Shareholders are referred to the Notice of EGM and to the recording of the meeting which are available on www.graftonplc.com.

2021 AGM

The 2021 AGM will be held at the Offices of the Company, Heron House, Corrig Road, Sandyford Business Park, Dublin 18 at 10.30am on 28 April 2021. The health and safety of our shareholders, colleagues and advisers is a primary concern for the Company and its Board, who are closely monitoring developments relating to the guidance issued by the Government of Ireland in relation to Covid-19. We will take all recommendations and applicable law into account in the conduct of the AGM. If current or similar restrictions relating to Covid-19 remain in force on the date of the AGM, the Board expects that the AGM will be held as a closed meeting (i.e. not generally open to the public). In the likely event that the AGM will be a closed meeting, shareholders will be provided with a facility to listen to the business of the meeting and ask questions. Details of this facility will be outlined in the meeting Circular and will also be available on the Group's website www.graftonplc.com. Shareholders are advised to monitor the Group's website for updates relating to the AGM.

Votes against Proposed Resolutions

There were no significant votes against proposed resolutions at the 2020 AGM.

Stakeholder Views

The Code provides that the Board should understand the views of the Company's key stakeholders other than shareholders and describe how their interests and the matters set out in section 172 of the UK Companies Act 2006 ("s.172") have been considered in Board discussions and decision-making. While s.172 is a provision of UK company law, the Board acknowledges that as a premium listed issuer on the FTSE 250, it is important to address the spirit intended by these provisions. An overview of how the Group engages with all of its stakeholders is set out on pages 16 and 17. As set out above, Colleague Forums have been established to provide the opportunity for colleagues' views to be heard by the Board.

Whistleblowing

All colleagues have access to a confidential SpeakUp reporting service which provides an effective channel to raise concerns to an independent third party. The Board, via the Audit and Risk Committee, receives regular reports detailing all reports made through this service and subsequent action taken.

Conflicts of Interest

The Board confirms that a system for the declaration of conflicts of interests is in place.

Unresolved Concerns

No unresolved concerns about the operation of the Board or the management of the Group were raised by any Director during the year.

2. Division of Responsibilities**Chairman**

The responsibilities of the Chairman, as set out on page 84, are set out in writing and agreed by the Board.

Board Balance and Division of Responsibilities

The Board believes that it has an appropriate balance of Executive and Non-Executive Director representation and it is Board policy that no individual or small group of individuals can dominate its decision-making.

A statement of how the Board operates, including a schedule of the decisions reserved for the Board and those delegated to management, is set out in writing and agreed by the Board. The schedule of matters specifically reserved for Board decision covers:

- Strategic decisions and corporate developments;
- Risk management and internal controls;
- Acquisitions and capital expenditure above agreed thresholds;
- Interim and final dividends and share purchases;
- Changes to the capital structure;
- Tax and treasury management;
- Approval of half-yearly and annual financial statements; and
- Budgets and matters currently or prospectively affecting the Group and its performance.

Non-Executive Directors

The Board is satisfied that Non-Executive Directors have sufficient time to effectively discharge their responsibilities.

Directors' Report on Corporate Governance continued

Effective and Efficient Functioning of the Board

Directors have full and timely access to all relevant information in an appropriate form. Reports and papers are circulated to Directors in sufficient time to enable them to prepare for Board and Committee meetings. All Directors receive monthly management accounts and reports covering the Group's performance, development proposals and other matters to enable them to review and oversee the performance of the Group on an ongoing basis. Each year the Board typically devotes one of its meetings to strategy and one to the following year's budget. The strategy meeting covers the macro-economic, political and social systems, construction market, housing market, business sectors, competitive landscape and challenges and opportunities in existing and prospective countries of operation for the Group. It also covers a review of the existing portfolio of businesses, specialist segments of the distribution market, competitive landscape and possible acquisition opportunities. All Directors have access to independent professional advice at the Group's expense where necessary to enable them to discharge their responsibilities as Directors.

Independence of the Chairman

The Chairman was independent on appointment to the role in January 2017.

Independence of Non-Executive Directors

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

Board Independence

More than half of the Board, excluding the Chair, are Non-Executive Directors whom the Board considers to be independent.

Senior Independent Director

Mr. Paul Hampden Smith is the Senior Independent Director and is available to act as a sounding board for the Chairman, and as an intermediary for the other Directors, if necessary. He is also available to shareholders who may have concerns that cannot be addressed through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer. The role of the Senior Independent Director is clearly set out in a document approved by the Board.

Performance of Executive Directors

Non-Executive Directors constructively challenge management proposals and review the performance of the Group. During the year, the Chairman and Non-Executives met with and without the executive Directors present.

Roles and Responsibilities

There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The responsibilities of each role are clearly documented in schedules approved by the Board.

Chairman	Chief Executive Officer	Senior Independent Director
<ul style="list-style-type: none"> Leading and managing the business of the Board to provide clear direction and focus for the Group Demonstrating ethical leadership and promoting the highest standards of integrity and probity; Demonstrating objective judgment and promoting a culture of openness and debate; Setting the agenda and culture in the boardroom; Facilitating constructive Board relations; Ensuring that members of the Board receive a timely flow of accurate, high quality and clear information; and Ensuring that there is timely and appropriate communication to shareholders. 	<ul style="list-style-type: none"> Being accountable to the Board for all authority delegated to executive management; Taking overall responsibility for the management of the business; Proposing and delivering the Group's strategy; Implementing and delivering the annual business plan; Effective leadership, coordination and performance management of the executive team; Ensuring the identification, enhancement and development of the executive leadership talent pool; and Monitoring closely the operating and financial results of the Group against plans and budgets. 	<ul style="list-style-type: none"> Being available to shareholders who have concerns that cannot be addressed through the Chairman, the Chief Executive Officer or the Chief Financial Officer; Acting as a sounding board for the Chairman; Acting as an intermediary for the other Directors when necessary; Working with the Chairman and other directors and/or shareholders to resolve significant issues; and When called upon, seeking to meet a sufficient range of major shareholders in order to develop a balanced understanding of their views.

The number of Board Meetings and Committee Meetings held during the year and attended by each Director was as follows:

Number of Meetings	Board		Audit and Risk Committee		Remuneration Committee		Nomination Committee	
	Total	Attended	Total	Attended	Total	Attended	Total	Attended
M. Roney	11	11	–	–	–	–	2	2
G. Slark	11	11	–	–	–	–	–	–
D. Arnold	11	11	–	–	–	–	–	–
P. Hampden Smith	11	11	4	4	8	8	2	2
S. Murray	11	11	4	4	8	8	2	2
V. Crowley	11	11	4	4	4	4	2	2
F. van Zanten	5	5	2	2	4	4	2	2
R. McGuckian	11	10	2	2	4	4	–	–

External Commitments

The Board is satisfied that the external commitments of the Chairman and the non-executive Directors do not conflict in any way with their duties and Commitments to the Company. Executive directors do not hold more than one non-executive role in a FTSE 100 company or other significant appointment.

Company Secretary

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

3. Composition, Succession and Evaluation

Board Appointments Procedure and Succession Planning

The Board's general policy is to keep the overall composition and balance of the Board under review and to manage the orderly succession of Non-Executive Directors without compromising the effectiveness and continuity of the Board and its Committees. A description of the work of the Nomination Committee and the procedure of appointment of new directors is set out on pages 92 to 94.

Dr. Rosheen McGuckian was appointed to the Board as a Non-Executive Director with effect from 1 January 2020 following a thorough search process, details of which were set out in the 2019 Nomination Committee Report.

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

Board Membership

It is the Group's policy that the Board comprises a majority of Non-Executive Directors. At 31 December 2020, the Board was made up of seven members comprising the Non-Executive Chairman, two Executive Directors and four independent Non-Executive Directors. As noted above, Dr. Rosheen McGuckian was appointed to the Board as a Non-Executive Director with effect from 1 January 2020. Mr. Frank van Zanten retired from the Board at the conclusion of the Annual General Meeting on 29 April 2020.

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

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

The overall composition and balance of the Board is kept under review as outlined in the Chairman's Statement on pages 20 to 23 and in the programme of work undertaken by the Nomination Committee in its report on pages 92 to 94.

Board Evaluation

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

An internal evaluation was conducted during the year, an external evaluation having been carried out in 2018 by Trusted Advisors Partnership ("TAP") and an internal evaluation in 2019. The 2020 evaluation involved each Director independently completing a questionnaire that covered a range of issues including the effectiveness of the Board and its Committees, strategy and development, internal controls and risk management, monitoring financial and operating performance and shareholder value creation. The overall results of the evaluation were very positive and

Directors' Report on Corporate Governance continued

concluded that the Board and its Committees are operating effectively and to a high standard of governance and in compliance with best practice. Recommendations made by the report will be addressed during the course of 2021.

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

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

Nomination Committee

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

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

Director Re-Election

In accordance with the provisions of the Code, the Board has decided that all Directors should retire at the 2021 Annual General Meeting ("AGM") and offer themselves for re-election.

The Board undertakes a formal annual evaluation of the performance of its Directors and is satisfied that all Directors who are proposed for re-election continue to discharge their obligations as Directors and contribute effectively to the work of the Board and its Committees. Further details on the Board evaluation are set out below and in the Nomination Committee Report on pages 92 to 94.

Chair Tenure

Mr. Michael Roney was appointed as Chairman Designate on 1 May 2016 and assumed the role of Non-Executive Chairman on 1 January 2017.

Recruitment Agencies

The Board and the Nomination Committee generally use the services of external agencies to assist with the identification and appointment of Non-Executive Directors. No recruitment agencies were engaged by the Board during 2020. In 2019 the Board engaged Heidrick & Struggles to assist with the search for a new Non-Executive Director, culminating in the appointment of Dr. Rosheen McGuckian on 1 January 2020.

Board Evaluation

As described above, an evaluation of the performance of the Board, its Committees, the Chair and the individual directors is carried out each year and an externally facilitated evaluation is carried out every three years. An external evaluation will be carried out during 2021.

Action was taken during the year to address points raised during the 2019 internal Board evaluation. These included succession planning, diversity and sustainability.

Role of the Nomination Committee

A description of the activity of the Committee during the year is set out in the Nomination Committee Report on pages 92 to 94.

4. Audit, Risk and Internal Control

Independence of Internal and External Audit

The key duties of the Audit and Risk Committee include monitoring the integrity of the Group's financial statements and of the external audit process, and overseeing the independence and effectiveness of the Internal Audit function and the external auditor.

Fair, Balanced and Understandable

The assessment of the company's position and prospects as fair balanced and understandable is set out in the Statement of Directors' Responsibilities on page 122.

Risk and Internal Control

The Board confirms that there is a process for identifying, evaluating and managing the key risks faced by the Group. A description of the risk management process and of how the Board identifies the principal and emerging risks facing the Group is set out on pages 56 to 65.

Audit and Risk Committee

The Board has established an Audit and Risk Committee which is comprised of four independent Non-Executive Directors. The Committee has competence relevant to the sector in which the Group operates.

Role and Responsibilities of the Audit and Risk Committee

A description of the role and responsibilities of the Audit and Risk Committee is available in the Committee Report on pages 88 to 91. The Terms of Reference of the Committee are available on the Group's website www.graftonplc.com.

A description of the activity of the Committee during the year is available in the Committee Report on pages 88 to 91.

Effectiveness of Risk Management and Internal Controls

A description of how the Audit and Risk Committee monitors the effectiveness of the Group's system of risk management and internal control is set out on page 89.

Going Concern Assessment

The Group's net cash position, before recognising IFRS 16 leases, increased to £181.9 million at 31 December 2020 from £7.8 million at 31 December 2019. The Group had liquidity of £811.2 million at 31 December 2020 of which £452.0 million was held in accessible cash and £359.2 million in undrawn revolving bank facilities.

The Directors, having made appropriate enquiries, believe that the Company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the financial statements and, for this reason, they continue to adopt the going concern basis in preparing the financial statements. Having reassessed the principal risks, as detailed on pages 59 to 65, in particular the impact of the Covid-19 pandemic and based on expected cashflows, the strong liquidity position of the Group and borrowing facilities available to the Group, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its financial statements.

Viability Statement

The Directors have assessed the viability of the Group over a three-year period to 31 December 2023, taking account of the Group's current position and prospects, the Group's strategy and principal risks and how they are managed as documented on pages 59 to 65. Based on this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023.

In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe and reasonable scenarios, and the effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks that would realistically be open to them in the circumstances. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. The Directors have also considered the Group's resilience and management response to the Covid-19 pandemic as well as the experience from the 2008 Global Financial Crisis.

The principal scenarios considered in the review are those where negative macro-economic and other impacts would be experienced across all of the Group's businesses. These scenarios ranged from depressed economic activity levels in the Group's markets to more severe cyclical economic downturns. The Group also reviewed and considered the impact of the Covid-19 pandemic on the business where a lockdown forced a longer period of closure for the Group's businesses.

The Directors have determined that the three-year period to 31 December 2023 is an appropriate period over which to provide its viability statement. The Group prepares five-year plans as part of its annual budgeting process however, given the inherent uncertainties, the outer two years are more difficult to forecast. These two years are used mainly for scenario planning with the Board placing greater reliance on the initial three-year period. In making their assessment, the Directors have taken account of the Group's net debt (including property lease liabilities) to equity position of twenty four per cent at the end of 2020 (net cash position of £181.9 million on a pre-IFRS 16 Lease basis), its strong financial position, headroom and duration of loan facilities currently in place, its key potential mitigating actions of reducing the Group's cost base, capital expenditure, dividend payments and the Group's ability to generate positive cash inflows in a scenario of falling revenue as working capital invested in the business is reduced. These mitigating actions were tested during the downturn in the Group's businesses from 2008 to 2012 which highlighted the resilience of its business model to a very severe and protracted economic downturn by historic standards.

5. Remuneration

The Board has adopted remuneration policies that are considered sufficient to attract, retain and motivate Directors of the quality required to manage the company successfully whilst ensuring that the performance related elements of pay are both stretching and rigorously applied. The Board has established a Remuneration Committee comprising four independent Non-Executive Directors. Details of the Committee's key responsibilities and a description of its work during 2020 are contained in the Report of the Remuneration Committee on Directors' Remuneration on pages 95 to 98.

Audit and Risk Committee Report



As Chair of Grafton's Audit and Risk Committee, I am pleased to present the report of the Committee for the year ended 31 December 2020.

Paul Hampden Smith

Chair of the Audit and Risk Committee
8 March 2021

Membership	Length of Service*
P. Hampden Smith (Chair)	5.5 years
V. Crowley	4.1 years
S. Murray	3.2 years
R. McGuckian	0.9 years

*as at 8 March 2021

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

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

All members of the Committee are determined by the Board to be independent Non-Executive Directors in accordance with provision 10 of the Code. In accordance with the requirements of provision 24 of the Code, the Board considers that I have recent and relevant financial experience as required by the Code. The biographical details on pages 78 and 79 demonstrate that all members of the Committee have a wide range of financial, treasury, taxation, commercial and business experience that enables the Committee to act very effectively.

Key Duties

Financial Reporting

- Monitoring the integrity of the Group's financial statements and announcements relating to the Group's performance;
- Advising on whether the Annual Report and accounts, taken as a whole, is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy;

Risk Management and Internal Control

- Overseeing the effectiveness of the Group's internal control and risk management systems in place and the steps taken to mitigate the Group's risks; and
- Reviewing the effectiveness of the Group's internal financial controls;

External Auditor

- Monitoring the effectiveness of the external audit process, conducting the tender process and making recommendations to the Board in relation to the appointment, reappointment and removal of the External Auditor;
- Overseeing the relationship between the Group and the External Auditor including approving the remuneration, terms of engagement and scope of audit;

Internal Audit

- Monitoring and reviewing the scope, resourcing, findings and effectiveness of the Group's Internal Audit function;
- Reporting to the Board on how the Committee has discharged its responsibilities.

The full terms of reference of the Committee can be found on the Group's website www.graftonplc.com.

Meetings

The Committee met four times during the year and attendance by each Committee member is set out in the table on page 85.

Meetings are attended by the members of the Committee and others who attend by invitation, being principally the CEO, the CFO, the Group Financial Controller and Company Secretary and the Group Internal Audit and Business Risk Director. Other members of executive management may be invited to attend to provide insight or expertise in relation to specific matters. The PwC Group Engagement Leader and other representatives of the External Auditor are also invited to attend Committee meetings to present their reports on the interim results and full year audit. They also present their proposed audit plan to the Committee. The Committee also met privately with the External Auditor without executive management present. No significant concerns were raised during these discussions. The Committee is supported by Ms. Susan Lannigan, Deputy Company Secretary, who acts as Secretary to the Committee.

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

Key Areas of Activity during 2020

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

Financial Reporting	<p>The Committee reviewed the 2020 Interim Results Announcement, the 2020 Final Results Announcement and the 2020 Annual Report and concluded that they each presented a fair, balanced and understandable assessment of the position of the Group and its prospects. The Committee recommended the 2020 Interim Results Announcement, the 2020 Final Results announcement and the 2020 Annual Report to the Board for approval.</p> <p>As part of these reviews, the Committee considered significant accounting policies, estimates and significant judgements. The Committee also reviewed the Report of PwC following their audit including their findings on key areas of judgment and other areas of audit focus. The Committee also considered the significant management letter points on internal controls in the Group's individual businesses identified by PwC during its audit process. The significant issues in relation to the financial statements considered by the Committee and how these were addressed are set out on page 91.</p> <p>The Committee also reviewed papers on the Viability Statement and Going Concern including assumptions and financial forecasts.</p> <p>The Committee considered the impact of Covid-19 on the recoverability of debtors and inventory, the reasonableness of cashflows used to test for impairment of intangible assets and accounting for the financial impact of Covid-19.</p>
Risk Management and Internal Control	<p>The Board has delegated responsibility to the Committee for monitoring the effectiveness of the Group's system of risk management and internal control, which is set out in further detail in the Risk Management Report on pages 56 to 65. The Committee reviewed the Group's Risk Management Process and the procedures established for identifying, evaluating and managing key risks, which included a review of the status of risk management performance against the objectives set for the year.</p> <p>The Group Risk Committee provides oversight of the Risk Management process and the Corporate Risk Register throughout the year. This review includes identifying risks, assessing their likelihood and impact and the effectiveness and adequacy of measures, actions and controls to mitigate these risks. The key risks facing the Group are set out on pages 59 to 65 of the Strategic Report.</p> <p>Covid-19 emerged as a new risk in February 2020. As outlined in the Strategic Report, the Covid-19 pandemic had an adverse effect on the Group's trading, operations and performance, particularly in the second quarter. Significant actions were taken by management to navigate the Group through the crisis caused by the pandemic and to reduce the potential impact of this risk. The health and safety of colleagues, customers and partners is always our primary concern.</p> <p>The Committee also considered the risks associated with increased levels of cyber crime and the potential impact to disrupt trading including the loss of data.</p>

Audit and Risk Committee Report

continued

Internal Audit	<p>The Group Internal Audit and Business Risk Director reports to the Chief Financial Officer and also has direct access to the Audit and Risk Committee. The Committee met with the Group Internal Audit and Business Risk Director on four occasions during the year when he presented Internal Audit report findings and recommendations and updated the Committee on the actions taken to implement recommendations. The Committee also met with the Group Internal Audit and Business Risk Director without executive management present. No significant concerns were raised during these discussions.</p> <p>The scope, authority and responsibility of the Internal Audit function is set out in the Internal Audit Charter which has been approved by the Committee.</p> <p>During the year the Committee also considered and approved the programme of work to be undertaken by the Group's Internal Audit function in 2021 and the results of an internal feedback survey from the Committee and Business Unit Management relating to the effectiveness of the Internal Audit function, the results of which were very positive.</p>
External Auditor	<p>The Committee reviewed the External Auditor's plan for the 2020 audit of the Group and approved the remuneration and terms of engagement of the External Auditor. The Committee also considered the quality and effectiveness of the external audit process and the independence and objectivity of the Auditor.</p> <p>In order to ensure the independence of the External Auditor, the Committee received confirmation from the Auditors that they are independent of the Group under the requirements of the Irish Auditing and Accounting Supervisory Authority's Ethical Standards for Auditors (Ireland). The Auditors also confirmed that they were not aware of any relationships between the firm and the Group or between the firm and persons in financial reporting oversight roles in the Group that may affect its independence. The Committee considered and was satisfied that the relationships between the Auditor and the Group including those relating to the provision of non-audit services, of which there were none in the past two years, did not impair the Auditor's judgement or independence.</p> <p>The PwC Group Engagement Leader is required to rotate after five years. PwC was appointed Auditor to Grafton with effect from 1 January 2016 and Mr. Paul O'Connor was Group Engagement Leader since then and now steps down from the role at the conclusion of the audit of the Financial Statements for 2020 in line with PwC's independence criteria. I would like to thank Mr. O'Connor for his service over the past five years. Ms. Siobhán Collier will succeed Mr. O'Connor and on behalf of the Committee I would like to welcome Ms. Collier to the role.</p>
Non-Audit Services	<p>The External Auditor is not prohibited from undertaking non-audit services that do not conflict with auditor independence, provided the provision of the services does not impair the Auditor's objectivity or conflict with their role as Auditor and subject to having the required skills and competence to provide the services. The Auditor is precluded from providing non-audit services that could compromise its independence or judgement.</p> <p>The Committee has approved a policy on the provision by the External Auditor of non-audit services. Under this policy the External Auditor will not be engaged for any non-audit services without the approval of the Audit & Risk Committee. The External Auditor is precluded from providing certain services under Regulation (EU) No 537/2014, or from providing any non-audit services that have the potential to compromise its independence or judgement. With the exception of fees incurred in acquired businesses, fees for non-audit services in any financial year are targeted not to represent more than 20 per cent of the audit fee.</p> <p>The Committee monitors and reviews the nature of non-audit services provided by the Auditors. No non-audit services were provided by PwC in 2020 or 2019.</p>
Whistleblowing and Fraud	<p>The Group Anti-Fraud and Theft Policy sets out the Group's approach to all forms of fraud and theft, the responsibilities of Business Unit management in relation to prevention and detection procedures and controls, the appropriate reporting channels and the possible actions which may be taken by the Group in response to suspected fraud or theft. Instances of fraud or theft over a specified threshold are reported to and monitored by the Committee.</p> <p>The Committee periodically considers reports received on matters raised through SpeakUp, the independent Group-wide confidential reporting service which allows colleagues to report, anonymously if they wish, any concerns they may have regarding certain practices or conduct in their businesses including possible instances of fraud and theft. All concerns raised through this channel and the outcomes of investigations are reported to the Committee. The Committee was satisfied that the procedures in place to allow colleagues to raise matters in a confidential matter operated effectively during the year.</p>

Anti-Bribery and Corruption	The Group's Code of Business Conduct and Ethics sets out the ethical standards to which all Group employees are expected to adhere. It sets out the core standards and procedures to be observed and provides practical guidance on dealing with bribery risk. An annual declaration of independence is signed by senior management and other individuals who are considered to be exposed to higher risk of conflicts of interest, including employees who have responsibility for contract negotiations with customers and suppliers.
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Estimates and Judgements

The Committee reviewed in detail the following areas of significant judgment, complexity and estimation in connection with the Financial Statements for 2020. The Committee considered a report from the external auditors on the audit work undertaken and conclusions reached as set out in their audit report on pages 123 to 129. The Committee also had an in-depth discussion on these matters with the External Auditor.

Valuation of Goodwill	<p>The Committee considered the goodwill impairment analysis provided by management and agreed with the conclusion reached that no impairment charge should be recognised in the year. In arriving at its decision, the Committee considered the impairment review conducted by management which involved comparing the recoverable amount and carrying amount of the CGUs.</p> <p>The review by management involved discounting the forecasted cash flows of each CGU based on the Group's pre-tax weighted average cost of capital adjusted to reflect issues associated with each CGU and carrying out sensitivity analysis on the key assumptions used in the calculations including cash flow forecasts (revenue growth, margin), terminal growth rate and pre-tax discount rate.</p> <p>The Committee noted the significant overall level of headroom in the value in use model prepared by management and considered the impact on the headroom of sensitivity analysis on the key assumptions used in the model. The Committee also compared the year-end market capitalisation of the Group to its net asset position and noted that it was materially higher than the net asset value.</p>
Recognition of Supplier Rebates	<p>Supplier rebates represent a significant source of income in the distribution industry and is an area of risk due to the number, complexity and materiality of rebate arrangements. The Committee reviewed the basis used by management for calculating rebate income for the year and rebates receivable at the year end and was satisfied that the accounting treatment adopted was appropriate and that rebates receivable at the year-end were recoverable.</p> <p>In reaching its conclusion, the Committee reviewed information and reports prepared by the Internal Audit function which completed year-end reviews across a sample of significant Business Units with the primary objective of providing independent assurance on the accuracy of rebate receivable balances at year-end.</p> <p>These reviews included re-performing calculations on a sample of rebate income for 2020 with reference to agreements with individual suppliers and reports of purchases made from suppliers. Rebates receivable at the end of 2020 were down on the prior year end following agreement of more favourable payment terms with suppliers. The Committee also considered the value of rebates received after the year end relating to 2020.</p>
Valuation of Inventory	<p>The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow moving inventory. In arriving at its conclusion that the level of inventory provisioning was appropriate, the Committee received half year and full year updates from management on stock ageing and provisioning at Business Unit level.</p> <p>The Committee reviewed the basis for calculating the valuation of rebate attributable to inventory and was satisfied that inventory was appropriately valued and that the Group continued to adopt a prudent approach to inventory provisioning.</p>

As Chair of the Committee, I engaged with the Group CFO, the Group Internal Audit and Business Risk Director and the PwC Group Engagement Leader independently of each other in preparation for Committee meetings and periodically as appropriate. I will attend the Annual General Meeting and respond to any questions that shareholders may have concerning the activities of the Committee.

Paul Hampden Smith

Chair of the Audit and Risk Committee

8 March 2021

Nomination Committee Report



Dear Shareholder,
I am pleased to present the report of the Nomination Committee for the year ended 31 December 2020.

Michael Roney

Chair of the Nomination Committee
8 March 2021

Membership	Length of Service*
M. Roney (Chair)	4.8 years
P. Hampden Smith	5.5 years
S. Murray	4.0 years
V. Crowley	4.0 years
R. McGuckian	0.9 years

*as at 8 March 2021

Key Duties of Committee

Board Structure

- Regularly reviewing the structure, size, composition and length of service on the Board and assessing the skills, expertise, knowledge, experience and diversity required by the Board and its Committees and the Group's senior management in the future;

Succession

- Identifying, and nominating for the approval of the Board, candidates for appointment as Directors and ensuring that there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board;
- Considering the re-appointment of Non-Executive Directors at the conclusion of their specified term of office and making recommendations to the Board;
- Annual review of succession plans for senior executives across the Group;

Diversity

- Ensuring diversity policy is linked to Group strategy;
- Reviewing the gender balance of those in senior management positions and their direct reports; and

Evaluation

- Evaluating the balance of skills, knowledge, experience and diversity of the Board and Committees and making recommendations to the Board with regard to any changes.

The full terms of reference of the Committee can be found on the Group's website www.graftonplc.com.

Activities of the Committee during 2020

Introduction

The primary areas of focus of the Committee during 2020 were the composition and diversity of the Board and succession planning at Board and senior management level. We continued to seek to balance the need to refresh the Board while maintaining a team of knowledgeable and experienced Non-Executive Directors. During the year, the Committee considered the structure, size, diversity and composition of the Board and its Committees and also the balance of skills, experience and knowledge and concluded that they were appropriate for the current scale and complexity of the business. We will continue to monitor the balance of the Board to ensure that it has the expertise to lead the Group as it develops and evolves. When searching for potential candidates to fill Board vacancies, the Committee considers the skills, experience and attributes required to create a diverse Board that will drive the future success of the Group.

Independence of the Board

To ensure that the independence of the Non-Executive Directors is maintained, the Committee keeps the tenure of the Board as a whole under review. The tenure of the Non-Executive Directors on the Board at 31 December 2020 was as follows:

Length of service	Number of Non-Executive Directors
0–1 years	1
4–5 years	3
5–6 years	1

The Committee reviewed the time required to fulfil the roles of Chair, Senior Independent Director and Non-Executive Director and was satisfied that all members of the Board continue to devote appropriate time to their duties and to be effective in their roles.

Board and Committee Changes

As disclosed in last year's Annual Report, Dr. Rosheen McGuckian was recommended by the Committee for appointment as Non-Executive Director and she joined the Board on 1 January 2020. Mr. Frank van Zanten retired from the Board at the conclusion of the AGM on 29 April 2020 as indicated in last year's Annual Report.

Dr. McGuckian was appointed as a member of the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee on 29 April 2020 and Mr. Vincent Crowley was appointed as a member of the Remuneration Committee on the same date.

Re-Election of Directors

The Committee agreed that a recommendation would be made to the Board to approve the re-election of all Directors at the 2021 AGM having considered their performance, ability and continued contribution to the Board.

Board Effectiveness

The Board conducts an annual evaluation of its own performance and that of its Committees and individual Directors to ensure that they continue to be effective and that each of the Directors demonstrates commitment to his/her role and has sufficient time to meet his/ her commitment to the Group.

An independent Board evaluation was carried out by TAP (Trusted Advisors Partnership) in 2018. The 2019 and 2020 evaluations were carried out internally using a questionnaire which was completed by each of the Directors.

Assessing the effectiveness and commitment of individual Directors was based on virtual meetings between each of the Non-Executive Directors and the Chairman. The Chairman also had virtual meetings with the Group Chief Executive Officer, the Chief Financial Officer and the Company Secretary.

As a result of the responses to the questionnaire and these assessments, it was concluded that both the Board and its Committees continued to provide effective leadership and to exert the required levels of governance and control and that the performance of each Director continued to be effective. The key findings were that:

- The composition of the Board is highly regarded with no significant gaps identified in the skillset of the Board and its Committees.
- The Chairman is making a positive contribution to the management of Board and the business and is driving the pace of change and challenge in the boardroom.
- The chemistry between the Non-Executive Directors and the Executive Directors was viewed to be very constructive and collaborative with Non-Executive Directors providing effective challenge whilst fostering a positive atmosphere.
- The operation of the Audit and Risk, Remuneration and Nomination Committees were rated highly and are working well with effective Chairs, clear priorities and strong management support.

The Board evaluation in 2021 will be carried out by an external advisor.

Nomination Process

There is a formal, rigorous and transparent procedure used by the Committee to nominate suitable candidates for appointment to the Board. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board.

Specialist independent recruitment agencies, that have no other connection with the Company, are used to identify candidates that match the requirements for each role. The Committee makes recommendations to the Board concerning the appointment of Executive and Non-Executive Directors, having considered the blend of skills, experience, and diversity deemed appropriate for the particular role and reflecting the international nature of the Group and the opportunities and challenges it is expected to face in the future.

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

Succession Planning

Each year the Committee considers the leadership needs of the Group and succession planning for senior management roles including the Chief Executive Officer and Chief Financial Officer.

The Committee considered the possible implications of the pandemic for succession planning and was satisfied that potential candidates were available from within the Group to provide immediate temporary cover in the event that the leadership of the Group and its major businesses were directly affected by the virus.

Directors are committed to ensuring that the Board is sufficiently diverse and appropriately balanced. In the context of normal refreshment, the Board's objective is to increase female representation on the Board to at least one third. On the recommendation of the Committee, the Board has agreed that diversity will continue to be given very careful attention in shortlisting candidates for appointment to the Board in the future.

Nomination Committee Report

continued

The Committee continued to review succession planning below Board level including the pool of talent currently available to succeed in senior roles and the progress made recruiting and developing the next generation of leaders. The Chief Executive Officer presented his annual management succession plan to the Committee which provided reassurance on succession plans in place and on the priority given to developing high performing individuals.

Initiatives for high-potential talent to broaden their skillsets and prepare them for future senior roles include participation in leadership training programmes and access to business school training as appropriate. As part of this review, the Committee considered the importance of developing a diverse talent pipeline and the current and future skill sets required to help the company implement its strategy.

Diversity and Inclusivity

The Group recognises the benefits of diversity and its objective of achieving greater diversity at Board, senior management and across the wider workforce is supported by a Group Equality, Diversity and Inclusion Policy. The Board keeps this policy under review to ensure that it is effective in achieving diversity in its broadest sense having regard to experience, age, gender, religious beliefs, sexual orientation, race, ethnicity, disability, nationality, background and culture.

Following the appointment of Dr. Rosheen McGuckian to the Board in January 2020, two of our seven Board directors are women (28 per cent). The Board remains committed to at least the minimum target for female representation of one-third as set out in the Hampton-Alexander Review. While the Board will always seek to appoint the most talented and skilled candidates on merit against objective criteria, greater diversity is actively considered when making Board appointments. The composition of the Board has evolved considerably over recent years and the Committee has taken an active role in improving the gender balance on the Board. Diversity was one of a number of factors considered when shortlisting candidates as part of the last process of Board refreshment and renewal which resulted in appointment of Dr. McGuckian to the Board.

The Group continues to prioritise diversity in the widest senses when making appointments at all levels in its business and, by setting the tone from the top, to promote a culture where there are no barriers to everyone achieving their potential and succeeding at the highest levels in Grafton.

The Group has a track record of appointing females to leadership positions and is committed to increasing representation of females in senior leadership positions across the Group. The Group has introduced initiatives to provide career development opportunities for female colleagues including participation in management development programmes, mentoring, coaching and flexible work arrangements.

Diversity and inclusion continued to be promoted across the Group with initiatives on gender, ethnicity, sexual orientation (LGBTQI+) and disabilities.

The Board and Management continues to focus on implementing strategies for recruiting and developing colleagues in ways that promote diversity and inclusion.

The Year Ahead

Grafton has a strong Board with the range of skills and experience to drive its success and the capacity to support its future growth and development. The Committee believes that all Directors have the right blend of skills and experience to advance the interests of shareholders and to build on the Group's track record of profitable growth. In the year ahead, succession planning will continue to be a priority to ensure that the Group can retain, attract and develop the best people available at Board and senior management level to implement its strategy, grow profitability and manage the business in the interests of all stakeholders.

Michael Roney

Chair of the Nomination Committee
8 March 2021

Report of the Remuneration Committee on Directors' Remuneration



Dear Shareholder,
I am pleased to present my report as Chair of the Remuneration Committee.

2020 has been a challenging year for many businesses, including Grafton, following the outbreak of Covid-19. The Remuneration Committee made changes, as summarised below, to the way remuneration operated for 2020 to reflect these unusual circumstances and to ensure that pay remained fair and aligned with the shareholder experience.

Susan Murray

Chair of the Remuneration Committee
8 March 2021

Membership	Length of Service*
S. Murray (Chairman)	4.1 years
P. Hampden Smith	5.2 years
V. Crowley	0.9 years
R. McGuckian	0.9 years

* All lengths of service are as at 8 March 2021

Although not required under the Irish Companies Act 2014, the Remuneration Committee (the "Committee") has continued to prepare the Remuneration Report in accordance with the UK regulations governing the disclosure and approval of remuneration of the Directors. The report also complies with the European Union (Shareholders' Rights) Regulations 2020 introduced in Ireland in March 2020.

The Committee put a new Remuneration Policy to shareholders at the Annual General Meeting ("AGM") of the Company held on 29 April 2020. I was very encouraged by the level of shareholder support for the remuneration related resolutions with 94.54 per cent of votes lodged by proxy ahead of the AGM in favour of the new Remuneration Policy and 99.44 per cent supporting the 2020 Annual Report on Remuneration. The Policy became effective from the conclusion of the 2020 AGM and the following pages describe how the Policy has been applied in 2020 and how it will apply in 2021.

Our Approach to Remuneration

The Committee's overall remuneration philosophy has not changed over the year, although we have made some changes to the implementation of the Remuneration Policy for 2020 following the Covid-19 outbreak. Notwithstanding this our remuneration philosophy remains to ensure that Executive Directors are incentivised to successfully implement the Board's strategy and that remuneration is aligned with the interests of shareholders and other stakeholders over the longer term. The Committee seeks to achieve this by:

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

Performance Outcome for 2020

Grafton performed well in difficult circumstances that saw the closure of most branches and stores in the UK and Ireland for part of the second quarter except for emergency supplies of materials to trade customers. Revenue in continuing operations was down 19 per cent in the first half due to the pandemic. Full year revenue was down by six per cent following the successful reopening of branches and stores in May and June and a strong recovery in second half trading. Adjusted operating profit was down by 59 per cent in the first half that was mainly offset by growth of 48 per cent in the second half. Adjusted operating profit for the year was down six per cent to £193.3 million (2019: £204.8 million). The Group continued to implement its strategy despite the constraints caused by the pandemic with three acquisitions completed in the second half. A fourth acquisition was agreed prior to year end and completed earlier this month following approval by the Consumer Protection Commission in Ireland. Good progress was also made advancing the Group's digital capability and sustainability agenda.

Remuneration for 2020

The Committee approved a salary increase of 1.35 per cent for 2020 for the Chief Executive Officer and the Chief Financial Officer. When reviewing salary levels, the Committee considered the salary principles that generally applied across the Group, the performance of the Group and market data.

Report of the Remuneration Committee on Directors' Remuneration continued

Response to Covid-19

In response to the impact of the virus on the Group's markets and business a number of changes were made to remuneration arrangements. With effect from 8 April 2020 until 30 June 2020:

- The CEO and CFO voluntarily requested that their base salaries and pension contributions be temporarily reduced by 20 per cent; and
- The Chairman and the Non-Executive Directors also decided that their fees should be temporarily reduced by 20 per cent.

In addition, the CEO and CFO voluntarily requested that the Bonus Scheme for 2020 be suspended. No bonus is therefore payable in respect of 2020.

Executive Director salaries and pension arrangements and Non-Executive Director fees were fully restored with effect from 1 July 2020 following the successful reopening of the business in June.

2020 LTIP Awards

The LTIP Awards that were planned to be made in April 2020 were deferred until September 2020. As disclosed in the 2019 Annual Report on Remuneration, it was intended that 50 per cent of the 2020 LTIP award would be based on TSR performance vs. the FTSE 250 excluding investment trusts and 50 per cent on the adjusted EPS performance over the three-year period to 31 December 2022.

In view of the difficulty setting appropriate, stretching and fair EPS targets for 2022 due to the uncertainty in markets within which the Group operated, the Committee determined that it was no longer appropriate for the 2020 LTIP award to be based on EPS performance and agreed that the award would be 100 per cent based on TSR performance vs. the FTSE 250 excluding investment trusts. The Committee believes that basing 100 per cent of the award on TSR is a clear and transparent approach and ensures that the vesting outcome is fully aligned with the shareholder experience.

25 per cent of the 2020 LTIP award will continue to vest for median performance with 100 per cent vesting for upper quintile performance. The TSR performance will continue to be measured over the three-year period from 1 January 2020 to 31 December 2022.

The Committee consulted with major shareholders in advance of agreeing this change and was pleased with the level of support received.

In line with best practice and shareholder expectations, the Committee retains discretion to adjust the vesting outcome if it is not considered to be reflective of the underlying financial and/or non-financial performance of the business, the performance of the individual over the performance period or where the outcome is not considered appropriate in the context of the experience of shareholders and other stakeholders.

Vesting of LTIP Awards Made in 2018

The performance conditions for LTIP awards granted in April 2018, that covered the performance period of the three years ending on 31 December 2020, were based 50 per cent on growth in Adjusted Earnings Per Share ("EPS") and 50 per cent on Total Shareholder Return ("TSR") performance versus a comparator group consisting of the members of the London Stock Exchange's FTSE 250 Index excluding investment trusts. As the Group's TSR was ranked between the median and upper quintile, 59.9 per cent of this half of the award will vest.

The adjusted EPS targets for the financial year ended 31 December 2020 were in the range of 69.0 pence to 80.0 pence. Adjusted EPS for continuing operations for 2020 was 56.7 pence. As this was below the target range of 69.0 pence, none of this half of the award will vest.

On the basis of the foregoing, 29.95 per cent of the total awards granted in 2018 to the Chief Executive Officer and Chief Financial Officer will vest in May 2021.

Vesting of a proportion of the 2018 LTIP awards was based on the TSR element of the LTIP opportunity reflecting the performance of Grafton relative to the FTSE 250 excluding investment trusts.

Overview of Remuneration for 2020

The remuneration policy operated as intended in the context of the Board's response to Covid-19 which resulted in Executive Directors voluntarily forgoing a proportion of their salary and pension contributions for a period and requesting the suspension of the Bonus Scheme for 2020. The Committee did not exercise discretion in relation to the pay outcomes for the year.

The Remuneration Committee was satisfied with the balance of short and long term elements of remuneration for the year.

Application of Policy Approved by Shareholders at 2020 Annual General Meeting

The following changes were approved to the Remuneration Policy at the 2020 Annual General Meeting:

Pension

The pensions of incumbent Directors will be aligned with the wider workforce by the end of 2022 and for all future appointments to the Board, the pension will be set in line with level paid to the majority of our workforce, which is currently 3.1 per cent.

Post-cessation Shareholdings

A requirement to hold 200 per cent of salary (or the executive's actual shareholding on departure, if lower) for two years post-cessation will apply to shares vesting under awards made from 2020 onwards.

Clawback and Malus Provisions

Malus and clawback provisions were updated to ensure full compliance with the Code.

Bonus Opportunity

The bonus opportunity under the Policy was increased from 100 per cent and 120 per cent of salary for the CFO and the CEO respectively to 125 per cent and 150 per cent respectively to align more closely to market norms. The Committee indicated that it did not intend to implement this change for 2020 and the same position applies to 2021. If the Committee were to increase the bonus opportunity in the future, it would undertake that deferral into shares would apply for three years as a minimum to the increase in the bonus opportunity.

Remuneration for 2021

Following a comprehensive review of remuneration in the context of the Group's strategy and performance and relevant regulatory requirements including the 2018 Code and investor guidelines and consultation with major shareholders and institutional investor bodies, a new Remuneration Policy was put to a vote at the 2020 AGM and, as previously noted, was passed with strong support from shareholders.

The Committee approved a salary increase of 0.60 per cent for 2021 for the Chief Executive Officer and Chief Financial Officer which reflects the typical level of salary increase for the wider workforce. Base salary from 1 January 2021 will therefore be £610,820 and £418,341 respectively.

The annual bonus opportunity remains at 120 per cent of salary for the CEO and 100 per cent of salary for the CFO. The 2021 bonus will be based on the same two critical measures of financial performance for the Group as in 2019, being operating profit (70 per cent) and ROCE (30 per cent). These measures are intended to focus the executive team on both profitability and the maintenance of a disciplined approach to the use of capital.

LTIP awards will continue to be made at 200 per cent of salary to the CEO and at 175 per cent of salary to the CFO. Performance measures shall revert to the approach used in 2019 with half of the awards being based on a TSR performance condition and half on an adjusted EPS performance condition. The TSR performance condition will be measured, in line with the policy, against a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts.

The 2023 post-IFRS 16 adjusted EPS growth range for the 2021 LTIP award of 70.4 pence to 80.7 pence is based on compound annual growth of 7.5 per cent to 12.5 per cent on the post-IFRS 16 adjusted EPS of 56.7 pence for 2020. The lower end of the target range (threshold) is appropriately challenging whilst the upper end of the range is stretching and will only be achieved if performance is exceptional.

The Committee believes that this range is aligned with delivery of the Group's strategic and financial objectives. 25 per cent of the award will vest if the lower target in the range is achieved. Where EPS is between the lower and higher targets in the range, then between 25 per cent and 100 per cent of this part of the award will vest on a straight-line basis.

The Remuneration Policy is set out on pages 99 to 104.

2021 Long Term Incentive Plan

The Grafton Group plc 2011 Long Term Incentive Plan (the "Plan") was approved by shareholders at the Annual General Meeting of the Company held on 4 May 2011. Pursuant to the rules of the Plan no awards can be issued under the Plan more than 10 years after that date. A new plan will be put to shareholders for approval at the 2021 AGM which has been updated to reflect changes to legislation since 2011, the simplification of the Grafton Unit and other changes to bring the scheme into line generally with investor expectations and market practice. The performance conditions under the new scheme and the maximum value of awards which may be granted in any financial year will be determined in line with the Remuneration Policy approved at the 2020 AGM.

A detailed summary of the provisions of the 2021 plan will be included in a Circular to be sent to shareholders with the Notice of the 2021 Annual General Meeting.

2021 Save As You Earn Scheme

The Grafton Group plc Save As You Earn scheme for UK employees was approved by shareholders at the Annual General Meeting of the Company held on 4 May 2011. Pursuant to the rules of the Plan no awards can be issued under the Plan more than 10 years after that date.

A new plan that will be put to shareholders for approval at the 2021 AGM will be updated for changes in legislation and the simplification of the Grafton Unit which was approved by shareholders at the 2021 EGM.

Colleague Engagement

The Remuneration Committee reviewed workforce remuneration including base pay, benefits and incentives and this was also taken into consideration in deciding the pay of Executive Directors and Senior Management.

Summary

Directors responded in an appropriate way in unforeseen circumstances by voluntarily reducing their salaries, pension contributions and fees for a period during the year and by voluntarily requesting suspension of the Bonus Scheme for 2020. In doing so they ensured that remuneration payable for 2020 was reduced in the best interests of the Company, its shareholders and other stakeholders.

Report of the Remuneration Committee on Directors' Remuneration continued

Shareholder Engagement

The Committee is committed to ongoing dialogue with shareholders and institutional investor bodies on remuneration matters and welcomes the opportunity to engage with shareholders as it did during 2020 with respect to the decision to grant LTIP awards with TSR as the sole performance condition given the circumstances created by the pandemic. The Committee welcomes feedback from shareholders as it helps to shape and inform its decisions. The Committee takes an active interest in voting on Annual General Meeting resolutions and is pleased with the very high level of support received historically for its Annual Reports on Remuneration and for the three-yearly renewal of the Remuneration Policy.

I believe that the implementation of the Policy approved by shareholders at the 2020 AGM has been aligned with shareholders' interests and that it should continue to support the delivery of the Group's strategy and the creation of sustainable value for shareholders.

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

Susan Murray

Chair of the Remuneration Committee

8 March 2021

Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the Remuneration Policy for the Company and has been prepared in accordance with Schedule 8 to the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the disclosure requirements set out in the Listing Rules of the UK Financial Conduct Authority. This report also complies with the European Union (Shareholders' Rights) Regulations 2020 introduced in Ireland in March 2020. The policy has been developed taking into account the principles of the 2018 UK Corporate Governance Code and was applied from 1 January 2020 onwards.

This policy took effect from the 2020 AGM and is intended to apply until the 2023 AGM and cover the financial years 2020, 2021 and 2022.

Please note that some of the information shown has been updated to take account of the fact that the policy is now approved and enacted rather than proposed.

Policy Overview

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

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

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

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

How the Views of Shareholders are taken into Account

The Remuneration Committee considered the guidelines issued by bodies representing institutional shareholders and feedback from shareholders on the Group's remuneration policies and practices. Leading shareholders and investor bodies were consulted prior to finalising proposed changes to the current Remuneration Policy. The Committee also takes on board any shareholder feedback received prior to and during the AGM each year. This feedback, together with any feedback received during meetings and contacts with shareholders from time to time, was considered as part of the review of the Remuneration Policy and its effectiveness.

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

Details of votes cast for and against the resolution to approve the prior year's remuneration report and any matters discussed with shareholders during the year are referred to in the Annual Report on Remuneration on page 113 and in the Chairman's Annual Statement on page 95.

How the Views of Employees are taken into Account

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

Determining the Remuneration Policy for Executive Directors

The Remuneration Committee addressed the following factors when determining the Remuneration Policy for Executive Directors:

Clarity

Remuneration arrangements are transparent and the outcomes of variable elements are dependent on the achievement of performance measures that are aligned with strategy and the interests of all stakeholders. Performance targets are set in line with the Group's budgets and plans and are reviewed by the Committee. Executive directors are required to build meaningful personal shareholdings in the company.

Simplicity

The Group follows a UK/Ireland market standard approach to remuneration which is familiar to all stakeholders. Variable schemes are operated on a clear and consistent basis and are assessed by measuring the performance of the Group.

Risk

The Remuneration Policy includes the following features:

- Setting defined limits on the maximum awards which can be earned;
- Aligning the performance conditions with the strategy of the Company;
- Ensuring a focus on long term sustainable performance through the LTIP;
- Ensuring there is sufficient flexibility to adjust bonus payments and LTIP awards through malus and clawback provisions; and
- The Committee has discretion to override formulaic outcomes that may not accurately reflect the underlying performance of the Group.

Predictability

Shareholders are given full information on the potential values which could be earned under the bonus and LTIP plans through the Annual Reports on Directors Remuneration and by immediately publishing details of new LTIP awards on the RNS.

Proportionality

The performance metrics for the Annual Bonus and the LTIP are clearly aligned to strategy and are designed to reward the successful execution of strategy over the medium to long term. Outcomes are tested based on a regular assessment of the performance of the overall Group, its principal businesses and developing businesses to which the Group is allocating capital.

Alignment to culture

The Group's culture encourages high performance and sustainable growth while recognising that the Group operates in sectors that are cyclical. The Committee believes that the Remuneration Policy drives the right behaviour, reflects the Group's values and supports its purpose and culture.

Remuneration Policy Report continued

The Remuneration Policy for Directors

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

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
Base Salary			
To recruit, retain and reward executives of a suitable calibre for the roles and duties required	<p>Salaries of Executive Directors are reviewed annually in January and any changes made are effective from 1 January.</p> <p>When conducting this review and the level of increase, the Committee considers a range of factors including:</p> <ul style="list-style-type: none"> • The performance of the Group and the individual; • Market conditions; • The prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers; • The responsibilities and experience of each Executive Director; and • The level of salary increases implemented across the Group. 	<p>There is no set maximum, however any increases are normally in-line with the general increase for the broader employee population.</p> <p>Individual adjustments in excess of this may be made at the discretion of the Committee for example:</p> <ul style="list-style-type: none"> • To recognise an increase in the scale, scope or responsibility of a role; and • Development of an individual within the role. 	Not applicable
Benefits			
Provide market competitive benefits	<p>Benefits may include company car, mobile telephone, life assurance, private medical cover and permanent health insurance.</p> <p>Executive directors are also eligible for other benefits on broadly similar terms to those introduced for the wider workforce.</p> <p>Any reasonable business-related expenses may be reimbursed, including tax thereon.</p> <p>Relocation expenses or other related expenses may be offered as required.</p>	<p>The value of other benefits is based on the cost to the company and is not pre-determined.</p> <p>Relocation expenses must be reasonable and necessary.</p>	Not applicable
Pension			
Provide market competitive benefits	<p>A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension.</p>	<p>Current pension arrangements will remain in place until 31 December 2022. From 31 December 2022, pension contributions for existing Executive Directors will reduce to the level available for the majority of the workforce. The cash amount payable to Mr. Slark will remain frozen at the current level (£128,040) and Mr. Arnold's pension will remain at 20 per cent of his salary.</p> <p>Pension contributions for new Executive Directors will be aligned with the majority of the workforce level at the date of appointment.</p>	Not applicable

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
Annual Bonus			
To encourage and reward delivery of the Group's annual financial and strategic objectives	<p>Bonus payments are determined by the Committee after the year end, based on performance against the targets set.</p> <p>Performance measures and targets are reviewed annually. The bonus is payable in cash. An Executive Director is required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until their shareholding is equivalent to at least 200 per cent of basic salary.</p> <p>Clawback applies as set out on page 102.</p>	<p>The maximum award under the annual bonus plan is 150 per cent of basic salary for the CEO and 125 per cent of salary for the CFO and any Executive Directors appointed in the future (other than a CEO).</p> <p>Current opportunity for the CEO and CFO is below this level as set out on page 110.</p> <p>The Committee will review the bonus outcome to ensure that it reflects underlying Company performance over the year. The Committee may amend the pay-out to better reflect performance if it feels it is appropriate to do so.</p>	<p>The bonus will be primarily based on the achievement of appropriate financial measures but may also include an element for non-financial measures including personal performance and strategic measures.</p> <p>Financial measures which will account for the vast majority of the bonus opportunity in any year may include measures such as earnings per share, profit, return on capital employed, free cash flow and such other measures as determined from time to time by the Committee. The metrics chosen and their weightings will be set out in the Annual Report on Remuneration.</p> <p>For financial measures, a sliding scale is set by the Committee. No bonus is payable if performance is below a minimum threshold, up to 20 per cent is payable for achieving threshold and the bonus payable increases on a straight line or similar basis thereafter with full bonus payable for achieving the upper point on the scale.</p> <p>Any future increase in the bonus opportunity will be accompanied by deferral of an amount into shares for three years at least in proportion to the increase in the bonus opportunity.</p>
Long Term Incentives ("LTIP")			
To encourage and reward delivery of the Group's strategic objectives; to provide alignment with shareholders through the use of shares and to assist with retention	<p>The 2011 LTIP is an incentive plan that is designed to reward Executive Directors and senior executives in a manner that aligns their interests with those of shareholders.</p> <p>An Executive Director nominated to participate in the plan is granted an award over "free shares" which vest subject to the achievement of performance conditions measured over three financial years and the Executive Director remaining employed in the Group.</p> <p>There is a holding period of two years on shares received by Executive Directors from LTIP awards that vest after taking into account any shares sold to pay tax and other statutory obligations.</p> <p>Malus and clawback applies as set out on page 102.</p>	<p>The maximum value of awards which may be granted in any financial year is 200 per cent of salary.</p> <p>The Company's policy is to make awards of up to 200 per cent of basic salary in the case of the CEO and 175 per cent of basic salary in the case of the CFO and any Executive Directors (other than a CEO) appointed in the future.</p> <p>The Committee will review the vesting outcome to ensure that it reflects the underlying Company performance over the performance period. The Committee may amend the pay-out to better reflect performance if it feels it is appropriate to do so.</p>	<p>LTIP awards vest subject to the achievement of challenging financial and total shareholder return performance targets measured over a three year performance period.</p> <p>The vesting of LTIP awards made to Executive Directors is currently subject to EPS (earnings per share) and TSR (total shareholder return) performance conditions.</p> <p>The Remuneration Committee has the authority to set appropriate metrics (not limited to EPS and TSR) for each award taking account of the medium to long term strategic objectives of the Group.</p> <p>The EPS (as defined in the scheme rules) condition if chosen will be subject to achieving EPS within a target range. 25% of this part of the award will vest if the lower target in the range is achieved. Where the EPS is between the lower and higher targets in the range, then between 25 per cent and 100 per cent of this part of the award will normally vest on a straight line basis.</p> <p>If TSR is chosen as a metric, the Group's TSR must equal the median TSR of the peer group with 25% of this part of the award vesting on achieving threshold performance and full vesting for upper quintile performance or better. Awards will vest on a straight line basis for performance between the median and upper quintile.</p> <p>Notwithstanding the achievement of a TSR performance condition, no shares will vest unless the Committee considers that overall financial results have been satisfactory in the circumstances over the performance period.</p>

Remuneration Policy Report continued

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
All-Employee Share Plans			
To encourage share ownership and align the interests of employees with shareholders	Executive Directors are entitled to participate in employee share schemes in operation during the period of the policy on the same basis as other colleagues. The Group currently operates the 2011 Approved SAYE Plan for UK colleagues.	The limits are set by the UK tax authorities. Currently this limit is £500 per month for the SAYE scheme.	Not applicable
Share Ownership Guidelines			
To increase the alignment of interests between Executive Directors and shareholders	<p>An Executive Director is required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until his/her shareholding is equivalent to at least 200 per cent of basic salary.</p> <p>Half of any LTIP awards that vest, after taking into account any shares sold to pay tax and other statutory obligations, must be held until the share ownership guideline has been met.</p> <p>Vested awards subject to the two year holding period will be deemed to be part of an executive directors' shareholding.</p>	<p>Minimum 200 per cent of basic salary to be held in Grafton Group plc shares, built up over time.</p> <p>200 per cent of salary to be held in Grafton Group plc shares for two years after leaving the Group. This will apply to shares vesting under future long term awards from 2020 onwards but will exclude shares purchased from personal resources.</p>	Not applicable
Chairman and Non-Executive Director Fees			
To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market competitive fee level	<p>The Chairman's fee is set based on a recommendation from the Remuneration Committee.</p> <p>The Board sets the level of remuneration of all Non-Executive Directors within an aggregate limit approved from time to time by shareholders.</p> <p>Additional fees may be payable for chairing the main Board Committees.</p> <p>The level of fees paid to the Chair of the Board and all Non-Executive Directors should recognise the time commitment and responsibilities of the role.</p> <p>Non-Executive Directors may be reimbursed for travel and accommodation expenses (and any personal tax that may be due on those expenses).</p> <p>Fees are reviewed from time to time to ensure that they remain in line with market practice.</p> <p>Fees are paid in equal monthly instalments.</p> <p>The Chairman and Non-Executive Directors do not participate in any pension or incentive plans.</p>	Details of the outcome of the most recent fee review are provided in the Annual Report on Remuneration.	Not applicable

Clawback and Malus

The Bonus scheme and awards under the LTIP is subject to clawback if:

- The Remuneration Committee forms the view that the Company materially misstated its financial results for whatever reason and that such misstatement resulted in a bonus award vesting to a degree that would not otherwise be the case;
- The Remuneration Committee forms the view that in assessing the extent to which any performance condition or any other condition imposed on any bonus or LTIP award was based on error or on inaccurate or misleading information or assumptions resulting in a bonus or LTIP award vesting to a greater extent that would otherwise have been the case had the error not been made;
- The Group or any part of the Group in the reasonable opinion of the Committee following consultation with the Audit & Risk Committee suffered a material failure of risk management;
- A director is found guilty or pleads guilty to a crime that damages the business or reputation of any member of Grafton Group plc;
- There is reasonable evidence of fraud or material dishonesty by a director that is related to or damages the business or reputation of any member of the Group; and
- A director is in breach of any applicable restrictions on competition, solicitation or the use of confidential information.

The LTIP is subject to malus provisions including but not limited to the material misstatement of financial results, a material failure of risk management, serious reputational damage or where a participant contributed to circumstances leading to the Group receiving a notification that it may become subject to any regulatory sanctions.

Annual Bonus and LTIP Discretions

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

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

Legacy Arrangements

For the avoidance of doubt, it is noted that the Group will honour any commitments entered into with current or former Directors that have been previously disclosed to shareholders except for the changes to pension arrangements as set out in the Remuneration Policy.

Differences in Remuneration Policy for Executive Directors Compared to Other Employees

The Committee is made aware of pay structures across the wider Group when setting the Remuneration Policy for Executive Directors.

The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors.

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

Approach to Recruitment and Promotions

The Committee will as a general principle seek to offer a remuneration package to a new executive Director which can secure the best individual for the role while seeking to pay no more than it believes is necessary to make the appointment

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

Salary levels for Executive Directors will be set in accordance with the Group's Remuneration Policy, taking into account the experience and calibre of the individual and his/her existing remuneration package.

Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy. Where necessary the Committee may approve the payment of relocation expenses to facilitate recruitment and flexibility is retained for the Company to pay for legal fees and other costs incurred by the individual in relation to their appointment. The rate of pension contribution will be aligned with the majority of the workforce level at the date of appointment.

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

If it is necessary to buy-out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer) in the case of an external appointment, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance conditions) of the remuneration being forfeited. The general policy is that payment should be no more than the Committee considers is required to provide reasonable compensation for remuneration being forfeited.

Share awards may be used to the extent permitted under the Group's existing share plans and the Listing Rules where necessary.

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

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

Service Contracts & Payments for Loss of Office

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

Remuneration Policy Report continued

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

- The Group will pay any amounts it is required to make in accordance with or in settlement of a director's statutory employment rights;
- The Group will seek to ensure that no more is paid than is warranted in each individual case;
- There is no entitlement to bonus paid following notice of termination unless expressly provided for in an Executive Director's employment contract but the Group reserves the right to pay a bonus for the notice period subject to performance conditions;
- The Committee also retains the discretion to meet any reasonable legal fees or outplacement costs if deemed necessary; and
- Following service of notice to terminate employment, the Company may place the executive on garden leave. During this time, the executive will continue to receive salary and benefits (or a sum equivalent to) until the termination of employment.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct.

If the Group terminates employment in lieu of notice in other circumstances, compensation payable is as provided for in employment contracts which is as follows:

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

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

The treatment of unvested awards previously granted under the LTIP upon termination will be determined in accordance with the plan rules.

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

Non-Executive Directors

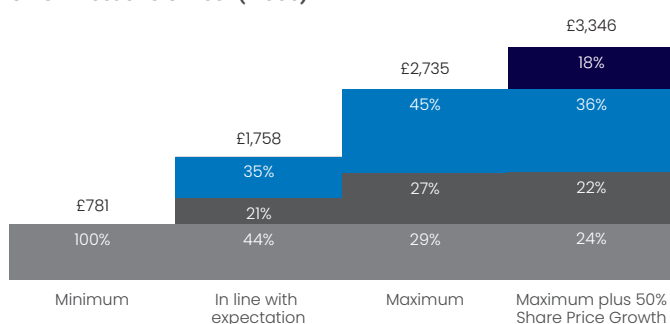
All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice or otherwise in accordance with the Group's Articles of Association and subject to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

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

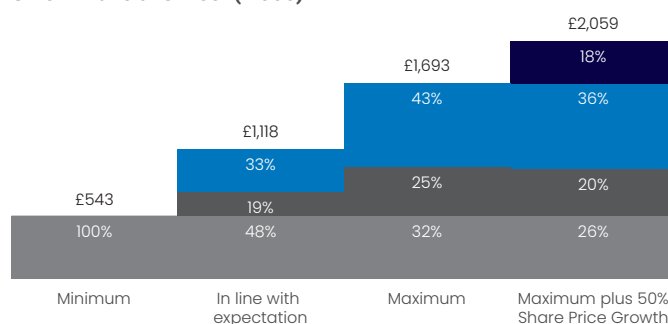
Remuneration Scenarios for Executive Directors

The Group's normal policy results in a significant portion of remuneration received by Executive Directors being dependent on performance. The chart below shows how the total pay opportunities for 2021 for Executive Directors vary under three performance scenarios – Minimum, In line with Expectation, Maximum and Maximum plus 50 per cent share price growth.

Chief Executive Officer (£'000)



Chief Financial Officer (£'000)



■ Fixed ■ Annual Bonus ■ Long Term Share Awards ■ Share Price Growth

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

Assumptions

Minimum = fixed pay only (2021 salary, benefits and pension).

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

Maximum = 100 per cent vesting of the annual bonus and LTIP awards.

Maximum plus 50 per cent Share Price Growth = 100 per cent vesting of the annual bonus and LTIP awards plus 50 per cent share price growth.

Annual Report on Remuneration

Although not required under Irish Companies legislation, this report includes the disclosures required by UK legislation contained in Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and the disclosures required by 9.8.6R of the Listing Rules. The report also complies with the European Union (Shareholders' Rights) Regulations 2020 introduced in Ireland in March 2020.

Membership of the Remuneration Committee

The Committee currently comprises Mrs. Susan Murray, Chair, Mr. Vincent Crowley, Mr. Paul Hampden Smith and Dr. Rosheen McGuckian, all of whom are Non-Executive Directors determined by the Board to be independent. Mr. Vincent Crowley and Dr. Rosheen McGuckian were appointed to the Committee at the conclusion of the 2020 AGM held on 29 April 2020. Mr. Frank van Zanten retired from the Board and as a member of the Committee at the conclusion of the 2020 AGM.

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

Mr. Michael Roney, Chairman, attended meetings of the Committee during 2020 by invitation and participated in discussions. Prior to their appointment as Committee members in April, Mr. Vincent Crowley and Dr. Rosheen McGuckian also attended meetings of the Committee. During the year the Committee consulted with the CEO who was invited to attend part of the meetings of the Committee. The Chair of the Committee was assisted in her work by Mr. Charles Rinn, Company Secretary, Rebecca McAleavey, Assistant Company Secretary and Ms. Paula Harvey, Group HR Director. No Director or the Company Secretary take part in discussions relating to their own remuneration and/or benefits.

During the year, the Committee invited a number of leading firms to tender for the position of the Committee's advisor on remuneration matters. Deloitte LLP ("Deloitte") were appointed to the position on 1 May 2020 and fees paid to them during the year were £29,000. Fees were charged on a time and material basis. Aon plc ("Aon") acted as advisor to the Committee on remuneration until that date and fees paid to them during the year were £29,949. Fees were charged on a time and material basis.

The Committee is satisfied that the Deloitte and Aon engagement teams, which provided remuneration advice to the Committee, do not have connections with Grafton Group plc or its Directors that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Deloitte also provided other very limited services during the year which were not of a material nature. Aon also provided very limited pension advice to the Group.

Aon attended meetings of the Committee held in January and February. Deloitte attended meetings following their appointment during the year and provided a market practice update to the Committee on remuneration trends and governance. Deloitte also provided advice on bonus measures, salary increases and on other remuneration matters.

The Committee is satisfied that the advice provided by Deloitte and previously Aon is objective and independent. Deloitte and Aon are a signatory to the Remuneration Consultants' Code of Conduct which requires its advice to be impartial and both firms have confirmed to the Committee its compliance with the Code.

Annual Report on Remuneration continued

Activity During the Year

January 2020

- Considered a draft of the Report of the Remuneration Committee on Directors' Remuneration;
- Considered the extent to which the conditions were met for the 2019 bonus scheme and the LTIP awards granted in 2017;
- Reviewed the CEO Pay Ratio to the workforce; and
- Considered shareholder feedback on the proposed changes to the Remuneration Policy including the alignment of Executive Directors' pension contributions with the wider workforce.

February 2020

- Considered final responses from the shareholder consultation process on the proposed 2020 Remuneration Policy;
- Considered and approved the Report of the Remuneration Committee on Directors' Remuneration;
- Determined and approved the bonus awards under the 2019 bonus scheme for Executive Directors and the Company Secretary;
- Determined the performance conditions for the 2020 Bonus Award;
- Determined the extent of vesting of the LTIP awards made in 2017;
- Agreed the quantum of 2020 LTIP awards to be granted to Executive Directors and the Company Secretary;
- Considered the performance conditions for the 2020 LTIP awards including the EPS range;
- Considered results of a Gender Pay Gap Report; and
- Considered and approved revised Malus and Clawback provisions.

April 2020

- Determined arrangements for the vesting of LTIP Awards granted in 2017;
- Agreed to defer the decision on the grant of LTIP Awards in 2020 for further consideration later in the year;
- Considered and approved voluntary reductions to remuneration packages requested by Executive Directors, Company Secretary and Non- Executive Directors; and
- Considered and approved the voluntary suspension of the 2020 Bonus Scheme.

April 2020

- Considered feedback on shortlisted firms and approved the appointment of Deloitte as new advisors to the Committee with effect from 1 May;
- Approved the vesting of LTIP Awards granted in 2017; and
- Reviewed share allocation and dilution limits.

June 2020

- Considered shareholder and proxy advisor feedback received on the Report of the Remuneration Committee on Directors' Remuneration;
- Considered and approved the cessation of voluntary reductions to remuneration packages for all Directors; and
- Considered possible quantum, performance metrics and targets for 2020 LTIP Awards.

August 2020

- Considered responses from shareholder consultation on the proposed approach to the grant of 2020 LTIP Awards;
- Determined and approved performance conditions for 2020 LTIP Awards for Executive Directors and the Company Secretary; and
- Determined and approved performance conditions for 2020 LTIP Awards below Executive Director level.

October 2020

- Considered an update from Deloitte on latest executive remuneration trends and corporate governance developments;
- Reviewed proposal to re-introduce the Employee Share Participation Scheme for eligible Grafton Group plc colleagues;
- Reviewed LTIP dilution limits and headroom available; and
- Considered and approved proposed changes of Remuneration Committee Terms of Reference.

December 2020

- Considered potential vesting of 2018 LTIP Awards in 2021;
 - Determined the rate of increase in basic salaries for 2021 Executive Directors and Company Secretary;
 - Considered and determined 2021 Bonus Award structure and performance measures;
 - Initial consideration of 2021 LTIP Awards;
 - Reviewed Executive Director shareholdings against Policy; and
 - Considered institutional shareholder proxy voting guidelines issued for 2021 AGMs.
-

Single Total Remuneration Figure of Directors' Remuneration

The following table sets out the total remuneration for Directors for the year ending 31 December 2020 and the prior year.

	Salary/Fees (a)		Bonus (b)		Pension (c)		Other Benefits (d)		Long Term Incentive Plan (e)		Total	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Executive Directors												
G. Slark	581	599	–	134	123	128	42	45	373	946	1,119	1,852
D. Arnold	398	410	–	76	80	82	41	44	224	566	743	1,178
	979	1,009	–	210	203	210	83	89	597	1,512	1,862	3,030
Non-Executive Directors												
M. Roney	220	230	–	–	–	–	–	–	–	–	220	230
P. Hampden Smith	59	61	–	–	–	–	–	–	–	–	59	61
F. van Zanten ⁽ⁱ⁾	20	61	–	–	–	–	–	–	–	–	20	61
S. Murray	59	61	–	–	–	–	–	–	–	–	59	61
V. Crowley	59	61	–	–	–	–	–	–	–	–	59	61
R. McGuckian ⁽ⁱⁱ⁾	59	–	–	–	–	–	–	–	–	–	59	–
	476	474	–	–	–	–	–	–	–	–	476	474
Total Remuneration	1,455	1,483	–	210	203	210	83	89	597	1,512	2,338	3,504

The following table sets out the total remuneration for Executive Directors split between fixed and variable pay for the year ending 31 December 2020 and the prior year. Fixed pay includes salary, fees, pension and other benefits. Variable pay includes bonus and Long Term Incentive Plan. The remuneration of Non-Executive Directors is all fixed pay.

	Fixed Pay		Variable Pay		Total	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Executive Directors						
G. Slark	746	772	373	1,080	1,119	1,852
D. Arnold	519	536	224	642	743	1,178
	1,265	1,308	597	1,722	1,862	3,030

(i) Mr. F. van Zanten retired from the board on 29 April 2020

(ii) Dr. R. McGuckian was appointed to the Board on 1 January 2020

Comparative figures included in the table above have been presented on a consistent basis with the current year. Further details on the valuation methodologies applied are set out in notes (a) to (e) below. These valuation methodologies are as required by the Regulations and are different from those applied within the financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The total expense relating to the Directors recognised within the income statement in respect of the Long Term Incentive Plan (LTIP) is £459,000 (2019: £1,256,000).

Notes to the directors' remuneration table:

- This is the amount of salaries and fees earned in respect of the financial year. All Directors took a voluntary reduction in salaries, fees and pension arrangements of 20 per cent effective from 8 April until 30 June 2020 in response to the outbreak of Covid-19 and the impact on the business. The amount shown in the single figure is after this reduction. Non-Executive Directors' fees are payable in Euro and remained unchanged at €70,000 for all Board and Committee duties, subject to the voluntary reduction noted above. The sterling equivalent amounts to £62,279 on the basis of the average exchange rate for the year of 88.97 pence and the amount received in 2020 was £59,490 after the voluntary reduction referred to above.
- This is the amount of bonus earned in respect of the financial year. The CEO and CFO requested that the annual bonus plan be suspended for 2020 and therefore no bonus was payable.
- This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a taxable payment in lieu of pension made through the payroll.
- Benefits comprise permanent health and medical insurance and the provision of a company car.
- For the year ended 31 December 2020, this is the value of LTIP awards that will vest in May 2021. The value of the awards is based on the average share price of £7.96 for the three months to 31 December 2020. The vesting of these awards was subject to performance conditions over the period from 1 January 2018 to 31 December 2020. This represents an increase of 42p or 5.6% from the share price at the date of grant which was £7.54. The Remuneration Committee did not exercise discretion in respect of the share price appreciation. For the year ended 31 December 2019, this is the value of LTIP awards that vested in May 2020 which has been updated from that disclosed last year to reflect the share price of £6.23 and £6.36 on the dates of vesting. For the award granted on 12 April 2017, the share price of £6.23 represents a decrease of 92p or 12.9% from the share price at the date of grant which was £7.15. For the award granted on 10 May 2017, the share price of £6.36 represents a decrease of £1.38 or 17.8% from the share price at the date of grant which was £7.74. The Remuneration Committee did not exercise discretion in respect of the share price appreciation.

Annual Report on Remuneration continued

Fixed Pay in 2020

Salary and Fees

Having taken account of both external market developments and internal Group considerations, the Committee agreed in December 2019 that the basic salary of the Chief Executive Officer and the Chief Financial Officer would increase by 1.35 per cent from 1 January 2020 in-line with the wider workforce.

	Salary/Fees		Change
	2020 £'000	2019 £'000	
G. Slark	607	599	1.35%
D. Arnold	416	410	1.35%

Non-Executive Directors' fees were £62,279 per annum (actual paid: £59,490) (based on an exchange rate of Stg88.97 pence to 1 Euro). Non-Executive Director fees have remained at the same level in constant currency (€70,000) since 2005. No additional fees were paid for chairing Board Committees. The fee for Mr. Roney, Non- Executive Chairman, was £230,000 (actual paid: £219,700).

All Directors took a voluntary reduction in salaries, fees and pension arrangements of 20 per cent effective from 8 April until 30 June 2020 in response to the outbreak of Covid-19 and the impact on the business.

Benefits

Benefits comprise permanent health and medical insurance and the provision of a company car.

	Health and Medical Insurance £'000	Provision of a Company car £'000	Total 2020 Taxable Benefits £'000	Total 2019 Taxable Benefits £'000
G. Slark	9	33	42	45
D. Arnold	6	35	41	44

Pension

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

	2020 Base Salary	% of salary	2020 Pension Contribution	2019 Pension Contribution
G. Slark	607	21.1%	123	128
D. Arnold	416	20.0%	80	82

The pension contributions shown in the table above reflect a 20 per cent reduction volunteered by Directors in the period from 8 April to the 30 June 2020.

Mr. Slark's pension benefit comprised a payment made to a defined contribution scheme and a taxable allowance in lieu. The total pension benefit received was £122,731. The pension benefit for Mr. Arnold was paid as a taxable non-pensionable cash allowance.

With effect from 31 December 2022, the pension contributions for the Group CEO and the Group CFO will be aligned to that of the majority of the workforce at the time

Pay for Performance

Annual Bonus

During the year the Committee approved the voluntary suspension of the 2020 Annual Bonus Scheme by Mr. Slark and Mr. Arnold in response to the outbreak of Covid-19 and the impact on the business.

It was originally intended that the maximum bonus opportunity for Mr. Slark and Mr. Arnold was 120 per cent and 100 per cent of salary respectively. The performance conditions are normally based on operating profit and return on capital employed.

Long Term Incentive Plan (LTIP)

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

Awards Granted with a Performance Period Covering the Three Years to 31 December 2020

The performance conditions for LTIP awards made in April 2018 were based on growth in EPS and TSR. Half of the awards to Executive Directors were based on relative TSR versus a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investments trusts. The other half was based on the Group's adjusted EPS for the financial year ended 31 December 2020.

The relevant targets and results for the year were as follows:

	50% TSR relative to a peer group		50% Adjusted EPS	
	Performance ranking required	% of element vesting	Performance required	% of element vesting
Below threshold	Below median	0%	Below 69p	0%
Threshold	Median	25%	69p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	69-80p	25%-100%
Stretch or above	Above 80th percentile	100%	80p	100%
Actual achieved	63 out of 173	59.9%	56.7p	0%

Based on the above, 29.95 per cent of the total award for 2018 will vest in May 2021.

The Committee considered the underlying financial performance of the Company during 2020, taking into account performance against key financial and strategic performance indicators as well as the experience of shareholders and other stakeholders during the period. The Committee also considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. The Committee also considered the impact of Covid-19 on the Group and determined that no adjustment was required to the proposed payout outcome.

The following is a summary of the awards that will vest under the scheme in 2021:

Director	Total number of shares granted	Percentage of award vesting (%)	Number of shares vesting	Value of shares vesting (£) ¹
G. Slark	156,613	29.95	46,905	373,364
D. Arnold	93,854	29.95	28,109	223,748

¹ As these awards do not vest until 9 April 2021, a deemed share price is used to calculate the value of shares vesting. This is taken as the three-month average to 31 December 2020 being £7.96.

LTIP Awards Granted During the Year Ended 31 December 2020

The following awards were made during the year ended 31 December 2020:

	Date of Grant	Number of nil cost Units	% of Base Salary	Share Price at Grant Date	Value of Award at Grant Date
G. Slark	10 Sep 20	164,714	200	£7.3725	£1,214,354
D. Arnold	10 Sep 20	98,709	175	£7.3725	£727,732

As disclosed in the 2019 Annual Report on Remuneration, it was originally intended that 50% of the 2020 LTIP award would be based on TSR performance versus the FTSE 250 excluding investment trusts and 50% on the adjusted EPS performance over the three-year period to 31 December 2022.

In view of the difficulty setting appropriate, stretching and fair EPS targets for 2022 due to the uncertainty in markets within which the Group operated, the Committee determined that it was no longer appropriate for the 2020 LTIP award to be based on EPS performance and, following shareholder consultation, agreed that the award would be 100% based on TSR. The Committee believes that basing 100% of the award on TSR is a clear and transparent approach and ensures that the vesting outcome is fully aligned with the shareholder experience.

The Committee consulted with major shareholders in advance of agreeing this change and was pleased with the level of support received.

In line with best practice and shareholder expectations, the Committee retains discretion to adjust the vesting outcome if it is not considered to be reflective of the underlying financial and/or non-financial performance of the business, the performance of the individual over the performance period or where the outcome is not considered appropriate in the context of the experience of shareholders and other stakeholders.

The 2020 awards to Mr. Slark and Mr. Arnold are subject to the achievement of the following TSR performance condition:

	100% TSR relative to a peer group	
	Performance ranking required	% of element vesting
Below threshold	Below median	0%
Threshold	Median	25%
Between threshold and stretch	Median-80th percentile	25%-100%
Stretch or above	Above-80th percentile	100%

The TSR comparator group consists of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts.

Annual Report on Remuneration continued

In line with best practice and shareholder expectations, the Committee retains discretion to adjust the vesting outcome if it is not considered to be reflective of the underlying financial and/or non-financial performance of the business, the performance of the individual over the performance period or where the outcome is not considered appropriate in the context of the experience of shareholders and other stakeholders. Vested awards are subject to a two-year holding period. Clawback provisions will apply.

External Appointments

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

Mr. Slark is a Non-Executive Director of Galliford Try Holdings plc and is permitted to retain his fee for the role which amounted to £41,783 in 2020.

Loss of Office Payments and Payments to Past Directors

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

Application of Remuneration Policy in 2021

Salaries

The Remuneration Policy for 2020 notes there is no prescribed maximum annual salary increase but the Committee will be guided by the general increases for the broader employee population but on occasion may need to recognise an increase in the scale, scope or responsibility of the role.

The following salaries will apply from 1 January 2021:

	2021 Base Salary	2020 Base Salary	% Increase
G. Slark	£610,820	£607,177	0.6%
D. Arnold	£418,341	£415,846	0.6%

Chairman and Non-Executive Directors' Fees

A benchmark review of fees payable to Non Executive Directors and the Chairman will be undertaken in the current year and any changes arising from this review will be disclosed in the 2021 Annual Report.

Pension and Benefits

Mr. Slark and Mr. Arnold will receive taxable pension contributions/ salary supplements in lieu of pension of £128,040 and 20 per cent of salary respectively which is consistent with the arrangements in place for 2020.

The Committee is mindful of the preference of some shareholders and shareholder advisory firms that the pensions for incumbent directors should be aligned with the wider workforce by the end of 2022. With effect from 31 December 2022, the pension contributions for the Group CEO and the Group CFO will be aligned to that of the majority of the workforce at the time.

Annual Bonus

The maximum potential performance related bonus pay award for the Chief Executive Officer for 2021 is 120 per cent of basic salary and the maximum bonus opportunity for 2021 for the Chief Financial Officer is 100 per cent of salary. These limits also applied in respect of 2020. 70 per cent of the annual bonus is based on Operating profit and 30 per cent on Return on capital employed. The measures and weightings for 2021 are as follows:

CEO Bonus Based on	% of Salary 2021	% of Salary 2020
Operating profit	84%	84%
Return on capital employed	36%	36%

CFO Bonus Based on	% of Salary 2021	% of Salary 2020
Operating profit	70%	70%
Return on capital employed	30%	30%

The actual bonus targets are commercially sensitive and will be disclosed in the 2021 Annual Report.

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

Clawback provisions operate as set out in the Remuneration Policy on page 102.

Long Term Incentives

Awards to be made in 2021 will be at the same level as 2020 being 200 per cent of salary for the CEO and 175 per cent of salary for the CFO. Vesting of the 2021 award will be based on relative TSR (50 per cent) and on EPS (50 per cent) performance conditions after the one off change to TSR last year as follows:

	50% TSR relative to a peer group		50% Adjusted EPS	
	Performance ranking required	% of element vesting	Performance required	% of element vesting
Below threshold	Below median	0%	Below 70.4p	0%
Threshold	Median	25%	70.4p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	70.4p-80.7p	25%-100%
Above 80th percentile	Above 80th percentile	100%	80.7p	100%

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

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

The 2023 post-IFRS 16 EPS growth range of 70.4p to 80.7p is based on compound annual growth of 7.5 per cent to 12.5 per cent on the post-IFRS 16 adjusted EPS of 56.7p for 2020.

The Committee set the percentage growth range having considered that the threshold is appropriately challenging whilst the upper end of the range is stretching and will only be achieved if performance is exceptional.

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

Relative Importance of Spend on Pay

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2020 financial year compared with the prior year.

	2020 £'000	2019 £'000	Percentage Change
Dividends payable	34,675	45,181	(23.3%)
Employee remuneration costs	363,725	395,567	(8.0%)

Percentage Change in Directors Pay

The table below shows the percentage year-on-year change in the value of salary/fees, annual bonus, pension, benefits and LTIP for all Directors between the current and previous year compared to that of the average employee.

	2020 £'000	2019 £'000	Percentage Change
G. Slark			
Salary	581	599	(3.0%)
Bonus	–	134	(100.0%)
Pension	123	128	(3.9%)
Benefits	42	45	(6.7%)
LTIP	373	946	(60.6%)
Total	1,119	1,852	(39.6%)
D. Arnold			
Salary	398	410	(2.9%)
Bonus	–	76	(100.0%)
Pension	80	82	(2.4%)
Benefits	41	44	(6.8%)
LTIP	224	566	(60.4%)
Total	743	1,178	(36.9%)

Annual Report on Remuneration continued

Percentage Change in Directors Pay (Continued)	2020 £'000	2019 £'000	Percentage Change
M. Roney	220	230	(4.3%)
P. Hampden Smith	59	61	(3.3%)
F. van Zanten	20	61	(67.2%)
S. Murray	59	61	(3.3%)
V. Crowley	59	61	(3.3%)
R. McGuckian	59	61	(3.3%)

Average employee

Salary, Benefits and Bonus (£)*	28,614	30,856	(7.3%)
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* Based on average number of persons employed during the year, from continuing operations. The decrease in constant currency was 7.7%.

CEO Pay Ratio to the Workforce

The table below shows the ratio of the CEO's total remuneration to the median (50th), 25th and 75th percentile full-time equivalent remuneration of the Group's UK employees.

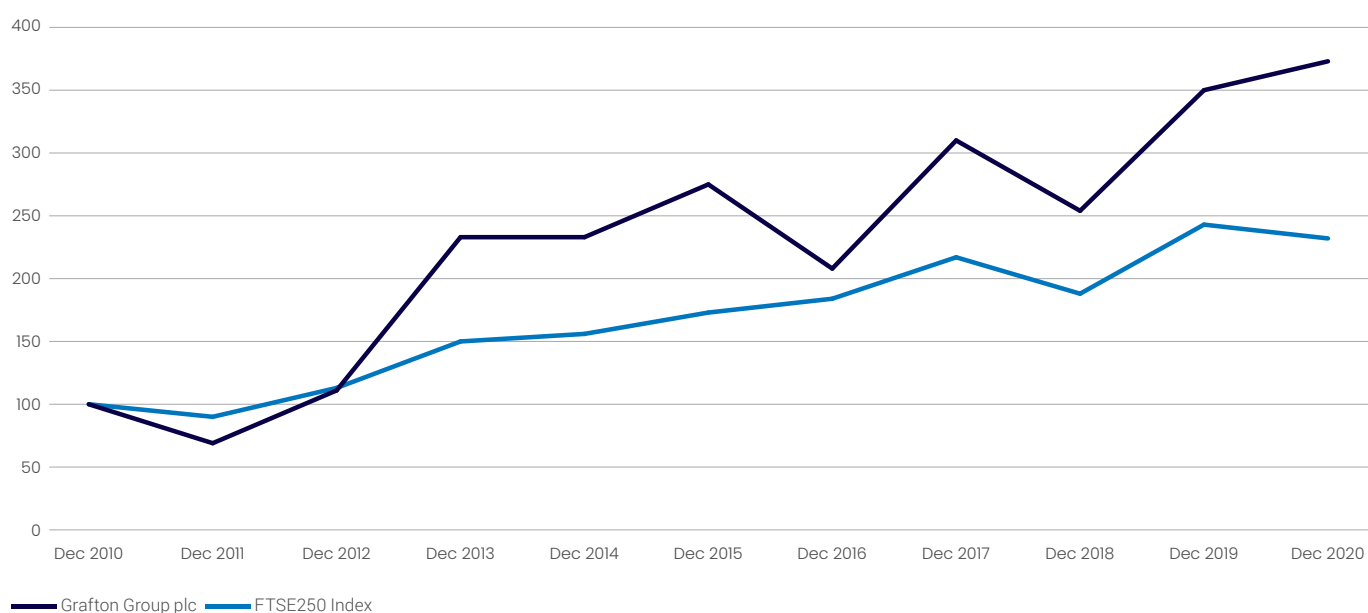
The total remuneration for employees includes wages and salaries, taxable benefits, bonuses, share based payments remuneration and pensions. Employee bonus data is based on bonuses paid in 2020, some of which relates to performance in the prior year.

CEO Pay	£1,118,992	Ratio
25th percentile	£20,036	56 : 1
Median (50th percentile)	£23,716	47 : 1
75th percentile	£30,753	36 : 1

Performance Graph and Single Total Figure of Remuneration

Total shareholder return

The graph below compares the TSR performance of Grafton Group plc, assuming dividends are re-invested, with the TSR performance of the FTSE 250 over the period 31 December 2010 to 31 December 2020.



Source: FactSet

This graph shows the value, by 31 December 2020, of £100 invested in Grafton Group Plc on 31 December 2010, compared with the value of £100 invested in the FTSE 250 Index on the same date. "This comparator group was chosen on the basis that the Company is a consistent of the index and it includes comparable sized businesses.

The other points plotted are the values at intervening financial year-ends.

The table below shows the total remuneration figure for the position of CEO over the ten years to 2020.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO single total figure of remuneration (£'000)	1,151	1,001	1,524	3,080	2,255	1,692	1,689	2,211	1,852	1,119
Annual bonus payout relative to maximum	16%	49%	49%	98%	53%	60%	100%	93%	19%	0%
LTIP vesting	N/A	N/A	45%	100%	87%	50%	26%	72%	95%	30%

Statement of Shareholder Voting at the 2020 AGM

The 2019 Annual Report on Remuneration received the following votes from shareholders:

	Total Number of Votes	% of Votes Cast
For	147,276,494	99.44
Against	823,144	0.56
Total	148,099,638	100.00

The 2020 Remuneration Policy received the following votes:

	Total Number of Votes	% of Votes Cast
For	141,317,978	94.54%
Against	8,158,554	5.46%
Total	149,476,532	100.00

The number of votes withheld for the Annual Report on Remuneration was 3,683,594 and the Remuneration Policy 2,306,700

Directors' and Secretary's Interests

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

Director	31 December 2020 Grafton Units*	31 December 2019 Grafton Units*	Unvested LTIP Awards**	Unvested SAYE Options***
G. Slark	451,236	375,280	462,663	–
D. Arnold	148,459	103,000	277,262	4,253
M. Roney	33,824	22,432	–	–
P. Hampden Smith	32,990	32,990	–	–
V. Crowley	8,000	8,000	–	–
S. Murray	1,500	1,500	–	–
R. McGuckian	1,332	–	–	–
Secretary				
C. Rinn	452,646	428,117	84,304	–

* At 31 December 2020 and at 31 December 2019, a Grafton Unit comprised one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

** Vesting of these awards is subject to performance conditions and includes awards granted in 2018, 2019 and 2020.

*** Option to buy shares at the agreed price within six months of the end of the three year period on 1 December 2020 (1,329 units), 1 December 2021 (1,367 units) and 1 December 2023 (1,557 units).

The closing price of a Grafton Unit on 31 December 2020 was 922.5p (31 December 2019: 867.0p) and the price range during the year was between 371.0p and 990.0p (2019: 645.5p and 937.0p).

There have been no changes in the interests of the Directors and Secretary between 31 December 2020 and the date of this report other than the exercise by David Arnold of options to purchase 1,329 Grafton Units under the SAYE scheme on 25 February 2021.

To further align the interests of senior management with those of shareholders, Executive Directors are subject to share ownership guidelines. Executive Directors are required to build a holding of shares in the Company with a minimum value of 200 per cent of their salary. Directors are required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until this share ownership requirement is fulfilled.

Mr. Slark held shares at the year-end valued at 6.9 times his salary. Mr. Arnold held shares at the year-end valued at 3.3 times his salary. This is based on the closing price of a Grafton Unit on 31 December 2020 of 922.5p.

Annual Report on Remuneration continued

During the year 2017 LTIP awards over 151,170 Grafton Units vested in May in favour of Mr. Slark who instructed the Company to immediately sell 75,214 of these Grafton Units to meet tax liabilities and brokers commission and he retained the remainder being 75,956 Grafton Units.

2017 LTIP awards over 90,343 Grafton Units vested in May in favour of Mr. Arnold who instructed the Company to immediately sell 44,884 of these Grafton Units to meet tax liabilities and brokers commission and he retained the remainder being 45,459 Grafton Units.

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

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

Grant Date	Share Price on date of Grant	Number of Units							Performance Period	Vesting Date***	
		1 January 2020	Granted	Lapsed	Shares Received	31 Dec 2020	EPS Condition	TSR Condition			
G. Slark	12 April 2017	£7.15	121,654	–	(6,101)	(115,553)*	–	–	–	1 Jan 2017-31 Dec 2019	12 April 2020
	10 May 2017	£7.74	37,497	–	(1,880)	(35,617)**	–	–	–	1 Jan 2017-31 Dec 2019	10 May 2020
	9 April 2018	£7.54	156,613	–	–	–	156,613	78,307	78,306	1 Jan 2018-31 Dec 2020	9 April 2021
	12 April 2019	£8.48	141,336	–	–	–	141,336	70,668	70,668	1 Jan 2019-31 Dec 2021	12 April 2022
	10 Sept 2020	£7.37	–	164,714	–	–	164,714	–	164,714	1 Jan 2020-31 Dec 2022	10 Sept 2023
			457,100	164,714	(7,981)	(151,170)	462,663	148,975	313,688		
D. Arnold	12 April 2017	£7.15	69,432	–	(3,482)	(65,950)*	–	–	–	1 Jan 2017-31 Dec 2019	12 April 2020
	10 May 2017	£7.74	25,681	–	(1,288)	(24,393)**	–	–	–	1 Jan 2017-31 Dec 2019	10 May 2020
	9 April 2018	£7.54	93,854	–	–	–	93,854	46,927	46,927	1 Jan 2018-31 Dec 2020	9 April 2021
	12 April 2019	£8.48	84,699	–	–	–	84,699	42,349	42,350	1 Jan 2019-31 Dec 2021	12 April 2022
	10 Sept 2020	£7.37	–	98,709	–	–	98,709	–	98,709	1 Jan 2020-31 Dec 2022	10 Sept 2023
			273,666	98,709	(4,770)	(90,343)	277,262	89,276	187,986		
C. Rinn	12 April 2017	£7.15	20,269	–	(1,016)	(19,253)*	–	–	–	1 Jan 2017-31 Dec 2019	12 April 2020
	10 May 2017	£7.74	5,555	–	(279)	(5,276)**	–	–	–	1 Jan 2017-31 Dec 2019	10 May 2020
	9 April 2018	£7.54	25,579	–	–	–	25,579	12,790	12,789	1 Jan 2018-31 Dec 2020	9 April 2021
	12 April 2019	£8.48	26,291	–	–	–	26,291	13,145	13,146	1 Jan 2019-31 Dec 2021	12 April 2022
	10 Sept 2020	£7.37	–	32,434	–	–	32,434	–	32,434	1 Jan 2020-31 Dec 2022	10 Sept 2023
			77,694	32,434	(1,295)	(24,529)	84,304	25,935	58,369		

* The market price at the date of vesting was £6.2275.

** The market price at the date of vesting was £6.3550.

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

The Group's previous long term incentive share scheme expired in April 2009. Consequently, no long term incentive awards were made during 2010. Shareholder approval was granted at the AGM held on 4 May 2011 for the introduction of a new Long Term Incentive Plan and the first awards under the plan were made on 25 May 2011. Subsequent awards under the LTIP were made on 18 April 2012, 16 April 2013, 16 April 2014, 17 April 2015, 14 April 2016, 12 April 2017, 10 May 2017, 9 April 2018, 12 April 2019 and 10 September 2020.

Susan Murray

Chair of the Remuneration Committee

8 March 2021

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2020.

Group Results

Group revenue from continuing operations declined by 6.1 per cent to £2.51 billion (2019: £2.67 billion) and by 6.6 per cent in constant currency. Statutory operating profit was £159.7 million (2019: £197.8 million). Adjusted operating profit from continuing operations of £193.3 million (2019: £204.8 million) declined by 5.6 per cent.

The net finance expense increased by £1.8 million to £26.9 million (2019: £25.1 million). The recognition of leases on the balance sheet under IFRS 16 created an interest charge on lease liabilities of £18.3 million (2019: £19.7 million).

The income tax expense of £25.2 million (2019: £28.7 million) is equivalent to an effective tax rate of 19.0 per cent on profit from continuing operations (2019: 16.6 per cent).

Basic earnings per share from continuing operations was 45.1 pence (2019: 60.5 pence). Adjusted earnings per share from continuing operations was 56.7 pence (2019: 62.8 pence).

The Group and Company financial statements for the year ended 31 December 2020 are set out in detail on pages 130 to 199.

Dividends

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February in the amount of £29.9 million.

A final dividend for the year of 14.5p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 28 April 2020. The dividend for 2020 and future dividends will be paid by Grafton Group plc following the simplification of the Grafton Unit which was approved by shareholders at the EGM on 21 January 2021 and which took effect on 7 March 2021 at 6.00pm.

A liability in respect of any future dividend has not been recognised at 31 December 2020, as there was no present obligation to pay any dividends at year end.

Review of the Business

Shareholders are referred to the Chairman's Statement, Chief Executive Officer's Review, Sectoral and Strategic Review and Financial Review which contain a review of operations and the financial performance of the Group for 2020 the outlook for 2021 and the key performance indicators used to assess the performance of the Group. These are deemed to be incorporated in the Report of the Directors.

Cautionary Statement

Certain statements made in this Annual Report are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied by these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of Directors and senior management concerning, amongst other things, the results of operations, financial conditions, liquidity, prospects, growth rate and potential growth opportunities, potential operating performance improvements, the effects of competition and the strategy of the overall Group and its individual businesses. You should not place undue

reliance on forward looking statements. These forward looking statements are made as at the date of this Directors Report. The Company and its Directors expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by law.

The risk factors included on pages 59 to 65 of this Annual Report could cause the Group's results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that the Group is unable to predict at this time or that the Group currently does not expect to have a material adverse effect on its business. These forward-looking statements are made as of the date of this Annual Report.

Board of Directors

Under the Company's Articles of Association, Directors are required to submit themselves to shareholders for election at the Annual General Meeting following their appointment and all Directors are required to submit themselves for re-election at intervals of not more than three years.

However, in line with the provisions contained in the UK Corporate Governance Code, all Directors retired at the conclusion of the 2020 Annual General Meeting and being eligible offered themselves for re-election. All Directors were re-elected to the Board on the same day with the exception of Mr. Frank van Zanten who indicated that he would resign from the board following the AGM.

The Board has decided that all Directors seeking re-election should retire at the 2021 Annual General Meeting and offer themselves for re-election.

Share Capital

At 31 December 2020, a Grafton Unit comprised one ordinary share of 5 cent and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

At an Extraordinary General Meeting on 21 January 2021, shareholders approved a resolution relating to the surrender and cancellation of the 'A' Ordinary Shares and the purchase of the 'C' Ordinary Shares and related waiver of rights. These changes took effect from 6.00 p.m. on 7 March 2021. From that date shareholders retained only their holdings of Ordinary Shares in Grafton Group plc.

The Group has in place a number of employee share schemes, the details of which are set out in the Report of the Remuneration Committee on Directors' Remuneration and in Note 31 to the Group Financial Statements.

Report of the Directors continued

Annual General Meeting (AGM)

The AGM of the Company will be held at the Offices of Grafton Group plc, Heron House, Corrig Road, Sandyford Business Park, Dublin 18 at 10.30am on 28 April 2021. The Notice of Meeting for the 2021 AGM will be made available on the Group's website, www.graftonplc.com. The principal resolutions to be considered at the Annual General Meeting are summarised below.

Final Dividend

Shareholders are being asked to declare a final dividend of 14.5 pence per Ordinary Share for the year ended 31 December 2020 payable to the holders of Ordinary Shares on the register of members at close of business on 9 April 2021 and to be paid on 5 May 2021.

Continuation in Office of Auditors

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

Report of the Remuneration Committee on Directors' Remuneration

In line with best practice, the Board is proposing to submit the Chairman's Annual Statement and the Annual Report on Remuneration of the Remuneration Committee (other than the Remuneration Policy Report which was approved at the 2020 AGM), as set out on pages 95 to 98 and 105 to 114, to a non-binding advisory vote.

Notice period for Extraordinary General Meetings

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

Authority to Allot Relevant Securities

Shareholders are being asked to renew the Directors' authority to allot and issue any unissued ordinary share capital of the Company. The total number of shares which the Directors may issue under this authority will be limited to approximately 25 per cent of the issued share capital of the Company at 3 March 2021. The Directors have no present intention to make a share issue other than in respect of employee share schemes.

Disapplication of Pre-emption Rights

At each Annual General Meeting, the Directors seek authority to disapply statutory pre-emption rights in relation to allotments of shares for cash up to an aggregate nominal value for all allotments and all treasury shares of approximately €597,935 representing five per cent of the nominal value of the issued ordinary share capital of the Company.

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

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

At the 2020 Annual General Meeting, shareholders gave the Company and/or any of its subsidiaries authority to make market purchases of up to 10 per cent of the Company's own shares. Shareholders are being asked to renew this authority.

The Directors have no present intention to exercise this authority. However, the Directors consider it appropriate to maintain the flexibility that this authority provides. The Directors monitor the Company's share price and may from time to time exercise this power to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position. The minimum price which may be paid for any market purchase of the Company's own shares will be the nominal value of the shares and the maximum price which may be paid will be 105 per cent of the then average market price of the shares.

Authority to Re-issue Treasury Shares

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

The authorities which will be sought at the forthcoming AGM to allot relevant securities, dis-apply pre-emption rights, purchase the Company's Units and re-issue treasury shares will, if granted, expire on the earlier of the date of the Annual General Meeting in 2022 or 15 months after the passing of these resolutions.

Rights of Members under Companies Act 2014

Resolution 12 is being tabled as a direct consequence of the United Kingdom's withdrawal from the European Union. As the shares in Grafton Group plc are listed solely in London, the Company is no longer a "traded plc" (i.e. a company whose shares are admitted to trading on a regulated market in any EU Member State) within the meaning of section 1099(4) of the Companies Act 2014 (the "Act") and therefore the Shareholder Rights Directive (EU) 2017/828, which introduced a number of measures aimed at enhancing the rights of shareholders of listed companies, no longer applies with respect to the Company.

In order to ensure that the rights of shareholders in the Company are aligned with other Irish incorporated companies that are listed on a regulated market in the European Union, the Directors agreed in January of this year that it was desirable for shareholders that these rights be retained by the Company. It is therefore proposed that the shareholder rights that can no longer be exercised by the Company's shareholders as a result of Brexit will be enshrined in the Articles of Association of the Company pursuant to Resolution 12. It should be noted that this change will reinstate rights and protections that are available to shareholders in all companies that are listed on the London and Euronext Dublin Stock Exchanges except for a small number of companies in Ireland that have a sole listing in London.

An amendment is proposed to the Company's Articles of Association which would incorporate a Shareholders' Rights Addendum which would essentially replicate the shareholders' rights which have been lost as a consequence of Brexit. This addendum will fall away when and if there is a change of law in Ireland to restore these rights.

Set out below is a list of the rights:

- (a) Equality of treatment of shareholders
- (b) Right of shareholder with 5 per cent or more of the voting rights to convene an EGM
- (c) At least 21 days' notice to be given for a shareholders' meeting provided that a shareholders' meeting (other than for the passing of a special resolution) may be called by not less than 14 days' notice if:
 - (i) electronic means for voting are made accessible to all shareholders; and
 - (ii) the reduced notice period is approved by a resolution of shareholders at the previous AGM or at a general meeting held since the previous AGM
- (d) Requirement to include a Remuneration Report in the Annual Report
- (e) Publication and content requirements for an AGM/EGM Notice
- (f) Right of shareholder with 3 per cent or more of the voting rights to put items on the agenda of the annual general meeting and to table draft resolutions at any general meeting
- (g) Requirements for participation and voting in general meetings
- (h) Participation in shareholders' meetings by electronic means
- (i) Right to ask questions at a shareholders' meeting
- (j) Provisions concerning appointment of proxies
- (k) The Company may permit votes to be cast in advance by correspondence
- (l) Requirements regarding the publication of voting results of a shareholders' meeting
- (m) Identification of shareholders and handling personal data arising from this process
- (n) Obligations of shareholders who are intermediaries to transmit company communications to shareholders
- (o) Provisions to facilitate the exercise of shareholders' rights
- (p) Rights of shareholders' to vote on the remuneration policy
- (q) Content of the Remuneration Report
- (r) Transparency and approval of related party transactions

Authority to Adopt the Grafton Group plc 2021 Approved SAYE Plan

The Company currently operates the Grafton Group (UK) plc 2011 Approved SAYE Plan. The existing Scheme will terminate in April 2021 and the Remuneration Committee of the Company (the "Committee") proposes to introduce the Grafton Group plc 2021 Approved SAYE Plan as a replacement to enable similar savings-related option grants under UK HMRC approved rules to be made to Group employees in the UK.

Authority to Adopt the Grafton Group plc Long Term Incentive Plan

The Committee is committed to developing and implementing remuneration policies which provide an appropriate motivational framework and which closely align the interests of the executive directors and senior executives with the performance of the business and the interests of shareholders. The Committee is therefore proposing to implement the Grafton Group plc 2021 Long Term Incentive Plan which is designed to incentivise executive directors and senior executives in the Group and which is linked to long term performance. This is a renewal of the 2011 scheme which will expire in April 2021.

Report of the Directors continued

Substantial Holdings

So far as the Company is aware, the following held shares representing 3 per cent or more of the ordinary share capital of the Company (excluding treasury shares) at 31 December 2020 and 3 March 2021:

Name	31 December 2020		3 March 2021	
	Holding	%	Holding	%
Mr. Michael Chadwick*	21,926,409	9.17	21,926,409	9.17
Blackrock, Inc.	20,616,894	8.63	21,059,870	8.81
Investec Asset Management Limited	19,046,178	7.97	19,046,178	7.96
Standard Life Aberdeen plc*	13,440,263	5.62	13,692,322	5.72
Dimensional Fund Advisors LP	9,513,966	3.98	9,513,966	3.98
Aviva plc	–	–	7,260,353	3.04
JPMorgan Asset Management Holdings Inc.	7,231,245	3.03	7,231,245	3.02
Norges Bank	7,151,759	2.99	7,151,759	2.99

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

Apart from these holdings, the Company has not been notified at 3 March 2021 or at 31 December 2020 of any interest of 3 per cent or more in its ordinary share capital.

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

Accounting Records

The Directors are responsible for ensuring that adequate accounting records are maintained by the Company as required by Sections 281-285 of the Companies Act, 2014. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Business Park, Dublin 18, Ireland.

Takeover Regulations 2006

The capital structure of the Company is detailed in Note 18 to the Group Financial Statements. Details of employee share schemes are set out in Note 31. In the event of a change of control, the vesting/conversion/ exercise of share entitlements/options may be accelerated. The Group's borrowing facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Act and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above. The Company's Memorandum and Articles of Association, which are available on the Company's website, www.graftonplc.com, are deemed to be incorporated in this part of the Report of the Directors.

Corporate Governance Regulations

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 80 to 87 and which, for the purposes of Section 1373 of the Companies Act 2014, is deemed to be incorporated in this part of the Report of the Directors. This includes the Report of the Audit and Risk Committee. Details of the capital structure and employee share schemes are included in Notes 18 and 31 respectively.

Directors Compliance Statement

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

Principal Risks and Uncertainties

The Company is required under Irish company law to give a description of the principal risks and uncertainties. These principal risks and uncertainties are set out on pages 59 to 65 and are deemed to be incorporated in this section of the Report of the Directors.

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

The following are deemed to be incorporated in this part of the Report of the Directors:

Reporting Requirement	Location of Information	Page
Environmental Matters	Sustainability Report	72 to 73
Social & Employee Matters	Sustainability Report	68 to 71
	Note 11 to the Group Financial Statements	153
	Note 6 to the Group Financial Statements	150
Diversity	Sustainability Report	69 to 70
	Nomination Committee Report	94
Human Rights	Sustainability Report	75
Anti-bribery & Corruption	Sustainability Report	75
	Audit & Risk Committee Report	91
Business Model	Business Model	24 to 25
Non-Financial KPIs	Key Performance Indicators	36 to 37
Principal Risks	Risk Management	59 to 65
Financial Instruments	Note 21 to the Group Financial Statements	168 to 173

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on pages 198 and 199.

Political Contributions

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

Events after the Balance Sheet Date

There have been no material events subsequent to 31 December 2020 that would require adjustment to or disclosure in this report.

Auditor

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

Disclosure of Information to Statutory Auditors

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

- So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2014) of which the statutory Auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to ensure that the statutory Auditor is aware of such information.

On behalf of the Board.

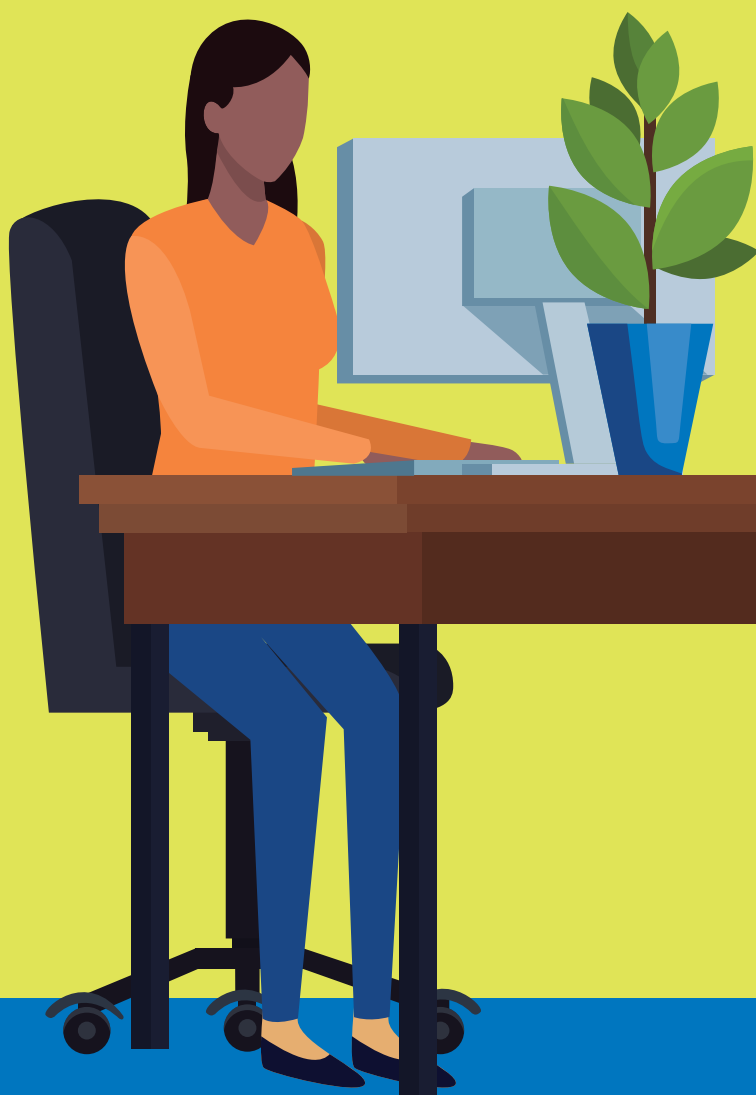
Gavin Slark

Director
8 March 2021

David Arnold

Director
8 March 2021

Financial Statements





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Directors' Responsibility Statement

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

Company law in the Republic of Ireland requires the Directors to prepare Group and Company financial statements each year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland) and Irish law.

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the Group financial statements comply with IFRS as adopted by the European Union, and as regards the Company, have been prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland) and Irish law; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also required by the Companies Act 2014 and the Listing Rules to include a report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website (www.graftonplc.com). Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement as Required by the Listing Rules and the UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 78 and 79 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRS as adopted by the European Union and the Company financial statements prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland) and Irish law, as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities, financial position of the Group and Company at 31 December 2020 and of the profit of the Group for the year then ended;
- The Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company and that a fair description of the principal risks and uncertainties faced by the Group and Company is provided on pages 59 to 65; and
- The Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

On behalf of the Board

Gavin Slark
Director
8 March 2021

David Arnold
Director

Independent Auditors' Report to the Members of Grafton Group plc

Report on the Audit of the Financial Statements

Opinion

In our opinion

- Grafton Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at 31 December 2020 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and Irish law); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report and Accounts 2020 (the "Annual Report"), which comprise:

- The Group Balance Sheet as at 31 December 2020;
- The Company Balance Sheet as at 31 December 2020;
- The Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- The Group Cash Flow Statement for the year then ended;
- The Group Statement of Changes in Equity for the year then ended;
- The Company Statement of Changes in Equity for the year then ended; and
- The notes to the financial statements, which include a description of the significant accounting policies.

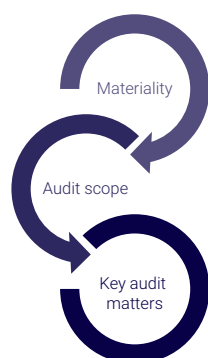
Basis for Opinion

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

Independence

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

Our Audit Approach Overview



Materiality

- £8.0 million (2019: £8.6 million) – Group financial statements
- Based on c. 5% of an average of profit before tax for the three years, FY18 to FY20
- (2019: Based on c. 5% of profit before tax).
- €7.5 million (2019: €8.6 million) – Company financial statements
- Based on c. 0.5% of total assets.

Audit scope

- We conducted an audit of the complete financial information of 12 of the Group's 17 reporting components across the United Kingdom, Ireland and the Netherlands. These accounted for in excess of 90% of revenue and profit before tax from continuing operations and in excess of 95% of total assets.

Key audit matters

- Valuation of goodwill.
- Completeness and accuracy of rebate income and valuation of rebate receivables.
- Valuation of inventory.

Independent Auditors' Report to the Members of Grafton Group plc continued

Our Audit Approach (continued)

The Scope of Our Audit

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of Goodwill</i></p> <p>Refer to page 91 (Audit and Risk Committee Report), note 1, Summary of significant accounting policies and note 12, Goodwill. As at 31 December 2020 Goodwill amounted to £704.1 million. Goodwill is allocated to 4 groups of Cash Generating Units ("CGUs") in order to conduct impairment testing. The groups of CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes.</p> <p>Goodwill must be tested for impairment on at least an annual basis. The Group tests goodwill for impairment using a value-in-use ("VIU") model. The cash flows included in this VIU model are those included in the management approved forecasts for the period from 2021 to 2025 and long term growth rates are used to estimate cash flows beyond that period.</p> <p>As set out in note 12 to the financial statements, impairment testing of goodwill involves a number of areas of judgement and estimates, in particular estimating the revenue growth and gross margin assumptions in the period 2021 to 2025, long term growth rates used in calculating a terminal value and pre-tax discount rates for each CGU. We determined this to be a key audit matter due to the significance of this asset, which accounts for 24% of total assets of the Group at 31 December 2020 and because the Directors' assessment of the recoverable amount of goodwill involves complex and subjective judgements about the future results of the business.</p>	<p>We agreed the underlying cash flow forecast models for each of the groups of CGUs to the management approved budgets and checked the mathematical accuracy of the models.</p> <p>We considered the reliability of management's forecasting process by considering how actual results compared to forecasts for the years 2016 to 2020.</p> <p>We critically assessed and challenged management on the key assumptions included in the model, in particular the revenue growth and gross margin assumptions over the period 2021 to 2025, including an assessment of how the continuing global Covid-19 pandemic is reflected in the revenue assumptions.</p> <p>We compared the growth rates to external data and considered them to be within reasonable ranges. We assessed the appropriateness of forecast gross margins through comparison to actual historic margins achieved.</p> <p>We assessed the appropriateness of the Group's forecast long term growth rates used to calculate terminal values by comparing them to independent sources. We found that the assumptions were within a reasonable range.</p> <p>We also considered the appropriateness of the discount rates applied to each of the groups of CGUs by comparing the elements of the weighted average cost of capital calculation to external benchmarks. We performed sensitivity analyses on the impact of changes in key assumptions on the goodwill impairment assessment, focussing on the cash flows, discount rate and the rates of growth assumed by management.</p> <p>We assessed the appropriateness of the related disclosures in note 12 to the Group's financial statements.</p>

Key audit matter*Completeness and accuracy of rebate income and valuation of rebate receivables*

Refer to page 91 (Audit and Risk Committee Report), note 1, Summary of Significant Accounting Policies and note 17a, Trade and Other Receivables.

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

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

We determined this to be a key audit matter as the calculation of supplier rebates recognised in the year and the rebates receivable at 31 December 2020 involves the use of estimates and because of the manual nature of the underlying calculations in some businesses.

Valuation of inventory

Refer to page 91 (Audit and Risk Committee Report), note 1, Summary of significant accounting policies and note 16, Inventories.

Inventory, net of provisions at 31 December 2020 amounted to £321.6 million. The inventory provision at 31 December 2020 was £47.9 million. The Group holds a significant number of product lines across its branch network in the UK, Ireland and the Netherlands. Significant judgement is exercised by management in assessing the level of inventory provision in respect of slow-moving inventory.

Management assesses the required level of provision based on a model that reflects the age of inventory on hand at year end and other considerations in respect of specific inventory.

In locations that had stocktakes in advance of the year end, management estimates a provision for stock losses (a "shrinkage provision") in order to accurately state inventory on hand at year end. Where inventory on which rebates have been earned is held at the year-end, an appropriate rebate deduction is made from the gross carrying value of that inventory.

We determined this to be a key audit matter due to the judgement and complexity involved in estimating the inventory provisions and rebate deductions across multiple product lines and locations.

How our audit addressed the key audit matter

We updated our understanding of the significant rebate arrangements that the Group has entered into by meeting procurement personnel and reading a sample of contracts.

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

We recalculated, on a sample basis, rebates recognised during the year and year end receivables by reference to supplier agreements and purchases reports. Where arrangements had volume targets, we assessed the appropriateness of assumptions made by reference to actual purchases in the period.

For a sample of suppliers, we obtained third party confirmation of rebate income and rebates due at 31 December 2020. Where responses were not received, we completed alternative procedures including obtaining rebate agreements and re-computing rebate income and rebates receivable.

We also considered the actual results of the collection of rebates during the year, including those relating to the prior year, comparing the amount collected to the related estimated rebates receivable and noted that recovered amounts did not vary significantly from amounts estimated. We assessed the appropriateness of the related disclosures within the financial statements.

We tested the accuracy of inventory ageing reports where they supported the calculation of inventory provisions by selecting a sample of inventory items on hand and testing the aged classification by reference to purchase documentation.

We recomputed provisions recorded to assess whether they were in line with Group policy. We assessed the appropriateness of Group policy by reference to past experience and taking into account the estimated impact of the Covid-19 pandemic on short term forecasts.

We also obtained an understanding from management of plans to liquidate slower moving inventory and we considered the appropriateness of provisions made.

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

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

We assessed the appropriateness of the related disclosures within the financial statements.

Independent Auditors' Report to the Members of Grafton Group plc continued

How we tailored the audit scope

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

The Group financial statements are a consolidation of 17 reporting components across 3 geographical markets. The Group's accounting process is structured around a local finance function for each of the reporting components. These functions maintain their own accounting records and controls and report to the head office finance team in Dublin.

In establishing the scope of the Group audit, we identified 4 reporting components that each contribute over 15% of Group profit before tax and / or Group turnover, which in our view required an audit of their complete financial information due to their size and financial significance to the Group. A further 8 reporting components had an audit of their complete financial information based on our risk assessment, the materiality of the reporting component and statutory audit requirements.

This resulted in a total of 12 reporting components being subject to an audit of their full financial information. For the remaining 5 components, the Group audit team performed analytical procedures at a Group level to support our assessment that there were no significant risks of material misstatement within these components.

The full scope audits of reporting components and Group functions accounted for in excess of 90% of revenue, profit before tax and total assets. The Group team were responsible for the scope and direction of the audit process. The Group audit team performed the work on 6 components. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Due to Covid-19 restrictions, the Group audit team did not physically visit component teams in the current year but have interacted regularly with the component teams during all stages of the audit. The Group audit team attended all 12 of the component audit closing meetings with local management where the results of the components' audits were finalised, either by video conference or by conference call. We obtained and considered the detailed findings reports from all component teams. In addition, the Group audit team reviewed working papers of the auditors for the significant components.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£8.0 million (2019: £8.6 million).	€7.5 million (2019: €8.6 million).
How we determined it	c. 5% of an average of profit before tax for the three years, FY18 to FY20. (2019: c. 5% of profit before tax)	c.0.5% of total assets.
Rationale for benchmark applied	We have applied this benchmark as profit before tax is a key accounting benchmark, which is also a key performance indicator for the Group. The originally budgeted profit before tax for the current year has declined significantly due to the unexpected business interruption resulting from Covid-19. The impact of the business interruption is likely to be largely limited to the current audit period and we consider it appropriate to use a benchmark based on the Group's average profit before tax over a period of three years, including the current year.	We considered total assets to be the most relevant benchmark as the Company is primarily an investment holding company which holds investments in subsidiaries and receivables from Group companies.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £400,000 (Group audit) (2019: £430,000) and €375,000 (Company audit) (2019: €430,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included evaluating management's budgets and forecasts for the going concern assessment period (being the period of twelve months from the date on which the financial statements are authorised for issue) and challenging the key assumptions. In evaluating these forecasts we considered the Group's historic performance, its past record of achieving strategic objectives and management's assessment of the likely impact which Covid-19 may have on its operations, its financial performance and liquidity for the going concern assessment period.

We also considered whether the assumptions underlying the budget and forecasts were consistent with related assumptions used in other areas of the entity's business activities, for example in testing for non-financial asset impairment; considered the Group's available financing and maturity profile to assess liquidity through the going concern assessment period; tested the mathematical integrity of the budgets and forecasts and the models and reconciling these to Board approved budgets; and performed sensitivity analysis to assess appropriate downside scenarios. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's or the Company's ability to continue as a going concern.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

We are required to report if the directors' statement relating to going concern in accordance with Rule 9.8.6R(3) of the Listing Rules of the UK Financial Conduct Authority is materially inconsistent with our knowledge obtained in the audit. We have nothing to report in respect of this responsibility.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on Other Information

The other information comprises all of the information in the Annual Report and Accounts 2020 other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Report of the Directors, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland), the Companies Act 2014 (CA14) and the Listing Rules applicable to the Company (Listing Rules) require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

Independent Auditors' Report to the Members of Grafton Group plc continued

Reporting on Other Information continued

Report of the Directors

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors (excluding the information included in the "Non Financial Statement" on which we are not required to report) for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Directors (excluding the information included in the "Non Financial Statement" on which we are not required to report). (CA14)

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

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

- The directors' confirmation on page 59 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 87 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code provisions

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

- The statement given by the directors on page 122 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 88 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at: https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

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

Other Required Reporting

Companies Act 2014 Opinions on Other Matters

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

Other Exception Reporting

Directors' remuneration and transactions

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

Prior financial year Non Financial Statement

We are required to report if the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 in respect of the prior financial year. We have nothing to report arising from this responsibility.

Paul O'Connor

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
8 March 2021

Group Income Statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	2	2,509,089	2,672,281
Operating costs before exceptional items	3	(2,327,338)	(2,481,392)
Property profits		2,613	6,894
Operating profit before exceptional items		184,364	197,783
Exceptional items	4	(24,685)	–
Operating profit		159,679	197,783
Finance expense	7	(27,639)	(27,391)
Finance income	7	698	2,249
Profit before tax		132,738	172,641
Income tax charge	9	(25,196)	(28,717)
Profit after tax for the financial year from continuing operations		107,542	143,924
Loss after tax from discontinued operations	27	–	(24,692)
Profit after tax for the financial year		107,542	119,232
Profit attributable to:			
Owners of the Parent		107,542	119,232
Profit attributable to:			
Continuing operations		107,542	143,924
Discontinued operations		–	(24,692)
Earnings per ordinary share (continuing operations) – basic	11	45.11p	60.53p
Earnings per ordinary share (continuing operations) – diluted	11	45.10p	60.32p
Earnings per ordinary share (discontinued operations) – basic	11	–	(10.38p)
Earnings per ordinary share (discontinued operations) – diluted	11	–	(10.35p)
Earnings per ordinary share (total) – basic	11	45.11p	50.14p
Earnings per ordinary share (total) – diluted	11	45.10p	49.97p

On behalf of the Board

Gavin Slark
Director
8 March 2021

David Arnold
Director

Group Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Profit after tax for the financial year		107,542	119,232
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
– on foreign currency net investments		11,777	(8,474)
– on disposal of Group businesses		–	(664)
		11,777	(9,138)
Fair value movement on cash flow hedges:			
– Effective portion of changes in fair value of cash flow hedges		(74)	(90)
– Net change in fair value of cash flow hedges transferred from equity		–	151
Deferred tax on cash flow hedges	25	–	(9)
		11,703	(9,086)
Items that will not be reclassified to the income statement			
Remeasurement loss on Group defined benefit pension schemes	30	(21,779)	(1,291)
Deferred tax on Group defined benefit pension schemes	25	3,709	373
		(18,070)	(918)
Total other comprehensive income		(6,367)	(10,004)
Total comprehensive income for the financial year		101,175	109,228
Total comprehensive income attributable to:			
Owners of the Parent		101,175	109,228
Total comprehensive income for the financial year		101,175	109,228

On behalf of the Board

Gavin Slark
Director
8 March 2021

David Arnold
Director

Group Balance Sheet

As at 31 December 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
Non-current assets			
Goodwill	12	704,064	657,845
Intangible assets	15	115,905	103,268
Property, plant and equipment	13(a)	493,539	500,924
Right-of-use asset	13(b)	505,922	522,245
Investment properties	13(d)	12,328	12,526
Deferred tax assets	25	13,386	7,600
Finance lease receivable	17(b)	2,015	2,417
Retirement benefit assets	30	2,099	756
Other financial assets	14	128	127
Total non-current assets		1,849,386	1,807,708
Current assets			
Properties held for sale	13(c)	18,058	16,274
Inventories	16	321,558	317,632
Trade and other receivables	17(a)	336,944	388,023
Finance lease receivable	17(b)	301	297
Cash and cash equivalents	20	456,028	348,787
Derivative financial instruments	22	–	7
Total current assets		1,132,889	1,071,020
Total assets		2,982,275	2,878,728
EQUITY			
Equity share capital	18	8,569	8,516
Share premium account	18	216,496	213,719
Capital redemption reserve	19	621	621
Revaluation reserve	19	12,733	12,954
Shares to be issued reserve	19	6,714	12,889
Cash flow hedge reserve	19	(65)	9
Foreign currency translation reserve	19	81,919	70,142
Retained earnings		1,143,933	1,047,698
Treasury shares held	18	(3,897)	(3,897)
Total equity attributable to owners of the Parent		1,467,023	1,362,651
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	20	274,030	339,261
Lease liabilities	20	479,019	487,999
Provisions	23	20,620	15,785
Retirement benefit obligations	30	52,683	21,939
Deferred tax liabilities	25	54,399	47,109
Total non-current liabilities		880,751	912,093
Current liabilities			
Lease liabilities	20	57,915	55,368
Derivative financial instruments	22	65	–
Trade and other payables	24	545,949	511,855
Current income tax liabilities		21,116	27,461
Provisions	23	9,456	9,300
Total current liabilities		634,501	603,984
Total liabilities		1,515,252	1,516,077
Total equity and liabilities		2,982,275	2,878,728

On behalf of the Board

Gavin Slark
Director
8 March 2021

David Arnold
Director

Group Cash Flow Statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Profit before taxation from continuing operations		132,738	172,641
(Loss) before taxation from discontinued operations	27	–	(23,564)
Profit before taxation		132,738	149,077
Finance income	7	(698)	(2,249)
Finance expense (<i>continuing and discontinued</i>)	7	27,639	27,391
Operating profit		159,679	174,219
Depreciation	13(a)(b)	107,212	105,137
Amortisation of intangible assets	15	14,146	9,634
Share-based payments charge	31	719	6,171
Movement in provisions	23	3,954	4,876
Asset impairment and fair value losses/(gains)	13(a)(b)(c)	5,498	1,982
Loss on sale of Group businesses	27	–	19,828
Loss/(profit) on sale of property, plant and equipment		1,294	(672)
Property profit		(2,613)	(6,894)
IAS 19 charge in excess of contribution to pension schemes	30	6,639	116
Decrease/(increase) in working capital	26	81,164	(23,261)
Cash generated from operations		377,692	291,136
Interest paid		(27,272)	(25,911)
Income taxes paid	9	(34,087)	(31,752)
Cash flows from operating activities		316,333	233,473
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		816	2,651
Proceeds from sale of properties held for sale		6,378	14,705
Proceeds from sale of Group businesses (net)	27	–	66,513
Interest received		698	1,059
		7,892	84,928
Outflows			
Acquisition of subsidiary undertakings and businesses (net of cash acquired)	27	(47,508)	(92,583)
Investment in intangible assets – computer software	15	(1,893)	(2,059)
Purchase of property, plant and equipment	13(a)	(35,182)	(50,375)
		(84,583)	(145,017)
Cash flows from investing activities		(76,691)	(60,089)
Financing activities			
Inflows			
Proceeds from the issue of share capital		2,830	291
Proceeds from borrowings		261,099	116,256
		263,929	116,547
Outflows			
Repayment of borrowings		(348,636)	(59,590)
Dividends paid	10	–	(43,986)
Treasury shares purchased		–	(6,080)
Payment on lease liabilities		(56,493)	(52,835)
		(405,129)	(162,491)
Cash flows from financing activities		(141,200)	(45,944)
Net increase in cash and cash equivalents		98,442	127,440
Cash and cash equivalents at 1 January		348,787	222,984
Effect of exchange rate fluctuations on cash held		8,799	(1,637)
Cash and cash equivalents at 31 December		456,028	348,787
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		456,028	348,787

Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Year to 31 December 2020			
At 1 January 2020	8,516	213,719	621
Profit after tax for the financial year	-	-	-
Total other comprehensive income			
Remeasurement loss on pensions (net of tax)	-	-	-
Movement in cash flow hedge reserve (net of tax)	-	-	-
Currency translation effect on foreign currency net investments	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with owners of the Parent recognised directly in equity			
Dividends paid (Note 10)	-	-	-
Issue of Grafton Units	53	2,777	-
Share based payments charge	-	-	-
Tax on share based payments	-	-	-
Transfer from shares to be issued reserve	-	-	-
Transfer from revaluation reserve	-	-	-
	53	2,777	-
At 31 December 2020	8,569	216,496	621
Year to 31 December 2019			
At 1 January 2019	8,514	213,430	621
Profit after tax for the financial year	-	-	-
Total other comprehensive income			
Remeasurement loss on pensions (net of tax)	-	-	-
Movement in cash flow hedge reserve (net of tax)	-	-	-
Currency translation effect on foreign currency net investments	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with owners of the Parent recognised directly in equity			
Dividends paid (Note 10)	-	-	-
Issue of Grafton Units	2	289	-
Share based payments charge	-	-	-
Tax on share based payments	-	-	-
Transfer from shares to be issued reserve	-	-	-
Purchase of treasury shares	-	-	-
Cancellation of treasury shares	-	-	-
Transfer from revaluation reserve	-	-	-
	2	289	-
At 31 December 2019	8,516	213,719	621

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 equity £'000
12,954	12,889	9	70,142	1,047,698	(3,897)	1,362,651
-	-	-	-	107,542	-	107,542
-	-	-	-	(18,070)	-	(18,070)
-	-	(74)	-	-	-	(74)
-	-	-	11,777	-	-	11,777
-	-	(74)	11,777	(18,070)	-	(6,367)
-	-	(74)	11,777	89,472	-	101,175
-	-	-	-	-	-	-
-	-	-	-	-	-	2,830
-	719	-	-	-	-	719
-	(352)	-	-	-	-	(352)
-	(6,542)	-	-	6,542	-	-
(221)	-	-	-	221	-	-
(221)	(6,175)	-	-	6,763	-	3,197
12,733	6,714	(65)	81,919	1,143,933	(3,897)	1,467,023
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 equity £'000
13,146	11,220	(43)	79,280	974,271	(3,897)	1,296,542
-	-	-	-	119,232	-	119,232
-	-	-	-	(918)	-	(918)
-	-	52	-	-	-	52
-	-	-	(9,138)	-	-	(9,138)
-	-	52	(9,138)	(918)	-	(10,004)
-	-	52	(9,138)	118,314	-	109,228
-	-	-	-	(43,986)	-	(43,986)
-	-	-	-	-	-	291
-	6,171	-	-	-	-	6,171
-	485	-	-	-	-	485
-	(4,987)	-	-	4,987	-	-
-	-	-	-	-	(6,080)	(6,080)
-	-	-	-	(6,080)	6,080	-
(192)	-	-	-	192	-	-
(192)	1,669	-	-	(44,887)	-	(43,119)
12,954	12,889	9	70,142	1,047,698	(3,897)	1,362,651

Notes to the Group Financial Statements

1. Summary of Significant Accounting Policies

Statement of Compliance

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

The IFRSs applied in these financial statements were those effective for accounting periods ending on 31 December 2020.

New Standards, Amendments and Interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have been applied in preparing these financial statements. None of these have had a significant effect on the financial statements of the Group or parent company.

New Standards, Amendments and Interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or parent company.

Basis of Preparation

The consolidated Financial Statements are presented in sterling, rounded to the nearest thousand and are prepared on a going concern basis. The Statements have been prepared under the historical cost convention, as modified by the previous revaluation of land and buildings, the measurement at fair value of share-based payments at initial date of award and the measurement at fair value of all derivative financial instruments. The carrying values of recognised assets and liabilities that are fair value hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires management to make certain estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Management believes that the estimates and assumptions made are reasonable based on the information available to it at the time that those estimates and assumptions are made. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant in relation to the consolidated financial statements are set out in Note 32 and relate primarily to provisions for liabilities, valuation of inventory, accounting for defined benefit pension schemes, goodwill impairment, fair value of investment properties, rebate income, current taxation and IFRS 16 "leases".

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all subsidiaries drawn up to 31 December each year. The financial year-end of the Group's subsidiaries are coterminous.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained and they cease to be consolidated from the date on which the Group loses control. The definition of control is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue Recognition

Revenue comprises the fair value of consideration receivable for goods and services supplied to external customers in the ordinary course of the Group's activities and excludes inter-company revenue and value added tax.

In general, revenue is recognised to the extent that 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. Service revenue comprises tool hire revenue and is recognised over the period of hire.

Revenues are recorded based on the price specified in the sales invoices/contracts net of actual and estimated returns, rebates and any discounts granted and in accordance with the terms of sale. Accumulated experience is used to estimate returns, rebates and discounts using the expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker, being the Board, who is responsible for allocating resources and assessing performance.

1. Summary of Significant Accounting Policies *continued*

Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in sterling. Items included in the financial statements of each of the Group's entities are measured using its functional currency, being the currency of the primary economic environment in which the entity operates which is primarily euro and sterling. The functional currency of the parent company is euro.

Transactions and Balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for the effective portion designated as a hedge of a net investment in a foreign operation which is recognised in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to sterling at the foreign exchange rates ruling at the balance sheet date. Results and cash flows of subsidiaries which do not have sterling as their functional currency are translated into sterling at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra-Group loans deemed to be quasi equity in nature, are recognised directly in other comprehensive income, in the currency translation reserve. The portion of exchange gains or losses on foreign currency borrowings or derivatives used to provide a hedge against a net investment in a foreign operation that is designated as a hedge of those investments is recognised directly in other comprehensive income to the extent that they are determined to be effective. The ineffective portion is recognised immediately in the income statement.

Movements since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are reclassified to the income statement on disposal of the related business.

Share Capital and Share Premium

The company's share capital and share premium has been translated from euro into sterling at historic rates of exchange at the dates of transactions.

Exceptional Items and Non-recurring Items

The Group has adopted a policy in relation to its income statement which seeks to highlight significant items within the Group's results. Such items may include significant restructuring and onerous lease provisions, profit or loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items which, by virtue of their scale and nature, should be disclosed in the income statement or related notes. Where exceptional items are not significant for separate presentation, they are disclosed as non-recurring items.

Property profit is disclosed as a separate line item on the face of the Income Statement. Property profit arises when the proceeds, less costs to sell, exceed the carrying value of the disposed property.

Rebate Arrangements

Rebate arrangements are a common component of supplier agreements in the merchanting industry. As part of its on-going business activities, Grafton Group plc has entered into such arrangements with a significant number of its suppliers.

Supplier rebates received and receivable in respect of goods which have been sold to the Group's customers are deducted from cost of sales in the income statement. Where goods on which rebate has been earned remain in inventory at the year-end, an appropriate rebate deduction is made from the gross balance sheet carrying value of that inventory. The rebate deduction is only released to the income statement when the goods are ultimately sold.

At the year-end the balance sheet includes a balance representing unpaid amounts receivable from suppliers.

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, net foreign exchange losses on monetary items and gains and losses on hedging instruments that are recognised in the income statement. The net finance cost of pension scheme obligations is recognised as a finance expense in the income statement. The interest expense component of lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is included as a finance expense or finance income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement as incurred using the effective interest rate method.

Finance Income

Finance income comprises interest income on cash and cash equivalents, dividend income, gains on the disposal of financial assets, and gains on hedging instruments that are recognised in profit or loss. The net expected return on defined benefit pension scheme plan assets is recognised as finance income in the income statement. Interest income is recognised in the income statement as it accrues using the effective interest rate method.

Notes to the Group Financial Statements continued

1. Summary of Significant Accounting Policies continued

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined as when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The consideration transferred does not include amounts related to the settlement of the pre-existing relationships. Such amounts are generally recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to assets which are not capable of being individually identified and separately recognised.

Goodwill acquired is allocated, at acquisition date, to the groups of Cash Generating Units ("CGUs") expected to benefit from synergies related to the acquisition. Where management reassesses its groups of CGUs, goodwill is reallocated on a relative value basis.

Goodwill is measured at cost less accumulated impairment losses. The CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes. These units are no larger than the operating segments determined in accordance with IFRS 8: Operating Segments. Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment exists.

Where the recoverable amount of a cash generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses arising in respect of goodwill are not reversed once recognised.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairments, is included in determining the profit or loss arising on disposal.

Intangible Assets (Computer Software)

Acquired computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises of purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:

- An asset can be separately identified;
- It is probable that the asset created will generate future economic benefits;
- The development cost of the asset can be measured reliably;
- The completion and implementation of the asset is technically feasible;
- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met.

Computer software is amortised over its expected useful life, which ranges from 4 to 10 years, by charging equal instalments to the income statement from the date the assets are ready for use.

Intangible Assets (other than Goodwill and Computer Software)

An intangible asset, other than goodwill and computer software, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

1. Summary of Significant Accounting Policies *continued*

Intangible Assets (other than Goodwill and Computer Software) *continued*

Intangible assets acquired as part of a business combination are capitalised separately from goodwill at fair value on the date of acquisition if the intangible asset meets the definition of an asset and the fair value can be reliably measured.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying value of intangible assets is reviewed for impairment at each reporting date and is also subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

Intangible assets are amortised on a straight-line basis. In general, finite life intangible assets are amortised over periods ranging from one to twenty years, depending on the nature of the intangible asset.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The Group's freehold properties in Ireland were revalued to fair value in 1998 and are measured on the basis of deemed cost being the revalued amount at the date of that revaluation less accumulated depreciation. The valuations were deemed to be cost for the purposes of transition to IFRS as adopted by the EU.

Property, plant and equipment are depreciated over their useful economic life on a straight line basis at the following rates:

Freehold buildings	50 – 100 years
Freehold land	Not depreciated
Leasehold buildings	Lease term or up to 100 years
Plant and machinery	5 – 20 years
Motor vehicles	5 – 10 years
Plant hire equipment	4 – 10 years

The residual value and useful lives of property, plant and equipment are reviewed and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the balance sheet and the net amount, less any proceeds, is taken to the income statement.

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash generation unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of replacing the item can be reliably measured. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Leases

Identification of Leases

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

- Control an identified asset;
- Obtain substantially all economic benefits from use of the asset; and
- Direct the use of the asset

Lease Term

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

- Periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. This assessment involves the exercise of judgement by the Group.

Initial Measurement of Lease Liability

The lease liability is initially measured at the present value of the lease payments that are payable for the lease term, discounted using the incremental borrowing rate.

Notes to the Group Financial Statements continued

1. Summary of Significant Accounting Policies continued

Leases continued

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

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

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

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

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

Initial Measurement of Right-of-Use Asset

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

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

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

Subsequent Measurement of Lease Liability

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

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

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

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

Subsequent Measurement of Right-of-Use Asset

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

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

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

Lease modifications

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

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

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

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

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

1. Summary of Significant Accounting Policies continued

Leases continued

Sublease Accounting

Where the Group acts as a lessor, the sublease is classified as a finance lease or an operating lease. A lease is deemed to be a finance lease where the lease transfers substantially all the risks and rewards incidental to the ownership of the underlying asset. Otherwise, the lease is deemed to be an operating lease.

Where the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. The Group assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If the head lease is not a short term lease or low-value lease and the sublease is deemed to be a finance lease, the Group recognises a lease liability relating to the head lease but does not recognise a corresponding right-of-use asset. Instead, the Group recognises a finance lease debtor relating to the sublease.

Investment Properties

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes from owner occupied or held for sale to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

Assets Held for Sale

Non-current assets that are expected to be recovered principally through sale rather than continuing use and meet the IFRS 5 criteria are classified as held for sale. These assets are shown in the balance sheet at the lower of their carrying amount and fair value less any costs to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains or losses on re-measurement are recognised in the income statement.

Investments

Investments, other than investments in joint ventures and associates, are stated in the balance sheet at fair value with changes in fair value recognised directly in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit and loss following derecognition of the investment. Dividends from such investments are recognised in the income statement and are reported as non-operating items.

Where investments are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Where it is impracticable to determine fair value in accordance with IFRS 13, unquoted equity investments are recorded at historical cost and are included within financial assets on this basis in the Group balance sheet. They are assessed for impairment annually.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made using the expected credit loss model which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due.

Bad debts are written-off in the income statement 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.

Notes to the Group Financial Statements continued

1. Summary of Significant Accounting Policies continued

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short term cash commitments and money market instruments which are readily convertible to a known amount of cash. Where money market instruments are categorised as cash equivalents, the related balances have an original maturity of three months or less. In addition, for the purposes of the Group cash flow statement, bank overdrafts are netted against cash and cash equivalents where the overdrafts are repayable on demand and form an integral part of cash management. Bank overdrafts are included within current interest-bearing loans and borrowings in the Group balance sheet.

Derivative Financial Instruments and Hedging Activities

Derivative financial instruments, principally interest rate and currency swaps/forwards, are used in certain circumstances to hedge the Group's exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at fair value and thereafter are subsequently re-measured at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest rate and currency swaps/forwards is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swapped counterparts.

The method of recognising the resulting gain or loss on re-measurement to fair value depends on whether the derivative is designated as a hedging instrument. Where derivatives are not designated or do not fulfil the criteria for hedge accounting, changes in fair values are reported in the income statement. Where derivatives qualify for hedge accounting, recognition of the resulting gains or losses depends on the nature of the item being hedged. The Group designates certain derivatives for various purposes in hedge relationships in one or more of the following types of relationships:

- (i) Fair value hedge: Hedges of the fair value of recognised liabilities;
- (ii) Cash flow hedge: Hedges of a particular risk associated with a highly probable forecast transaction; or
- (iii) Net investment hedge: Hedges of a net investment in a foreign operation.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items.

(i) Fair Value Hedge

Any gain or loss stemming from the re-measurement of the hedging instrument to fair value is reported in the income statement. In addition, any gain or loss on the hedged item which is attributable to the fair value movement in the hedged risk is adjusted against the carrying amount of the hedged item and reflected in the income statement.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss accruing on the hedging instrument is recognised as finance income or expense in the income statement.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash Flow Hedges

The effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedge reserve in equity with the ineffective portion being reported as finance expense or income in the income statement. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding statements, the associated cumulative gain or loss is removed from other comprehensive income and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement in the period.

(iii) Hedge of Net Investment in Foreign Operation

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or finance expense. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are reclassified to the income statement as part of the overall gain or loss on sale.

1. Summary of Significant Accounting Policies *continued*

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Provisions

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the lower of the present value of the expected cost of terminating the contract and the present value of the expected net cost of continuing with the contract.

Retirement Benefit Obligations

Obligations to the defined contribution pension plans are recognised as an expense in the income statement as service is received from the relevant employees. The Group has no legal or constructive obligation to pay further contributions in the event that these plans do not hold sufficient assets to provide retirement benefits.

The Group operates a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan asset is deducted. The discount rate employed in determining the present value of the schemes' liabilities is determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The net surplus or deficit arising in the Group's defined benefit pension schemes are shown within either non-current assets or liabilities on the face of the Group Balance Sheet. The deferred tax impact of pension scheme surpluses and deficits is disclosed separately within deferred tax assets or liabilities as appropriate. The Group recognises actuarial gains and losses immediately in other comprehensive income.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The Group determines net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period. Differences between the income recognised based on the discount rate and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as a past service cost in the income statement at the earlier of the date when the plan amendment occurs and when the related restructuring costs are recognised. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Share-Based Payment Transactions

The 2011 Long Term Incentive Plan ("LTIP"), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees should enable employees to acquire shares in the Company subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the issue of units or by a market purchase of units. The fair value of share entitlements at the grant date is recognised as an employee expense in the income statement over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Company are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the income statement is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date.

The proceeds received by the Company on the vesting of share entitlements are credited to share capital and share premium when the share entitlements are converted or issued.

Notes to the Group Financial Statements continued

1. Summary of Significant Accounting Policies continued

Government Grants

Government grants and assistance are recognised at their fair value in the income statement when there is a reasonable assurance that the grant will be received and all attaching conditions have been complied with. When the grant relates to an expense item, it is recognised in operating costs within the income statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate. Where the grant relates to a non-current asset, the value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset.

Government grants have also been received in relation to the ongoing Covid-19 pandemic. These comprise amounts receivable under the Coronavirus Job Retention Scheme ("CJRS"). CJRS comprises grants receivable in relation to the costs incurred by the Group for furloughed employees and is recognised in the income statement, within operating costs, in the same period as the related costs and when there is reasonable assurance that the grant will be received.

Income Tax

Income tax in the income statement represents the sum of current tax and deferred tax.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit and represents the expected tax payable for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes certain items that are not tax deductible including property depreciation. The Group's liability for current tax is calculated using rates that have been enacted or substantially enacted at the balance sheet date. The Group's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Group operates. The determination of the Group's charge for income tax in the income statement requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined. The amount shown for current taxation reflects tax uncertainties and is based on the Directors' estimate of (i) the most likely amount; or (ii) the expected value of the probable outflow of economic resources that will be required. The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements. Whilst it is possible, the Group does not currently anticipate that any such differences could have a material impact on the income tax provision and profit for the period in which such a determination is made nor does it expect any significant impact on its financial position in the near term. This is based on the Group's knowledge and experience, as well as the profile of the individual components which have been reflected in the current tax liability, the status of the tax audits, enquiries and negotiations in progress at each year-end, previous claims and any factors specific to the relevant tax environments.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences:

- Goodwill that is not deductible for tax purposes;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

Share Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase of Share Capital

When share capital recognised as equity is purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

Dividends

Dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid. In the case of final dividends these are declared when authorised by the shareholders in General Meeting.

1. Summary of Significant Accounting Policies *continued*

Share Capital *continued*

Earnings per Share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for treasury shares held and for the effects of all dilutive potential ordinary shares related to employee share schemes.

2. Segment Information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker, being the Board, in order to allocate resources to the segments and to assess their performance. Three reportable segments have been identified, Distribution, Retailing and Manufacturing.

The Distribution segment is engaged in the distribution of building and plumbing materials primarily to professional trades people engaged in residential repair, maintenance and improvement projects and also in residential and other new build construction from a network of 487 branches in the UK, Ireland and the Netherlands. The Plumbase and Belgium distribution businesses were disposed in 2019.

The aggregation of operating segments into the Distribution segment reflects, in the opinion of management, the similar economic characteristics within each of these segments as well as the similar products and services offered and supplied and the classes of customers. This is assessed by reference to gross margins and long term growth rates of the segments.

The Retailing segment operates Ireland's largest DIY and home improvement business from a network of 35 stores that supply mainly retail customers with a wide range of products for DIY and for the home and garden.

The Manufacturing segment comprises the largest manufacturer of dry mortar in Great Britain operating from 10 plants, an industry leading manufacturer and distributor of bespoke staircases in the UK operating from one manufacturing facility and a plastics manufacturing business in Ireland.

Information regarding the results of each operating segment is included in this note. Performance is measured based on segment operating profit/(loss) as included in the internal management reports that are reviewed by the Group's Chief Operating Decision Maker. Segment operating profit is used to measure performance as such information is the most relevant in evaluating the results of the Group's segments. The impact of IFRS 16 "Leases" on the reportable segments is set out within the APM's.

No segment is over reliant on any major customer and credit risk is well diversified as disclosed in Note 17. Segment results, assets and liabilities include all items directly attributable to a segment.

Segment capital expenditure is the total amount incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

Notes to the Group Financial Statements continued

2. Segment Information continued
Group Income Statement

	2020 £000	2019 £'000
Revenue		
UK distribution	1,460,732	1,710,829
Ireland distribution	463,894	464,784
Netherlands distribution	276,563	211,820
Total distribution – continuing	2,201,189	2,387,433
Retailing	246,576	205,465
Manufacturing	71,723	92,362
Less: inter-segment revenue – manufacturing	(10,399)	(12,979)
Total revenue from continuing operations	2,509,089	2,672,281
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions		
UK distribution	76,392	105,145
Ireland distribution	41,848	43,051
Netherlands distribution	28,538	19,915
Total distribution – continuing	146,778	168,111
Retailing	42,028	22,641
Manufacturing	13,301	18,633
	202,107	209,385
Reconciliation to consolidated operating profit		
Central activities	(11,419)	(11,522)
	190,688	197,863
Property profits	2,613	6,894
Operating profit before exceptional items and intangible amortisation arising on acquisitions	193,301	204,757
Amortisation of intangible assets arising on acquisitions	(8,937)	(6,974)
Exceptional items	(24,685)	–
Operating profit	159,679	197,783
Finance expense	(27,639)	(27,391)
Finance income	698	2,249
Profit before tax	132,738	172,641
Income tax expense	(25,196)	(28,717)
Profit after tax for the financial period from continuing operations	107,542	143,924
Loss after tax from discontinued operations	–	(24,692)
Profit after tax for the financial period	107,542	119,232

2. Segment Information continued**Group Income Statement** continued

The amount of revenue, from continuing operations, by geographic area is as follows:

	2020 £'000	2019 £'000
Revenue*		
United Kingdom	1,517,093	1,785,451
Ireland	715,433	675,010
Netherlands	276,563	211,820
Total revenue – continuing operations	2,509,089	2,672,281

* Service revenue, which is recognised over time, amounted to £29.8 million for the period (2019: £35.9 million)

The analysis of geographic revenue above is the same whether it is based on location of assets or customers.

Group Balance Sheet

	2020 £'000	2019 £'000
Segment assets		
Distribution	2,190,663	2,259,418
Retailing	216,907	213,167
Manufacturing	103,064	48,866
	2,510,634	2,521,451

Unallocated assets		
Deferred tax assets	13,386	7,600
Retirement benefit assets	2,099	756
Other financial assets	128	127
Cash and cash equivalents	456,028	348,787
Derivative financial instruments (current)	–	7
Total assets	2,982,275	2,878,728

	2020 £'000	2019 £'000
Segment liabilities		
Distribution	861,964	858,124
Retailing	225,258	203,684
Manufacturing	25,737	18,499
	1,112,959	1,080,307

Unallocated liabilities		
Interest bearing loans and borrowings (non-current)	274,030	339,261
Retirement benefit obligations	52,683	21,939
Deferred tax liabilities	54,399	47,109
Current income tax liabilities	21,116	27,461
Derivative financial instruments (current)	65	–
Total liabilities	1,515,252	1,516,077

Notes to the Group Financial Statements continued

2. Segment Information continued

Other Segment Information

	Year Ended 31 December							
	Distribution		Retailing		Manufacturing		Group	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Capital expenditure	32,782	43,689	1,246	3,287	1,154	3,399	35,182	50,375
Investment in intangible assets	631	2,017	1,262	–	–	42	1,893	2,059
Intangible assets acquired	2,113	33,326	–	–	20,402	–	22,515	33,326
Depreciation on property, plant & equipment	38,597	38,251	3,529	3,270	2,846	2,642	44,972	44,163
Depreciation on right-of use asset	45,234	43,455	16,553	17,133	453	386	62,240	60,974
Amortisation of intangible assets	13,811	9,594	124	–	211	40	14,146	9,634

Additional Geographic Analysis

The following is a geographic analysis of the information presented above.

	Belgium		Ireland		Netherlands		UK		Group	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Capital expenditure	–	313	6,790	9,225	2,905	4,070	25,487	36,767	35,182	50,375
Investment in intangible assets	–	–	1,456	61	350	292	87	1,706	1,893	2,059
Intangible assets acquired	–	–	933	–	–	33,326	21,582	–	22,515	33,326
Segment non-current assets	–	–	490,648	458,984	199,980	219,016	1,143,446	1,121,522	1,834,074	1,799,522
Properties held for sale									18,058	16,274
Inventories									321,558	317,632
Trade and other receivables									336,944	388,023
Total segment assets									2,510,634	2,521,451
Segment liabilities	–	–	396,946	355,739	80,872	81,899	635,141	642,669	1,112,959	1,080,307

3. Operating Costs and Income before Exceptional Items

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

	2020 £'000	2019 £'000
Decrease/(increase) in inventories (Note 26)	8,572	(6,739)
Purchases and consumables	1,644,794	1,763,490
Staff costs before non-recurring items (Note 6)	363,725	395,567
Auditor's remuneration – Group and subsidiaries	1,110	1,122
Auditor's remuneration – Audit services provided by other firms	141	113
Depreciation (Note 13a)	44,972	44,163
Depreciation on right-of-use assets (Note 13b)	62,240	60,974
Lease rentals and other hire charges (Note 13b)	1,228	1,378
Amortisation of intangible assets (Note 15)	14,146	9,634
Loss/(profit) on disposal of property, plant and equipment	1,294	(672)
Selling, distribution and administrative expenses	185,116	212,362
	2,327,338	2,481,392

Operating profit includes Government Assistance of £19.6 million in respect of the Coronavirus Job Retention Scheme in the UK. Any assistance received in respect of the Temporary Covid-19 Wage Subsidy Scheme in Ireland was subsequently repaid. In addition, rates relief income in the UK and Ireland amounted to £11.1 million and is included in operating profit. The Group incurred additional costs in relation to Covid-19 with regard to PPE, safety screens, signage, training and other items and this amounted to £3.6 million in the year.

3. Operating Costs and Income continued

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

	2020 £'000	2019 £'000
Audit services (i)		
– Group Auditor – PwC Ireland	547	516
– Other network firm – PwC*	540	578
	1,087	1,094
Other assurance services (ii)		
– Group Auditor – PwC Ireland	13	13
– Other network firm – PwC	10	15
	23	28
Auditor's remuneration – Group and subsidiaries (i) & (ii)	1,110	1,122
Other non-audit services		
– Group Auditor – PwC Ireland	–	–
– Other network firm – PwC	–	–
	–	–
Tax advisory services		
– Group Auditor – PwC Ireland	–	–
– Other network firm – PwC	–	–
	–	–
Total (including expenses)		
– Group Auditor – PwC Ireland	560	529
– Other network firm – PwC	550	593
	1,110	1,122

* 2020 fees disclosed include overruns from previous years of £20,000 (2019: £40,000).

4. Exceptional Items

Branch and organisational changes were implemented in our traditional UK distribution business in the second half of the year. These measures provide sustainable benefits to the business and resulted in an exceptional charge of £24.7 million, including changes related to defined benefit scheme arrangements (Note 30). There were no exceptional items recognised in 2019 other than the disposal costs of the discontinued operations which are detailed in Note 27.

	2020 £'000
Exceptional items	
Redundancy	7,653
Fixed asset write-offs	1,809
Inventory write-offs	1,151
Pension scheme changes (Note 30)	8,019
Lease impairments	2,176
Dilapidation provisions	838
Other	3,039
	24,685

Notes to the Group Financial Statements continued

5. Directors' Remuneration, Pension Entitlements and Interests

	2020 £'000	2019 £'000
Emoluments	1,741	1,992
Benefits under Long Term Incentive Plan ("LTIP")*	597	1,512
Total emoluments	2,338	3,504
Emoluments above include the following:		
Pension payments/contributions**	203	210
	203	210

* For the year ended 31 December 2020, this is the value of LTIP awards that will vest in May 2021. The value of the awards is based on the average share price of £7.96 for the three months to 31 December 2020. The vesting of these awards was subject to performance conditions over the period from 1 January 2018 to 31 December 2020. For the year ended 31 December 2019, this is the value of LTIP awards that vested in May 2020. The value of this award has been updated from that disclosed last year to reflect the share price of £6.23 and £6.36 on the dates of vesting.

** This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a payment in lieu of pension made through the payroll. This amount is accruing to two directors at 31 December 2020 (2019: two).

Further information on Directors' remuneration, pension entitlements and interests in shares and share entitlements is presented in the Report of the Remuneration Committee on Directors' Remuneration on pages 95 to 114.

6. Employment

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

	2020 Total	2019 Total	2019 Continuing
Distribution	9,944	11,616	10,337
Retailing	1,228	1,103	1,103
Manufacturing	296	220	220
Holding company	23	22	22
	11,491	12,961	11,682

The aggregate remuneration costs of employees were:

	2020 Total £'000	2019 Total £'000	2019 Continuing* £'000
Wages and salaries	315,022	368,734	342,957
Social welfare costs	34,916	39,170	35,108
Share based payments charge	719	6,171	6,171
Defined benefit pension (Note 30)	2,829	3,072	3,072
Defined contribution pension and related costs	10,239	8,745	8,259
Staff costs charged to operating profit	363,725	425,892	395,567
Net finance cost on pension scheme obligations (Note 30)	339	411	411
Charged to income statement	364,064	426,303	395,978
Remeasurement loss on pension schemes (Note 30)	21,779	1,291	1,291
Total employee benefit cost	385,843	427,594	397,269

* This amount represents the aggregate remuneration costs of employees from continuing operations only.

The share-based payments charge was derived on the basis of the Group's expectation of the number of shares likely to vest having regard to the service, the historic performance of the Group over the period since the share entitlements were granted and the forecast performance over the remaining life of share awards.

Total capitalised costs in 2019 were £0.3 million and related to the development of computer software for internal use. There were no costs capitalised in 2020.

6. Employment continued**Key Management**

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

	2020	2019
Number of individuals*	8	8
	2020 £'000	2019 £'000
Short term employee benefits	1,856	2,146
Share-based payment charge	514	1,389
Retirement benefits expense	262	271
Charged to operating profit	2,632	3,806

* 2020 includes Mr. Frank van Zanten to the end of April 2020.

7. Finance Expense and Finance Income

	2020 £'000	2019 £'000
Finance expense:		
Interest on bank loans, US senior notes and overdrafts	8,218*	7,101*
Net change in fair value of cash flow hedges transferred from equity	–	151
Interest on lease liabilities	18,256*	19,728*
Net finance cost on pension scheme obligations	339	411
Foreign exchange loss	826	–
	27,639	27,391
Finance income:		
Interest income on bank deposits	(698)*	(1,059)*
Foreign exchange gain	–	(1,190)
	(698)	(2,249)
Net finance expense recognised in income statement	26,941	25,142

* Net bank/loan note interest of £7.5 million (2019: £6.0 million). Including interest on lease liabilities, this amounts to £25.8 million (2019: £25.8 million)

Amounts relating to items not at fair value through income statement

– Total finance expense on financial liabilities	27,639	27,240
– Total finance income on financial assets	(698)	(2,249)

Recognised directly in other comprehensive income

Currency translation effects on foreign currency net investments	11,777	(8,474)
Effective portion of changes in fair value of cash flow hedges	(74)	(90)
Net change in fair value of cash flow hedges transferred to income statement	–	151
	11,703	(8,413)

8. Foreign Currencies

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

The average sterling/euro rate of exchange for the year ended 31 December 2020 was Stg88.97 pence (2019: Stg87.78 pence). The sterling/euro exchange rate at 31 December 2020 was Stg89.90 pence (2019: Stg85.08 pence).

Notes to the Group Financial Statements continued

9. Income Tax**(a) Income tax recognised in income statement**

	2020 £'000	2019 £'000
Current tax expense		
Irish corporation tax	10,004	6,716
UK and other corporation tax	15,952	20,156
	25,956	26,872
Deferred tax expense		
Irish deferred tax relating to the origination and reversal of temporary differences	(169)	1,504
Deferred tax expense/(credit) resulting from change in tax rates	3,312	(153)
UK and other deferred tax (credit)/expense relating to the origination and reversal of temporary differences	(3,903)	494
	(760)	1,845
Total income tax expense in income statement	25,196	28,717

Taxation

The income tax expense of £25.2 million (2019: £28.7 million) was equivalent to an effective tax rate of 19.0 per cent on profit from continuing operations (2019: 16.6 per cent). The rate is lower than the rate of 19.5 per cent guided at the time of our 2019 Final Results Announcement due to the higher proportion of profit in Ireland which is taxed at the rate of 12.5%. The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland and the Netherlands. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is sensitive to changes in the UK rate of corporation tax which is currently 19 per cent. Legislation that was passed in 2016 to reduce the UK rate of corporation tax by two per cent to 17 per cent with effect from 1 April 2020 was reversed leading to a one-off increase in the charge for deferred tax which increased the Group rate by 1.4 per cent.

Taxation paid in 2020 was £34.1 million (2019: £31.8 million).

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

(b) Reconciliation of Effective Tax Rate

	2020 £'000	2019 £'000
Profit before tax	132,738	172,641
Profit before tax multiplied by the Irish standard rate of tax of 12.5% (2019: 12.5%)	16,592	21,580
Effects of:		
Expenses not deductible for tax purposes	3,654	3,304
Differences in effective tax rates on overseas earnings	3,249	5,652
Effect of change in tax rates	3,312	(153)
Items not previously recognised for deferred tax	(530)	(1,030)
Other differences	(1,081)	(636)
Total income tax expense in income statement	25,196	28,717

(c) Deferred Tax Recognised Directly in Equity/Other Comprehensive Income

	2020 £'000	2019 £'000
Actuarial movement on pension schemes (Note 30)	(3,709)	(373)
Employee share schemes	352	(485)
Financing – cash flow hedge	–	9
	(3,357)	(849)

At 31 December 2020 the Group had no recognised deferred tax assets on tax losses (2019: £Nil) as a result of the remaining tax losses in Ireland being fully utilised in 2019 and following the disposal of the Belgium business in 2019, which had deferred tax assets on tax losses.

Deferred income tax liabilities have not been recognised for any taxes that would be payable on the unremitted earnings of certain subsidiaries as it is probable that any temporary differences will not reverse in the foreseeable future.

10. Dividends

	2019 £'000
Group	
Interim dividend of 12.00p per Grafton Unit – paid 5 April 2019	28,532
Interim dividend of 6.50p per Grafton Unit – paid 11 October 2019	15,454
	43,986

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February in the amount of £29.9 million.

The Board is acutely aware of the need to balance the interests of all stakeholders and of the importance of dividends to the Group's shareholders. Following the decision not to declare an interim dividend, and in the light of the Group's profitable trading in the second half of 2020 and net cash position at the end of the year, the Board has given much consideration to the payment of a final dividend for the 2020 financial year. A final dividend for the year ended 31 December 2020 of 14.5p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 28 April 2021. This is down 23.7 per cent on total dividends of 19.0p paid for 2019. Dividend cover was 3.9 times (2019: 3.3 times).

The final dividend for 2020 and future dividends will be paid by Grafton Group plc following the simplification of the Grafton Unit which was approved by shareholders at the EGM on 21 January 2021 and which took effect on 7 March 2021 at 6.00pm.

It is proposed to pay the final dividend for 2020 on 5 May 2021 to shareholders on the Register of Members at the close of business on 9 April 2021, the record date. The ex-dividend date is 8 April 2021.

Shareholders existing currency elections and currency payment defaults will remain in place unless revoked or otherwise amended by shareholders. Therefore, the final dividend will be paid in Pounds Sterling or in euro in accordance with their existing payment instructions. If no such instructions are in place, the currency for dividend payments will be Pounds Sterling. The position is different for investors holding CREST Depository Interests ("CDIs") as they will need to set their default currency with Euroclear UK & Ireland Limited. Investors holding their interests in the Euroclear Bank system, will be paid in Pounds Sterling, unless a currency election is made through the Euroclear Bank system. The latest date for receipt of currency elections (and shareholder DWT exemption forms) by the Company's registrar is the close of business on 16 April 2021. Earlier closing dates may apply to holders in Euroclear Bank and in CREST.

A liability in respect of any future dividend has not been recognised at 31 December 2020, as there was no present obligation to pay any dividends at year end.

Notes to the Group Financial Statements continued

11. Earnings Per Share – Group

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

	2020 £'000	2019 £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year from continuing operations	107,542	143,924
(Loss) after tax for the financial year from discontinued operations	–	(24,692)
Numerator for basic and diluted earnings per share	107,542	119,232
Profit after tax for the financial year from continuing operations	107,542	143,924
Exceptional items	24,685	–
Tax on exceptional items	(3,980)	–
Amortisation of intangible assets arising on acquisitions	8,937	6,974
Tax relating to amortisation of intangible assets arising on acquisitions	(2,013)	(1,474)
Numerator for adjusted earnings per share	135,171	149,424
Denominator for basic and adjusted earnings per share:		
	Number of Grafton Units	Number of Grafton Units
Weighted average number of Grafton Units in issue	238,379,488	237,785,154
Dilutive effect of options and awards	82,675	797,483
Denominator for diluted earnings per share	238,462,163	238,582,637
Earnings per share (pence) – from continuing operations		
– Basic	45.11	60.53
– Diluted	45.10	60.32
Adjusted earnings per share (pence) – from continuing operations		
– Basic	56.70	62.84
– Diluted	56.68	62.63
Earnings per share (pence) – from discontinued operations		
– Basic	–	(10.38)
– Diluted	–	(10.35)
Earnings per share (pence) – from total operations		
– Basic	45.11	50.14
– Diluted	45.10	49.97

The weighted average potential employee share entitlements over 1,076,909 Grafton Units (2019: 1,351,421) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

12. Goodwill

Cost	2020 £'000	2019 £'000
At 1 January	657,845	646,198
Arising on acquisitions (Note 27)	31,702	53,263
Disposal of Group businesses (Note 27)	–	(28,113)
Translation adjustment	14,517	(13,503)
At 31 December	704,064	657,845

Goodwill Acquired

Goodwill acquired during the year in the amount of £31.7 million (2019: £53.3 million) was allocated to the Ireland and UK distribution CGUs and also to the manufacturing CGU. Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group. Intangible assets which formed part of the acquisition consideration are detailed in Note 15.

Disposal of Group Businesses

In 2019, the Group completed the disposal of a number of businesses which were no longer considered to be a good strategic fit in the Group's portfolio of businesses. These were the Plumbase business and the Belgium distribution business. This resulted in a write-off of goodwill amounting to £28.1 million.

Goodwill Impaired

There were no impairments during the year (2019: £Nil). Total accumulated impairment losses at 31 December 2020 amounted to £Nil (2019: £Nil).

12. Goodwill continued

Cash Generating Units

Goodwill arising as part of a business combination is allocated to groups of cash generating units ("CGUs") for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. The CGUs represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, Operating Segments. A total of six CGUs (2019: six) have been identified and these are analysed between the three reportable segments as follows:

	Cash Generating Units		Goodwill	
	2020 Number	2019 Number	2020 £'000	2019 £'000
Distribution	3	3	675,609	655,681
Retailing	1	1	–	–
Manufacturing	2	2	28,455	2,164
	6	6	704,064	657,845

Impairment Testing

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. The recoverable amount of each cash generating unit is determined based on value-in-use calculations. The carrying value of each cash generating unit was compared to its estimated value-in-use. There were no impairments during the year (2019: £Nil).

Value-in-use Calculations

The value-in-use is calculated on the basis of estimated future cash flows discounted to present value. Estimated future cash flows were determined by reference to the budget for 2021 and management forecasts for each of the following years from 2022 to 2025 inclusive which incorporates the impact of Covid-19. The terminal value was calculated using a long term growth rate in respect of the years after 2025. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for each of the businesses within the CGUs. The assumptions used are also referenced against external industry data.

The key assumptions used in the value-in-use calculations are the revenue growth rate, the discount rate and the long term growth rate. The pre-tax discount rates used were based on the Group's estimated weighted average cost of capital, adjusted to reflect risks associated with each CGU.

The pre-tax discount rates range from 6.6 per cent to 7.5 per cent (2019: 6.9 per cent to 7.7 per cent). In determining the terminal value of the value-in-use, it was assumed that cash flows after the first five years will increase at a long term growth rate of two per cent (2019: two per cent). The rate assumed was based on an assessment of the likely long term growth prospects of the individual CGUs.

Significant Goodwill Amounts

The UK distribution, Irish distribution and Netherlands distribution CGUs have significant amounts of goodwill.

A summary of the allocated goodwill and the assumptions relating to the recoverable amounts of these CGUs is shown below:

	UK Distribution		Irish Distribution		Netherlands Distribution	
	2020	2019	2020	2019	2020	2019
Goodwill (£'000)	401,353	396,207	163,399	154,666	110,857	104,808
Recoverable amount basis	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use
Revenue growth rate average	2.4%	1.3%	3.1%	3.3%	5.5%	3.4%
Long term growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate (pre-tax)	7.5%	7.7%	7.0%	7.1%	6.6%	6.9%

The remaining goodwill balance of £28.5 million (2019: £2.2 million) is allocated to the UK manufacturing CGU and the goodwill amount of this CGU is not significant.

Sensitivity Analysis

The value-in-use calculations are sensitive to changes in the key assumptions of the revenue growth rate, the discount rate and the long term growth rate. While management believes that the value-in-use assumptions are prudent, sensitivity analysis was performed based on reasonable changes in each of the three key assumptions in the significant CGUs. No reasonably possible change in any of the key assumptions would cause the carrying amount to exceed the recoverable amount in significant CGUs.

Notes to the Group Financial Statements continued

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties**13. (a) Property, Plant and Equipment**

	Freehold land and buildings £'000	Leasehold improvements/ buildings £'000	Plant and Machinery £'000	Motor Vehicles £'000	Total £'000
Year ended 31 December 2020					
Opening net book amount	269,851	72,328	103,645	55,100	500,924
Additions	932	7,949	17,948	8,353	35,182
Arising on acquisitions (Note 27)	1,204	–	901	323	2,428
Disposals	(25)	(178)	(1,745)	(162)	(2,110)
Depreciation charge (Note 3)	(4,139)	(6,992)	(22,523)	(11,318)	(44,972)
Impairment charge	(1,152)	(110)	(763)	–	(2,025)
Reclassification to properties held for sale	(3,901)	–	–	–	(3,901)
Reclassification from investment properties	101	–	–	–	101
Reclassification to investment properties	–	(313)	–	–	(313)
Reclassifications	(400)	400	18	(18)	–
Exchange adjustment	5,904	496	1,648	177	8,225
Closing net book amount	268,375	73,580	99,129	52,455	493,539
At 31 December 2020					
Cost	318,896	122,715	304,675	82,584	828,870
Accumulated depreciation & impairment loss	(50,521)	(49,135)	(205,546)	(30,129)	(335,331)
Net Book Amount	268,375	73,580	99,129	52,455	493,539
Year ended 31 December 2019					
Opening net book amount	283,225	74,266	108,396	55,744	521,631
Derecognition of finance lease assets	–	(2,541)	–	–	(2,541)
Opening net book amount (revised)	283,225	71,725	108,396	55,744	519,090
Additions	1,268	9,967	25,171	13,969	50,375
Arising on acquisitions	13,458	–	2,153	93	15,704
Disposals	(141)	–	(1,533)	(44)	(1,718)
Disposal of Group businesses	(4,558)	(5,252)	(3,601)	(3,116)	(16,527)
Depreciation charge	(4,303)	(6,233)	(22,423)	(11,204)	(44,163)
Impairment charge	(58)	(43)	(2,773)	–	(2,874)
Reclassification to properties held for sale	(11,094)	–	–	–	(11,094)
Reclassifications	(2,105)	2,225	(88)	(32)	–
Exchange adjustment	(5,841)	(61)	(1,657)	(310)	(7,869)
Closing net book amount	269,851	72,328	103,645	55,100	500,924
At 31 December 2019					
Cost	314,933	113,627	287,022	80,644	796,226
Accumulated depreciation & impairment loss	(45,082)	(41,299)	(183,377)	(25,544)	(295,302)
Net Book Amount	269,851	72,328	103,645	55,100	500,924

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at fair value or cost. The valuations, which were made on an open market for existing use basis, were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom and the Netherlands, are included at cost less depreciation.

Following a review of the assets in the UK distribution businesses during the year, an impairment charge of £2.0 million was recognised (2019: £2.8 million). £1.8 million of these impairment charges related to the branch and organisational changes in the second half of the year and have been recognised in exceptional items (Note 4).

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties continued**13. (b) Right-Of-Use Asset**

	Property & Land Leases £'000	Vehicles £'000	Other Assets £'000	Total £'000
Year ended 31 December 2020				
Opening balance at 1 January 2020	507,597	14,483	165	522,245
Additions	13,603	6,353	47	20,003
Arising on acquisitions (Note 27)	8,669	–	–	8,669
Depreciation charge (Note 3)	(55,168)	(6,960)	(112)	(62,240)
Impairment charge	(3,448)	–	–	(3,448)
Disposals	(4,502)	(43)	–	(4,545)
Remeasurements	13,226	(536)	–	12,690
Translation adjustment	12,162	384	2	12,548
Closing net book amount	492,139	13,681	102	505,922
Year ended 31 December 2019				
Recognised at 1 January 2019	546,497	14,604	583	561,684
Additions	32,848	7,939	–	40,787
Arising on acquisitions	16,378	1,404	–	17,782
Disposals of Group businesses	(21,894)	(1,801)	(221)	(23,916)
Depreciation charge	(53,554)	(7,275)	(145)	(60,974)
Disposals	(36)	–	–	(36)
Translation adjustment	(12,642)	(388)	(52)	(13,082)
Closing net book amount	507,597	14,483	165	522,245

The impairment charge in 2020 of £3.4 million primarily relates to the branch and organisational changes in the UK in the second half of the year, of which £2.2 million has been recognised in exceptional items (Note 4).

The carrying value of assets, which the Group sublease as operating leases and generate income from, amounted to £26.1 million (2019 £20.1 million).

During the year a number of termination options were exercised. As a result, cashflows relating to extension options and termination options, which are not reflected in the measurement of lease liabilities are now £Nil (2019: £1.9 million).

The average lease term is 5.9 years (2019: 7.8 years).

The amounts recognised in the income statement include:

	2020 £'000	2019 £'000
Depreciation expense on right-of-use assets (Note 3)	62,240	60,974
Interest expense on lease liabilities (Note 7)	18,256	19,728
Expense relating to short term leases (Note 3)	1,158	1,326
Expense relating to leases of low-value assets (Note 3)	46	28
Expense relating to variable lease payments not included in the measurements of lease liability (Note 3)	24	24
Income from subleasing right-of-use assets – operating leases	651	440

The total cash outflow for leases amounted to £75.2 million (2019: £73.5 million).

There have been no sale and leaseback transactions in the current year.

The undiscounted lease amounts to be received on an annual basis, in relation to the sublease operating lease income, is £0.5 million for the first year, £0.4 million for years two to five and £0.2 million for year six onwards with total income from subleasing right-of-use assets amounting to £2.6 million (2019: £3.0 million).

Further detail on the impact of IFRS 16 "Leases" is set out within the APM's.

Notes to the Group Financial Statements continued

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties continued**13. (c) Properties Held for Sale**

	Carrying Amount £'000
At 1 January 2019	11,595
Transfers from property, plant and equipment	11,094
Transfers from investment properties	2,095
Disposals	(8,072)
Translation adjustment	(438)
At 31 December 2019	16,274
Transfers from property, plant and equipment	3,901
Transfers from investment properties	810
Fair value losses	(25)
Disposals	(3,765)
Translation adjustment	863
At 31 December 2020	18,058

During the year seven UK held for sale properties were sold. Six properties were transferred from property, plant and equipment and one property from investment properties. The total number of properties held for sale at 31 December 2020 was 19 (2019: 19), of which 11 (2019: 11) are located in the UK, two (2019: two) in Ireland and six in Belgium (2019: six). These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Seven properties are included at a fair value of £6.8 million (2019: six properties at £6.0 million).

Properties held for sale are not used in the course of business and are available for immediate sale in their present condition subject to terms that are usual and customary for properties of this nature. The individual properties were being actively marketed at the year end and the Group is committed to its plan to sell these properties in an orderly manner.

13. (d) Investment Properties

	Fair Value £'000
At 1 January 2019	15,048
Transfers to properties held for sale	(2,095)
Translation adjustment	(427)
At 31 December 2019	12,526
Transfers to properties held for sale	(810)
Transfers from property, plant & equipment	313
Transfers to property, plant & equipment	(101)
Translation adjustment	400
At 31 December 2020	12,328

The total number of investment properties at 31 December 2020 was 13 (2019: 15) of which three (2019: five) are located in the UK and 10 (2019: 10) in Ireland. These properties are being held pending a further recovery in the property market or with a view to enhancing their development potential by securing alternative use planning.

Investment properties of £12.3 million, which are separately classified in non-current assets, are carried at fair value in the financial statements. An internal review undertaken by the Group Property Director was used to determine fair values. The valuation techniques used were the market value of comparable transactions that were recently completed or on the market. In cases where there are no recent precedent transactions, valuations were based on estimated rental yields, consideration of residual value and consultations with external agents who have knowledge of local property markets.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties continued**13. (e) Fair Value Hierarchy – Properties Held for Sale Carried at Fair Value and Investment Properties**

As noted in the Group's accounting policies on pages 139 and 141, properties held for sale are held at the lower of carrying amount and fair value less costs to sell. Investment properties are carried at fair value. Fair value is defined as the price that would be received if the asset was sold in an orderly transaction between market participants based on the asset's highest and best use. Valuations are reviewed each year by the Directors with movements in fair value recognised in the income statement.

The Group reviewed its property portfolio during the year. Properties held for sale comprise land and buildings in a number of locations across the UK, Ireland and Belgium. Investment properties, comprising land and buildings located in the UK and Ireland, are held for capital appreciation and or rental income and are not occupied by the Group for trading purposes. This also includes parts of properties which are sub-let to third parties. Properties held for sale comprise properties that are held at a carrying amount of £11.2 million (2019: £10.3 million) and properties held at a fair value of £6.8 million (2019: £6.0 million). Investment properties are held at a fair value of £12.3 million (2019: £12.5 million).

In general, valuations have been undertaken having regard to comparable market transactions between informed market participants. Due to very limited transactions for properties of a similar nature in the UK and Ireland, the valuations of a number of properties were determined internally with reference to local knowledge, valuation techniques and the exercise of judgement following consultation with property advisers with recent experience of the location and nature of the properties being valued.

Property valuations are derived from data which is not publicly available and for these reasons, the valuations of the Group's property portfolio is classified as level 3 as defined by IFRS 13.

The following is a summary of valuation methods used in relation to the Group's held for sale and investment properties which are carried at fair value:

At 31 December 2020

	Comparable market transactions £'000	Offers from third parties £'000	Total 2020 £'000
Properties Held for Sale			
Distribution segment	6,813	–	6,813
	Comparable market transactions £'000	Other methods £'000	Total 2020 £'000
Investment Properties			
Distribution segment	8,544	–	8,544
Manufacturing segment	2,561	1,223	3,784
Total	11,105	1,223	12,328

At 31 December 2019

	Comparable market transactions £'000	Offers from third parties £'000	Total 2019 £'000
Properties Held for Sale			
Distribution segment	6,003	–	6,003
	Comparable market transactions £'000	Other methods £'000	Total 2019 £'000
Investment Properties			
Distribution segment	8,945	–	8,945
Manufacturing segment	2,424	1,157	3,581
Total	11,369	1,157	12,526

Notes to the Group Financial Statements continued

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties continued**13. (e) Fair Value Hierarchy – Properties Held for Sale Carried at Fair Value and Investment Properties** continued

The following table shows a reconciliation from the opening balance to the closing 2020 balance for level 3 fair values:

	Properties held for sale 2020 £'000	Investment properties 2020 £'000
Balance at beginning of year	16,274	12,526
Transfers from property, plant and equipment	3,901	313
Transfers from investment properties	810	(810)
Transfers to property, plant and equipment	–	(101)
Disposals	(3,765)	–
Fair value losses*	(25)	–
Foreign exchange movement	863	400
Balance at end of year	18,058	12,328
Recorded at fair value	6,813	12,328
Recorded at cost	11,245	–
Total	18,058	12,328

* During 2020, a fair value gain of £0.2 million was recognised on one investment property and a fair value loss of £0.2 million was recognised on two investment properties. In addition, a fair value loss of £25,000 was recognised on one property held for sale.

The following table shows a reconciliation from the opening balance to the closing 2019 balance for level 3 fair values:

	Properties held for sale 2019 £'000	Investment properties 2019 £'000
Balance at beginning of year	11,595	15,048
Transfers from property, plant and equipment	11,094	–
Transfers from investment properties	2,095	(2,095)
Disposals	(8,072)	–
Fair value losses	–	–
Foreign exchange movement	(438)	(427)
Balance at end of year	16,274	12,526
Recorded at fair value	6,003	12,526
Recorded at cost	10,271	–
Total	16,274	12,526

Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring the fair value of properties held for sale and investment properties and the significant unobservable inputs used. Where market transactions are present, the comparable market transaction method is used for land and buildings held for sale or capital appreciation.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties *continued*

13. (e) Fair Value Hierarchy – Properties Held for Sale Carried at Fair Value and Investment Properties *continued*

Properties Held for Sale

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p>Comparable market transactions – price per square metre: The value is based on comparable market transactions after discussion with independent agents and/or with reference to other information sources.</p>	<p>UK – Regional (excluding major cities)</p> <ul style="list-style-type: none"> Comparable industrial development land prices of £50,000 – £322,000 per acre. <p>Ireland – Urban (major cities)</p> <ul style="list-style-type: none"> Comparable warehouse market price of £456 per square metre. Comparable industrial or development land prices of £257,000 per acre. 	<p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> Comparable market prices per square metre were higher/(lower).
<p>Offers from third parties: This valuation is used for properties that have formal offer documentation received by the Group from third parties intending to purchase with a reasonable possibility of a sale being concluded.</p>	<p>UK – Regional (excluding major cities)</p> <ul style="list-style-type: none"> One offer for warehouse property at £800 per square metre. One offer for residential land at £460k per acre. One offer for industrial land at £1.39 million per acre. <p>UK – Urban (major cities)</p> <ul style="list-style-type: none"> Two parcels of development land under offer between £3.8 million & £11.6 million per acre. 	<p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> Final offer price increased/(decreased).

Investment Properties

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p>Comparable market transactions – price per square metre: The value is based on comparable market transactions after discussion with independent registered property appraisers and/or with reference to other information sources.</p>	<p>Ireland – Urban</p> <ul style="list-style-type: none"> Comparable office market prices of £450 – £1,176 per square metre (2019: £425 – £1,113 per square metre). Comparable minimum warehouse market prices of £225 – £895 per square metre (2019: £213 – £847 per square metre). Comparable agricultural land market prices of £12,137 per acre (2019: £11,486 per acre). Comparable minimum industrial land price of £89,900 per acre (2019: 85,080 per acre). <p>Ireland – Regional</p> <ul style="list-style-type: none"> Comparable warehouse market prices of £160 – £373 per square metre (2019: £151 – £319 per square metre). <p>UK – Regional (excluding major cities)</p> <ul style="list-style-type: none"> Comparable warehouse market price of £350 per square metre (2019: £335 – £350 per square metre). Comparable residential market prices of dilapidated residential in region of £50,000. <p>UK – Urban</p> <ul style="list-style-type: none"> Comparable market prices for development sites of £1.5 million per acre. 	<p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none"> Comparable market prices per square metre were higher/(lower)

Notes to the Group Financial Statements continued

14. Other Financial Assets

	Other Investments £'000
At 1 January 2019	123
Translation adjustment	4
At 31 December 2019	127
Translation adjustment	1
At 31 December 2020	128

Other investments represent sundry equity investments at cost less provision for impairment.

15. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships & Technology £'000	Total £'000
Cost				
At 1 January 2019	41,557	5,340	48,428	95,325
Additions	2,059	–	–	2,059
Acquisitions	–	2,202	31,124	33,326
Translation adjustment	15	(231)	(2,473)	(2,689)
At 1 January 2020	43,631	7,311	77,079	128,021
Additions	1,893	–	–	1,893
Acquisitions (Note 27)	–	6,276	16,239	22,515
Translation adjustment	97	247	2,616	2,960
At 31 December 2020	45,621	13,834	95,934	155,389
Amortisation				
At 1 January 2019	4,791	1,211	9,514	15,516
Charge for the year	2,660	638	6,336	9,634
Translation adjustment	(15)	(45)	(337)	(397)
At 1 January 2020	7,436	1,804	15,513	24,753
Charge for the year	5,209	813	8,124	14,146
Translation adjustment	30	60	495	585
At 31 December 2020	12,675	2,677	24,132	39,484
Net book amount				
At 31 December 2020	32,946	11,157	71,802	115,905
At 31 December 2019	36,195	5,507	61,566	103,268

Computer software of £32.9 million at 31 December 2020 (2019: £36.2 million) reflects the carrying value of the Group's investment to upgrade the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment.

Customer relationships, technology and trade names arise from business combinations (Note 27) and are amortised over their estimated useful lives. The average remaining amortisation period is 6.9 years (2019: 6.9 years).

The amortisation expense of £14.1 million (2019: £9.6 million) has been charged in operating costs in the income statement. Amortisation on acquired intangibles amounted to £8.9 million (2019: £7.0 million).

16. Inventories

	2020 £'000	2019 £'000
Raw materials	3,467	1,397
Finished goods	1,667	1,365
Goods purchased for resale	316,424	314,870
	321,558	317,632

The inventory provision at 31 December 2020 was £47.9 million (2019: £37.4 million).

Movement in Impairment Provision

	2020 £'000	2019 £'000
At 1 January	37,386	37,877
Utilised/released during year	(2,380)	(2,656)
Acquired during the year	50	3,869
Disposed during the year	–	(5,726)
Additional provision*	11,653	4,948
Translation adjustment	1,147	(926)
At 31 December	47,856	37,386

* Includes £1.2 million of inventory written off in 2020 and included as exceptional items (Note 4).

17. Trade and Other Receivables and Finance Lease Receivables**17. (a) Trade and Other Receivables**

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade receivables	238,150	262,100
Other receivables	98,794	125,923
	336,944	388,023

The carrying amount of trade and other receivables represents the maximum credit exposure. Other receivables primarily includes prepayments and rebates receivable. Rebates receivable amounted to £78.6 million (2019: £97.5 million).

The maximum exposure to credit risk for trade debtors and other receivables at the reporting date by geographic region was as follows:

	Carrying Amount	
	2020 £'000	2019 £'000
United Kingdom	215,177	266,300
Ireland	82,521	84,417
Netherlands	39,246	37,306
	336,944	388,023

Credit risk is well diversified over a broad customer base with only a small number of accounts with balances in excess of £100,000 that collectively account for a small proportion of total trade receivables. A number of businesses also have credit insurance policies in place which provide cover for the most significant amounts receivable from customers in the UK and Ireland.

The ageing of trade and other receivables, under the expected credit loss model, at 31 December 2020 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
Not Past Due	286,388	(2,074)	284,314	0.7%
Past Due				
0-30 days	35,780	(1,814)	33,966	5.1%
30-60 days	12,901	(3,036)	9,865	23.5%
+60 days	14,386	(5,587)	8,799	38.8%
	63,067	(10,437)	52,630	16.5%
	349,455	(12,511)	336,944	3.6%

Notes to the Group Financial Statements continued

17. Trade and Other Receivables and Finance Lease Receivables continued**17. (a) Trade and Other Receivables** continued

The ageing of trade and other receivables at 31 December 2019 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
Not Past Due	307,548	(934)	306,614	0.3%
Past Due				
0-30 days	44,880	(458)	44,422	1.0%
30-60 days	21,342	(2,548)	18,794	11.9%
+60 days	23,603	(5,410)	18,193	22.9%
	89,825	(8,416)	81,409	9.4%
	397,373	(9,350)	388,023	2.4%

Movement in Impairment Provision

	2020 £'000	2019 £'000
At 1 January	9,350	11,267
Written-off during the year	(3,828)	(3,321)
Additional provision	6,762	3,571
Acquired during the year	18	80
Disposed during the year	–	(2,054)
Translation adjustment	209	(193)
At 31 December	12,511	9,350

17. (b) Finance Lease Receivables

Finance lease receivables are presented in the balance sheet as follows:

	2020 £'000	2019 £'000
Lease receivables:		
Lease receivables – falling due within one year	301	297
Lease receivables – falling due after more than one year	2,015	2,417
	2,316	2,714

The maturity profile of the Group's finance lease receivables can be summarised as follows:

	2020 £'000	2019 £'000
Lease receivables:		
Due within one year	301	297
Between one and two years	291	287
Between two and three years	264	261
Between three and four years	203	203
Between four and five years	195	195
After five years	1,062	1,471
	2,316	2,714

The average lease term is 20.5 years (2019: 21.5 years). The finance income on the finance lease receivable recognised during the year amounted to £0.6 million (2019: £0.4 million).

18. Share Capital and Share Premium Group and Company

	2020 €'000	2019 €'000
Authorised:		
Equity shares		
300 million ordinary shares of 5c each	15,000	15,000
30 billion 'A' ordinary shares of 0.001c each	300	300
	15,300	15,300

Year Ended 31 December 2020

	Issue Price	Number of Shares	2020 Nominal Value €'000
Issued and fully paid:			
Ordinary shares – nominal value of €0.05 At 1 January		238,307,798	8,494
Issued under UK SAYE scheme*		413,489	18
2011 Long Term Incentive Plan			
April 2017 LTIP Award	Nil	748,994	32
May 2017 LTIP Award	Nil	65,286	3
At 31 December		239,535,567	8,547
'A' ordinary shares			
At 1 January		4,051,232,566	22
'A' ordinary shares issued in year (net of cancellations)		20,872,073	–
At 31 December		4,072,104,639	22
Total nominal share capital issued			8,569

* Refer to Note 31 which outlines the issue price of the 2020, 2019, 2018 and the 2017 SAYE Schemes.

Year Ended 31 December 2019

	Issue Price	Number of Shares	2019 Nominal Value €'000
Issued and fully paid:			
Ordinary shares – nominal value of €0.05			
At 1 January		238,265,881	8,492
Issued under UK SAYE scheme**		41,917	2
2011 Long Term Incentive Plan			
April 2016 LTIP Award	Nil	664,961	29
Cancellation of shares repurchased		(664,961)	(29)
At 31 December		238,307,798	8,494
'A' ordinary shares			
At 1 January		4,050,519,977	22
'A' ordinary shares issued in year		712,589	–
At 31 December		4,051,232,566	22
Total nominal share capital issued			8,516

** Refer to Note 31 which outlines the issue price of both the 2019, 2018 and 2017 SAYE Schemes.

Notes to the Group Financial Statements continued

18. Share Capital and Share Premium continued

Share Premium

Group	2020 £'000	2019 £'000
At 1 January	213,719	213,430
Premium on issue of shares under UK SAYE scheme	2,777	289
At 31 December	216,496	213,719

Grafton Units Issued and Cancelled During 2020

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 1,227,769 (2019: 706,878). Costs relating to the issues were £Nil (2019: £Nil). The number of Grafton units cancelled during the year was Nil (2019: 664,961). The total consideration received, net of cancellations, amounted to £2,830,000 (2019: £291,000).

Grafton Units

At 31 December 2020 and 31 December 2019, a Grafton Unit comprised one ordinary share of Euro five cent and 17 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc.

Ordinary Shares

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

'A' Ordinary Shares

At 31 December 2020, there were seventeen 'A' Ordinary shares per Grafton Unit. All 'A' ordinary shares purchased between 2004 to 2009 were cancelled.

The 'A' ordinary shares rank pari passu with ordinary shares regarding any dividends declared. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares), the holders of 'A' ordinary shares are entitled, pari passu with the holders of the ordinary shares, to the repayment of their nominal value of 0.001 cent per share, with no right to participate any further. The holders of the 'A' ordinary shares are not entitled to receive notice of any general meeting of Grafton or to attend, speak or vote at any such general meeting, unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares.

'C' Ordinary Shares (in Grafton Group (UK) plc)

The 'C' ordinary shares do not entitle their holders to receive notice of, attend or vote at any general meeting of Grafton Group (UK) plc unless the business of the meeting includes a resolution varying or abrogating any of the special rights attaching to such shares. If dividends are declared on 'C' ordinary shares, the holder of a Grafton Unit shall be entitled to be paid dividends in respect of the 'C' ordinary shares comprised in such Grafton Unit. On a return of capital on a winding up or otherwise (other than on conversion, redemption or purchase of shares) the holders of 'C' ordinary shares are entitled, pari passu with the holders of the 'A' ordinary shares and 'B' ordinary shares in Grafton Group (UK) plc, to the repayment of their nominal value of Stg0.0001p per share, with no right to participate any further. Any holder of a 'C' ordinary share, with the prior approval of an extraordinary resolution of the holders of the 'C' ordinary shares or with the prior consent in writing of the holders of at least three quarters in nominal value of the issued 'C' ordinary shares, is entitled to call for all the holders of the 'A' ordinary shares and/or 'B' ordinary shares to acquire all the 'C' ordinary shares at their nominal value.

Simplification of Grafton Unit

The Grafton Unit was simplified with effect from 7 March 2021 and now comprises 1 ordinary share in Grafton Group plc.

Treasury Shares

The Group holds 500,000 (2019: 500,000) Grafton Units at a cost of £3,897,000 (2019: £3,897,000) as treasury shares.

19. Group Statement of Changes in Equity

The capital redemption reserve is a legal reserve which arose from the purchase of 'A' ordinary shares, the redemption of redeemable shares in prior years and the buy-back and cancellation of shares.

The revaluation reserve was created as a result of a revaluation of Irish properties in 1998.

The shares to be issued reserve comprises amounts expensed in the income statement in connection with share-based payments, net of transfers to retained earnings on the exercise of share entitlements and the lapsing of such entitlements.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The foreign currency translation reserve arises from the currency effect on translation of the investment in subsidiaries with euro functional currencies as adjusted for foreign currency borrowings and derivatives designated as net investment hedges.

20. Interest-Bearing Loans and Borrowings

	2020 £'000	2019 £'000
Non-current liabilities		
Euro bank loans	130,842	203,814
US senior notes	143,188	135,447
Total interest-bearing loans and borrowings	274,030	339,261
Lease liabilities	479,019	487,999
	753,049	827,260
Current liabilities		
Lease liabilities	57,915	55,368
	57,915	55,368

The decrease in non-current interest-bearing loans and borrowings largely reflects net borrowings repaid during the year offset by the foreign exchange movement on translation of the Group's euro denominated bank loans/US senior notes into sterling at the year end.

Maturity of Financial Liabilities

The maturity profile of the Group's interest-bearing financial liabilities (bank debt, loan notes and lease liabilities) can be summarised as follows:

	Bank loans 2020 £'000	US senior notes 2020 £'000	Lease liabilities 2020 £'000	Total 2020 £'000	Bank loans 2019 £'000	US senior notes 2019 £'000	Lease liabilities 2019 £'000	Total 2019 £'000
Due within one year	-	-	57,915	57,915	-	-	55,368	55,368
Between one and two years	-	-	57,208	57,208	-	-	53,251	53,251
Between two and three years	130,842	-	55,983	186,825	-	-	52,011	52,011
Between three and four years	-	-	54,558	54,558	203,814	-	50,624	254,438
Between four and five years	-	-	52,695	52,695	-	-	49,931	49,931
After five years	-	143,188	258,575	401,763	-	135,447	282,182	417,629
	130,842	143,188	536,934	810,964	203,814	135,447	543,367	882,628
Derivatives				65				(7)
Gross debt				811,029				882,621
Cash and short term deposits				(456,028)				(348,787)
Net debt				355,001				533,834
Shareholders' equity				1,467,023				1,362,651
Gearing				24%				39%

Net cash, excluding the impact of leases, amounted to £181.9 million (2019: £7.8 million).

The following table indicates the effective interest rates at 31 December 2020 in respect of interest bearing financial assets and financial liabilities and the periods during which they re-price.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Euro deposits	0.00%	7,461	7,461	-	-	-	-
Sterling deposits	0.11%	129,624	129,624	-	-	-	-
Cash at bank	(0.65%) - 0.10%	318,943	318,943	-	-	-	-
Total cash and cash equivalents		456,028	456,028	-	-	-	-
Floating rate debt:							
Euro loans	0.60%	(130,842)	(130,842)	-	-	-	-
Total floating rate debt		(130,842)	(130,842)	-	-	-	-
Fixed rate debt:							
Lease liabilities	3.40%	(536,934)	(28,957)	(28,958)	(57,208)	(163,236)	(258,575)
US senior notes	2.49%	(143,188)	-	-	-	-	(143,188)
Total fixed rate debt		(680,122)	(28,957)	(28,958)	(57,208)	(163,236)	(401,763)
Derivatives		(65)	(65)	-	-	-	-
Total Net Debt		(355,001)	296,164	(28,958)	(57,208)	(163,236)	(401,763)

Notes to the Group Financial Statements continued

20. Interest-Bearing Loans and Borrowings continued

Borrowing Facilities and US Senior Notes

At 31 December 2020, the Group had bilateral loan facilities of £490.7 million (2019: £476.7 million) with six relationship banks which all mature in March 2023.

The Group had an undrawn committed borrowing facility at 31 December 2020 of £359.2 million (2019: £271.4 million) in respect of which all conditions precedent were met. During the year, the Group had access to the Bank of England's Covid Corporate Financing Facility ("BOE CCF") and was approved to borrow up to £300 million. In view of the Group's concern about liquidity at a time of high uncertainty caused by the pandemic, debt of £261.1 million that had been prudently drawn in April under the committed revolving bank facilities and held in cash was repaid in June 2020. Given the strong liquidity position of £811.2 million at 31 December 2020 of which £452.0 million was held in accessible cash and £359.2 million in undrawn revolving bank facilities the CCF was allowed to lapse unutilised on 31 December 2020.

In September 2018, the Group raised €160 million (31 December 2020: £143.8 million before costs; 31 December 2019: £136.1 million before costs) through an issue of unsecured senior notes in the US Private Placement market with ten and twelve year maturities at an average fixed 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 2020 was 3.7 years (2019: 4.6 years).

The following table indicates the effective interest rates at 31 December 2019 in respect of interest bearing financial assets and financial liabilities and the periods in which they re-price. The effective interest rate and timing of re-pricing were adjusted for the effect of derivatives.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Euro deposits	0.00%	5,448	5,448	–	–	–	–
Sterling deposits	0.77%	162,747	162,747	–	–	–	–
Cash at bank	(0.40%) – 0.75%	180,592	180,592	–	–	–	–
Total cash and cash equivalents		348,787	348,787	–	–	–	–
Floating rate debt:							
Euro loans	0.77%	(203,814)	(203,814)	–	–	–	–
Total floating rate debt		(203,814)	(203,814)	–	–	–	–
Fixed rate debt:							
US senior notes	2.49%	(135,447)	–	–	–	–	(135,447)
Lease liabilities	3.63%	(543,367)	(27,684)	(27,684)	(53,251)	(152,566)	(282,182)
Total fixed rate debt		(678,814)	(27,684)	(27,684)	(53,251)	(152,566)	(417,629)
Derivatives		7	7	–	–	–	–
Total Net Debt		(533,834)	117,296	(27,684)	(53,251)	(152,566)	(417,629)

21. Financial Instruments and Financial Risk

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

At 31 December 2020

	Fair value through OCI £'000	Amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	128	–	128	–
Trade and other receivables*	–	336,944	336,944	–
Lease receivables*	–	2,316	2,316	–
Cash and cash equivalents*	–	456,028	456,028	–
	128	795,288	795,416	–
Interest rate swaps and other derivatives	(65)	–	(65)	(65)
Euro bank loans	–	(130,842)	(130,842)	(131,521)
US senior notes	–	(143,188)	(143,188)	(143,840)
Lease liabilities	–	(536,934)	(536,934)	(536,934)
Trade and other payables*	–	(545,949)	(545,949)	–
	(65)	(1,356,913)	(1,356,978)	(812,360)

21. Financial Instruments and Financial Risk continued

At 31 December 2019

	Fair value through OCI £'000	Amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	127	–	127	–
Trade and other receivables*	–	388,023	388,023	–
Lease receivables*	–	2,714	2,714	–
Cash and cash equivalents*	–	348,787	348,787	–
	127	739,524	739,651	–
Interest rate swaps	7	–	7	7
Euro bank loans	–	(203,814)	(203,814)	(205,295)
US senior notes	–	(135,447)	(135,447)	(136,128)
Lease liabilities	–	(543,367)	(543,367)	(543,367)
Trade and other payables*	–	(511,855)	(511,855)	–
	7	(1,394,483)	(1,394,476)	(884,783)

* The Group has not disclosed the fair values of financial instruments such as short term receivables and payables because their carrying value closely approximates fair value.

Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of financial instruments carried at fair value, by valuation method. The different levels in the fair value hierarchy have been defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Trade and Other Receivables/Trade and Other Payables

- For receivables and payables with a remaining life of less than six months or demand balances, fair value is the amount that is payable contractually less an impairment provision where appropriate.

Cash and Cash Equivalents, Including Short Term Bank Deposits

- For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the carrying amount is a reasonable approximation of fair value. At 31 December 2020, £4.0 million of cash (2019: £4.0 million) is retained in the event of a default by the Group on a letter of credit. This arrangement can be replaced at any time.

Other Financial Assets

- Certain of the Group's financial assets are comprised of investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such investments are measured at cost less provision for impairment where appropriate and applicable.

Derivative Instruments (Interest Rate Swaps & Foreign Currency Forwards)

- The fair values of interest rate swaps and foreign currency forwards are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using the spot, 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.

Interest Bearing Loans and Borrowings

- For floating rate interest bearing loans and borrowings with a contractual repricing date of less than six months, the nominal amount is deemed to reflect fair value. For loans with repricing dates of greater than six months, the fair value is calculated based on the present value of the expected future principal and interest cash flows discounted at interest rates effective at the balance sheet date and adjusted for credit spread.

Lease Liabilities

- The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Notes to the Group Financial Statements continued

21. Financial Instruments and Financial Risk continued**Fair Value** continued

The following table shows the fair values of financial assets and liabilities including their level in the fair value hierarchy, all of which are considered Level 2. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2020 Total £'000	2020 Level 2 £'000
Liabilities measured at fair value		
Designated as hedging instruments		
Other derivative instruments	(65)	(65)
Liabilities not measured at fair value		
Liabilities at amortised cost		
Euro bank loans	(131,521)	(131,521)
US senior notes	(143,840)	(143,840)
Lease liabilities	(536,934)	(536,934)
	(812,295)	(812,295)
	2019 Total £'000	2019 Level 2 £'000
Liabilities measured at fair value		
Designated as hedging instruments		
Other derivatives and interest rate swaps	7	7
Liabilities not measured at fair value		
Liabilities at amortised cost		
Euro bank loans	(205,295)	(205,295)
US senior notes	(136,128)	(136,128)
Lease liabilities	(543,367)	(543,367)
	(884,790)	(884,790)

Level 2 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Financial assets and liabilities measured at fair value			
Interest rate swaps and foreign currency forwards	The fair value of interest rate swaps and foreign currency forwards is calculated as the present value of the estimated future cashflows based on observable yield curves, spot and forward currency rates	Not applicable	Not applicable
Financial assets and liabilities not held at fair value			
Other financial liabilities*	Discounted cash flows	Not applicable	Not applicable

* Other financial liabilities include Euro bank loans, US senior notes and lease liabilities.

Risk Exposures and Group Treasury Policy

The Group's operations expose it to various financial risks that include credit risk, liquidity risk, currency risk and interest rate risk. The Group's treasury policies, which are regularly reviewed, are designed to reduce financial risk in a cost-efficient way. A limited number of foreign currency spot contracts, foreign exchange swaps, foreign currency forwards and interest rate swaps are undertaken periodically to hedge underlying interest rate, fair value and currency exposures and it is Board policy to manage these risks in a non-speculative manner.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Currency risk; and
- Interest rate risk.

The manner in which the Group is exposed to each of these risks and the risk management policies applied are discussed below. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. The Board and the Audit and Risk Committee have reviewed the process for identifying, evaluating and managing the significant risks affecting the business.

21. Financial Instruments and Financial Risk continued

Credit Risk

Credit risk arises from credit granted to customers. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Exposure to credit risk is monitored on an ongoing basis. The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by Business Unit credit control teams. Credit insurance is in place, subject to annual renewal, to cover major exposures in the UK and Irish merchanting businesses. Credit evaluations are performed regularly. New customers are subject to initial credit checks that include trade and bank references and are generally subject to restricted credit limits prior to developing a credit history.

Due to the established nature of the businesses, a high proportion of customers have long-standing trading relationships with Group companies. These established customers are reviewed regularly for financial strength and the appropriateness of their credit limit.

The Group establishes a provision for impairment that represents its estimate of losses in respect of trade and other receivables. The main components of this provision are a specific loss component that relate to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Cash and short term bank deposits are invested with a range of banks, all with original maturities of less than 3 months at 31 December 2020.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

The maximum exposure to credit risk at 31 December 2020 and 31 December 2019 was:

	2020 £'000	2019 £'000
Trade and other receivables	336,944	388,023
Cash and cash equivalents	456,028	348,787
	792,972	736,810

Additional disclosures in relation to the Group's exposure to credit risk arising from trade and other receivables is set out in Note 17.

The maximum exposure to credit risk for cash and cash equivalents, based on the domicile of the parent bank, at the reporting date was:

	Carrying Amount	
	2020 £'000	2019 £'000
United Kingdom	346,116	267,481
Republic of Ireland	98,805	70,072
Netherlands	6,658	4,551
France	4,426	6,469
Belgium	23	214
	456,028	348,787

The majority of the Group's cash on deposit and cash balances is held with financial institutions that have an upper investment grade credit rating.

	2020 £'000	2019 £'000
Gross amounts of cash and cash equivalents	457,148	350,159
Amounts set off in the balance sheet*	(1,120)	(1,372)
Net amounts of cash and cash equivalents in the balance sheet	456,028	348,787

* The Group has netting arrangements in place with Bank of Ireland, HSBC and Lloyds Bank with cash balances and overdrawn positions being netted, as a legal right of set-off exists with each bank.

Foreign Currency Risk Management

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Group operations manage foreign exchange trading risks against their functional currencies. The majority of trade conducted by the Group's Irish and Dutch businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A proportion of the Group's net worth is denominated in euro. This is reflected in profit after tax reserves retained in euro denominated trading and finance companies which gives rise to translation differences on conversion to sterling. Borrowings made in a non-functional currency are swapped into a functional currency.

Notes to the Group Financial Statements continued

21. Financial Instruments and Financial Risk continued

Sensitivity Analysis

A ten per cent strengthening of the sterling exchange rate against the euro exchange rate at the balance sheet date would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each euro functional currency entity and interest rates, remained constant. A ten per cent weakening of the sterling exchange rate against the euro exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity £'000	Profit after tax £'000
31 December 2020		
10% strengthening of sterling currency against the euro	(39,134)	(6,168)
31 December 2019		
10% strengthening of sterling currency against the euro	(35,354)	(3,319)

Hedging

The Group has exposure to changes in interest rates on certain debt instruments and up to May 2019 hedged an element of this risk by entering into interest rate swaps. The nominal value of contracts outstanding at 31 December 2020 was £Nil (2019: £Nil). For 2019, the period hedged was from December 2014 to May 2019.

The Group classified interest rate swaps as cash flow hedges and stated them at their fair value. The fair value of these swaps at 31 December 2020 was £Nil (2019: £Nil). A net charge of £Nil (2019: £0.1 million) was recorded in the cash flow hedge reserve in other comprehensive income and a balance of £Nil (2019: £Nil), being the ineffective portion of the hedge, was taken to the Group Income Statement (Note 7).

Interest Rate Risk

The majority of the Group's ongoing operations are financed from a mixture of cash generated from operations and borrowings. Bank borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis. Interest rate swaps are used to manage interest rate risk when considered appropriate having regard to the interest rate environment.

In September 2018, the Group raised €160 million (31 December 2020: £143.8 million before costs) through an issue of unsecured senior notes in the US Private Placement market with ten and twelve year maturities at an average fixed 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.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

A reduction of 50 basis points in interest rates at the reporting date would have increased profit before tax and equity by £0.7 million (2019: £1.0 million) on the basis of the Group's gross debt of £811.0 million at 31 December 2020. £130.8 million of the gross debt is exposed to variable rates with the interest rate on the US senior notes of £143.2 million and the implicit interest rate on lease liabilities of £536.9 million is fixed. An increase of 50 basis points, on the same basis, would have an equal and opposite effect.

Capital Management

The capital structure of the Group comprises share capital, reserves and net debt.

The overall approach is to optimise shareholder value by leveraging the balance sheet to an appropriate level having regard to economic and trading conditions in the Group's markets, the level of internal cash generation, credit conditions generally and interest rates payable.

The Group's capital structure is kept under ongoing review and the debt component is actively managed with a view to maintaining diversified sources of funding, significant undrawn facilities and cash deposits.

The Directors monitor the Company's share price and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

The principal bank covenants, which are tested on a pre-IFRS 16 basis, are a net debt to equity ratio limit of 85 per cent, EBITDA interest cover of 4 times and a minimum shareholders' equity of £0.99 billion at 31 December 2020.

At 31 December 2020 the net debt to equity ratio was 24 per cent (2019: 39 per cent) and shareholders' equity was £1.47 billion. EBITDA for the year was £305.7 million (2019: £312.6 million) and underlying EBITDA interest cover for 2020 was 11.9 times (2019: 12.1 times). On a pre-IFRS 16 basis, the Group had net cash of £181.9 million and shareholders' equity of £1.48 billion at the year end. EBITDA for the year was £230.7 million and underlying EBITDA interest cover for 2020 was 30.7 times.

Funding and Liquidity

The Group has cash resources at its disposal through the holding of deposits and cash balances of £456.0 million at the year end (2019: £348.8 million) which together with undrawn bank facilities of £359.2 million (2019: £271.4 million) and cash – flow from operation provides flexibility in financing its operations.

21. Financial Instruments and Financial Risk continued

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

31 December 2020

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	130,842	133,252	793	793	131,666	–
US senior notes	143,188	175,018	3,574	3,574	10,723	157,147
Lease liabilities	536,934	672,450	71,695	72,311	198,006	330,438
Trade and other payables	545,949	545,949	545,949	–	–	–
Derivative Financial Instruments						
Other derivatives	65	65	65	–	–	–
	1,356,978	1,526,734	622,076	76,678	340,395	487,585

* Includes interest based on the rates in place at 31 December 2020.

31 December 2019

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	203,814	210,299	1,572	1,572	207,155	–
US senior notes	135,447	169,005	3,383	3,383	10,148	152,091
Lease liabilities	543,367	689,563	72,966	69,306	190,465	356,826
Trade and other payables	511,855	511,855	511,855	–	–	–
Derivative Financial Instruments						
Interest rate swaps and other derivatives	–	–	–	–	–	–
	1,394,483	1,580,722	589,776	74,261	407,768	508,917

* Includes interest based on the rates in place at 31 December 2019.

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur.

31 December 2020

	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Other derivatives	(65)	(65)	(65)	–	–	–	–	–

31 December 2019

	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Other derivatives	7	7	7	–	–	–	–	–

Notes to the Group Financial Statements continued

22. Derivatives

	2020 £'000	2019 £'000
Included in current liabilities and current assets:		
Fair value of other derivatives	(65)	7

The movement in derivatives at 31 December 2020 is due to the movement in the fair values of the other derivatives.

Nature of Derivative Instruments as at 31 December 2020

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Foreign Currency Forwards*	Sept 2020 – June 2021	Forward purchase of foreign currency liabilities	£3,485,000	£3,485,000	–	(65)

* The fair value of foreign currency forwards (derivative financial instruments) are shown as current liabilities of £65,000 in the balance sheet.

Nature of Derivative Instruments as at 31 December 2019

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
Foreign Currency Forwards	June 2019 – February 2020	Forward purchase of foreign currency liabilities	£1,900,000	£1,900,000	7	–

23. Provisions

	2020 £'000	2019 £'000
Non-current liabilities		
Insurance provision	10,221	8,939
Dilapidations provision	8,193	5,569
Other provisions	2,206	1,277
	20,620	15,785
Current liabilities		
Insurance provision	4,040	3,607
Dilapidations provision	1,086	724
Disposal provisions	2,370	2,401
Other provisions	1,960	2,568
	9,456	9,300

23. Provisions continued

	Insurance		Onerous Leases		Dilapidations	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
At 1 January	12,546	13,383	–	8,175	6,293	6,994
Charge in year	4,265	5,052	–	–	3,089	1,464
Utilised	–	–	–	–	(197)	(226)
Released	(1,268)	(2,570)	–	–	–	(105)
Paid during the year	(2,003)	(2,670)	–	–	–	–
Disposed during the year	–	–	–	–	–	(1,753)
Recognised against right-of-use asset	–	–	–	(8,175)	–	–
Foreign exchange	721	(649)	–	–	94	(81)
At 31 December	14,261	12,546	–	–	9,279	6,293
Non-current	10,221	8,939	–	–	8,193	5,569
Current	4,040	3,607	–	–	1,086	724

	Disposal Provisions		Other Provisions		Total	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
At 1 January	2,401	–	3,845	2,622	25,085	31,174
Charge in year	–	7,216	7,755	3,295	15,109	17,027
Utilised	(165)	(3,861)	(7,468)	(876)	(7,830)	(4,963)
Released	–	(878)	(54)	(965)	(1,322)	(4,518)
Paid during the year	–	–	–	–	(2,003)	(2,670)
Disposed during the year	–	–	–	–	–	(1,753)
Recognised against right-of-use asset	–	–	–	–	–	(8,175)
Foreign exchange	134	(76)	88	(231)	1,037	(1,037)
At 31 December	2,370	2,401	4,166	3,845	30,076	25,085
Non-current	–	–	2,206	1,277	20,620	15,785
Current	2,370	2,401	1,960	2,568	9,456	9,300

Insurance Provision

The insurance provision relates to actual obligations under the self-insurance elements of the Group's overall insurance arrangements which are subject to limits in respect of both individual and aggregate claims. This provision was based on an independent actuarial valuation. The provision principally covers the combined public and employer liability claims for the Group's businesses. The Group has third party insurance cover above specific limits for individual claims and has an overall maximum aggregate payable for all claims for any one year. Given the nature of employer and public liability claims, the timing of cash outflows can vary significantly. The outflow arising from the payment of claims in 2021 is expected to be at a similar level to 2020. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2020 will be paid over a two to six year period.

The incurred but not reported ("IBNR") element of the insurance provision is classified as non-current as the normal cycle for settlement of such claims is likely to be more than 12 months from the year end.

Claims no longer being challenged by the Group are classified as current liabilities at year end. The Group no longer has an unconditional right to defer payment and it is only the timing of the payment that is uncertain.

Claims in legal process are classified as non-current liabilities at year end as the Group still has an unconditional right to defer settlement since it can not generally determine the extent and duration of the legal process unless it expects to settle claims within 12 months.

Onerous Lease Provision

Upon transition to IFRS 16, the right-of-use asset was reduced by the carrying amount of the onerous lease provision at 31 December 2018.

Dilapidations Provision

The dilapidations provision covers the cost of reinstating certain Group properties at the end of the lease term. This is based on the terms of individual leases which set out the conditions relating to the return of property. The timing of the outflows will match the ending of the relevant leases which ranges from two to 20 years.

Notes to the Group Financial Statements continued

23. Provisions continued

Disposals Provision

The disposal provision covers the future legal and lease commitment costs in relation to the disposal of the Belgium and Plumbase businesses.

Other Provisions

Other provisions relate to restructuring, pension contributions, legal provisions, deferred consideration and Waste Electrical & Electronic Equipment ("WEEE") provisions. None of these are individually material to require separate disclosure in the financial statements.

24. Trade and Other Payables

	2020 £'000	2019 £'000
Trade payables	402,081	393,927
Accruals	106,138	79,115
Social welfare	3,764	4,399
Employee income tax	6,294	6,275
Value added tax	27,672	28,139
	545,949	511,855

25. Deferred Taxation

Recognised Deferred Tax Assets and Liabilities

	Assets 2020 £'000	Liabilities 2020 £'000	Net (assets)/ liabilities 2020 £'000	Assets 2019 £'000	Liabilities 2019 £'000	Net (assets)/ liabilities 2019 £'000
Property, plant and equipment	(2,943)	31,659	28,716	(2,647)	29,555	26,908
Employee share schemes	(943)	–	(943)	(1,168)	–	(1,168)
Financing	–	–	–	–	–	–
Other items	(840)	1,186	346	(557)	977	420
Intangibles	–	21,554	21,554	–	16,577	16,577
Tax value of losses carried forward	–	–	–	–	–	–
Pension	(8,660)	–	(8,660)	(3,228)	–	(3,228)
(Assets)/liabilities	(13,386)	54,399	41,013	(7,600)	47,109	39,509

The increase in the deferred tax asset reflects a large increase in the deferred tax asset on the pension scheme deficit and an increase in the deferred tax asset in respect of property, plant and equipment and other items offset by a small decrease in the deferred tax asset on employee share schemes.

At 31 December 2020, there were unrecognised deferred tax assets in relation to capital losses of £1.7 million (31 December 2019: £1.6 million), trading losses of £2.0 million (31 December 2019: £1.9 million) and deductible temporary differences of £7.7 million (31 December 2019: £2.2 million).

Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits. 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.

25. Deferred Taxation continued**Analysis of Net Deferred Tax (asset)/liability – 2020**

	Balance 1 Jan 20 £'000	Recognised in profit or loss £'000	Recognised in equity/other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on acquisitions (Note 27) £'000	Balance 31 Dec 20 £'000
Property, plant and equipment	26,908	838	–	835	135	28,716
Employee share schemes	(1,168)	(127)	352	–	–	(943)
Financing	–	–	–	–	–	–
Other items	420	(102)	–	30	(2)	346
Intangibles	16,577	212	–	546	4,219	21,554
Tax value of losses carried forward	–	–	–	–	–	–
Pension	(3,228)	(1,581)	(3,709)	(142)	–	(8,660)
	39,509	(760)	(3,357)	1,269	4,352	41,013

Analysis of Net Deferred Tax (asset)/liability – 2019

	Balance 1 Jan 19 £'000	Recognised in profit or loss £'000	Discontinued operations £'000	Recognised in equity/other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on disposals £'000	Arising on acquisitions £'000	Balance 31 Dec 19 £'000
Property, plant and equipment	28,935	448	(7)	–	(714)	(1,754)	–	26,908
Employee share schemes	(698)	15	–	(485)	–	–	–	(1,168)
Financing	(10)	–	–	9	1	–	–	–
Other items	274	459	–	–	128	–	(441)	420
Intangibles	10,110	(259)	–	–	(589)	–	7,315	16,577
Tax value of losses carried forward	(2,636)	1,226	219	–	30	1,161	–	–
Pension	(2,926)	(44)	–	(373)	115	–	–	(3,228)
	33,049	1,845	212	(849)	(1,029)	(593)	6,874	39,509

26. Movement in Working Capital

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2019	350,061	451,245	(608,659)	192,647
IFRS 16 impact on opening balances	–	(7,869)	10,992	3,123
At 1 January 2019 (revised)	350,061	443,376	(597,667)	195,770
Translation adjustment/other	(7,764)	(7,831)	11,269	(4,326)
Disposal of Group businesses	(49,819)	(60,881)	63,041	(47,659)
Consideration receivable on disposal of Group businesses	–	1,953	–	1,953
Acquisitions	18,415	19,532	(13,146)	24,801
Movement in 2019	6,739	(8,126)	24,648	23,261
At 1 January 2020	317,632	388,023	(511,855)	193,800
Translation adjustment	7,524	6,930	(10,554)	3,900
Acquisitions (Note 27)	4,974	1,933	(5,211)	1,696
Deferred acquisition consideration (Note 27)	–	–	(5,679)	(5,679)
Movement in 2020	(8,572)	(59,942)	(12,650)	(81,164)
At 31 December 2020	321,558	336,944	(545,949)	112,553

Notes to the Group Financial Statements continued

27. Acquisition & Disposals of Subsidiary Undertakings and Businesses

Acquisition of Subsidiary Undertakings and Businesses

On 3 July 2020, the Group acquired the entire share capital (100%) of GDC Paints Ltd. ("GDC"). GDC is a five branch decorators merchant based in London. The acquisition of this leading specialist business provides Leyland SDM with complementary trading locations in Acton, Greenford, Cricklewood, Fulham and Tooting and increases the store network to 29. The business is incorporated in the distribution segment.

On 16 July 2020, the Group acquired the entire share capital (100%) of Daly Brothers (North East) Limited ("Daly's"). Daly's is a single branch builders distribution business located in Dundalk, County Louth that complements the Chadwicks branch network. The business is incorporated in the distribution segment.

On 30 November 2020, the Group announced the acquisition of AVC (StairBox) Ltd, an industry leading UK manufacturer and distributor of bespoke wooden staircases trading as "StairBox". With a production facility in Stoke-on-Trent, StairBox primarily delivers staircase solutions directly to trade customers operating in the residential repair, maintenance and improvement market across the UK and has a strong market position and brand that is synonymous with quality, value and exceptional customer service. The business is incorporated in the manufacturing segment.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies that should be realised as part of the enlarged Group.

The fair values of assets and liabilities acquired in 2020 are set out below:

	StairBox £'000	Other £'000	Total £'000
Property, plant and equipment (Note 13a)	1,034	1,394	2,428
Right-of-use asset (Note 13b)	6,233	2,436	8,669
Intangible assets – customer relationships (Note 15)	–	1,773	1,773
Intangible assets – trade names (Note 15)	5,936	340	6,276
Intangible assets – technology (Note 15)	14,466	–	14,466
Inventories (Note 26)	1,859	3,115	4,974
Trade and other receivables (Note 26)	383	1,550	1,933
Trade and other payables (Note 26)	(2,619)	(2,592)	(5,211)
Lease liability	(6,233)	(2,436)	(8,669)
Corporation tax asset/(liability)	(471)	(331)	(802)
Deferred tax liability (Note 25)	(4,011)	(341)	(4,352)
Cash acquired	7,279	4,351	11,630
Net assets acquired	23,856	9,259	33,115
Goodwill (Note 12)	26,291	5,411	31,702
Consideration	50,147	14,670	64,817
Satisfied by:			
Cash paid	44,868	14,270	59,138
Deferred consideration	5,279	400	5,679
	50,147	14,670	64,817
Net cash outflow – arising on acquisitions			
Cash consideration	44,868	14,270	59,138
Less: cash and cash equivalents acquired	(7,279)	(4,351)	(11,630)
	37,589	9,919	47,508

Acquisitions would have contributed revenue of £35.9 million and operating profit of £8.3 million in the year ended 31 December 2020 on the assumption that they had been acquired on 1 January. Acquisitions completed in 2020 contributed revenues of £9.6 million and operating profit of £1.5 million for the period from the date of acquisition until the year end.

In 2020, the Group incurred acquisition costs of £1.4m (2019: £0.5m). These have been included in operating costs in the Group Income Statement. The fair value of identifiable net assets acquired in 2020 was £33.1 million.

	Fair Value £'000	Consideration £'000	Goodwill £'000
Total acquisitions	33,115	64,817	31,702

Any adjustments to these fair values within the twelve month timeframe from the date of acquisition will be disclosed in the 2021 Annual Report as stipulated by IFRS3 Business Combinations.

There were no adjustments processed during the year to the fair value of business combinations completed during the year ended 31 December 2019.

27. Acquisition & Disposals of Subsidiary Undertakings and Businesses *continued*

Disposal of Subsidiary Undertakings and Businesses

In 2019, the Group disposed of the Plumbase business in the UK and the Belgium distribution business. These were no longer considered to be a good strategic fit with the Group's businesses.

Plumbase Disposal

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

As a result, the net assets of the Group increased by £0.1 million representing an overall profit on disposal. The profit on disposal reflected the cash consideration of £70.7 million offset by the net book value of the assets disposed of £70.6 million. The net assets disposed included the write off of the carrying value of the allocated goodwill of £19.0 million.

Belgium Distribution Disposal

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

As a result, the net assets of the Group decreased by £20.0 million representing an overall loss on disposal. The loss on disposal reflected the cash consideration of £8.2 million offset by the net book value of the assets disposed of £28.1 million. The net assets disposed included the write off of the carrying value of the allocated goodwill of £9.1 million.

The carrying value of assets and liabilities disposed in 2019 are set out below:

	Belgium £'000	Plumbase £'000	Total £'000
Property, plant and equipment	4,076	12,451	16,527
Right-of-use asset	9,728	14,188	23,916
Inventories	14,017	35,802	49,819
Trade and other receivables	15,839	45,042	60,881
Trade and other payables	(14,992)	(48,049)	(63,041)
Lease liability	(9,712)	(13,761)	(23,473)
Provisions	–	(1,753)	(1,753)
Employee benefits	(423)	–	(423)
Corporation tax asset/(liability)	25	(527)	(502)
Deferred tax asset	1,161	–	1,161
Deferred tax liability	(1,698)	(56)	(1,754)
Debt disposed	(1,177)	–	(1,177)
Cash disposed	2,185	8,236	10,421
Goodwill written off	9,113	19,000	28,113
Net assets disposed	28,142	70,573	98,715
Cash consideration received	(8,167)	(68,767)	(76,934)
Cash consideration receivable	–	(1,953)	(1,953)
Net loss/(profit) on disposal of Group businesses	19,975	(147)	19,828
Analysis of net (loss)/profit on disposal of Group businesses			
Goodwill written off	(9,113)	(19,000)	(28,113)
(Loss)/profit on disposal	(10,862)	19,147	8,285
	(19,975)	147	(19,828)
Net cash inflow – arising on disposals			
Cash consideration received	8,167	68,767	76,934
Cash disposed	(2,185)	(8,236)	(10,421)
	5,982	60,531	66,513

Notes to the Group Financial Statements continued

27. Acquisition & Disposals of Subsidiary Undertakings and Businesses continued**Amounts Recognised in 2019 within Discontinued Operations**

The following amounts were recognised within discontinued operations for 2019:

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

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

Impact of Discontinued Operations in 2019

	2019 Reported £'000	2019 Pre-IFRS 16 £'000
Revenue	251,792	251,792
Operating costs	(245,297)	(246,442)
Operating profit pre-exceptional items	6,495	5,350
Exceptional items (see above)	(29,357)	(29,357)
Operating (loss)/profit	(22,862)	(24,007)
Net finance costs	(702)	–
(Loss)/profit before tax	(23,564)	(24,007)
Income tax	(1,128)	(1,128)
(Loss)/profit after tax for the financial period	(24,692)	(25,135)

The overall impact on the Group income statement for 2019 is set out below.

Impact on the Group Income Statement

For the year ended 31 December 2019

	2019 Continuing £'000	2019 Discontinued £'000	2019 Total £'000
Revenue	2,672,281	251,792	2,924,073
Operating costs	(2,481,392)	(245,297)	(2,726,689)
Operating profit before property profits	190,889	6,495	197,384
Property profits	6,894	–	6,894
Operating profit before exceptional items	197,783	6,495	204,278
Exceptional items	–	(29,357)	(29,357)
Operating profit	197,783	(22,862)	174,921
Finance expense	(27,391)	(702)	(28,093)
Finance income	2,249	–	2,249
Profit before tax	172,641	(23,564)	149,077
Income tax expense	(28,717)	(1,128)	(29,845)
Profit after tax for the financial period	143,924	(24,692)	119,232

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

	2020 £'000	2019 £'000
Net increase in cash and cash equivalents	98,442	127,440
Net movement in derivative financial instruments	(72)	61
Bank loans and loan notes acquired with subsidiaries*	–	(27,420)
Bank loans and loan notes disposed	–	1,177
Movement in debt and lease financing	107,329	(610,062)
Change in net debt resulting from cash flows	205,699	(508,804)
Translation adjustment	(26,866)	28,057
Movement in net debt in the year	178,833	(480,747)
Net debt at 1 January	(533,834)	(53,087)
Net debt at 31 December	(355,001)	(533,834)

* Repaid at completion.

Analysis of Net Debt – 2020

	Balance 1 Jan 20 £'000	Cashflow £'000	Acquisition (Note 27) £'000	Non-cash movements £'000	Translation adjustment £'000	Balance 31 Dec 20 £'000
Cash and cash equivalents	348,787	86,812	11,630	–	8,799	456,028
Interest bearing loans and borrowings:						
Non-current liabilities	(339,261)	87,537	–	–	(22,306)	(274,030)
Current liabilities	–	–	–	–	–	–
Total interest-bearing loans and borrowings	(339,261)	87,537	–	–	(22,306)	(274,030)
Lease liabilities	(543,367)	74,634	(8,669)	(46,173)	(13,359)	(536,934)
Derivatives – current	7	(72)	–	–	–	(65)
Net debt	(533,834)	248,911	2,961	(46,173)	(26,866)	(355,001)

Analysis of Net Debt – 2019

	Balance 31 Dec 18 £'000	IFRS 16 Leases £'000	Balance 1 Jan 19 £'000	Cashflow £'000	Acquisition £'000	Disposal £'000	Non-cash movements £'000	Translation adjustment £'000	Balance 31 Dec 19 £'000
Cash and cash equivalents	222,984	–	222,984	137,610	251	(10,421)	–	(1,637)	348,787
Interest bearing loans and borrowings:									
Non-current liabilities	(273,476)	–	(273,476)	(84,267)	–	908	134	17,440	(339,261)
Current liabilities	(332)	–	(332)	27,601	(27,420)	269	(134)	16	–
Total interest-bearing loans and borrowings	(273,808)	–	(273,808)	(56,666)	(27,420)	1,177	–	17,456	(339,261)
Lease liabilities	(2,209)	(572,673)	(574,882)	72,426	(17,782)	23,473	(58,840)	12,238	(543,367)
Derivatives – current and non-current	(54)	–	(54)	61	–	–	–	–	7
Net debt	(53,087)	(572,673)	(625,760)	153,431	(44,951)	14,229	(58,840)	28,057	(533,834)

Notes to the Group Financial Statements continued

29. Capital Expenditure Commitments

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

	2020 £'000	2019 £'000
Contracted for	4,927	7,110
Not contracted for	67,701	62,103
	72,628	69,213

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

	2020 £'000	2019 £'000
UK	51,910	50,466
Ireland	15,785	13,642
Netherlands	4,933	5,105
	72,628	69,213
Amounts relating to intangibles included above	1,334	1,474

30. Pension Commitments

A number of defined benefit and defined contribution pension schemes are operated by the Group and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

The Group operates three defined benefit schemes in Ireland and one defined benefit scheme in the UK (the "DB Schemes"). One scheme in the UK was closed in 2020 and the three schemes in Belgium were disposed of in 2019 as part of the sale of the Belgium distribution businesses. All schemes are closed to new entrants. The one remaining UK scheme was also closed to future accrual of DB benefits during 2020. The DB Schemes are administered by trusts that are legally separated from the Group. The trustees of the DB Schemes are required by law to act in the interest of the members of the DB Schemes. The trustees of the DB Schemes are responsible for the investment policy of the schemes. The Group also provides other long term benefits to qualifying employees in the Netherlands which are unfunded and included in the liabilities shown.

Under the DB Schemes, the employees are entitled to receive an annual payment on attainment of normal retirement age, which in Ireland is 67 or 68 depending on year of birth and in the UK is age 65 for the majority of benefits. The level of benefit payable depends on length of service. It also depends, in the case of Ireland, on a member's final pensionable salary near retirement and in the case of the UK, future revaluation from the date members ceased accruing benefits up to retirement. Salary for pension purposes is integrated with the State Pension. The DB Schemes provide post retirement pension increases in the UK only and spouse's death in retirement pensions in both Ireland and the UK. No other post-retirement benefits are provided to employees.

Defined Benefit Pension Schemes – Principal Risks

Through its defined benefit pension schemes the Group is exposed to a number of risks the most significant of which are detailed below:

Asset Volatility

Under IFRS the assets of the Group's defined benefit pension schemes are reported at fair value. The majority of the schemes' assets comprise of equities, bonds and property all of which may fluctuate significantly from one reporting period to the next.

Discount Rates

The discount rates used in calculating the present value of scheme liabilities are determined by reference to market yields at the balance sheet date of high quality corporate bonds consistent with the currency and term of the retirement benefit obligations. Changes to the discount rates can have a very significant impact on the amount of defined benefit scheme liabilities.

Salary and Price Inflation

Some of the Group's pension obligations are salary and inflation linked. Higher salary and price inflation will lead to higher liabilities. The exposure to inflation risk relates to the granting of inflation linked pension increases in the UK and also to revaluation of deferred benefits in both the UK and Ireland.

Longevity Risk

In the majority of cases the Group's defined benefit pension schemes provide benefits for life. Increases in life expectancy will therefore give rise to higher liabilities.

The nature of these risks is not materially different across all schemes with the exception of salary and price inflation risks which differ between the UK and Ireland.

30. Pension Commitments continued**Financial Assumptions**

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

	At 31 Dec 2020 Irish schemes	At 31 Dec 2020 UK schemes	At 31 Dec 2019 Irish schemes	At 31 Dec 2019 UK schemes
Valuation method	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Rate of increase in salaries	2.25%	0.00%*	2.30%	0.00%*
Rate of increase of pensions in payment	–	2.70%	–	2.90%
Discount rate	0.70%	1.40%	1.05%	2.10%
Inflation rate increase	1.05%	2.00%**	1.10%	1.90%**

* Pensionable salaries are not adjusted for inflation.

** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI).

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2020 and 2019 year end IAS 19 disclosures are as follows:

2020 Mortality (years)		Ireland	UK	2019 Mortality (years)		Ireland	UK
Future Pensioner aged 65:	Male	22.9	21.7	Future Pensioner aged 65:	Male	22.8	21.6
	Female	25.2	24.0		Female	25.0	23.8
Current Pensioner aged 65:	Male	21.7	21.1	Current Pensioner aged 65:	Male	21.5	21.0
	Female	24.1	23.2		Female	24.0	23.1

Scheme Assets

The assets in these schemes are analysed below:

	%	2020 £'000	%	2019 £'000
UK equities	1	3,452	2	5,530
Overseas (non-UK) equities	22	57,066	41	102,898
Government bonds	24	63,952	27	67,017
Corporate bonds	17	45,522	3	7,848
Property	4	10,955	5	11,932
Diversified growth funds	22	57,648	19	46,542
Liability driven investment ("LDI")	9	23,679	0	–
Other	0	–	0	1,211
Cash	1	1,330	3	6,955
	100	263,604	100	249,933
Actuarial value of liabilities		(314,188)		(271,116)
Deficit in the schemes		(50,584)		(21,183)

Represented by:

Retirement benefit assets	2,099	756
Retirement benefit obligations	(52,683)	(21,939)
	(50,584)	(21,183)

In the UK scheme in 2020, an investment was made in Liability Driven Investments ("LDI") during the year aimed at reducing volatility and allowing better matching of returns with cashflows.

The net pension scheme deficit of £50,584,000 is shown in the Group balance sheet at 31 December 2020 as (i) retirement benefit obligations (non-current Liabilities) of £52,683,000 of which £18,337,000 relates to the Euro schemes and £34,346,000 relates to a UK scheme and (ii) retirement benefit assets (non-current assets) of £2,099,000 relating to another Euro scheme.

The net pension scheme deficit of £21,183,000 is shown in the Group balance sheet at 31 December 2019 as (i) retirement benefit obligations (non-current Liabilities) of £21,939,000 of which £10,823,000 relates to the Euro schemes and £11,116,000 relates to a UK scheme and (ii) retirement benefit assets (non-current assets) of £756,000 relating to another UK scheme (£348,000) and a Euro scheme (£408,000).

Notes to the Group Financial Statements continued

30. Pension Commitments continued

Scheme Assets continued

The actual return on plan assets is set out below:

	2020 £'000	2019 £'000
Actual return on plan assets	14,580	34,708

Plan assets are comprised as follows:

	2020 Quoted £'000	2020 Unquoted £'000	2020 Total £'000	2019 Quoted £'000	2019 Unquoted £'000	2019 Total £'000
Equity – UK	3,452	–	3,452	5,530	–	5,530
Equity – Other	57,066	–	57,066	102,898	–	102,898
Bonds – Government	63,952	–	63,952	67,017	–	67,017
Bonds – Corporate	45,522	–	45,522	7,848	–	7,848
Property	10,955	–	10,955	11,932	–	11,932
Cash	1,330	–	1,330	6,955	–	6,955
Diversified growth funds	57,648	–	57,648	46,542	–	46,542
LDI/other	23,679	–	23,679	–	1,211	1,211
Total	263,604	–	263,604	248,722	1,211	249,933

Sensitivity of Pension Liability to Judgemental/Assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.3%
Rate of salary growth	Increase by 0.25%	Increase by 0.7%
Rate of inflation*	Increase by 0.25%	Increase by 2.7%
Life expectancy	Increase by 1 year	Increase by 3.7%

* Assumed that an increase of 0.25% in the inflation assumption would also give rise to an increase in the salary increase assumption of 0.25%.

The above sensitivity analysis is derived through changing an individual assumption while holding all other assumptions constant.

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

	Year Ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
At 1 January	249,933	230,671	(271,116)	(250,834)	(21,183)	(20,163)
Acquired in year	–	–	–	(227)	–	(227)
Disposed in year	–	(1,575)	–	1,998	–	423
Interest income on plan assets	3,998	5,352	–	–	3,998	5,352
Contributions by employer	4,209	2,956	–	–	4,209	2,956
Contributions by members	598	621	(598)	(621)	–	–
Benefit payments	(11,701)	(11,376)	11,701	11,376	–	–
Current service cost	–	–	(2,443)	(2,443)	(2,443)	(2,443)
Past service cost – exceptional (Note 4)	–	–	(5,000)	–	(5,000)	–
Curtailment cost – exceptional (Note 4)	–	–	(2,463)	–	(2,463)	–
Settlement cost	–	–	–	(580)	–	(580)
Other long term expense	–	–	(81)	(49)	(81)	(49)
Interest cost on scheme liabilities	–	–	(4,337)	(5,763)	(4,337)	(5,763)
Administration costs – exceptional (Note 4)	(556)	–	–	–	(556)	–
Administration costs	(305)	–	–	–	(305)	–
Remeasurements						
Actuarial (loss)/gain arising from:						
– experience variations	–	–	(4,433)	1,579	(4,433)	1,579
– financial assumptions	–	–	(27,394)	(31,178)	(27,394)	(31,178)
– demographic assumptions	–	–	(534)	(1,048)	(534)	(1,048)
Return on plan assets excluding interest income	10,582	29,356	–	–	10,582	29,356
Translation adjustment	6,846	(6,072)	(7,490)	6,674	(644)	602
At 31 December	263,604	249,933	(314,188)	(271,116)	(50,584)	(21,183)
Related deferred tax asset (net)					8,660	3,228
Net pension liability					(41,924)	(17,955)

30. Pension Commitments continued**Expense Recognised in Income Statement**

	2020 £'000	2019 £'000
Current service cost	2,443	2,443
Other long term benefit expense	81	49
Settlement cost	–	580
Administration costs	305	–
Total operating charge	2,829	3,072
Net finance costs on pension scheme obligations	339	411
Total expense recognised in income statement	3,168	3,483

Expense Recognised in Exceptional Items

	2020 £'000
Past service cost	5,000
Curtailment loss	2,463
Administration costs (non-recurring)	556
Total expense recognised in exceptional items	8,019

The UK scheme was closed to future accrual at 31 December 2020. This increased the scheme liabilities by £2.5 million as 89 members who were previously active but not receiving increases to pensionable salary will now receive deferred revaluations. As part of the closure process, one-off costs of £0.6 million were incurred and a further £5.0 million increase in liability has been recognised in exceptional items.

Recognised Directly in Other Comprehensive Income

	2020 £'000	2019 £'000
Remeasurement loss on pensions	(21,779)	(1,291)
Deferred tax on pensions	3,709	373
	(18,070)	(918)

Actuarial Valuations – Funding Requirements

Employees pay contributions equal to a percentage of pensionable salary. The percentage payable varies by scheme. Triennial actuarial valuations are carried out to determine the group's contribution rate required under the schemes.

In Ireland, the DB schemes are assessed against the Funding Standard (the statutory minimum funding requirement). As most of the DB schemes did not satisfy the Funding Standard, funding proposals are in place to address Funding Standard deficits. The funding proposals were agreed between the Group and the trustees of the relevant schemes and were designed to restore the Funding Standard positions by the end of 2023.

The portion of contributions due for 2021, which relate to deficit funding in the Irish Schemes, is £1.5 million. An annual assessment is carried out each year to confirm the funding proposals remain on-track to achieve their funding targets. If a funding proposal is certified as being off-track, higher contributions may be required to fund the deficits. The next triennial valuations are also due to be carried out for the Irish schemes at 1st January 2022.

In the UK, the DB schemes are subject to the Statutory Funding Objective under the Pensions Act 2004. Valuations of the DB Schemes are carried out at least once every three years to determine whether or not the Statutory Funding Objectives are met. As part of the process, the Group must agree with the Trustees of the DB Schemes the contributions to be paid to address any shortfalls against the Statutory Funding Objectives and contributions to pay for future accrual of benefits. The next valuation is ongoing as at 31 December 2020.

No explicit external contracts have been entered into to provide liability matching such as longevity swaps or annuity purchase. Following a recent strategy review the scheme's investments are being more closely aligned to the liabilities by term and nature in order to minimise volatility and target full funding on the local statutory funding measures.

The contributions expected to be paid to the Group's defined benefit schemes in 2021 total approximately £4.0 million.

Average Duration and Scheme Composition

	Ireland		UK	
	2020	2019	2020	2019
Average duration of defined benefit obligation (years)	19.00	18.00	18.00	17.95

Notes to the Group Financial Statements continued

30. Pension Commitments continued**Allocation of Total Defined Benefit Obligation by Participant**

	2020	2019
Active plan participants	24%	33%
Deferred plan participants	42%	29%
Retirees	34%	38%
	100%	100%

31. Share Based Payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 Share Based Payments. The total share based payments expense for the year charged to the income statement was £719,000 (2019: £6,171,000), analysed as follows:

	2020 £'000	2019 £'000
LTIP	111	5,502
UK SAYE Scheme	608	669
	719	6,171

Details of the schemes operated by the Group are set out below:

Long Term Incentive Plan ("LTIP")

A Long Term Incentive Plan ("LTIP") was introduced in 2011. Details of the plan are set out in the Report of the Remuneration Committee on Directors' Remuneration on pages 95 to 114. Awards over 669,128 Grafton Units were granted under the plan on 10 September 2020 (2019: 885,484 on 12 April 2019). A summary of the award granted on 10 September 2020 is set out below:

Grant date	LTIP 2020 10 Sept 2020	LTIP 2019 12 April 2019
Share price at date of award	£7.37	£8.48
Exercise price	N/A	N/A
Number of employees	228	232
Number of share awards	669,128	885,484
Vesting period	3 years	3 years
Expected volatility	50.7%	25.9%
Award life	3 years	3 years
Expected life	3 years	3 years
Risk free rate	(0.11%)	0.78%
Expected dividends expressed as dividend yield	0.92%	2.04%
Valuation model – EPS/Service Valuation model – TSR	Black Scholes/ Monte-Carlo	Black Scholes/ Monte-Carlo
Fair value of share award – Service component	£7.17	–
Fair value of share award – EPS component	–	£7.97
Fair value of share award – TSR component	£4.43	£5.55

The expected volatility, referred to above, is based on volatility over the last 3 years. The expected life is equal to the vesting period. The risk free rate of return is the yield on bonds from the Bank of England for a term consistent with the life of the award at the grant date. The fair values of share awards granted under the 2011 plan were determined taking account of peer group total share return volatility together with the above assumptions.

The LTIP Award granted in September 2020 is not subject to any performance condition. Vesting will be subject to participants' continued employment within the Group at the vesting date, save for certain good leaver exceptions permitted by the rules of the scheme. The number of Grafton Units which may vest is subject to the discretion of the Remuneration Committee to adjust the vesting outcome if it is not considered to be reflective of the underlying financial and/or non-financial performance of the business, the performance of the participant over the performance period or if the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders.

31. Share Based Payments continued**Long Term Incentive Plan ("LTIP")** continued

A reconciliation of all share awards granted under the LTIP is as follows:

	2020 Number	2019 Number
Outstanding at 1 January	2,550,579	2,575,907
Granted in year	669,128	885,484
Forfeited#	(758,674)	(188,976)
Expired unvested	(14,047)	(56,875)
Exercised	(814,280)	(664,961)
Outstanding at 31 December	1,632,706	2,550,579

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

At 31 December 2020 and 31 December 2019 none of the LTIPs were exercisable as the conditions for exercise were not fulfilled before the year-end.

Share Schemes

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

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

The share scheme had a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits complied with Institutional Guidelines.

The number of Grafton Units issued during the year under the Company's Executive Share Schemes was Nil (2019: Nil). Entitlements outstanding at 31 December 2020 amounted to Nil (2019: Nil). Grafton Units may be acquired, in accordance with the rules of the scheme, at a price of €1.66 during the period to 2019.

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2019	
	Number	Weighted average exercise price €
Outstanding at 1 January	1,505,001	1.66
Forfeited#	–	–
Expired	(1,505,001)	(1.66)
Outstanding at 31 December	–	–

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

Share entitlements are exercisable within six months upon a change of control of the Company. The weighted average remaining life of the share entitlements is 0.0 years (2019: 0.0 years).

UK SAYE Scheme

Options over 1,843,547 (2019: 1,662,925) Grafton Units were outstanding at 31 December 2020, pursuant to a new 2020 and existing 2019, 2018 and 2017 three year saving contracts under the Grafton Group (UK) plc 2011 Approved SAYE Plan at a price of £5.78, £6.33, £6.58 and £6.77 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being December 2023 for the 2020 SAYE scheme, December 2022 for the 2019 SAYE scheme, December 2021 for the 2018 SAYE scheme and December 2020 for the 2017 SAYE scheme.

The number of Grafton Units issued during the year under the 2017 SAYE scheme was 410,179 (2019: 36,336) and the total consideration received amounted to £2,811,000 (2018: £253,000). Options forfeited in the year were 152,768 (2019: 164,027).

Notes to the Group Financial Statements continued

31. Share Based Payments continued**UK SAYE Scheme** continued

The number of Grafton Units issued during the year under the 2018 SAYE Scheme was 3,069 (2019: 5,581) and the total consideration received amounted to £18,000 (2018: £38,000). Options forfeited in the year were 101,235 (2019: 90,905).

The number of Grafton Units issued during the year under the 2019 SAYE Scheme was 241 (2019: Nil) and the total consideration received amounted to £1,000 (2019: £Nil). Options forfeited in the year were 66,340 (2019: 10,003).

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

	Number	2020 Option price £	Number	2019 Option price £
Outstanding at 1 January	824,631	6.77	1,024,994	6.77
Granted	–	–	–	–
Forfeited	(152,768)	6.77	(164,027)	6.77
Exercised	(410,179)	6.77	(36,336)	6.77
Outstanding at 31 December	261,684		824,631	

A reconciliation of options granted under the 2018 SAYE is as follows:

	Number	2020 Option price £	Number	2019 Option price £
Outstanding at 1 January	471,523	6.58	568,009	6.58
Granted	–	–	–	–
Forfeited	(101,235)	6.58	(90,905)	6.58
Exercised	(3,069)	6.58	(5,581)	6.58
Outstanding at 31 December	367,219		471,523	

A reconciliation of options granted under the 2019 SAYE is as follows:

	Number	2020 Option price £	Number	2019 Option price £
Outstanding at 1 January	366,771	6.33	–	–
Granted	–	–	376,774	6.33
Forfeited	(66,340)	6.33	(10,003)	6.33
Exercised	(241)	6.33	–	–
Outstanding at 31 December	300,190		366,771	

A reconciliation of options granted under the 2020 SAYE is as follows:

	Number	2020 Option price £
Outstanding at 1 January	–	–
Granted	921,362	5.78
Forfeited	(6,908)	5.78
Outstanding at 31 December	914,454	

The weighted average share price for the period was £7.31 (2019: £7.98).

At 31 December 2020 none of the 2020 or the 2019 UK SAYE shares were exercisable. The weighted average remaining life is 2.3 years (2019: 2.0 years).

32. Accounting Estimates and Judgements

In the opinion of the Directors, there were no matters of significant judgement exercised in the preparation of the financial statements and the key sources of estimation uncertainty were as follows:

Goodwill

The Group has capitalised goodwill of £704.1 million at 31 December 2020 (2019: £657.8 million) as detailed in Note 12. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value-in-use calculations to determine the recoverable amount of cash generating units containing goodwill. Value-in-use is calculated as the present value of future cash flows. In calculating value-in-use, management estimation is required in forecasting cash flows of the segments and in selecting an appropriate discount rate and the nominal growth rate in perpetuity. The forecasted cash flows used in the impairment tests incorporated the impact of Covid-19. In 2019, the Group disposed of a number of businesses which resulted in a write off of goodwill amounting to £28.1 million.

Retirement Benefit Obligations

The Group operates a number of defined benefit retirement plans which are as set out in Note 30. The Group's total obligation in respect of defined benefit plans is calculated by independent, qualified actuaries and updated at least annually and totals £314.2 million at 31 December 2020 (2019: £271.1 million). Plan assets at 31 December 2020 amounted to £263.6 million (2019: £249.9 million) giving a net scheme deficit of £50.6 million (2019: £21.2 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. The sensitivities of the principal assumptions used to measure defined benefit pension scheme obligations are set out in Note 30.

Rebate Income

Rebate arrangements with suppliers are a common feature of trading in the distribution industry and the Group has agreements with individual suppliers related to purchases of goods for resale.

Rebates are accounted for as a deduction from the cost of goods for resale and are recognised in the financial statements based on the amount that has been earned in respect of each individual supplier up to the balance sheet date. Rebates receivable are determined using established methodologies and are only recognised in the income statement where there is an agreement in place with an individual supplier, any related performance conditions have been met and the goods have been sold to a third-party customer.

Rebates receivable from individual suppliers are typically calculated by applying an agreed percentage to the purchase price shown on the supplier invoice for products purchased for resale. A small proportion of rebates receivable are based on volumes purchased with certain supplier agreements providing for a stepped increase in rebates if purchases reach predetermined targets within a specified time period.

The majority of rebate arrangements cover a calendar year which coincides with the financial year of the Group and this reduces the requirement to estimate rebates receivable at the year-end. Where estimation is used in the calculation of rebates receivable it is done on a consistent and prudent basis, based upon management's knowledge and experience of the suppliers and historic collection trends.

Rebates are classified in the balance sheet as follows:

Inventories

The carrying value of inventories at the balance sheet date is reduced to reflect rebates receivable relating to inventory that has not been sold at the balance sheet date.

Trade and Other Receivables

The amount of rebate receivable at the balance sheet date is classified as other receivables and separately disclosed in Note 17, Trade and Other Receivables.

Trade and Other Payables

Where the Group has the legal right to set-off rebates receivable against amounts owing to individual suppliers, any rebates receivable at the balance sheet date are netted against amounts payable to these suppliers and the amount, if material, is separately disclosed in Note 24, Trade and Other Payables.

Valuation of Inventory

Inventory comprises raw materials, finished goods and goods purchased for resale. Provisions are made against slow moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than cost. Determining the net realisable value of the wide range of products held in many locations requires estimation to be applied to determine the likely saleability of products and the potential prices that can be achieved. In arriving at any provisions for net realisable value, the Directors take into account the age, condition, quality of the products in stock and recent sales trends. The actual realisable value of inventory may differ from the estimated value on which the provision is based. The Group held provisions in respect of inventory balances at 31 December 2020 amounting to £47.9 million (2019: £37.4 million).

Notes to the Group Financial Statements continued

32. Accounting Estimates and Judgements continued

IFRS 16 "Leases"

Where the Group has an option to extend or terminate a lease, management uses its judgement to determine whether such an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including past practice and costs that would be incurred if an option were to be exercised, to help them determine the lease term. Management have also applied judgements in assessing the discount rate, which are based on the incremental borrowing rate. Such judgements could impact lease terms and associated lease liabilities. The Group availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

33. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, key management personnel and post-employment benefit plans.

Subsidiaries

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IFRS 10, Consolidated Financial Statements.

Key Management Personnel

The term key management personnel for 2020 is the Board of Grafton Group plc and the Company Secretary/Group Financial Controller. The cost of key management personnel is analysed in Note 6 to the Group Financial Statements. The Report of the Remuneration Committee on Directors' Remuneration on pages 95 to 114 provides detailed disclosure for 2020 and 2019 of salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to acquire Grafton Units in accordance with the rules of the 1999 Grafton Group Share Scheme and awards granted under the LTIP.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 30 to the Group Financial Statements.

34. Events after the Balance Sheet Date

There have been no other material events subsequent to 31 December 2020 that would require adjustment to or disclosure in this report.

35. Approval of Financial Statements

The Board of Directors approved the Group Financial Statements on pages 130 to 190 on 8 March 2021.

Company Balance Sheet As at 31 December 2020

	Notes	2020 €'000	2019 €'000
Fixed assets			
Intangible assets	4(a)	304	174
Tangible assets	4(a)	130	115
Right-of-use asset	4(b)	433	582
Financial assets	5	532,361	532,052
Total fixed assets		533,228	532,923
Current assets			
Debtors (including €Nil (2019: €Nil) due after more than one year)	6	1,453,608	1,238,376
Cash at bank and in hand		31,667	66,830
Total current assets		1,485,275	1,305,206
Creditors: amounts falling due within one year	7	(773,092)	(572,398)
Net current assets		712,183	732,808
Total assets less current liabilities		1,245,411	1,265,731
Creditors: amounts falling due after one year	7	(255)	(443)
Net assets		1,245,156	1,265,288
Capital and reserves			
Called-up share capital	10	12,017	11,956
Share premium account	10	307,338	304,266
Capital redemption reserve		938	938
Shares to be issued reserve		8,180	14,724
Profit and loss account		922,429	939,150
Treasury shares held		(5,746)	(5,746)
Shareholders' equity		1,245,156	1,265,288

There was a loss after tax of €24.1 million (2019: profit €14.4 million) attributable to the parent undertaking for the financial year.

On behalf of the Board

Gavin Slark
Director
8 March 2021

David Arnold
Director

Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Profit and loss account €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2020							
At 1 January 2020	11,956	304,266	938	14,724	939,150	(5,746)	1,265,288
Loss after tax for the financial year	-	-	-	-	(24,096)	-	(24,096)
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(24,096)	-	(24,096)
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units	61	3,072	-	-	-	-	3,133
Share based payments charge	-	-	-	831	-	-	831
Transfer from shares to be issued reserve	-	-	-	(7,375)	7,375	-	-
	61	3,072	-	(6,544)	7,375	-	3,964
At 31 December 2020	12,017	307,338	938	8,180	922,429	(5,746)	1,245,156
Year to 31 December 2019							
At 1 January 2019	11,954	303,938	905	13,582	925,857	(5,746)	1,250,490
Profit after tax for the financial year	-	-	-	-	14,404	-	14,404
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	14,404	-	14,404
Transactions with owners of the Company recognised directly in equity							
Issue of Grafton Units	35	328	-	-	-	-	363
Purchase of treasury shares	-	-	-	-	-	(6,974)	(6,974)
Cancellation of treasury shares	(33)	-	33	-	(6,974)	6,974	-
Share based payments charge	-	-	-	7,005	-	-	7,005
Transfer from shares to be issued reserve	-	-	-	(5,863)	5,863	-	-
	2	328	33	1,142	(1,111)	-	394
At 31 December 2019	11,956	304,266	938	14,724	939,150	(5,746)	1,265,288

Notes to the Company Financial Statements

1. Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention in accordance with the Companies Act 2014 and Generally Accepted Accounting Practice in the Republic of Ireland (Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101)). Note 2 describes the principle accounting policies under FRS101, which have been applied consistently.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- The option to take tangible and intangible assets at deemed cost;
- Disclosures in respect of transactions with wholly-owned subsidiaries;
- Disclosures in respect of financial risk management;
- Disclosure of key management compensation;
- Certain requirements of IAS 1 Presentation of Financial Statements;
- Disclosures required by IFRS 7 Financial Instrument Disclosures;
- Disclosures required by IFRS 13 Fair Value Measurement;
- Certain disclosures required by IFRS 16 Leases; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of Grafton Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosure:

- IFRS 2 Share Based Payments in respect of group settled share-based payments.

In accordance with Section 304(2) of the Companies Act 2014, the income statement and related notes of the parent undertaking have not been presented separately in these financial statements.

2. Accounting Policies

Key Accounting Policies which involve Estimates, Assumptions and Judgements

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Financial Assets

Investments in subsidiaries are stated at cost less any accumulated impairment and are reviewed for impairment if there are any indicators that the carrying value may not be recoverable.

Loans Receivable and Payable

Intercompany loans receivable and payable are initially recognised at fair value. These are subsequently measured at amortised cost, less any provision for impairment.

Other Significant Accounting Policies

Operating Income and Expense

Operating income and expense arises from the Company's principal activities as a holding company for the Group and are accounted for on an accruals basis.

Foreign Currencies

The functional and presentation currency of the Company is euro. Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account.

Share Issue Expenses

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share-based Payments

The Company has applied the requirements of Section 8 of FRS 101. The accounting policy applicable to share-based payments is addressed in detail on page 143 of the Consolidated Financial Statements.

IFRS 16 Leases

The accounting policy applicable to IFRS 16 leases is addressed in detail on pages 139-141 of the Consolidated Financial Statements.

Treasury Shares

Own equity instruments (i.e. Ordinary Shares) acquired by the Company are deducted from equity and presented on the face of the Company Balance Sheet. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's Ordinary Shares.

Notes to the Company Financial Statements continued

2. Accounting Policies continued

Other significant accounting policies continued

Dividends

Dividends on Ordinary Shares are recognised as a liability in the Company's Financial Statements in the period in which they are declared by the Company.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated over their useful economic life on a straight line basis in line with Group policy as noted in Note 1 to the Consolidated Financial Statements.

Intangible Assets (Computer Software)

Acquired computer software is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises of purchase price and any other directly attributable costs. Computer software is recognised in line with the criteria as outlined in Note 1 to the Consolidated Financial Statements.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purpose of meeting short term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts are included within creditors falling due within one year in the Company Balance Sheet.

3. Statutory and Other Information

The following items have been charged to the company income statement:

	2020 €'000	2019 €'000
Statutory audit (refer to Note 3 of Group Financial Statements)	75	75
Depreciation	94	132
Depreciation on right-of-use assets	149	149
Intangible asset amortisation	88	59
Directors' remuneration	2,474	3,700

The interest expense on lease liabilities in the year was €11,000 (2019: €13,000).

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 95 to 114.

The average number of persons employed by the Company during the year was 23 (2019: 22).

	2020 €'000	2019 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	3,709	3,696
Social welfare costs	261	367
Share-based payments charge	522	2,154
Defined contribution and pension related costs	566	573
Charged to operating profit	5,058	6,790
Net finance cost on pension scheme obligations	–	–
Charged to income statement	5,058	6,790
Actuarial loss on pension scheme	–	–
Total employee benefit cost	5,058	6,790

4. Tangible, Intangible and Right-of-Use Assets

4. (a) Tangible and Intangible Assets

	Plant and Equipment 2020 €'000	Intangible Assets* 2020 €'000
Company Cost		
At 1 January	3,099	332
Additions	109	218
At 31 December	3,208	550
Depreciation		
At 1 January	2,984	158
Charge for year	94	88
At 31 December	3,078	246
Net book amount		
At 31 December	130	304
At 1 January	115	174

* The computer software additions reflects the cost of the Company's investment on upgrading the IT systems and infrastructure.

4. (b) Right-of-Use Asset

	Right-of-Use Asset* 2020 €'000
Company Cost	
At 1 January	731
Additions	–
At 31 December	731
Depreciation	
At 1 January	149
Charge for year	149
At 31 December	298
Net book amount	
At 31 December	433
At 1 January	582

* The lease term remaining as at 31 December 2020 is 2.9 years (2019: 3.9 years) and this relates to a property lease.

5. Financial Assets

	Other investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2019	14	524,710	524,724
Additions	–	2,617	2,617
Capital contribution – share-based payments	–	4,850	4,850
Impairments during the year	–	(139)	(139)
At 31 December 2019	14	532,038	532,052
Additions	–	–	–
Capital contribution – share-based payments	–	309	309
At 31 December 2020	14	532,347	532,361

* The impairment charge during 2019 largely relates to subsidiaries which were liquidated.

Other investments represent sundry equity investments at cost less provision for impairment.

Notes to the Company Financial Statements continued

6. Debtors

	2020 €'000	2019 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	1,449,311	1,233,297
Deferred tax	47	24
Other receivables	4,250	5,055
	1,453,608	1,238,376

7. Creditors

	2020 €'000	2019 €'000
Amounts falling due within one year:		
Accruals	4,839	4,636
Lease liability*^	149	107
Amounts owed to subsidiary undertakings	768,104	567,655
	773,092	572,398

	2020 €'000	2019 €'000
Amounts falling due after one year:		
Lease liability*^	255	443

* The Company's incremental borrowing rate applied to the lease liability as at 31 December 2020 was 2.1% (2019: 2.0%).

^ The lease liability recognised at 1 January 2019 was €731,000.

The maturity analysis of the lease liability is as follows:

	2020 €'000	2019 €'000
Year 1	149	107
Year 2	152	149
Year 3	103	152
Year 4	–	142
Year 5	–	–
Onwards	–	–

8. Deferred Taxation

Recognised Deferred Tax (Assets) and Liabilities

	Assets 2020 €'000	Liabilities 2020 €'000	Net (assets)/ liabilities 2020 €'000	Assets 2019 €'000	Liabilities 2019 €'000	Net (assets)/ liabilities 2019 €'000
Other items	(47)	–	(47)	(24)	–	(24)

	Balance 1 Jan 20 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 20 €'000
Other items	(24)	(23)	–	–	–	(47)

	Balance 1 Jan 19 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 19 €'000
Other items	(94)	70	–	–	–	(24)

9. Pension Commitments

A defined benefit scheme and defined contribution pension schemes are operated by the Company and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

IAS 19 – Employee Benefits

An actuarial valuation was updated to 31 December 2020 by a qualified independent actuary.

Financial Assumptions

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

	At 31 Dec 2020 Company scheme	At 31 Dec 2019 Company scheme
Valuation Method	Projected Unit	Projected Unit
Rate of increase of pensions in payment	–	–
Discount rate	0.70%	1.05%
Inflation rate increase	1.05%	1.10%

The Company's obligations to the scheme at the end of 2020 and 2019 were limited to providing a pension to an executive who retired in 2009 on a fixed pension.

	Year ended 31 December					
	Assets		Liabilities		Net asset/(deficit)	
	2020 €'000	2019 €'000	2020 €'000	2019 €'000	2020 €'000	2019 €'000
At 1 January	1,327	1,276	(1,327)	(1,276)	–	–
Interest income on plan assets	14	22	–	–	14	22
Benefit payments	(76)	(76)	76	76	–	–
Interest cost on scheme liabilities	–	–	(14)	(22)	(14)	(22)
Remeasurement gains/(losses)	62	105	(62)	(105)	–	–
At 31 December	1,327	1,327	(1,327)	(1,327)	–	–
Related deferred tax asset (net)					–	–
Net pension liability					–	–

No contributions are expected to be paid to the Company's defined benefit scheme in 2021 (2020: €Nil).

10. Share Capital and Share Premium

Details of equity share capital and share premium are set out below and in Note 18 to the Group Financial Statements.

	Issue Price	Number of Shares	2020 Nominal Value €'000	2019 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		238,307,798	11,916	11,914
Issued under UK SAYE scheme*		413,489	20	2
2011 Long Term Incentive Plan				
April 2017 LTIP Awards	Nil	748,994	38	–
May 2017 LTIP Awards	Nil	65,286	3	–
April 2016 LTIP Awards	Nil	–	–	33
Cancellation of treasury shares		–	–	(33)
At 31 December		239,535,567	11,977	11,916
'A' ordinary shares				
At 1 January		4,051,232,566	40	40
'A' ordinary shares issued in year (net of cancellations)		20,872,073	–	–
At 31 December		4,072,104,639	40	40
Total nominal share capital issued			12,017	11,956

* Refer to Note 31 to the Group Financial Statements which outlines the issue price of the SAYE Schemes.

Notes to the Company Financial Statements continued

10. Share Capital and Share Premium continued

Share Premium

Company	2020 €'000	2019 €'000
At 1 January	304,266	303,938
Premium on issue of shares under UK SAYE scheme	3,072	328
At 31 December	307,338	304,266

11. Share-Based Payments

Details of Share-Based Payments are set out in Note 31 of the Group Financial Statements.

12. Related Party Transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to subsidiaries, key management personnel and post-employment benefit plans.

Subsidiaries

The consolidated accounts of the Company and its subsidiaries include the following transactions that have been eliminated on consolidation:

- Management charges made by the Company to its subsidiaries of €6.4 million (2019: €11.3 million) for the year ended 31 December 2020; and
- Loans were granted to and by the Company to its subsidiaries.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 9 to the Company Financial Statements.

13. Principal Operating Subsidiaries

The principal operating subsidiaries operating in Ireland are:

Name of Company	Nature of Business
Chadwicks Group Limited	Builders merchants
Woodie's DIY Limited	DIY superstores

The Company owns 100 per cent of the ordinary shares, the only class of shares in issue, of its principal operating subsidiary undertakings. The registered office of principal subsidiary undertakings operating in Ireland is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Business Park, Dublin 18.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business
Grafton Merchating GB Limited	Builders merchants
Macnaughton Blair Limited	Builders merchants
Selco Trade Centres Limited	Builders merchants
LSDM Limited	Builders merchants
CPI Mortars Limited	Mortar manufacturers

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the UK. The registered office of Grafton Merchating GB Limited is Ground Floor, Boundary House 2 Wythall Green Way, Wythall, Birmingham, United Kingdom, B47 6LW. The registered office of Selco Trade Centres Limited is First Floor, Boundary House, 2 Wythall Green Way, Wythall, Birmingham, B47 6LW. The registered office of LSDM Limited is Ground Floor, Boundary House 2 Wythall Green Way, Wythall, Birmingham, United Kingdom, B47 6LW. The registered office of CPI Mortars Limited is Oak Green House, 250-256 High Street, Dorking, Surrey, RH4 1QT. The registered office of Macnaughton Blair Limited is 10 Falcon Road, Belfast, BT12 6RD, Northern Ireland.

13. Principal Operating Subsidiaries continued

The principal operating subsidiaries in the Netherlands are:

Name of Company	Nature of Business
Isero B.V.	Ironmongery, tools and fixings
Pijnenburg Bouw en Industrie B.V.	Ironmongery, tools and fixings
Gunters en Meuser B.V.	Ironmongery, tools and fixings
Polvo B.V.	Ironmongery, tools and fixings

The registered office of Isero B.V. is Barwoutswaarder 1, 3449 HE Woerden, the Netherlands. The registered office of Pijnenburg Bouw en Industrie B.V. is Pegasusweg 4, 5015BZ Tilburg, the Netherlands. The registered office of Gunters en Meuser B.V. is Egelantiersgracht 2-6, 1015 RL Amsterdam, the Netherlands. The registered office of Polvo B.V. is Tradeboulevard 5 a, 4761RL Zevenbergen, the Netherlands.

14. Section 357 Guarantees

Each of the following Irish registered subsidiaries of the Company, whose registered office is c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Business Park, Dublin 18 (company number: 8149) may avail of the exemption from filing its statutory financial statements for the year ended 31 December 2020 as permitted by section 357 of the Companies Act 2014 and, if any these Irish registered subsidiaries of the Company elects to avail of this exemption, there will be in force an irrevocable guarantee from the Company in respect of all commitments entered into by such wholly-owned subsidiary, including amounts shown as liabilities (within the meaning of section 357 (1) (b) of the Companies Act 2014) in such wholly-owned subsidiary's statutory financial statements for the year ended 31 December 2020:

Athina Limited, Atlantic Home and Garden Centre Limited, Barretts of Ballinasloe Limited, Beralt Developments Limited, Bluebell Sawmills Limited, Cardston Properties Limited, Chadwicks Limited, Chadwicks Group Limited, Chadwicks Holdings Limited, Cheshunt Limited, Cork Builders Providers Limited, CPI Limited, Daly Brothers (North East) Limited, Davies Limited, Deltana Limited, Denningco Limited, Doorplan Ireland Limited, Drainage Systems Dublin Limited, Dunmore Holdings Limited, Eddie's Hardware Limited, F&T Buckley (Holdings) Limited, F & T Buckley Limited, Frank Barrett & Sons Limited, Garvey Builders Providers Limited, Gillespie Building Supplies (Carlow) Limited, Grafton Group European Holdings Limited, Grafton Group Holdings Limited, Grafton Group Investments Limited, Grafton Group Management Services Limited, Grafton Group Secretarial Services Limited, Grafton Group Treasury Limited, Grafton Group Finance plc, Heatovent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E.Telford Limited, Jarkin Properties Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarr) Limited, Panelling Centre Limited, Payless D.I.Y. Limited, Perchura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Stettler Properties Limited, Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited, Woodies DIY (Irl) Limited and Woodie's DIY Limited.

15. Other Guarantees

The company has declared and assumes joint and several liability for any obligations arising from the legal acts of Grafton Holding Netherlands BV, Isero BV, Pijnenburg Bouw en Industrie BV, Gunters en Meuser BV, Freke Inbraakbeveiliging BV, Polvo BV, Polvo Real Estate BV and GKL BV in accordance with article 2:403 paragraph (f) of the Dutch Civil Code and such declarations will be filed at the Dutch commercial register (Kamer van Koophandel) in accordance with article 2:403 paragraph (g).

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €306.3 million at the balance sheet date. The guarantee is over bank debt of €146.3 million and US senior notes of €160.0 million. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

16. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2020 on 8 March 2021.

Supplementary Information

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Supplementary Financial Information

Alternative Performance Measures

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

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS.

The key 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 2019 are available in the 2019 Annual Report.

Note: The Plumbase business and the Belgium distribution business are classified as discontinued operations for the year ended 31 December 2019. The sales and operating profit are excluded from the Group reported results.

IFRS 16 "Leases" Impact: The Group has also analysed a number of APM's between the reported results and the results pre-IFRS 16. The pre and post impact of IFRS 16 is detailed on pages 206-211. Pre-IFRS 16 measures reverse the right-of-use asset, lease liability, depreciation on the right-of-use asset, interest on lease liabilities and any tax related impact from the reported amounts. The IAS 17 amounts relating to lease charges, finance lease liabilities, onerous lease provisions and any rent prepayments or accruals are then reinstated.

APM	Description
Adjusted Operating Profit/EBITA	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted Operating Profit/EBITA Before Property Profit	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
Adjusted Operating Profit/EBITA Margin Before Property Profit	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
Adjusted Profit Before Tax	Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense.
Adjusted Profit After Tax	Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense.
Capital Turn	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
Constant Currency	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
Dividend Cover	Group earnings per share divided by the total dividend per share for the Group.
EBITDA	Earnings before exceptional items, net finance expense, income tax expense, depreciation and intangible assets amortisation. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
EBITDA Interest Cover	EBITDA divided by net bank/loan note interest.
Free Cash Conversion	Free cash flow as a percentage of adjusted operating profit.
Free Cash Flow	Cash generated from operations less replacement capital expenditure (net of disposal proceeds), less interest paid (net) and income taxes paid.
Gearing	The Group net debt divided by the total equity attributable to owners of the Parent times 100.
Like-for-like Revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating Profit/EBIT Margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Return On Capital Employed	Adjusted operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.
Adjusted Earnings Per Share	A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares.

Adjusted Operating Profit/EBITA Before Property Profit

	2020 £'m	2019 £'m
Revenue	2,509.1	2,672.3
Operating profit	159.7	197.8
Property profit	(2.6)	(6.9)
Exceptional items	24.7	–
Amortisation of intangible assets arising on acquisitions	8.9	7.0
Adjusted operating profit/EBITA before property profit	190.7	197.9
Adjusted operating profit/EBITA margin before property profit	7.6%	7.4%

Operating Profit/EBITA Margin

	2020 £'m	2019 £'m
Revenue	2,509.1	2,672.3
Operating profit	159.7	197.8
Operating profit/EBIT margin	6.4%	7.4%

Adjusted Operating Profit/EBITA & Margin

	2020 £'m	2019 £'m
Operating profit	159.7	197.8
Exceptional items	24.7	–
Amortisation of intangible assets arising on acquisitions	8.9	7.0
Adjusted operating profit/EBITA	193.3	204.8
Adjusted operating profit/EBITA margin	7.7%	7.7%

Adjusted Profit Before Tax

	2020 £'m	2019 £'m
Profit before tax	132.7	172.6
Exceptional items	24.7	–
Amortisation of intangible assets arising on acquisitions	8.9	7.0
Adjusted profit before tax	166.4	179.6

Adjusted Profit After Tax

	2020 £'m	2019 £'m
Profit after tax for the financial year	107.5	143.9
Exceptional items	24.7	–
Tax on exceptional items	(4.0)	–
Amortisation of intangible assets arising on acquisitions	8.9	7.0
Tax on amortisation of intangible assets arising on acquisitions	(2.0)	(1.5)
Adjusted profit after tax	135.2	149.4

Reconciliation of Profit to EBITDA

	2020 £'m	2019 £'m
Profit after tax for the financial year	107.5	143.9
Exceptional items	24.7	–
Net finance expense	26.9	25.1
Income tax expense	25.2	28.7
Depreciation	107.2	105.1
Intangible asset amortisation	14.1	9.6
EBITDA	305.7	312.6

Supplementary Financial Information continued

Net Debt to EBITDA

	2020 £'m	2019 £'m
EBITDA	305.7	312.6
Net debt	355.0	533.8
Net debt to EBITDA – times	1.16	1.71

EBITDA Interest Cover

	2020 £'m	2019 £'m
EBITDA	305.7	312.6
Net bank/loan note interest including interest on lease liabilities	25.8	25.8
EBITDA interest cover – times	11.9	12.1

Free Cash Flow

	2020 £'m	2019 £'m
Cash generated from operations	377.7	291.1
Replacement capital expenditure	(20.1)	(27.3)
Proceeds on sale of property, plant and equipment	0.8	2.7
Proceeds on sale of properties held for sale/investment properties	6.4	14.7
Interest received	0.7	1.1
Interest paid	(27.3)	(25.9)
Income taxes paid	(34.1)	(31.8)
Free cash flow	304.1	224.6

Gearing

	2020 £'m	2019 £'m
Total equity attributable to owners of the Parent	1,467.0	1,362.7
Group net debt	355.0	533.8
Gearing	24%	39%

Return on Capital Employed

	2020 £'m	2019 £'m
Operating profit	159.7	197.8
Exceptional items	24.7	–
Amortisation of intangible assets arising on acquisitions	8.9	7.0
Adjusted operating profit	193.3	204.8
Total equity – current period end (from continuing operations)	1,467.0	1,362.7
Net debt – current period end	355.0	533.8
Capital employed – current period end	1,822.0	1,896.5
Total equity – prior period end (from continuing operations)	1,362.7	1,276.7
Net debt – prior period end	533.8	625.8
Capital employed – prior period end	1,896.5	1,902.5
Average capital employed	1,859.3	1,899.5
Return on capital employed	10.4%	10.8%

Capital Turn

	2020 £'m	2019 £'m
Revenue	2,509.1	2,672.3
Average capital employed	1,859.3	1,899.5
Capital turn – times	1.3	1.4

Dividend Cover

	2020 £'m	2019 £'m
Group adjusted EPS – basic (pence)	56.70	62.84
Group dividend (pence)	14.50	19.00
Group dividend cover – times	3.9	3.3

Free Cash Conversion

	2020 £'m	2019 £'m
Free cash flow	304.1	224.6
Adjusted operating profit	193.3	204.8
Free cash conversion	157%	110%

Liquidity

	2020 £'m	2019 £'m
Cash and cash equivalents	456.0	348.8
Less: cash held against letter of credit	(4.0)	(4.0)
Accessible cash	452.0	344.8
Undrawn revolving bank facilities	359.2	271.4
Liquidity	811.2	616.2

The Impact of IFRS 16 "leases " on APM's**Reconciliation of Profit to EBITDA – pre-IFRS 16**

	2020 £'m	2019 £'m
Profit after tax for the financial year	111.8	151.5
Exceptional items	24.9	–
Net finance expense	8.8	5.6
Income tax expense	26.1	30.2
Depreciation	45.0	44.2
Intangible asset amortisation	14.1	9.6
EBITDA	230.7	241.1

EBITDA Interest Cover – pre-IFRS 16

	2020 £'m	2019 £'m
EBITDA	230.7	241.1
Net bank/loan note interest excluding interest on lease liabilities	7.5	6.0
EBITDA interest cover – times	30.7	39.9

Supplementary Financial Information continued

Return on Capital Employed – pre-IFRS 16

	2020 £'m	2019 £'m
Operating profit	146.7	187.3
Exceptional items	24.9	–
Amortisation of intangible assets arising on acquisitions	8.9	7.0
Adjusted operating profit	180.5	194.3
Total equity – current period end (from continuing operations)	1,478.7	1,369.6
Net (cash) – current period end	(181.9)	(7.8)
Capital employed – current period end	1,296.8	1,361.8
Total equity – prior period end (from continuing operations)	1,369.6	1,276.7
Net (cash)/debt – prior period end	(7.8)	53.1
Capital employed – prior period end	1,361.8	1,329.8
Average capital employed	1,329.3	1,345.8
Return on capital employed	13.6%	14.4%

The Impact of IFRS 16 “leases” on the Primary Statements

The following tables outline the impact of IFRS 16 “Leases” on the Group’s primary statements. Additional tables are also provided to show the effect on the overall segmental analysis and the Group’s Earning per Share.

Overall Impact of IFRS 16 “leases” – Group Income Statement

For the year ended 31 December 2020

	2020 pre-IFRS 16 Impact £'000	2020 IFRS 16 Impact £'000	2020 Reported £'000
Revenue	2,509,089	–	2,509,089
Operating costs	(2,340,129)	12,791	(2,327,338)
Operating profit before property profits	168,960	12,791	181,751
Property profits	2,613	–	2,613
Operating profit before exceptional items	171,573	12,791	184,364
Exceptional items	(24,893)	208	(24,685)
Operating profit	146,680	12,999	159,679
Finance expense	(9,498)	(18,141)	(27,639)
Finance income	698	–	698
Profit before tax	137,880	(5,142)	132,738
Income tax expense	(26,063)	867	(25,196)
Profit after tax for the financial year	111,817	(4,275)	107,542
Profit attributable to:			
Owners of the Company – continuing operations	111,817	(4,275)	107,542
Earnings per ordinary share – basic	46.91p	(1.79p)	45.11p
Earnings per ordinary share – diluted	46.89p	(1.79p)	45.10p

Group Balance Sheet as at 31 December 2020

	2020 pre-IFRS 16 Impact £'000	2020 IFRS 16 Impact £'000	2020 Reported £'000
ASSETS			
Non-current assets			
Goodwill	704,064	–	704,064
Intangible assets	115,905	–	115,905
Property, plant and equipment	495,531	(1,992)	493,539
Right-of-use asset	–	505,922	505,922
Investment properties	12,328	–	12,328
Deferred tax assets	12,516	870	13,386
Lease receivable	–	2,015	2,015
Retirement benefit assets	2,099	–	2,099
Other financial assets	128	–	128
Total non-current assets	1,342,571	506,815	1,849,386
Current assets			
Properties held for sale	18,058	–	18,058
Inventories	321,558	–	321,558
Trade and other receivables	344,893	(7,949)	336,944
Lease receivable	–	301	301
Cash and cash equivalents	456,028	–	456,028
Total current assets	1,140,537	(7,648)	1,132,889
Total assets	2,483,108	499,167	2,982,275
Equity			
Equity share capital	8,569	–	8,569
Share premium account	216,496	–	216,496
Capital redemption reserve	621	–	621
Revaluation reserve	12,733	–	12,733
Shares to be issued reserve	6,714	–	6,714
Cash flow hedge reserve	(65)	–	(65)
Foreign currency translation reserve	82,188	(269)	81,919
Retained earnings (prior years)	1,054,868	(7,170)	1,047,698
Retained earnings (current year)	100,510	(4,275)	96,235
Treasury shares held	(3,897)	–	(3,897)
Total equity	1,478,737	(11,714)	1,467,023
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	274,030	–	274,030
Lease liabilities	912	478,107	479,019
Provisions	27,946	(7,326)	20,620
Retirement benefit obligations	52,683	–	52,683
Deferred tax liabilities	54,399	–	54,399
Total non-current liabilities	409,970	470,781	880,751
Current liabilities			
Lease liabilities	466	57,449	57,915
Derivative financial instruments	65	–	65
Trade and other payables	558,586	(12,637)	545,949
Current income tax liabilities	22,641	(1,525)	21,116
Provisions	12,643	(3,187)	9,456
Total current liabilities	594,401	40,100	634,501
Total liabilities	1,004,371	510,881	1,515,252
Total equity and liabilities	2,483,108	499,167	2,982,275

Supplementary Financial Information continued

Group Cash Flow Statement

	2020 pre-IFRS 16 Impact £'000	2020 IFRS 16 Impact £'000	2020 Reported £'000
Profit before taxation	137,880	(5,142)	132,738
Finance income	(698)	–	(698)
Finance expense	9,498	18,141	27,639
Operating profit	146,680	12,999	159,679
Depreciation	44,972	62,240	107,212
Amortisation of intangible assets	14,146	–	14,146
Share-based payments charge	719	–	719
Movement in provisions	6,953	(2,999)	3,954
Asset impairment/fair value adjustments	2,050	3,448	5,498
Loss on sale of property, plant and equipment	1,294	–	1,294
Property profit	(2,613)	–	(2,613)
IAS 19 charge in excess of contribution to pension schemes	6,639	–	6,639
Decrease/(increase) in working capital	82,646	(1,482)	81,164
Cash generated from operations	303,486	74,206	377,692
Interest paid	(9,131)	(18,141)	(27,272)
Income taxes paid	(34,087)	–	(34,087)
Cash flows from operating activities	260,268	56,065	316,333
Investing activities			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	816	–	816
Proceeds from sales of properties held for sale	6,378	–	6,378
Interest received	698	–	698
	7,892	–	7,892
<i>Outflows</i>			
Acquisition of subsidiary undertakings (net of cash acquired)	(47,508)	–	(47,508)
Investment in intangible asset – computer software	(1,893)	–	(1,893)
Purchase of property, plant and equipment	(35,182)	–	(35,182)
	(84,583)	–	(84,583)
Cash flows from investing activities	(76,691)	–	(76,691)
Financing activities			
<i>Inflows</i>			
Proceeds from the issue of share capital	2,830	–	2,830
Proceeds from borrowings	261,099	–	261,099
	263,929	–	263,929
<i>Outflows</i>			
Repayment of borrowings	(348,636)	–	(348,636)
Dividends paid	–	–	–
Payment on lease liabilities	(428)	(56,065)	(56,493)
	(349,064)	(56,065)	(405,129)
Cash flows from financing activities	(85,135)	(56,065)	(141,200)
Net increase in cash and cash equivalents	98,442	–	98,442
Cash and cash equivalents at 1 January	348,787	–	348,787
Effect of exchange rate fluctuations on cash held	8,799	–	8,799
Cash and cash equivalents at the end of the year	456,028	–	456,028

Reconciliation of Net Cash Flow to Movement in Net Debt

	2020 pre-IFRS 16 Impact £'000	2020 IFRS 16 Impact £'000	2020 Reported £'000
Net increase in cash and cash equivalents	98,442	–	98,442
Net movement in derivative financial instruments	(72)	–	(72)
Movement in debt and lease financing	87,965	19,364	107,329
Change in net debt resulting from cash flows	186,335	19,364	205,699
Currency translation adjustment	(13,603)	(13,263)	(26,866)
Movement in net debt in the year	172,732	6,101	178,833
Net debt at 1 January	7,823	(541,657)	(533,834)
Net cash/(debt) at end of the year	180,555	(535,556)	(355,001)
Current finance leases includes in pre-IFRS 16 impact	466		
Non-current finance leases includes in pre-IFRS 16 impact	912		
Net cash at end of the year – pre-IFRS 16 leases	181,933		

Supplementary Financial Information continued

Segmental Analysis

	2020 pre-IFRS 16 Impact £'000	2020 IFRS 16 Impact £'000	2020 Reported £'000
Revenue			
UK distribution	1,460,732	–	1,460,732
Ireland distribution	463,894	–	463,894
Netherlands distribution	276,563	–	276,563
Total distribution	2,201,189	–	2,201,189
Retailing	246,576	–	246,576
Manufacturing	71,723	–	71,723
Less: Inter-segment revenue – manufacturing	(10,399)	–	(10,399)
Total revenue	2,509,089	–	2,509,089
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions			
UK distribution	68,429	7,963	76,392
Ireland distribution	41,662	186	41,848
Netherlands distribution	27,469	1,069	28,538
Total distribution	137,560	9,218	146,778
Retailing	38,510	3,518	42,028
Manufacturing	13,313	(12)	13,301
	189,383	12,724	202,107
Reconciliation to consolidated operating profit			
Central activities	(11,486)	67	(11,419)
Property profits	177,897	12,791	190,688
	2,613	–	2,613
Operating profit before exceptional items and intangible amortisation arising on acquisitions	180,510	12,791	193,301
Amortisation of intangible assets arising on acquisitions	(8,937)	–	(8,937)
Operating profit before exceptional items	171,573	12,791	184,364
Exceptional items	(24,893)	208	(24,685)
Operating profit	146,680	12,999	159,679
Finance expense	(9,498)	(18,141)	(27,639)
Finance income	698	–	698
Profit before tax	137,880	(5,142)	132,738
Income tax expense	(26,063)	867	(25,196)
Profit after tax for the financial year	111,817	(4,275)	107,542

Earnings Per Share

	2020 pre-IFRS 16 Impact £'000	2020 IFRS 16 Impact £'000	2020 Reported £'000
Numerator for basic, adjusted and diluted earnings per share:			
Profit after tax for the financial year from continuing operations	111,817	(4,275)	107,542
Numerator for basic and diluted earnings per share	111,817	(4,275)	107,542
Profit after tax for the financial year from continuing operations	111,817	(4,275)	107,542
Exceptional items	24,892	(208)	24,685
Tax relating to exceptional items	(4,020)	40	(3,980)
Amortisation of intangible assets arising on acquisitions	8,937	–	8,937
Tax relating to amortisation of intangible assets arising on acquisitions	(2,013)	–	(2,013)
Numerator for adjusted earnings per share – continuing	139,614	(4,443)	135,171
	Number of Grafton Units	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:			
Weighted average number of Grafton Units in issue	238,379,488	238,379,488	238,379,488
Dilutive effect of options and awards	82,675	82,675	82,675
Denominator for diluted earnings per share	238,462,163	238,462,163	238,462,163
Earnings per share (pence)			
– Basic	46.91	(1.79)	45.11
– Diluted	46.89	(1.79)	45.10
Adjusted earnings per share (pence)			
– Basic	58.57	(1.86)	56.70
– Diluted	58.55	(1.86)	56.68

Grafton Group plc Financial History – 1997 to 2020*

Group Income Statements	2020 £'m	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012† £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Revenue	2,509.1	2,672.3	2,952.7	2,715.8	2,507.3	2,212.0	2,081.7	1,899.8	1,760.8	1,782.5	1,719.4	1,763.8	2,128.5
Operating profit	190.7	197.9	189.6	160.9	137.1	120.6	110.1	77.2	59.1	47.5	41.5	21.3	92.7
Operating margin %	7.6%	7.4%	6.4%	5.9%	5.5%	5.5%	5.3%	4.1%	3.4%	2.7%	2.4%	1.2%	4.4%
Restructuring (costs)/credit	(24.7)	0.0	(1.9)	0.0	(19.7)	1.4	–	2.8	(21.2)	(27.8)	(13.2)	(17.0)	(13.7)
Intangible amortisation on acquisitions	(8.9)	(7.0)	(5.1)	(2.8)	(2.2)	(0.5)	–	–	–	–	–	–	–
Property profit	2.6	6.9	4.9	2.7	4.9	6.7	–	–	–	–	–	–	–
Finance (expense)/income (net)	(26.9)	(25.1)	(6.1)	(6.4)	(5.9)	(7.9)	(8.9)	(12.3)	(12.9)	(10.8)	(6.4)	7.8	(28.0)
Profit before taxation	132.7	172.6	181.3	154.5	114.2	120.3	101.2	67.7	25.0	8.9	21.9	12.1	51.0
Taxation	(25.2)	(28.7)	(30.9)	(26.6)	(21.1)	(23.8)	(21.2)	(5.6)	6.6	(6.7)	33.0	(0.2)	(5.1)
Profit after taxation	107.5	143.9	150.4	127.8	93.1	96.5	80.0	62.1	31.6	2.2	54.9	11.9	45.9
Group Balance Sheets	2020 £'m	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Capital employed													
Goodwill and intangibles	820.0	761.1	726.0	646.1	610.8	554.2	485.9	481.0	476.2	474.9	479.7	489.3	516.0
Property, plant and equipment/ROU	999.5	1,023.2	521.6	504.4	461.7	430.1	423.4	413.4	458.3	471.9	489.6	537.1	603.2
Financial assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	3.4	3.5	0.2
Net current assets**	100.3	173.6	161.7	136.3	141.5	149.6	112.8	136.5	133.7	121.2	122.2	122.6	193.0
Other net non-current liabilities	(97.9)	(61.5)	(59.8)	(49.4)	(52.6)	(31.3)	(40.6)	(23.0)	(85.9)	(58.4)	(22.8)	(56.4)	(69.9)
	1,822.0	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5
Financed as follows:													
Shareholders' equity	1467.0	1,362.7	1,296.5	1,174.6	1,062.1	985.7	902.3	870.3	813.5	821.0	852.5	809.7	827.6
Non-controlling interest	–	–	–	–	3.1	3.4	4.0	4.0	4.1	–	–	–	–
Net debt/(cash)	355.0	533.8	53.1	62.9	96.3	113.6	75.3	133.7	164.9	188.7	219.6	286.4	414.9
	1,822.0	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5
Other Information													
Net (cash)/debt pre-IFRS 16	(181.9)	(7.8)	53.1	62.9	96.3	113.6	75.3	133.7	164.9	188.7	219.6	286.4	414.9
Acquisitions & investments	47.5	92.6	73.8	40.4	11.9	98.6	33.1	5.9	17.6	11.1	2.1	6.1	22.4
Purchase of fixed assets/ investment in intangible assets	35.2	52.4	73.6	81.4	60.4	51.6	46.9	24.7	23.0	30.6	8.2	11.0	62.6
	82.7	145.0	147.4	121.8	72.3	150.2	80.0	30.6	40.6	41.7	10.3	17.1	85.0
Depreciation and intangible amortisation	121.4	114.8	49.0	43.5	38.1	33.1	32.5	31.5	33.9	37.1	40.1	44.7	45.0
Financial Highlights	2020	2019	2018	2017	2016	2015	2014	2013	2012†	2011	2010	2009	2008
Adjusted EPS*** (pence)	56.7	62.8	66.0	54.9	47.7	41.2	34.4	22.3	15.1	13.4	15.9	4.8	25.6
Dividend/share purchase per share (pence)	14.5	19.0	18.0	15.5	13.8	12.5	10.8	8.5	7.0	6.5	6.0	4.5	11.9
Cash flow per share (pence)#	96.0	108.8	83.9	72.4	64.0	54.9	48.4	39.5	29.9	24.9	44.8	26.6	39.6
Net assets per share (pence)	613.7	573.0	545.3	495.0	449.5	419.0	387.9	374.4	350.6	354.1	368.5	351.0	359.5
Underlying EBITDA interest cover (times)	11.9	12.1	48.0	48.4	37.9	27.3	19.4	11.0	8.6	6.4	10.0	5.6	4.5
Dividend/share purchase cover	3.9	3.3	3.7	3.5	3.5	3.3	3.2	2.6	2.2	2.1	2.6	1.1	2.1
Net debt to shareholders' funds	24%	39%	4%	5%	9%	12%	8%	15%	20%	23%	26%	35%	50%
ROCE	10.4%	10.8%	15.0%	13.6%	12.5%	12.2%	11.1%	7.8%	6.1%	4.6%	3.8%	1.8%	7.6%

* The summary financial information is stated under IFRS for 2004 to 2020 and under Irish GAAP for all years from 1997 to 2003. 2019 and 2020 are presented as the post-IFRS 16 reported balances.

** Excluding net debt/(cash).

*** Before amortisation of intangible assets arising on acquisitions in 2020 and exceptional items. Before amortisation of intangible assets arising on acquisitions in 2019. Before amortisation of intangible assets arising on acquisitions and profit/(loss) on disposal of Group businesses in 2018. Before amortisation of intangible assets arising on acquisitions in 2017. Before exceptional items and amortisation of intangible assets arising on acquisitions in 2016. Before pension credit, asset impairment and amortisation of intangible assets arising on acquisitions in 2015 (restated). Before pension credit and property impairment in 2013 and before restructuring costs and intangible amortisation in 2012 and taxation credits in both years. In previous years before intangible amortisation, onerous lease provision and impairment, restructuring costs (net), taxation credit in 2010 and investment profit in 2009 and excluding material property profits in previous years.

Group Income Statements	2007 £'m	2006 £'m	2005 £'m	2004 £'m	2003 £'m	2002 £'m	2001 £'m	2000 £'m	1999 £'m	1998 £'m	1997 £'m
Revenue	2,193.3	2,000.0	1,798.1	1,270.5	1,035.2	724.6	614.9	506.2	408.6	289.7	239.1
Operating profit	180.4	165.4	146.2	109.3	80.1	56.4	48.1	39.4	30.5	22.4	18.7
Operating margin %	8.2%	8.3%	8.1%	8.6%	7.7%	7.8%	7.8%	7.8%	7.5%	7.7%	7.8%
Restructuring (costs)/credit	–	–	–	–	–	–	–	–	–	–	–
Intangible amortisation on acquisitions	–	–	–	–	–	–	–	–	–	–	–
Property profit	5.0	25.9	6.6	5.1	2.4	2.3	1.4	–	–	–	–
Finance (expense)/income (net)	(24.0)	(21.4)	(21.4)	(15.5)	(11.9)	(8.3)	(7.7)	(7.2)	(5.4)	(3.3)	(1.8)
Profit before taxation	161.4	169.9	131.4	98.9	70.6	50.4	41.8	32.2	25.1	19.1	16.9
Taxation	(21.0)	(22.0)	(17.8)	(13.5)	(10.6)	(7.5)	(5.4)	(4.2)	(3.0)	(2.7)	(2.5)
Profit after taxation	140.4	147.9	113.6	85.4	60.0	42.9	36.4	28.0	22.1	16.4	14.4
Group Balance Sheets	2007 £'m	2006 £'m	2005 £'m	2004 £'m	2003 £'m	2002 £'m	2001 £'m	2000 £'m	1999 £'m	1998 £'m	1997 £'m
Capital employed											
Goodwill and intangibles	448.7	400.3	375.4	174.2	148.6	65.3	38.0	32.3	19.7	6.9	–
Property, plant and equipment	516.1	460.8	427.1	286.4	244.4	196.6	153.0	130.8	109.4	99.2	42.1
Financial assets	0.6	0.3	0.2	33.2	23.7	21.9	20.5	11.7	11.8	0.1	8.5
Net current assets**	256.9	225.4	207.8	137.6	139.9	93.9	78.8	66.5	47.4	42.5	20.1
Other net non-current liabilities	(35.7)	(35.8)	(52.4)	(35.8)	(19.9)	(11.7)	(10.8)	(10.0)	(8.8)	(8.7)	(0.8)
	1,186.6	1,051.0	958.1	595.6	536.7	366.0	279.5	231.3	179.5	140.0	69.9
Financed as follows:											
Shareholders' equity	783.0	681.1	557.7	349.4	317.0	209.5	160.9	135.1	112.7	98.6	53.6
Non-controlling interest	–	–	–	–	–	–	–	–	–	–	–
Net debt/(cash)	403.6	369.9	400.4	246.2	219.7	156.5	118.6	96.2	66.8	41.4	16.3
	1,186.6	1,051.0	958.1	595.6	536.7	366.0	279.5	231.3	179.5	140.0	69.9
Other Information											
Net (cash)/debt pre-IFRS 16	403.6	369.9	400.4	246.2	219.7	156.5	118.6	96.2	66.8	41.4	16.3
Acquisitions & investments	61.0	59.4	326.7	60.2	152.3	55.8	38.4	34.5	41.9	36.2	21.7
Purchase of fixed assets/investment in intangible assets	71.7	84.8	68.8	60.3	48.0	42.8	26.1	26.3	19.4	14.0	10.7
	132.7	144.2	395.5	120.5	200.3	98.6	64.5	60.8	61.3	50.2	32.4
Depreciation and intangible amortisation	40.4	37.8	34.5	23.5	26.0	16.7	13.6	10.1	8.3	4.9	3.9
Financial Highlights	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Adjusted EPS*** (pence)	57.7	53.2	46.4	38.1	31.2	23.3	20.0	15.8	12.8	9.6	8.5
Dividend/share purchase per share (pence)	15.1	12.8	10.8	8.8	7.3	5.3	4.7	3.7	3.0	2.2	2.0
Cashflow per share (pence)#	74.1	68.4	60.4	49.1	40.6	32.7	27.9	22.1	18.1	13.1	11.5
Net assets per share (pence)	341.2	284.7	234.9	163.7	149.1	118.1	91.4	77.6	65.2	59.9	33.3
Underlying EBITDA interest cover (times)	8.2	10.2	9.4	9.9	9.1	9.1	8.2	6.9	7.2	8.3	12.9
Dividend/share purchase cover	3.8	4.2	4.3	4.3	4.3	4.4	4.3	4.3	4.3	4.3	4.3
Net debt to shareholders' funds	52%	54%	72%	70%	69%	75%	74%	71%	59%	42%	30%
ROCE	16.1%	16.5%	18.8%	19.3%	17.1%	16.5%	17.4%	17.4%	16.9%	18.2%	23.1%

Based on profit after tax before depreciation, 2016 exceptional items, 2015 pension credit, 2013 pension credit, intangible amortisation, onerous lease provision, impairment and excluding material property profits in previous years.

‡ IAS 19 (Revised) 'Employee Benefits' has been adopted as required by IFRS from the year ended 31 December 2013. The comparatives for the year ended 31 December 2012 have been restated.

Corporate Information

Corporate & Registered Office	Heron House Corrig Road Sandyford Business Park D18 Y2X6 Phone: +353 (0)1 216 0600 Email: email@graftonplc.com www.graftonplc.com
Registrars	Link Asset Services Link Registrars Limited PO Box 1110, Maynooth, Co. Kildare Phone: +353 (0)1 553 0050 Email: enquiries@linkgroup.ie www.linkassetsservices.com
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Squire Patton Boggs, London Allen & Overy, Amsterdam
Bankers	Bank of Ireland HSBC Bank plc Ulster Bank Barclays Bank plc ABN AMRO Bank N.V. Lloyds Bank plc
Stockbrokers	Goodbody, Dublin Numis Securities Limited, London
Auditors	PricewaterhouseCoopers

Financial Calendar 2021

Results

Final Results for 2020	25 February 2021
Annual General Meeting 2021	28 April 2021
Half-Year Results for 2021	27 August 2021

Final Dividend for 2020

Record date	09 April 2021
Payment date	05 May 2021

Annual General Meeting 2021

The Annual General Meeting of the Company will be held at 10.30am on Wednesday 28 April 2021 at the Offices of the Company, Heron House, Corrig Road, Sandyford Business Park, Dublin 18. In the likely event that the AGM will be a closed meeting, shareholders will be provided with a facility to listen to the business of the meeting and ask questions. Details of this facility will be outlined in the meeting Circular and will also be available on the Group's website www.graftonplc.com.

Glossary of Terms

AGM	Annual General Meeting
APM	Alternative Performance Measure
BES 6001	Framework Standard for Responsible Sourcing
BRR	Business Risk Register
bps	Basis Points
CA14	Companies Act 2014
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CJRS	Coronavirus Job Retention Scheme
CO₂e	Carbon Dioxide Equivalent
CPC	Construction Products Certification
CPI	Consumer Price Index
CRR	Corporate Risk Register
CSR	Corporate Social Responsibility
DB Schemes	Defined Benefit Schemes
EBITA	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense
EBITDA	Earnings before exceptional items, net finance expense, income tax expense, depreciation and intangible assets amortisation
EGM	Extraordinary General Meeting
EPS	Earnings per Share
FRS	Financial Reporting Standard
FSC	Forest Stewardship Council
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
GAAP	Generally Accepted Accounting Principles
GDPR	EU General Data Protection Regulation
Grafton	Grafton Group plc
GRC	Group Risk Committee
IAS	International Accounting Standards
IAASA	Irish Auditing and Accounting Supervisory Authority
IBNR	Incurred But Not Reported
IFRS	International Financial Reporting Standards
IGBC	Irish Green Building Council
IOSH	Institution of Occupational Safety and Health
ISAs (Ireland)	International Standards on Auditing (Ireland)
KPI	Key Performance Indicators
LDI	Liability Driven Investment
LSDM Limited	Leyland SDM Limited
LTIFR	Lost Time Injury Frequency Rate
LTIP	Long Term Incentive Plan
PEFC	Programme for the Endorsement of Forest Certification
PPE	Property, Plant & Equipment
QQI	Quality and Qualifications Ireland
Record Date	The date on which holders of Grafton Units must be on the Company's Register of Members at the close of business to be eligible to receive a dividend payment
RMI	Repair, Maintenance and Improvement
ROCE	Return on Capital Employed
SAYE	Save As You Earn
SDG	Sustainable Development Goals
The Code	2018 UK Corporate Governance Code
The Company	Grafton Group plc
The Group	Grafton Group plc and its subsidiaries
TSR	Total Shareholder Return
Unit/Grafton Unit	A Grafton Unit, comprising one ordinary share of 5 cents each and seventeen 'A' ordinary shares of 0.001 cent each in Grafton Group plc and one 'C' ordinary share of Stg0.0001p in Grafton Group (UK) plc
VIU	Value-In-Use
WEEE	Waste Electrical and Electronic Equipment



Grafton Group plc
Heron House, Corrig Road
Sandyford Business Park, Dublin 18

Phone: +353 (0)1 216 0600
Email: email@graftonplc.com
Web: www.graftonplc.com