

# Building a better future



**Grafton Group plc is...**

**... an international distributor of building materials in the merchanting markets in the UK, Ireland, the Netherlands and Finland. Grafton also operates in the DIY, Home and Garden retailing market in Ireland and is the largest manufacturer of dry mortar in the UK where it also operates a staircase manufacturing business.**



# In this year's report

## Record Results

### Growing our business in new territories

We acquired IKH in Finland, providing the Group with a new growth platform in the Nordics.

More information on pages 50-51



## Sustainability agenda

More information on pages 70-85



## Investment in digital

More information on page 9



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We are...

a leading international business operating in the distribution, retailing and manufacturing sectors

DISTRIBUTION 

Number of branches

302



RETAILING 

Number of branches

35



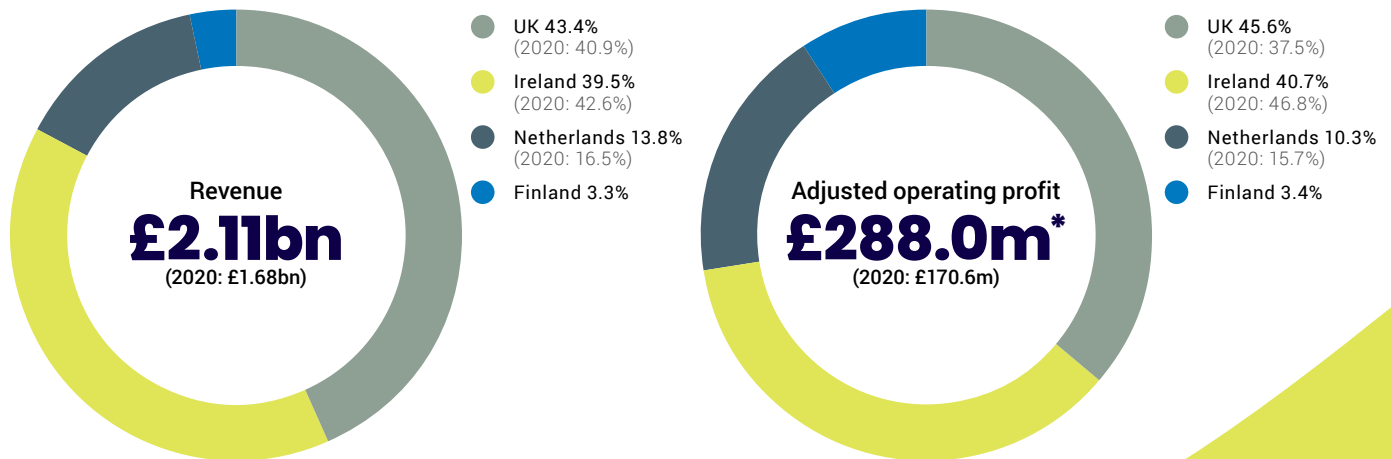
MANUFACTURING 

Number of factories

12



## ...and continuing to build on our financial growth.



UK

Market positions

**134**

Number of branches &amp; factories

**£915.0m**Revenue  
(2020: £687.3m)**£124.9m**Adjusted operating profit\*\*  
(2020: £68.0m)**13.7%**Adjusted operating profit margin  
(2020: 9.9%)**4th**

Building materials distribution

**1st**Mortar manufacturing  
Staircase manufacturing

IRELAND

Market positions

**87**

Number of branches &amp; factories

**£833.6m**Revenue  
(2020: £715.4m)**£119.3m**Adjusted operating profit\*\*  
(2020: £85.0m)**14.3%**Adjusted operating profit margin  
(2020: 11.9%)**1st**

Building materials distribution

**1st**

DIY, home and garden retailing



NETHERLANDS

Market position

**117**

Number of branches

**£290.5m**Revenue  
(2020: £276.6m)**£30.5m**Adjusted operating profit\*\*  
(2020: £28.6m)**10.5%**Adjusted operating profit margin  
(2020: 10.3%)**1st**

Ironmongery, tools and fixings distribution market



FINLAND

Market position

**11**

Number of branches &amp; partner stores

**£70.8m**

Revenue

**£10.0m**

Adjusted operating profit\*\*

**14.1%**

Adjusted operating profit margin

**2nd**

Distribution of tools and personal protective equipment ("PPE")

\* After central activity costs of £13.5 million (2020: £10.9 million), including property profit of £16.7 million (2020: loss of £0.1 million). Other "Alternative Performance Measures" (APMs) are detailed on pages 212 to 216.

\*\* Before property profit of £16.7 million (2020: loss of £0.1 million) and central activity costs of £13.5 million (2020: £10.9 million).

# Excellent results notwithstanding supply chain pressures and inflation challenges

## Financial highlights – continuing operations

### Revenue

**£2.11bn**

+25.6%

2021	£2.11bn
2020*	£1.68bn

### Adjusted operating profit<sup>(i)</sup>

**£288.0m**

+68.8%

2021	£288.0m
2020*	£170.6m

### Adjusted operating profit margin<sup>(i)(ii)</sup>

**12.9%**

+270bps

2021	12.9%
2020*	10.2%

### Cash generation from operations

**£303.2m**

-19.7%

2021	£303.2m
2020	£377.7m

### Dividend

**30.5p**

+110.3%

2021	30.5p
2020	14.5p

### Net cash (pre-IFRS 16)

**£588.0m**

+£406.1m

2021	£588.0m
2020	£181.9m

### Adjusted return on capital employed<sup>(i)</sup>

**19.4%**

+750bps

2021	19.4%
2020*	11.9%

### Adjusted earnings per share – basic<sup>(i)</sup>

**93.0p**

+84.9%

2021	93.0p
2020*	50.3p

### Free cash conversion<sup>(i)</sup>

**82%**

-53.8%

2021	82%
2020*	178%

\* The results for 2020 have been restated as the traditional merchanting business in Great Britain is classified as a discontinued operation. Details are set out in Note 27.

(i) The term "Adjusted" means before exceptional items, amortisation of intangible assets arising on acquisitions and acquisition related items in both years. Other "Alternative Performance Measures" (APMs) are detailed on pages 212 to 216.

(ii) Before property profit.

## Operational highlights

### Acquisition of IKH in Finland

In July 2021 the Group completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH"), one of the largest workwear, personal protective equipment ("PPE"), tools, spare parts and accessories wholesalers and distributors in Finland.

**More information on page 10**

### StairBox performs ahead of expectations

StairBox had an excellent first full year under Grafton ownership. The business, which was acquired in late 2020, produced an operating profit margin of 34.2 per cent, the highest level ever reported by a Grafton business. The full year performance endorsed our pre-acquisition assessment of this high quality business and management team.

**More information on page 55**

### Chadwicks Group opens its first ECO Centre

In May 2021, Chadwicks Group announced the launch of the first Chadwicks ECO Centre at its Galway branch. The launch was part of a nationwide roll-out of three dedicated sustainable centres at Chadwicks branches across Ireland in 2021.

**More information on page 47**

### Divestment of Traditional Merchenting Business in Great Britain

On 31 December 2021 we completed the divestment of our traditional merchenting business in Great Britain for an enterprise value of £520 million.

**More information on page 43**

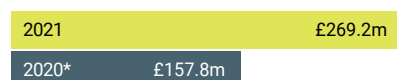


## Statutory highlights

Statutory operating profit

**£269.2m**

+70.6%



Net cash

**£139.0m**

+£494.0m



Statutory operating profit margin

**12.8%**

+340bps



Statutory earnings per share – basic

**86.4p**

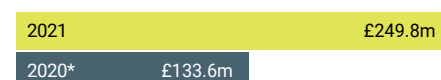
+88.3%



Profit before tax

**£249.8m**

+87.0%



\* The results for 2020 have been restated as the traditional merchenting business in Great Britain is classified as a discontinued operation. Details are set out in Note 27.

# Our top brands

## DISTRIBUTION

**Number of distribution branches: 302**



**The distribution segment distributes building materials from 302 branches in the UK, Ireland, the Netherlands and Finland.**

Distribution revenue

**£1.73bn**

+26.0%

2021	£1.73bn
2020	£1.37bn

**Selco**   
selcobw.com

Trading from 72 branches, including 32 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.



**ISERO**   
isero.nl

Isero is the leading specialist distributor of tools, ironmongery and fixings in the Netherlands. Isero trades from 66 branches and offers a comprehensive range of quality products to trade professionals supported by an exceptional level of customer service.



**Leyland SDM**   
leylandsdm.co.uk

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 32 branches.



**Polvo**   
polvo.nl

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 which complement Isero branch coverage.



**Chadwicks Group**   
chadwicks.ie

Chadwicks Group operates from 51 branches in the Republic of Ireland where it is the number one distributor of building materials.



**MacBlair**   
macblair.com

MacBlair is the leading distributor of building materials in Northern Ireland where it trades from 18 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.

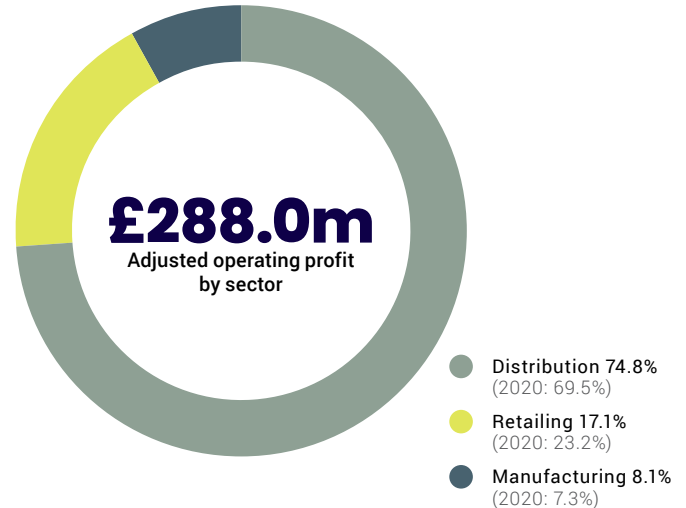
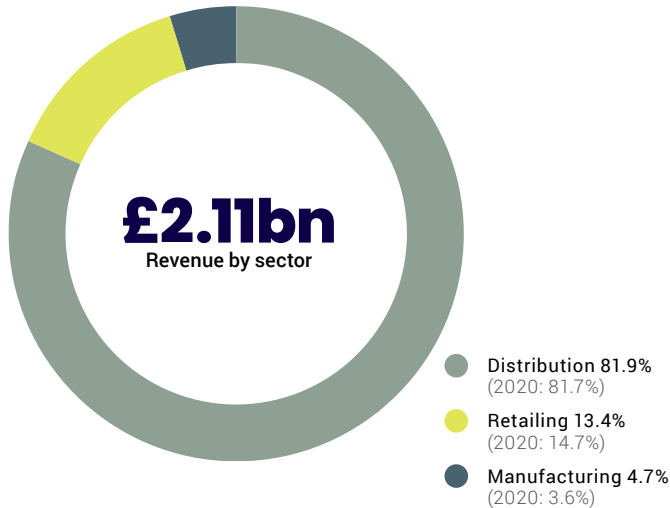


**IKH**   
ikh.fi

IKH is one of the largest workwear and personal protective equipment ("PPE"), tools, spare parts and accessories technical wholesalers and distributors in Finland where it trades from 11 branches and has a number two market position in its core tools and PPE segment.







## RETAILING

**Number of retail branches: 35**



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

Retail revenue

**£282.8m**

+14.7% (up 19.4% in constant currency)

2021	£282.8m
2020	£246.6m

**Woodie's** 

woodies.ie

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.

**Woodie's**

## MANUFACTURING

**Number of factories: 12**



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

Manufacturing revenue

**£99.6m**

+62.4%

2021	£99.6m
2020	£61.3m

**CPI Mortars** 

cpieumix.com

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



**StairBox** 

stairbox.com

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.



# What makes Grafton different

## WHY INVEST IN GRAFTON

### A portfolio of winners

Our growing portfolio of winning businesses.

### Excellence in service

Our businesses continue to focus on delivering operational excellence and innovative solutions to support our customer focused approach.

We are a geographically diverse business operating in differentiated markets. We are leaders or strong followers in our local markets in the distribution, retailing and manufacturing sectors.

### Our people

Our people are our greatest asset and we are committed to supporting their development so that they can reach their full potential. **Read more about our strong, capable, highly motivated and experienced workforce on pages 14 to 15.**

### Federated structure

We operate a decentralised organisational structure with autonomous local management supported by tight controls at Group level.

### Sustainable & responsible

Our sustainability programme informs our strategic decision making as well as the operational decisions we make every day, and is closely aligned with our overall purpose of Building Progress Together.

**Read more about our Sustainability Strategy on pages 70 to 85.**

### Strong financial base

We are financially robust with a strong balance sheet, strong cash performance and an investment grade credit rating:

- £139 million net cash (2020: £355.0 million net debt)
- 93.0p Group adjusted EPS (2020: 50.3p)
- 82 per cent free cash conversion (2020: 178 per cent)
- £201 million returned to shareholders over the past five years in dividends

### Acquisition expertise

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

**Read more about our acquisition framework on page 51.**

### Track record

We grow our business through acquisitions and organically by expanding within existing and new geographies; broadening our proposition to customers; and increasing the role of digital.

Our strategy is executed by high calibre management teams with relevant skills, experience and a track record of acquiring and integrating businesses.



## KEY STATS†

Group revenue\*

**£2.11bn**

+25.6%

21	£2.11bn
20	£1.68bn
19	£2.67bn
18	£2.60bn
17	£2.70bn

Group adjusted operating profit\*

**£288.0m**

+68.8%

21	£288.0m
20	£170.6m
19	£204.8m
18	£187.6m
17	£163.7m

Group adjusted EPS\*

**93.0p**

+84.9%

21	93.0p
20	50.3p
19	62.8p
18	63.7p
17	54.9p

\* The results for 2020 have been restated as the traditional merchandising business in Great Britain is classified as a discontinued operation. Details are set out in Note 27.

† 2017-2018 are presented on a pre-IFRS 16 basis.

## CASE STUDY: EXCELLENCE IN SERVICE

**Digital transformation – Woodie's**

Woodie's increased investment in its digital offering with a new e-store fulfilment hub in Drogheda providing increased capacity, expanded ranges and full track and trace functionality on all orders.

The customer experience was improved with real time stock visibility on the website and an increased range available for home delivery through a new logistics partner.



Products available online through fulfillment centre

**12,000**

For more information on our strategy see pages 26 to 31

# Story of our year

Record profits, a step change to higher returning businesses, a new growth platform in the Nordics, increased focus on digital and sustainability and divestment of traditional merchanting business in Great Britain.

GAVIN SLARK, CEO

FEBRUARY

## Acquisition of Proline

The Group completed the acquisition of Proline Architectural Hardware ("Proline") on 11 February 2021. The acquisition brought specialist expertise in the architectural ironmongery distribution market to Chadwicks.

Expansion of offering

**A range of Proline products are available in 11 Chadwicks branches**

For more, see pages 46 to 47

JUNE

## New revenue and profitability records for Woodie's

Woodie's market leading DIY, Home and Garden business in Ireland managed an unprecedented level of demand and volume of products flowing through its stores in the first half. Whilst Covid restrictions affected much of Irish retail, Woodie's was deemed an essential retailer and permitted to trade during the lockdown. As a result, new records were decisively established for revenue and profitability for the year.

Woodie's 2021 revenue

**£282.8m**

For more, see pages 52 to 53

JULY

## Acquisition of IKH in Finland

The Group completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH") on 1 July 2021 at a cost of €199.3 million on a cash and debt free basis. IKH is one of the largest workwear, personal protective equipment ("PPE"), tools, spare parts and accessories wholesalers and distributors in Finland. The acquisition of IKH strengthens our operations in mainland Europe in line with our development strategy and provided Grafton with a new growth platform in the Nordic region. IKH also expanded our product ranges and customer reach into attractive core and adjacent markets.



Acquisition cost

**€199.3m**

on a cash and debt free basis

For more, see pages 50 to 51

NOVEMBER

## 2021 Sustainability Report published

We published our first Sustainability Report on the Group website in November, detailing progress to date against our sustainability commitments. We announced targets and KPIs across the five focus areas of our Sustainability Strategy: Customer and Product, People, Planet, Communities and Ethics. Our strategy is aligned with the UN Sustainable Development Goals ('SDGs') which will guide our performance and help us to work in a way that's responsible and sustainable.



Strategic alignment

# 8 UN SDGs

For more, see pages 70 to 85

NOVEMBER

## Capital markets event

On 10 November 2021 the Group held a Capital Markets Event to update investors on the progress of the Group and its businesses, capital allocation model and sustainability strategy. At the event we outlined our plans to continue to Build Progress Together, whilst delivering sustainable growth and returns to our investors, driven by our core values.



Increased medium-term financial targets

# 10% operating margin; 13% return on capital employed

For more, see page 51 and pages 70 to 81

DECEMBER

## Divestment of traditional merchanting business in Great Britain

In July 2021, we announced the divestment of our traditional merchanting business in Great Britain for an enterprise value of £520 million and this transaction completed on 31 December 2021. The divestment was agreed following a comprehensive strategic review which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value. Completion of this transaction also enables the Group to focus on its international development strategy which will be a key priority over the coming years.

Enterprise value

# £520m

For more see page 45

# Building progress together

**to enable a sustainable future that respects people and the planet for all our stakeholders.**

Our people are key to our success and as a Group we are focused on making sure that Grafton is a place where our people have the chance to contribute, to take ownership of what they do, to develop their skills and abilities, and build a career to be proud of.

We are equally focused on delivering brilliant service for our customers. Without them we have no business and we work hard to make sure they can get what they need when they need it. Our customers know that they can trust us to deliver reliable products, support and advice, to enable them to make progress in their own business.

Building progress together is also about how we engage with the world around us – our local communities and the wider environment. Our sustainability strategy is aligned with our purpose to enable us to build progress together for all of our stakeholders.

OUR PURPOSE IS UNDERPINNED BY FOUR KEY PILLARS:

## **Construction and related activities**

Everything that we do as a Group has a connection to construction products or construction related activities.

## **Growing and adding value**

Continuing to grow our Group businesses and delivering value to our shareholders is fundamental to the way we do business.

## **Making a positive impact**

Our Group sustainability strategy sets out our ambitious plans to make a positive impact on people and the planet.

## **In partnership with our stakeholders**

Engaging with our shareholders; colleagues; customers; suppliers and communities for the benefit of all.

## OUR CORE VALUES

**Value our people**

Our people are our greatest asset. We treat people with respect. Integrity, diversity and inclusion are integral to how we operate.

The safety of our people is a fundamental priority and our aim is to send everyone home safe and well at the end of the day. We want to make sure that people feel proud to work for Grafton because they are supported, recognised and valued for who they are individually and for what they do.

**Be brilliant for our customers**

Doing a brilliant job for our customers is what we are all about.

We focus on building strong and long term relationships with our customers, listening to their needs, taking their feedback, getting them what they want, when they want it. We want to exceed our customers' expectations and send them home happy, time after time.

**Ambitious**

As a business, as individuals and as teams, we're ambitious for success. By striving to always do things better tomorrow than we did today we can provide the best service to our customers and provide a supportive, engaging environment for people who want a brilliant place to work.

We want to be leaders in what we do. We want to be number one.

**Entrepreneurial and empowering**

Our decentralised structure means that management teams and colleagues are entrusted with the authority and autonomy to run their businesses in the way that they believe is best. It's about giving them the opportunities to flourish to be entrepreneurial within their own businesses. We trust our people to take ownership, and to play their part in improving performance, seizing opportunities and adding value.

**Sustainable, trustworthy and responsible**

We believe there is a positive connection between sustainability and financial performance. Our sustainability strategy aims to address the bigger questions about what's right for our business, for society and for the environment.

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 to listen to how we can improve our product offering 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.

# Valuing our people

**The Grafton workforce of today, and of the future, wants to be inspired by a strong sense of purpose in an inclusive environment and it is this that keeps our people engaged.**

We treat our colleagues with respect and dignity. Diversity and inclusion are integral to how we operate.

The safety of our people is a key priority and our aim is to send everyone home safe and well at the end of the day.

We want to make sure that people feel proud to work for Grafton because they are supported, recognised and valued for what they do.

We want to make sure that all of our colleagues have the opportunity to reach their full potential.

## COLLEAGUE FEEDBACK AND ENGAGEMENT

We have established a number of structures to provide for effective engagement with our colleagues.

Colleague Forums, made up of colleagues from each of our businesses, provide the opportunity for our people to engage with Non-Executive Directors and for their views to be heard at management and Board level. Colleague surveys are conducted across our businesses and we have launched internal communication platforms such as Workvivo and Yoobic/Boost across a number of businesses to facilitate effective sharing of information and updates. The anonymous and independently run SpeakUp reporting line allows colleagues to report any concerns on a confidential basis.

## SUSTAINABLE LIVING AND WORKING

During the year, we launched a Sustainable Living campaign for colleagues with activities focused on energy efficiency at home and in the workplace, biodiversity and reducing/reusing/recycling. These messages were reinforced through colleague communications, competitions and sharing ideas on how we as a business and as individuals can live more sustainably.

## TRAINING AND DEVELOPMENT

Training and development is a critical element of investment in our colleagues. Colleagues are provided with opportunities to maximise their experience, and skills both for their own career development and for the success of the Group.

- Woodie's was named Best Large Business for Learning & Development at the 2021 National Training Awards in recognition of

its continued focus on learning and development. It ran a number of programmes including Leadership Development, Retail Apprenticeships, Diversity & Inclusion training, Mental Health First Aid, Wellness and Safety training.

- Chadwicks ran Inclusive Leadership Training for all people managers in partnership with the Irish Centre for Diversity and they also launched a new Leadership Development programme 'Elevate'.
- Selco continued their 'Rising Stars' Management Training Programme, aimed at creating opportunities for colleagues to develop management career paths that align with Selco's strategic goals.
- CPI Mortars provides opportunities with its Driver Training Academy (Warehouse to Wheels programme), together with commercial apprenticeships and leadership training for plant managers.
- The Isero business in the Netherlands runs an in-house academy to train apprentice customer service representatives.
- Leyland ran its second Fast Track Managers training programme.
- The IKH business in Finland launched an 18-month management development programme during the year and also offers the opportunity for warehouse colleagues to complete a degree in service logistics.

## 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 colleagues 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 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 discounts when they shop 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 RECOGNITION

Colleague recognition programmes are in place across a number of our businesses. During the year Chadwicks continued to celebrate colleague loyalty milestones, and a number of other Group businesses introduced programmes to reward colleagues for reaching service milestones.

Leyland held its third annual colleague awards to recognise exceptional service. Woodie's held its fourth annual "Woscars" ceremony to honour colleagues and teams from across the 35 stores and the support office.

#### GREAT PLACE TO WORK

Woodie's retained its position as the top retailer in Ireland in the Great Place To Work Survey. It also retained its status as a Best Workplace for Women and for the first time was listed as one of Europe's Best Large Workplaces. 99 per cent of Woodie's colleagues participated in the annual Great Place To Work Survey and the business received an overall survey engagement score of 87 per cent which was in line with the prior year.

**Read more about our People on pages 75 to 79.**

#### CASE STUDY

### Female HGV drivers lead the way for more inclusion in the industry

Emilia Leszczynska (pictured below) qualified as a professional HGV driver with TG Lynes – an ambition she has always had, while Kein Voong, a Harlow-based assistant plant supervisor, is the first female colleague from CPI Mortars to graduate from the Driver Training Academy and is now a qualified HGV Driver.

Kein and Emilia are both proud advocates for gender diversity in a male dominated industry.

Female workforce percentage

# 30%

For more information on diversity and inclusion at Grafton see pages 78 to 79



# Engaging with stakeholders

The support and engagement of our stakeholders is critical to our business. We know that building positive relationships with our stakeholders is a vital part of our ability to deliver long-term sustainable success. The Group and the management teams in each of its businesses consider the likely consequences on all stakeholders of their decisions and actions.

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.

Our federated structure means that each business unit engages extensively with its own unique stakeholder group as well as with other businesses across the Group.

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



## DECISION MAKING IN PRACTICE

In order to provide an insight into the approach taken by the Group to stakeholder engagement, a summary of stakeholder views and concerns is set out below.

Stakeholder	Stakeholder views/concerns	How we addressed these concerns in 2021
Colleagues	Our colleagues want to be listened to, kept informed, and to know that they will be provided with a safe, inclusive and respectful workplace. They want to be inspired and engaged by a strong sense of purpose and a company that lives by its values.	Each of our businesses have worked hard to ensure that colleagues were kept engaged and informed, through feedback surveys, regular updates and themed communication campaigns.
Customers	Our customers rely on us to provide a wide range of essential products and services at a competitive price and on time. They want to know that we will continue to provide the products they want, when they want them, and to meet their expectations in a safe and efficient way.	As part of our commitment to providing customers with a seamless omnichannel experience, we continued to invest in digital transformation across our businesses to ensure our customers needs are met.
Shareholders	Our shareholders want us to operate a business that is sustainable in the long term and that maximises returns in a responsible way. They want us to take appropriate and well considered decisions in the long term interests of the Group.	Our Capital Markets Event in November 2021 focused on how the Group plans to deliver sustainable growth and returns to our investors.
Suppliers	Our suppliers rely on us to provide an efficient route to market for their products and to engage with them on market demand and customer feedback.	Our businesses have continued to maintain effective dialogue with suppliers and increased engagement on responsible sourcing and supply chain integrity.
Communities and the environment	Our communities and the wider public want us to continue supporting local and national causes and to operate our business in a way that respects the environment.	Our sustainability strategy is focused on how we can make a positive contribution to local communities and protect the environment and natural resources.



## HOW WE ENGAGE WITH STAKEHOLDERS

### Colleagues



We have established structures to provide for effective engagement with the wider workforce including colleague feedback surveys and Colleague Forums which provide an opportunity for colleague representatives across the Group to meet with Non-Executive Directors and enable their views to be considered at Board level.

We 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.

### Suppliers



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

### Communities and the environment



Our sustainability strategy is intended to ensure that we 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.

### 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 to listen to how we can improve our product offering 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.

### 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 their views 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.

During 2021 we held a Capital Markets Event to update investors on the progress of the Group and its businesses, capital allocation model and sustainability strategy.

# Building a better future

## DELIVERING RETURNS

Through a combination of organic growth and the acquisition of high growth potential businesses trading in segments of our markets that have good structural growth drivers, we will continue to allocate capital to opportunities that will allow us to deliver sustainable value and good returns.

For more see pages 26 to 27 and 51

## Strategic report

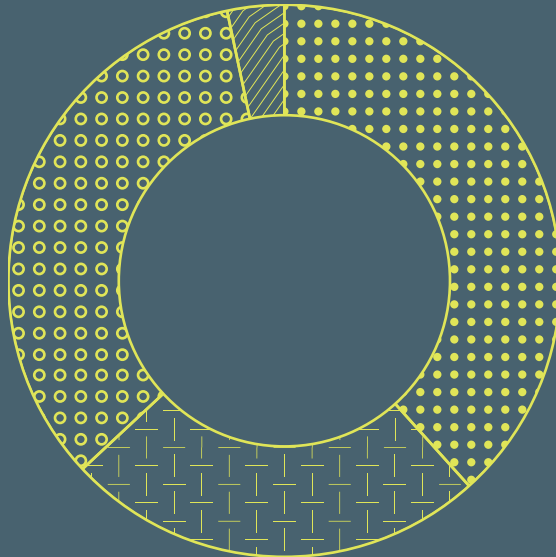
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GREATER GEOGRAPHIC DIVERSIFICATION

Branches and factories by geography

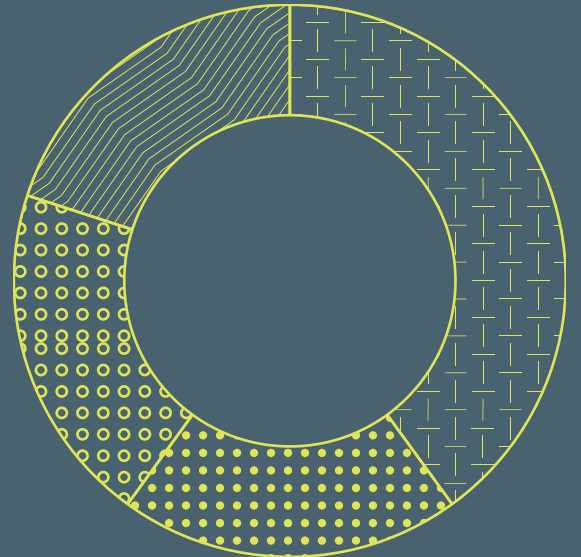
349



- UK: 134
- Netherlands: 117
- Ireland: 87
- Finland: 11

Acquisitions by geography in 2021

5



- Netherlands: 2
- UK: 1
- Ireland: 1
- Finland: 1



# Building on our strategic success

Dear Shareholder,  
This has been a transformational year for Grafton as we completed the divestment of the traditional merchanting business in Great Britain at the year end and acquired IKH in Finland at the start of the second half.

We also delivered a record financial performance for the year and continued to make significant progress developing our well established businesses in the UK, Ireland and the Netherlands.

The results for the year highlight the success of the strategy that we have pursued in recent years. We now have a portfolio of high quality, high returning businesses with good market positions. The end-use market that our businesses primarily serve is the more resilient residential repair, maintenance and improvement ("RMI") sector and we saw the benefits of this strategy during 2021 against the backdrop of generally positive market conditions.

We also gained from the investments made in recent years in our distribution branches, DIY, Home & Garden stores and manufacturing plants. Upgrading in the physical environment of our branches has provided an improved customer experience and helped to protect and enhance the reputation of our brands. We also continued to invest in digital and to increase traffic on our websites and customer activity online.

These results would not have been possible without the leadership of our management teams, who deserve to be recognised for everything they have achieved, and the exceptional commitment and hard work of colleagues in our branches, stores, distribution centres and offices. I sincerely thank them for the way that they responded throughout the pandemic and for working collaboratively to safely support each other, our customers and business partners.



“These results would not have been possible without the leadership of our management teams, who deserve to be recognised for everything they have achieved, and the exceptional commitment and hard work of colleagues in our branches, stores, distribution centres and offices.”

### RESULTS REVIEW

The Group delivered an excellent financial performance for the year. Revenue in the Group's continuing operations, that excludes the traditional merchanting business in Great Britain that was divested on 31 December 2021, was up by 25.6 per cent to £2.11 billion (2020: £1.68 billion) and adjusted operating profit was up by 68.8 per cent to £288.0 million (2020: £170.6 million). Adjusted earnings per share in continuing operations increased by 84.9 per cent to 93.0p (2020: 50.3p).

The Group's adjusted operating profit margin before property profit in continuing operations was a record 12.9 per cent (2020: 10.2 per cent) and now benefits from a structurally higher margin in the UK distribution business following the divestment of the traditional merchanting business in Great Britain.

### CASH FLOW AND BALANCE SHEET

The Group ended the year in a very strong financial position with net cash, before lease liabilities, of £588.0 million having started the year with net cash of £181.9 million. Cashflow from operations for the year of £303.2 million (2020: £377.7 million) was down on the prior year due to an investment of £64.1 million in working capital to support organic growth.

The Group's very strong balance sheet included shareholders' equity of £1.72 billion that reflected growth of £252.6 million on the prior year end. The return on capital employed was 19.4 per cent (2020: 11.9 per cent).

### DIVIDEND

The Board of Grafton is very conscious of the importance of dividends to shareholders and is committed to a progressive dividend policy. At the Capital Markets Day in November 2021, we announced that the Company would look to maintain dividend cover of between two and three times going forward with the dividend cover for 2021 expected to be at the upper end of that range. Consistent with this, the proposed final dividend for 2021 of 22.0 pence per share gives a total dividend for the year of 30.5 pence per share, representing cover of 3.0 times based on adjusted earnings per share.

The Group had a cash outflow on dividends of £84.9 million during the year comprising:

- the second interim dividend for 2019 of 12.5p per (£29.9 million) that was suspended in March 2020 as a precautionary measure to preserve liquidity in light of Covid-19;
- the final dividend for the year ended 31 December 2020 of 14.5p per ordinary share (£34.7 million); and
- an interim dividend for 2021 of 8.5p per share (£20.3 million).

The final dividend for 2021 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.

### STRATEGY

Our strategy is to continue to invest and build on our strong market positions and to leverage our strong brands and benefit from the operational gearing that we have in these markets. We want to allocate capital to build a higher margin, higher return and less capital intensive business.

The decision to divest the traditional merchanting business in Great Britain followed a comprehensive strategic review which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value.

The creation of a more balanced portfolio of businesses internationally continues to be a high strategic priority for the Board. The proceeds from the divestment, together with strong cashflow from operations, provides the Group with substantial resources for investment in new geographies. We are focused on buying good businesses with good management teams operating in differentiated segments of the building materials distribution market that offer the potential for high growth, superior returns and resilience through the cycle.

The acquisition of IKH in Finland has increased the scale of Grafton and provided greater geographic diversification. It has also strengthened our operations in mainland Europe in line with our development strategy and provided a new growth platform in the Nordic region. The IKH business has also expanded our product range and customer base into attractive core and adjacent markets.

The development of our Netherlands business since 2016, the acquisition of Leyland SDM in 2018 and StairBox in 2020 demonstrate our disciplined approach to the allocations of capital and our track record of creating shareholder value from buying good businesses at fair prices.



Our very successful Selco Builders Warehouse business now accounts for almost three quarters of our UK distribution activities. The remainder of our UK distribution business comprises the successful MacBlair operations in Northern Ireland and the TG Lynes and Leyland SDM specialist distributors that mainly operate in the London market. We see good opportunities to grow our Selco network from 72 branches at the year end and are targeting increasing the estate to 100 branches by 2026.

The acquisition of the StairBox staircase manufacturing business in Stoke-on-Trent in late 2020 was in line with our strategy of acquiring high quality well managed specialist businesses with strong market positions and we were very encouraged by the returns achieved in 2021.

Development of our best-in-class, market leading distribution and DIY, Home and Garden businesses in Ireland is mainly driven by organic growth complemented from time to time by

bolt-on acquisitions. We acquired a specialist distributor of high-quality architectural ironmongery products for doors in February 2021 and, following approval by the Competition and Consumer Protection Commission in Ireland, we completed the acquisition of the Sitetech specialist construction accessories business at the end of February 2022.

The Netherlands business continued to grow organically and by acquisition and we will continue to pursue our successful growth strategy in this market.

#### BOARD COMPOSITION

Grafton has a strong Board of Directors that drives strategy, performance and growth of the business. The membership of the Board is broadly based and reflects a diverse range of backgrounds, education, cultures, expertise, perspectives and business experience including executive and non-executive director experience of the distribution sector. Gavin Slark completed 10 years in the role of

Group CEO on 1 July 2021 and I take the opportunity to thank him for his excellent leadership of the Group over this period.

Ms. Avis Darzins was appointed as Non-Executive Director of the Company with effect from 1 February 2022. Ms. Darzins has a strong business background and varied experience including eight years as a Partner at Accenture in London where she worked closely with many well-known national and international brands operating in the retail and consumer products sectors to deliver successful outcomes and drive performance and growth. We are delighted to welcome Avis to the Board. Her extensive business knowledge and experience, gained over several decades, complements that of other Directors and will be of great benefit to our Group over the coming years.

The Board has a long-standing commitment to prioritise diversity and supports the recommendations of both the FTSE Women Leaders (Hampton Alexander) Review on gender diversity and the Parker Review on ethnic diversity. The Board is committed to at least the minimum target of one-third for female representation as set out in the FTSE Women Leaders (Hampton Alexander) Review and to having at least one Director reflecting ethnic diversity as defined in accordance with the Parker Review. I am pleased to confirm that both of these objectives are currently met. Three of our eight Board directors are female (38 per cent) following the appointment of Ms. Avis Darzins to the Board. Ms. Darzins is from an ethnically diverse background as defined by the Parker Review.

The Board is also very supportive of management's actions to increase the proportion of senior leadership roles across our Group that are held by women and by people from minority backgrounds that are reflective of the expertise and perspectives of the societies where we operate and their important constituencies. The Group continues to prioritise diversity in the widest sense when making appointments at all levels in its business and, by setting the tone from the top, promotes a culture where there are no barriers to everyone achieving their potential and succeeding at the highest levels in Grafton.





## BOARD EVALUATION

An evaluation of the Board, its Committees and individual Directors was conducted during the year by an external evaluator, and I am pleased to report that the results demonstrate that the Board and its Committees continue to operate very effectively and to a high standard of governance. The report noted that the Board has embraced its commitment to continually improve and made good progress on many of the themes identified in prior internal reviews. The Board is keen to ensure that observations from the latest independent review help to shape its priorities for the current year.

## 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 with the first meeting of the new Finnish forum to be held during 2022. Meetings of the forums held during the year provided Non-Executive Directors who attended with the views of colleagues on a range of issues that were subsequently discussed 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 in Grafton.

## 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.

Ahead of the Capital Markets Day in November, we published a Sustainability Report which is available on our website and which sets out our recent sustainability achievements, our plans for the future and the targets that we have set in order to achieve each element of our strategy. The Business Segment Reports, that form part of the Strategic Review that follows, show clearly that the Group made very 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 and our strategy identifies five key areas of focus and activity for the Group and its businesses which are Customers and Products; People; Planet; Communities; and Ethics.

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, this is an ongoing project and we will update on progress each year.

## ANNUAL GENERAL MEETING

In line with the Group's policy, all Directors will retire and seek election/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 elected/re-elected at the Annual General Meeting.

## OUTLOOK

We are well placed to implement our development strategy in the year ahead supported by the very strong financial position of the Group.

## Michael Roney

Chairman  
8 March 2022



# Creating value

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

**Building progress together**

## INPUTS

**The continued success of the Group is based on:**

### Ambition

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

### Innovation

Investing in solutions to continually improve our customer service.

### Sustainability

Building a sustainable future for everyone.

### Engagement

Building strong and trusting relationships with all of our stakeholders.

### Financial Strength

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

## HOW WE DO IT

### Operating segments

Distribution



Retailing



Manufacturing



More information on our business segments and their performance on pages 40 to 55



**Our core values underpin everything we do**



**Sustainable, trustworthy and responsible**



**Be brilliant for our customers**

## 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 349 branches and factories 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.

## VALUE CREATED

### Our shareholders

Maximising shareholder returns in a responsible and sustainable way.

**30.5p**  
dividend per share

### Our customers

Being brilliant for our customers by continuing to meet their needs, innovatively, safely and efficiently.

**349**  
branches and factories across our operations

### Our people

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

**8,700**  
colleagues in 349 branches, factories and support offices

### Our suppliers

Working with our suppliers to drive sustainability and innovation.

**80%**  
of suppliers (by revenue) engaged on completing ESG questionnaire

### Our communities

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

**£900,000**  
raised for charities



Value our people



Entrepreneurial  
and empowering



Ambitious

# Our strategy

## STRATEGIC PILLARS

## WHAT IT MEANS

## PROGRESS IN 2021

### 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.

- New Selco delivery hub opened during the year to centralise customer deliveries in the Birmingham area;
- Rebrand of the five store GDC Paints business acquired in 2020 into the Leyland SDM store network, providing customers with an enhanced and consistent experience;
- Three dedicated ECO Centres opened at Chadwicks Group branches showcasing sustainable products for energy efficient new build and retrofit projects;
- Woodie's digital platform upgraded to improve the online customer experience and streamline customer online communications into a single platform.

### 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.

- Group revenue from continuing operations increased by 25.6 per cent to £2.11 billion and by 28.5 per cent in constant currency;
- Operating profit in continuing operations increased by 68.8 per cent to £288.0 million;
- The adjusted operating profit margin increased by 340 basis points to 13.6 per cent and increased by 270 basis points to 12.9 per cent excluding property profit;
- Return on Capital Employed increased by 750 basis points to 19.4 per cent;
- Net Cash (before IFRS 16 leases) increased to £588.0 million;
- The dividend for the year increased by 110.3 per cent in line with the Group's progressive dividend policy.

### 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.

- New Selco branches opened in Liverpool, Canning Town and Rochester;
- In January, the acquisition of Van den Anker Ijzerhandel Katwijk B.V. strengthened the market position of Polvo in the Netherlands Mid-Western region;
- The acquisition in April of Govers B.V. provided geographic coverage for Isero in the Netherlands North West region;
- Proline Architectural Hardware ("Proline") which was acquired in February brings specialist expertise to the architectural ironmongery distribution segment in Ireland;
- The acquisition of IKH in July strengthens the Group's operations in the mainland European market.

### 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.

- Management and colleague development programmes in place across the Group's businesses;
- Woodie's was named Best Large Business at the 2021 National Training Awards in recognition of their continued focus on learning and development;
- Colleague surveys are carried out across our businesses;
- Internal communication platforms such as Workvivo and Yoobic enable effective sharing of information and updates;
- Colleague Forums held via Teams provided opportunities for colleague views to be heard at Board level.

### 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 stakeholders and the sustainability of our business.

- SpeakUp reporting line allows colleagues to report any concerns on a confidential basis;
- Group lost days (severity rate) reduced by 25 per cent since 2020;
- Policy awareness videos developed and circulated to colleagues via the learning management system and other engagement platforms;
- Implementation of a third party supplier classification and risk assessment system;
- A programme of fraud risks assessments continued to identify any additional anti-fraud controls which may be required.

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

KPIs	TARGET FOR 2022	LINKS TO RISK				
<p><b>Selco branch openings</b></p> <p><b>3</b></p> <table border="1"> <tr> <td>2021</td> <td>3</td> </tr> <tr> <td>2020</td> <td>2</td> </tr> </table>	2021	3	2020	2	<p>Group businesses will continue to pursue opportunities to enhance our customers' experience.</p> <p>The Group targets further Selco stores openings by the end of 2022.</p>	<ul style="list-style-type: none"> <li>• Competition;</li> <li>• Colleagues;</li> <li>• IT systems and infrastructure;</li> <li>• Cyber security &amp; data protection;</li> <li>• Supply chain;</li> <li>• Internal controls &amp; fraud;</li> <li>• Sustainability &amp; climate change;</li> <li>• Pandemic risk – Covid-19 Virus</li> </ul>
2021	3					
2020	2					
<p><b>Revenue</b></p> <p><b>£2.11bn</b></p> <table border="1"> <tr> <td>2021</td> <td>£2.11bn</td> </tr> <tr> <td>2020</td> <td>£1.68bn</td> </tr> </table>	2021	£2.11bn	2020	£1.68bn	<p>The Group will continue to prioritise like-for-like revenue growth in its markets, to exercise tight control over costs and to invest in areas of its business that provide good long term growth prospects.</p>	<ul style="list-style-type: none"> <li>• Macro-economic conditions;</li> <li>• Competition;</li> <li>• Acquisition and integration of new businesses;</li> <li>• Supply chain;</li> <li>• Internal controls &amp; fraud;</li> <li>• Sustainability;</li> <li>• Pandemic risk – Covid-19 virus</li> </ul>
2021	£2.11bn					
2020	£1.68bn					
<p><b>Capital expenditure on development initiatives</b></p> <p><b>£19.0m</b></p> <table border="1"> <tr> <td>2021</td> <td>£19.0m</td> </tr> <tr> <td>2020</td> <td>£15.1m</td> </tr> </table>	2021	£19.0m	2020	£15.1m	<p>Growth by acquisition in new and existing geographic markets continues to be a high strategic priority. Grafton will continue to pursue its organic growth strategy in its established businesses.</p>	<ul style="list-style-type: none"> <li>• Macro-economic conditions;</li> <li>• Competition;</li> <li>• Acquisition and integration of new businesses</li> </ul>
2021	£19.0m					
2020	£15.1m					
<p><b>Female workforce percentage</b></p> <p><b>30%</b></p> <table border="1"> <tr> <td>2021</td> <td>30%</td> </tr> <tr> <td>2020</td> <td>25%</td> </tr> </table>	2021	30%	2020	25%	<p>The Group will continue to focus on the development of colleagues and management teams and to equip colleagues with key leadership skills.</p>	<ul style="list-style-type: none"> <li>• Colleagues;</li> <li>• IT systems and infrastructure;</li> <li>• Cyber security &amp; data protection;</li> <li>• Health &amp; safety;</li> <li>• Acquisition and integration of new businesses;</li> <li>• Internal controls &amp; fraud;</li> <li>• Sustainability &amp; climate change;</li> <li>• Pandemic risk – Covid-19 virus</li> </ul>
2021	30%					
2020	25%					
<p><b>Business conduct and ethics training completion rates</b></p> <p><b>86%</b></p> <table border="1"> <tr> <td>2021</td> <td>86%</td> </tr> <tr> <td>2020</td> <td>86%</td> </tr> </table>	2021	86%	2020	86%	<p>We will maintain high ethical standards for the benefit of all stakeholders and continue to focus on health and safety as a key priority.</p>	<ul style="list-style-type: none"> <li>• Colleagues;</li> <li>• Health &amp; safety;</li> <li>• Sustainability;</li> <li>• Internal controls &amp; fraud;</li> <li>• Pandemic risk – Covid-19 virus</li> </ul>
2021	86%					
2020	86%					



## Excellence in service



### Selco online trading capability

Selco's continued investment in its online trading ecosystem has led to a seamless omnichannel experience for customers, with approximately 80 per cent of online orders fulfilled through deliveries from branches and delivery hubs with the balance collected by customers in-store. Following the success of the delivery hub in Edmonton, a second hub was opened that centralises deliveries for the seven branches in the Birmingham area.

Number of Selco branches

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**72**

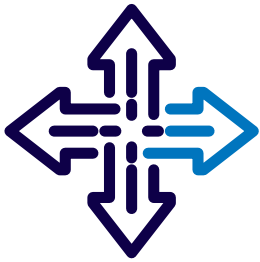
For more see pages 41 to 43



# Strong financial base

## Capital allocation strategy

At our capital markets event in November we provided an overview of our capital allocation strategy based on maintaining our investment grade credit rating, strong portfolio management and a disciplined approach to capital allocation.



# Organic growth and acquisitions

## Acquisition of IKH in Finland

Grafton completed the acquisition of IKH in Finland on 1 July 2021. IKH is one of the largest workwear, personal protective equipment (“PPE”), tools, spare parts and accessories wholesalers and distributors. It has a track record of over twenty years of uninterrupted revenue growth and has a number two market position in its core tools and PPE segment. The acquisition strengthens Grafton’s operations in mainland Europe in line with our development strategy and provides a new growth platform in the Nordic region. IKH also expands our product ranges and customer reach into attractive core and adjacent markets.

Finland sector revenue

**£70.8m**

For more see pages 50 and 51



# Ethics and integrity

## Launch of Sustainability Report

Our first Sustainability Report was launched as part of the Capital Markets Event held in November. The report sets out the current status of our sustainability strategy, our key targets and plans for the future. You can view it here: <https://graftonsustainability.com/>







# A supportive organisational structure and management

## **Isero in-house academy**

During the year, 13 students graduated from the Isero In House Training Academy. The Academy is focused on providing in-house training for customer service representatives and training covers sales, technical and product knowledge.

# Building a stronger business

2021 saw record profits, a step change to higher returning businesses following the divestment of our traditional merchanting business in Great Britain, exposure to a new growth platform in the Nordics and increased focus on digital and sustainability opportunities.

## GROUP RESULTS

Grafton achieved record results in 2021, a year that also marked the completion of a key phase of our strategic development with the divestment of the traditional merchanting business in Great Britain. This development has seen the Group transformed into a portfolio of high quality and high returning businesses with good market positions.

We continued to invest both organically and through acquisitions in our existing businesses and in July we acquired IKH in Finland which provides a new growth platform in the Nordics.

These excellent results, which were achieved in broadly favourable markets, show the benefits of the multi-year investments in the more resilient segments of our markets. The residential repair, maintenance and improvement ("RMI") market is our primary end-use market and we saw the real benefits during the year of our sectoral focus on this market.

We continued to progress initiatives to extend the competitive advantages that our businesses have and to grow our market positions. We invested in digital as part of our commitment to providing customers with a seamless omnichannel experience. We are blending our physical branches and stores, which remain at the heart of our business, with the digital environment and we are increasingly interacting with our customers through social media.

Supply chain disruption resulted in shortages of core building materials, longer lead times, managed allocation for selected products and a sharp increase in product price inflation across a range of categories in the distribution businesses in the UK and Ireland.

Group adjusted operating profit (before property profit) increased by 58.9 per cent to £271.2 million (2020: £170.7 million and 2019: £173.2 million) in the continuing business, which excludes the traditional merchanting business in Great Britain that was divested at the year end. The Group adjusted operating



## Increased medium-term financial targets

Operating margin

**10%**

Return on capital employed

**13%**

profit margin in the continuing businesses was a record 12.9 per cent, an increase of 270 basis points on the outturn for 2020.

Our market leading businesses in the UK, Ireland and the Netherlands performed strongly, and we had a second half contribution from the IKH business in Finland. The Woodie's DIY, Home and Garden retail business in Ireland benefitted from an exceptional level of demand in the first half which eased following the reopening of non-essential retail.

Selco Builders Warehouse, which now makes up three quarters of our UK distribution business, achieved a significant step up in revenue and profitability. The operating profit margin in the continuing UK distribution business before property profit was 12.5 per cent (2020: 8.8 per cent and 2019: 11.7 per cent). Divestment of the lower margin UK distribution businesses and the allocation of capital to new Selco branches over recent years has resulted in a planned structural increase in the operating profit margin. The 2019 operating profit margin before property profit in the UK distribution business, including the divested traditional merchanting business, was 6.1 per cent which demonstrates the scale of the operating margin transformation in 2021.

We have reported property profit of £16.7 million for the financial year. Proceeds of £13.6 million were received on the successful completion of the sale of freehold properties in Belgium that were retained following the sale of the distribution business in 2019.

Cashflow generated from operations for the year increased to £303.2 million and the Group ended the year with net cash of £588.0 million before IFRS 16 lease liabilities, an increase of £406.1 million.

The Board of Grafton is committed to a progressive dividend policy and, at the Capital Markets Day in November 2021, we announced that we would look to maintain dividend cover of between two and three times in future with the dividend cover for 2021 at the upper end of

“Our people have been a key differentiator in delivering safe and superior customer outcomes throughout the pandemic and in mitigating supply chain challenges at a time of resilient demand in the broader repair, maintenance and improvement and DIY segments in our markets”.

that range. Consistent with this, we have today announced a proposed final dividend of 22.0 pence per share to give a total dividend for the 2021 financial year of 30.5 pence per share, representing cover of 3.0 times based on adjusted earnings per share.

### IMPLEMENTING OUR GROUP STRATEGY AND INCREASING RETURNS

As already noted, we completed the divestment of the traditional merchanting business in Great Britain on 31 December 2021 for an enterprise value of £520 million following a strategic review. Freehold properties that have a market value of approximately £25 million (fair value of £15.75 million) were retained. This transaction completed our programme of planned disposals and we again thank all our former colleagues in this business for their longstanding and valued contribution to Grafton and wish them every success in the future.

We now have the opportunity to recycle the proceeds received on the divestment into more differentiated, higher growth potential businesses that generate superior returns over the long term. The divestment enables us to refocus resources on our international development strategy which will be our main priority over the coming years.

Acquisitions have always been an important part of the Grafton growth strategy. We have a long history of identifying, acquiring and integrating businesses and an acquisition team that is skilled and experienced in all aspects of transactions. We entered the Netherlands



"Trading in the year to date has been encouraging and the outlook for 2022 is positive, supported by strong housing and RMI markets, the inherent strength of our businesses, our strong balance sheet and future investment opportunities".

market at the end of 2015 and since then have developed a best-in-class business of scale in an attractive segment of the distribution market. This involved an initial platform acquisition that gave us an entry point into a new geography and customer segment. We followed up with bolt-on acquisitions in a consolidating market and a transformative deal in 2019 when we acquired Polvo. We have also grown the business organically and have continued to expand geographically as we seek to create a national branch footprint.

We completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH") in Finland on 1 July 2021. IKH is one of the largest wholesalers and distributors of workwear, personal protective equipment ("PPE"), tools, spare parts and accessories in Finland. We were very pleased to welcome our new colleagues in Finland to the Grafton family and we look forward to working with them on the next phase of IKH's growth and development.

The acquisition of IKH, which has a number two market position in the tools and PPE product categories in Finland, provides Grafton with exposure to a new geographic market and creates a new platform for growth in the Nordic region. IKH has also expanded our product ranges and customer segments in core and related markets.

Completion of the IKH transaction was consistent with our disciplined approach to acquisitions. We have allocated capital on the basis of strategic fit and meeting our hurdle rates of return for operating profit margin and ROCE. We recognise the importance of retaining our focused approach and strong disciplines around capital allocation, particularly as we look to deploy our balance sheet strength over the next few years.

At the Capital Markets Day in November, we increased the Group's long term operating profit margin target from 7 per cent to 10 per cent and we raised our underlying ROCE target by one per cent to 13 per cent after adjusting for the treatment of leases under IFRS 16.

Through a combination of organic growth and the acquisition of high growth potential businesses trading in segments of our markets that have good structural growth drivers, we will continue to allocate capital to opportunities that will allow us to deliver sustainable value and good returns.

#### IMPLEMENTING OUR SUSTAINABILITY STRATEGY

At Grafton we believe there is a positive connection between sustainability and financial performance and we are facing up

to the bigger questions about what's right for our business, for society and for the environment. We have developed a strategy that challenges us to take the lead on the material issues that are closest to our business, and which make the biggest contribution to the UN Sustainable Development Goals that are most relevant to us. Our businesses are focusing on the issues most relevant to them, and we are aligning resources to these key areas to deliver maximum impact.

We have set specific targets and KPIs across the five focus areas of our sustainability strategy to guide our performance and help us work in a way that's responsible and sustainable. Our sustainability programme informs our strategic decision making about where to innovate and where to invest, as well as the operational decisions we all make every day.

We have made good progress to date, and you will see this in a very real way in the reviews of the individual businesses that follow. We will continue working towards our sustainability strategy commitments whilst also aiming higher to ensure we make a valuable contribution to society and help build a sustainable future for everyone.



## OUTLOOK

The recent wave of the Covid-19 pandemic has been less severe than previous waves and the restrictions now in place in the four countries where we operate have either been reduced significantly or are reducing.

Consumer price inflation is expected to ease but to remain above the low levels of recent decades and while global supply chain disruption caused by the pandemic has eased considerably it is likely to continue to impact the availability of certain products. The overall rate of building materials price inflation appears to be moderating but there is a carryover effect from price increases in the second half of last year and the pricing of certain key products, such as timber and steel, may prove volatile in the current year.

The UK economy staged a strong recovery last year and is forecast to continue, albeit at a moderating pace. Activity in the new housing market is underpinned by demand exceeding supply in a low interest rate environment with good levels of mortgage availability. The demand fundamentals in the housing RMI market are supported by an aging housing stock, an increase in housing transactions in 2021, a build-up of savings during the pandemic and by employment growth and a desire by households for more indoor and

outdoor living space. The willingness of households to undertake major projects due to the squeeze on real incomes caused by high rates of inflation and the cost and availability of labour in a tight market are possible headwinds for the RMI market.

In Ireland, the reopening of the economy through 2021 led to a sharp increase in employment and household spending and the outlook remains positive for 2022. Chadwicks should continue to make gains as activity in the residential RMI market is expected to remain strong and the level of housing commencements in 2021 points to a further increase in house completions, albeit skills shortages could curtail growth. We expect some dilution of gross margin as the mix of business normalises. The exceptional revenue growth trends in Woodie's business eased as anticipated in the second half of last year following the reopening of non-essential retail and leisure activities and it is anticipated that this trend will continue through the first half as revenue normalises at well above the pre-pandemic level.

The Netherlands' economy has been resilient throughout the pandemic and while above trend growth is forecast, driven by consumer spending, the historically low rate of unemployment and a high number of job

vacancies may weigh on activity. Underlying demand conditions in the RMI and new housing markets are very positive, but housing transactions are likely to remain under pressure due to the shortage of properties for sale. We expect to make further progress growing our Isero/Polvo ironmongery, tools and fixings distribution business.

The Finnish economy continues to recover and growth is forecast to be supported by increased household spending, employment and incomes. House building is expected to be brisk in the Helsinki region and in the larger urban centres. We expect the IKH business to perform in line with plan.

Average daily like-for-like Group revenue increased by 18.9 per cent in the period from 1 January to 13 February 2022 measured against a weaker performance in the same period last year which was impacted by the pandemic. This comprised increases of 13.2 per cent in UK Distribution, 47.2 per cent in Irish Distribution measured against trading during the lockdown of the construction sector, 6.7 per cent in Netherlands Distribution and by 36.4 per cent in Manufacturing. Average daily like-for-like revenue declined, as anticipated, by 4.4 per cent in Retailing which compares to growth of circa 40.0 per cent in the same period last year.

The business is performing in line with management expectations at this early stage of the financial year and we look to the future with confidence given the strength of our businesses, strong balance sheet and future investment opportunities.

## COLLEAGUES

In closing, I would like to again express my sincere thanks to colleagues across our Group for living the values of Grafton in their exceptional response throughout the Covid-19 pandemic and for safely supporting each other, our customers and business partners. It was their efforts and commitment that have made these results possible.

**Gavin Slark**  
Chief Executive Officer  
8 March 2022



# Financial KPIs

The key performance indicators ('KPIs') below are used to track performance and increase value for shareholders.

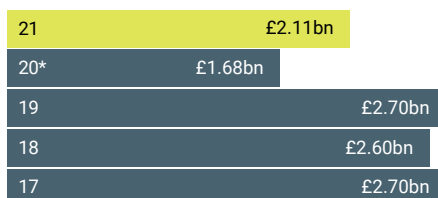
## Revenue

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

### Strategic links



## £2.11bn



### Our progress in 2021

Revenue from continuing operations increased by 25.6 per cent to £2.11bn, an increase of 28.5 per cent in constant currency.

### Risks

- Macro-economic conditions
- Competition
- Pandemic risk – Covid-19 virus

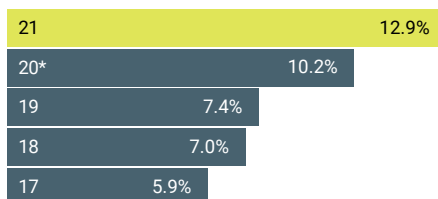
## Adjusted operating profit margin before property profit\*\*

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

### Strategic links



## 12.9%



### Our progress in 2021

The term "adjusted" means before amortisation of intangible assets arising on acquisitions, exceptional items and acquisition related items.

The adjusted pre-property operating margin increased by 270bps to a record 12.9 per cent as a result of the strong contribution from our market leading businesses.

### Risks

- Macro-economic conditions
- Competition
- Pandemic risk – Covid-19 virus

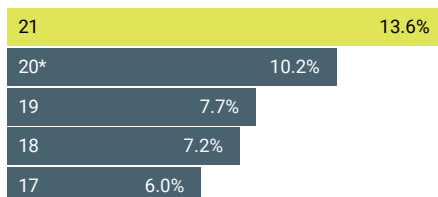
## Adjusted operating profit margin\*\*

Adjusted operating profit as a percentage of revenue.

### Strategic links



## 13.6%



### Our progress in 2021

The adjusted operating profit margin is up 340 bps to 13.6 per cent from continuing operations.

### Risks

- Macro-economic conditions
- Competition
- Pandemic Risk – Covid-19 virus

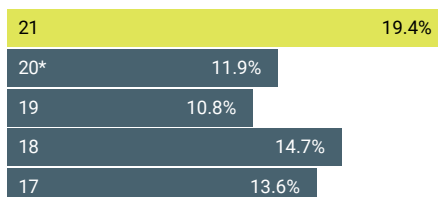
## Return on capital employed\*\* (ROCE)

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



## 19.4%



### Our progress in 2021

ROCE increased by 750 basis points.

### Risks

- Macro-economic conditions
- Competition

\* The results for 2020 have been restated as the traditional merchanting business in Great Britain is classified as a discontinued operation. Details are set out in Note 27.

\*\* 2017-2018 are presented on a pre-IFRS16 basis.

## Strategic links

### Excellence in service



### Strong financial base



### Organic growth and acquisitions



### Ethics and integrity



### A supportive organisational structure and management



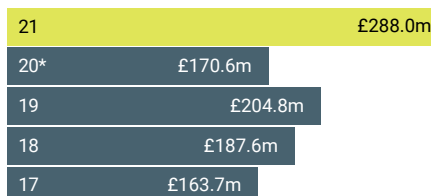
**Risk management**  
More information on pages 60 to 69

**Alternative performance measures**  
More information on pages 212 to 216

## Adjusted operating profit\*\* £288.0m

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

### Strategic links



### Our progress in 2021

Adjusted operating profit from continuing operations, including property profit, increased by 68.8 per cent to £288.0m.

### Risks

- Macro-economic conditions
- Competition
- Pandemic risk – Covid-19 virus

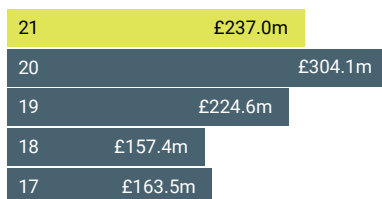
## Free cash flow

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



## £237.0m



### Our progress in 2021

Free cash flow decreased by £67.1 million to £237.0 million.

### Risks

- Macro-economic conditions
- Competition

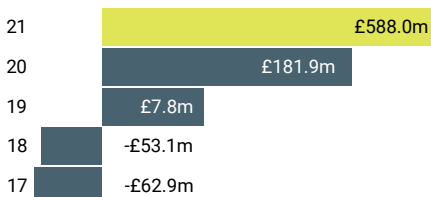
## Net cash/(debt) – before IFRS 16 leases

Total cash and cash equivalents less interest-bearing loans and borrowings and derivative financial instruments but before lease liabilities.

### Strategic links



## £588.0m



### Our progress in 2021

Very strong cash position with net cash, before lease liabilities, of £588.0 million having started the year with net cash of £181.9 million, an increase of £406.1 million. The Group's net cash position benefitted from the proceeds received on the sale of the traditional merchanting Business in Great Britain for an enterprise value of £520.0 million.

### Risks

- Macro-economic conditions
- Competition
- Acquisition & integration

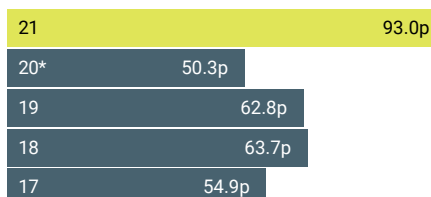
## Adjusted earnings per share\*\*

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

### Strategic links



## 93.0p



### Our progress in 2021

Adjusted earnings per share from continuing operations was up 84.9 per cent on prior year.

### Risks

- Macro-economic conditions
- Competition
- Pandemic risk – Covid-19 virus

# Non-financial KPIs

The non-financial key performance indicators ('KPIs') below are used to measure our commitment to responsible business practices.

## Health and safety

Keeping our people safe.

Lost time injury frequency rate

# 0.98

21	0.98
20*	0.96
19	1.01
18	1.04
17	1.09

### Our aim

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

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

### Strategic links



### Our progress in 2021

In 2021 our commitment to the health and safety of our colleagues and customers was demonstrated by our continued 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, increased by 2.1 per cent from 0.96 in 2020 to 0.98 in 2021.

## Environmental

Reducing our carbon footprint.

CO<sub>2</sub>e emissions per £'m of revenue

# 24.5 tonnes

21	24.5 tonnes
20*	25.5 tonnes
19	31.4 tonnes
18	32.4 tonnes
17	31.2 tonnes

### Our aim

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

We aim to protect natural resources, minimise waste and reduce our carbon footprint.

### Strategic links



### Our progress in 2021

Total carbon emissions for continuing operations in 2021 are similar to 2019 levels but the intensity ratio measure has improved further due in part to the impact of recent price inflation and as a result of our ongoing improvements in fuel and energy efficiency.

Group investment in energy efficiency measures including over £4 million in LED lighting projects and our continual shift to more fuel efficient, low and zero carbon transport – has played a big part in this reduction.

Group CO<sub>2</sub>e emissions per £'m of revenue reduced by four per cent from 25.5 tonnes in 2020 to 24.5 tonnes in 2021.

The Group increased the percentage of waste diverted away from landfill from 89 per cent in 2020 to 96 per cent in 2021.

\* The results for 2020 have been restated as the traditional merchanting business in Great Britain is classified as a discontinued operation. Details are set out in Note 27.



## Strategic links

**Excellence in service**



**Strong financial base**



**Organic growth and acquisitions**



**Ethics and integrity**



**A supportive organisational structure and management**



## Diversity and inclusion

Being a welcoming, inclusive place to work.

### Our aim

Our aim is to ensure that all of our people, regardless of gender, ethnicity, age, disability, religion, socio-economic background or sexual orientation, can reach their full potential and be valued for being themselves.

### Strategic links



### Our progress in 2021

An Inclusion Network has been established to provide opportunities for colleagues around the Group to participate in our Diversity and Inclusion agenda.

We are rolling out “ReciteMe” accessibility software on the Group website and the websites of a number of Group businesses.

As part of our sustainability strategy, we targeted a completion rate of 70 per cent for updating of voluntary diversity information in our UK and Ireland businesses in 2021 and we are pleased to have achieved this with a response rate of 75 per cent. Collecting diversity information helps us as a Group to understand how we can improve and better meet the needs of our colleagues.

## 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.

### Strategic links



### Our progress in 2021

During 2021 we implemented a third-party compliance and risk management solution with a view to developing a consistent, risk-based approach to managing supplier compliance across all of our business units.

As part of the implementation of this solution, we commenced a process of further engagement by way of an updated questionnaire to all suppliers with annual purchases of over £100,000.

The aim of this process is to enhance the Group's supply chain transparency, improve supply chain governance and help rate our supply chain's sustainability credentials.

# Distribution segment

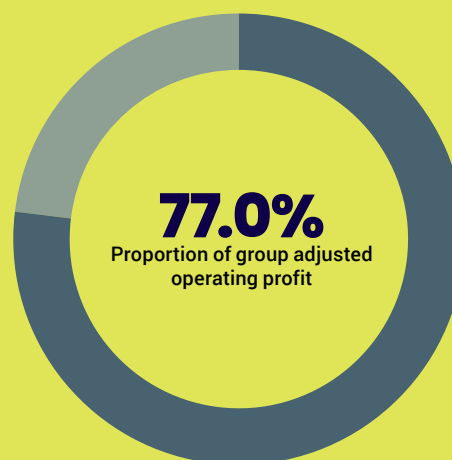
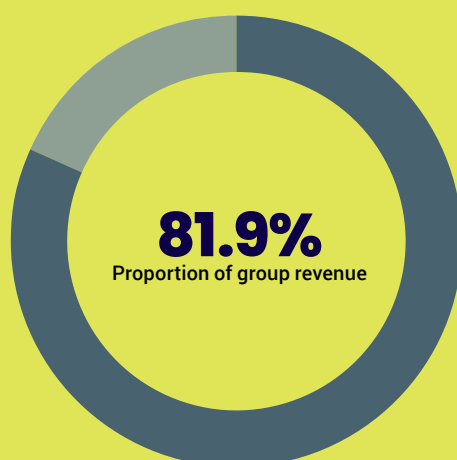
The distribution businesses in the UK, Ireland, the Netherlands and Finland contributed 81.9 per cent of Group revenue (2020: 81.7 per cent).

UK Distribution generated 39.0 per cent (2020: 37.6 per cent) of Group revenue, Irish Distribution 25.8 per cent (2020: 27.6 per cent), Netherlands Distribution 13.8 per cent (2020: 16.5 per cent) and Finland Distribution 3.3 per cent (2020: N/A).

	2021 £'m	2020 £'m	2019 £'m	Change*
Revenue	1,727.6	1,371.3	1,358.7	26.0%
Adjusted operating profit before property profit	209.8	126.3	143.2	66.2%
Adjusted operating profit margin before property profit	12.1%	9.2%	10.5%	+290bps
Adjusted operating profit	221.8	126.2	147.3	75.8%
Adjusted operating profit margin	12.8%	9.2%	10.8%	+360bps

\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers

All numbers in the table above are restated to exclude the traditional merchanting business in Great Britain that was divested on 31 December 2021.

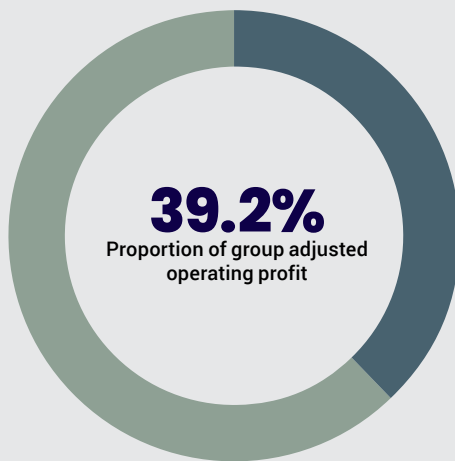


## UK DISTRIBUTION

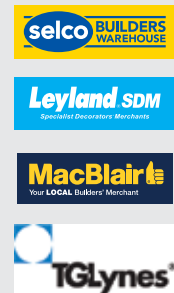
Following the divestment of the traditional merchanting business in Great Britain, the Group's distribution business in the UK now comprises Selco, Leyland SDM, MacBlair and TG Lynes.

	2021 £'m	2020 £'m	2019 £'m	Change*
Revenue	821.9	630.9	682.1	30.3%
Adjusted operating profit before property profit	102.5	55.8	80.0	83.7%
Adjusted operating profit margin before property profit	12.5%	8.8%	11.7%	+370bps
Adjusted operating profit	113.0	55.9	80.0	102.2%
Adjusted operating profit margin	13.7%	8.9%	11.7%	+480bps

\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers



## KEY BRANDS



The results of the UK distribution business and comparative results for 2020 do not include the traditional merchanting business in Great Britain that was divested on 31 December 2021 which is classified as discontinued operations.

Revenue growth of 30.3 per cent reflects a continuation of the strong demand trends that developed in the second half of last year and a weaker performance in the second quarter of 2020 – when pandemic lockdown measures resulted in the closure of all branches (except for Leyland SDM) on 24 March and the phased reopening in May and June.

Like-for-like revenue was up by 28.8 per cent on 2020 and by 16.8 per cent on 2019. There was one less trading day in 2021 compared to 2020.

The GDC Paints business acquired in July 2020 contributed revenue of £3.6 million in the first half of 2021 and new Selco and Leyland SDM branches contributed revenue of £9.0 million. The P. McDermott distribution business acquired in Northern Ireland in December contributed revenue of £0.4 million.

Gross margin was up by 110 basis points in the level reported for 2019, when trading conditions were more comparable than 2020. This improvement was attributable to changes in product mix, improved procurement arrangements and inventory gains related to the increase in prices.

Operating profit before property profit increased to £102.5 million (2020: £55.8 million) at an operating profit margin of 12.5 per cent, a level that signals a strong performance by the continuing distribution business in the UK and a structural shift following divestment of the traditional merchanting business in Great Britain.

**SELCO BUILDERS WAREHOUSE**

Selco Builders Warehouse delivered an excellent performance achieving a significant step-up in revenue and profitability to record levels while continuing to invest in the branch network and digital to support future growth. This strong performance reflected the benefits of expanding the branch network and digital investment in recent years.

Selco is a great business built on very solid foundations. Its experienced management team, with the support of colleagues, delivered strong results despite many challenges while at all times prioritising the health and safety of customers and each other. The success of Selco in over achieving as a business is dependent on the quality of engagement with its 3,000 colleagues. In the recent Best Companies engagement survey, Selco received a very good to work for 1-star accreditation, an important milestone on its colleague engagement journey.

Average daily like-for-like revenue increased by 32.0 per cent on 2020 which was impacted by the closure of all branches in late March 2020 due to the pandemic and the subsequent reopening on a phased basis in May and June. Average daily like-for-like revenue growth of 18.7 per cent on 2019 is a better gauge of the good progress made in 2021. Revenue trends were relatively even over the course of the year compared to 2019.



#### CASE STUDY: BE BRILLIANT FOR OUR CUSTOMERS

### Expansion of the Leyland SDM store network

The five store GDC Paints business acquired in July 2020 performed ahead of plan and was integrated into the Leyland SDM network while new Leyland SDM stores were opened in Clapham Junction, Dulwich and Bayswater increasing the overall estate to 32.



The year started strongly building on the progress made in the second half of 2020 and gained good momentum in the first half. Trading conditions continued to normalise in the second half, measured against a strong performance in the same period last year, as the very high levels of demand for materials eased.

The improved performance was broadly based across the branch network with branches outside of the Greater London area, that accounted for almost one-third of revenue, making the strongest revenue gains.

Supply chain disruption caused longer lead times resulting in some in-market shortages of core building materials. The procurement team worked closely with supply chain partners to mitigate the worst impacts of these shortages on customers. High demand and supply shortages contributed to significant price inflation which we estimate at 13 per cent for the year with a significant weighting towards the second half.

Trading conditions at Selco, "It's where the trade go", were positive, driven by strong demand for building materials to undertake a wide range of housing RMI projects. Double digit house price inflation, low interest rates and a renewed focus on better quality indoor and outdoor living space prompted by the pandemic led to increased spending on the home. Households were generally well resourced having built up a pool of savings during the restrictions and some spending was diverted to the home from leisure and non-essential retail. A shortage of skills in a tight labour market and product shortages moderated growth in RMI activity.



The overall performance of the branches that opened last year in Orpington and Salford, the relocated branch in Bristol and the Chessington branch that was extended, materially outperformed plan.

Selco's well invested and well stocked branches are located in generally densely populated catchment areas that provide the business with resilience and a structural advantage. We know our customers well and the format of our branches and the product ranges stocked are tailored to meet their needs. Our trade customers are very loyal and shop frequently, often daily, across all categories and over the branch network. While they generally prefer to physically purchase materials in our branches, they are also very active digital users. Selco's digital journey evolved in 2019 with the launch of a Click & Deliver service for all products to complement its established Click & Collect service. A significant investment was made upgrading the online platform in early 2020 which delivered additional features and made it easier to trade online. On reopening in May 2020 at the end of the initial phase of the pandemic, trading online accelerated and initially accounted for almost one fifth of revenue before settling at five to six per cent.

Selco continued to work with best-in-class partners to develop a tailored and flexible ecosystem to make online trading easier and to provide a scalable solution for the longer term as online volumes increase. The ongoing investment in improving the capability of our platforms is helping to provide a seamless omnichannel experience for customers. Digital sales accounted for 5.1 per cent of revenue and approximately 80 per cent of online orders were fulfilled through deliveries from branches and delivery hubs.

The estate increased to 72 with the opening of new branches in Liverpool in April, Canning Town in November and Rochester in December. Trading in these locations has got off to an encouraging start and we are progressing a good pipeline of opportunities that are at varying stages of development. We have identified significant opportunities to grow the business over the coming years and our target is to increase the branch estate to 100 by 2026. We also completed major upgrades to the Catford, Ruislip and Barking branches as part of a rolling programme of investment in the branch estate and mini upgrades were completed on five branches. Following the success of the delivery hub in Edmonton, that centralised customer deliveries for six branches in North London, a second hub was opened that centralises deliveries for the seven branches in the Birmingham area.

The Selco Sustainability Pledge, a blueprint for what can be achieved over the next decade, was launched during the year. The business has already taken decisive action this year, as part of its responsibility to the environment, with the launch of 'Selco Forest', an initiative designed to accelerate the process of offsetting its carbon footprint. The trees planted this year will offset 8,000 tonnes of carbon during their life cycle which is equivalent to the amount of carbon used on customer deliveries over two years. A similar initiative is planned for this year. Selco is also testing and trialling greener delivery vehicles utilising compressed natural gas technology. Selco raised over £100,000 for Global Make Some Noise, its charity partner who helps disadvantaged people across the UK, bringing the total raised for the charity to over £200,000 since the start of 2020.

#### LEYLAND SDM

Leyland SDM, London's largest specialist decorators' merchant, continued trading as an essential business throughout 2020 and same store revenue was marginally down in 2021 due to the pandemic impacting footfall in central London.

2021 average daily revenue in the like-for-like stores was down by 7.0 per cent on the pre-pandemic level in 2019 and broadly operated at this level throughout the year. Like-for-like operating profit was in line with 2019.

While the re-opening of non-essential retail on 12 April 2021 helped to increase footfall and the level of transactions conducted with retail customers, demand from trade customers was weak because the limited number of workers and international tourists in central London has significantly reduced investment particularly in offices, restaurants and the leisure sector. The stores located in the commuter belt continued to make gains from increased spending by households and trade customers on painting and decorating products.

The five store GDC Paints business acquired in July 2020 performed ahead of plan and was integrated into the Leyland SDM store network. New stores were opened in Clapham Junction, Dulwich and Bayswater increasing the estate to 32.



### MACBLAIR

The MacBlair distribution business in Northern Ireland performed at record levels of activity in what was its most successful year ever. Revenue exceeded £100 million for the first time. Average daily like-for-like revenue was ahead of 2019 by 23.7 per cent comprising growth of 26.7 per cent in the first half and 20.8 per cent in the second half reflecting both significant building materials price inflation and volume growth. The management team delivered an exceptional performance, responding to the increased activity levels and managing margins closely with the result that the business recorded a double-digit operating profit margin for the year. There was also favourable change in the mix of end-use markets supplied with a switch in the proportion of spending from the house building to housing RMI.

There was exceptional demand in the residential RMI market, the key driver of revenue growth. The completion by households of outdoor projects created strong demand for landscaping and timber products. There was a series of exceptional increases in timber prices during the year that were far in excess of historic norms due to record demand for timber products internationally and logistics issues in the timber supply chain.

House building in Northern Ireland was subdued in the early months of the year but returned to growth led initially by self build customers and smaller house builders. Housing completions increased marginally in the nine months to the end of September compared to the same period in 2019 while starts showed double digit growth. Trading with customers operating in the commercial, industrial and infrastructure sectors was also positive.

P. McDermott & Sons (Omagh) Ltd., a single branch distribution business located in Omagh, County Tyrone was acquired in December. In February 2022, MacBlair acquired Woodfloor Warehouse Ltd, a leading in-store and online timber flooring distributor with branches in Bangor, Belfast and Warrington.

### TG LYNES

Trading in TG Lynes, a leading distributor of commercial pipes and fittings in London and the South East, experienced a relatively slow start to the year before recovering as the year progressed with the momentum continuing through the second half and powering the business to record full year revenue and a level of profitability that matched the previous high reported for 2019. The strong trading performance delivered a high double digit operating profit margin for the year.

House and apartment building, the largest individual end-use market segment supplied by TG Lynes through its subcontractor customer base, staged a strong recovery with the opening of new sites in the City and outside the M25. Activity in the commercial sector remained subdued but there was a good recovery in public sector work such as schools and hospitals.

TG Lynes has implemented a number of successful sustainability initiatives that were aimed at reducing carbon emissions including the installation of solar panels on its property in Enfield that reduced demand for energy from the national grid, the replacement of traditional light fittings with LED lighting and the installation of electric vehicle charging points for use by colleagues.



## DISCONTINUED OPERATIONS

## Traditional merchanting business in Great Britain

	2021 £'m*	2020 £'m	2019 £'m	Change**
Revenue	522.9	829.8	1,028.7	(37.0%)
Adjusted operating profit before property profit	29.0	21.4	25.2	35.8%
Adjusted operating profit margin before property profit	5.6%	2.6%	2.4%	+300bps
Adjusted operating profit	29.4	24.1	28.0	22.2%

\* Represents revenue and operating profit for H1 2021 only. 2020 and 2019 are the full year results.

\*\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers.

The Group entered an agreement on 30 June 2021 to divest the traditional merchanting business in Great Britain for an enterprise value of £520 million and the transaction completed on 31 December 2021. This business comprised the Buildbase, Civils & Lintels, PDM Buildbase, The Timber Group, Frontline, Bathroom Distribution Group and NDI brands.

The Group retained freehold properties with development potential that have a market value of circa £25 million. Grafton retained responsibility for funding the UK defined benefit pension scheme which was closed to future accrual at the end of 2020 when alternative arrangements were put in place.

The Share Purchase Agreement was signed on 30 June 2021 and from that date Grafton ceased to have rights to variable returns from its shareholdings in the entities being divested and instead received an agreed daily amount up to the date of completion. International Financial Reporting Standards required that the business being divested be treated as discontinued operations and as a deemed disposal at 30 June 2021.

The enterprise value agreed with the purchaser was based on the balance sheet as at 30 April 2021 and all cashflow generated after that date was for the benefit of the purchaser. Grafton received a daily ticker rate for the period from 1 May 2021 to 31 December 2021 that compensated the Group for the loss of profits over this period. The total daily ticker amount received in cash on completion of the transaction was £30.2 million.

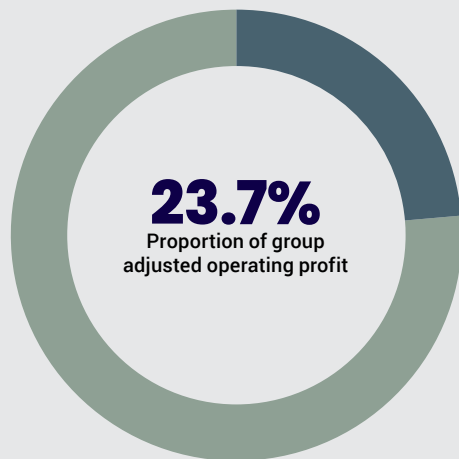
A profit after tax of £134.4 million has been recognised in the income statement and more details are set out in Note 27.

## IRISH DISTRIBUTION

The Irish distribution segment trades from 51 branches, principally under the Chadwicks brand.

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	544.3	463.9	464.8	17.3%	21.8%
Adjusted operating profit before property profit	66.8	41.8	43.1	59.6%	67.1%
Adjusted operating profit margin before property profit	12.3%	9.0%	9.3%	+330bps	–
Adjusted operating profit	68.2	41.8	47.1	63.0%	68.7%
Adjusted operating profit margin	12.5%	9.0%	10.1%	+350bps	–

\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers



## KEY BRAND



There was a sharp contraction in construction activity in Ireland in the period from early January to mid-April as pandemic related restrictions weighed heavily on activity. Chadwicks' branches remained open to support those elements of construction that were permitted to trade but activity levels were well down. Average daily like-for-like revenue declines were contained to just two per cent in the four months to mid-April on the same period in 2019, reflecting the acceleration in building materials price inflation of circa seven per cent.

There was a very rapid rebound in activity following the lifting of restrictions on house building from mid-April and the resumption of all construction activity from early May 2021. The sector expanded at an exceptionally strong pace as activity restarted across all segments of the market. The immediate strength of the resumption in house building was particularly evident, helped by the lifting of restrictions and release of pent-up demand. The Chadwicks' branches traded at the highest levels of activity since 2008 driven by an

increase in confidence among households leading to increased spending on home maintenance and improvement projects and the reopening of house building sites. Average daily like-for-like revenue in the period from mid-April to the end of June increased by circa 30 per cent compared to the same period in 2019 as the business responded to the exceptional levels of customer demand. Overall growth in average daily like-for-like revenue of 11.7 per cent in the first half, compared to the first half of 2019, reflected two very distinct phases of trading in the period.

While the pace of growth eased back in the second half from the exceptional level recorded in the months following reopening of the sector, Chadwicks made sizable revenue gains and continued to show strong growth as it benefitted from its leading market position and the reopening of the economy. The pace of commercial construction activity also picked-up markedly over the second half of the year. Growth in average daily like-for-like revenue was 20.1 per cent higher in the second half, compared to the second half of 2019.

The business worked with its partners to overcome supply chain challenges, and to mitigate the impacts of longer lead times and record growth in prices.

Housing transaction volumes are estimated to have grown by almost a quarter on 2020, returning to 2019 levels. The lack of housing supply, a very low level of homes available for sale and increased employment in well paid sectors of the economy contributed to strong demand for housing and double-digit growth in prices. Covid-19 restrictions on house building were removed in April and the monthly profile of completions since then points to the construction of new homes gradually returning to normal levels of activity with completions for the year estimated at 21,000 units. The pace of housing starts gathered speed increasing to over 30,000 units, the highest level since 2008.





The increase of 300bps in the operating profit margin, before property profit, since 2019 reflected:

- excellent self-help measures adopted by management,
- strong operating leverage from revenue growth,
- an increase in the gross margin from the very high proportion of residential RMI transactions in the first four months of the year during the partial lockdown of the sector, and
- inflation related inventory gains realised on core commodity products including steel products which made a significantly higher profit contribution than in recent years.

Proline Architectural Hardware ("Proline"), acquired in February 2021, brings specialist expertise to Chadwicks in the distribution of architectural ironmongery products and a range of Proline products were introduced in 11 branches. The Daly Brothers branch in Dundalk, County Louth acquired in July 2020, was integrated into the Chadwicks' branch

network and ERP system. Both businesses performed ahead of plan. The acquisition of Sitetech Building Products Ltd, the market leader in the distribution of specialist construction accessories in Ireland with revenue of £15.0 million in 2020, which completed at the end of February following approval of the transaction by the Competition and Consumer Protection Commission in Ireland.

Good progress was made on renewing the branch estate with the upgrading of five branches taking the number completed to 24 under a multi-year programme of modernisation and redevelopment. A third Fixings Centre was opened in the Galway branch to provide house builders, engineers and trades people with a wide range of fixings and tools.

Chadwicks launched a new transactional website for trade customers with rollout successfully completed to date in half of the branch network. Customers now have Click & Collect and Click & Deliver optionality and they

can also upload requests for quotations and open credit accounts.

Chadwicks opened its first dedicated ECO Centre in its Galway branch to showcase sustainable products for energy efficient new build and retrofit projects. This development is part of a wider programme by Chadwicks to take a leading role supporting customers and communities in Ireland through the distribution of building materials that improve the sustainability of buildings.

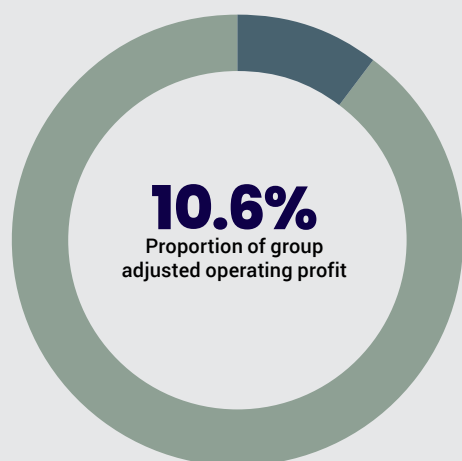
Chadwicks is moving towards more sustainable transport through trialling electric vehicles and replacement of its fleet of forklifts with low emission vehicles. In conjunction with Bord Gáis and the SEAI, Chadwicks promoted a new carbon credit scheme to increase the installation of energy efficient products in the home. These include insulation, solar PV systems and heating controls.

## NETHERLANDS DISTRIBUTION

The Netherlands distribution segment trades from 117 branches under the Isero, Polvo and Gunters en Meuser brands.

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	290.5	276.6	211.8	5.1%	8.6%
Adjusted operating profit	30.5	28.4	20.2	7.4%	10.8%
Adjusted operating profit margin	10.5%	10.3%	9.5%	+20bps	–

\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers



## KEY BRANDS





The Isero and Polvo ironmongery, tools and fixings specialist business in the Netherlands was classified as an essential distributor and permitted to remain open throughout the pandemic except for the closure of a small number of retail orientated branches for a period. These results show a continuation of the positive year on year revenue and operating profit growth trends experienced since Grafton entered the Dutch market in late 2015. They also demonstrate the success of our acquisition and organic growth strategy that has established the Isero and Polvo business as the clear market leader in an attractive segment of the building materials distribution market in the Netherlands.

Revenue growth was modest in January and February before showing signs of improvement in March that gathered pace in the second quarter as the economy reopened and confidence returned. Overall average daily like-for-like revenue growth was 5.6 per cent for the first half. The increase in activity was assisted by an easing of Covid-19 measures generally including the removal of restrictions on trading with retail customers.

The positive volume and revenue growth trends that developed in the first half continued through the second half and average daily like-for-like revenue increased by 5.6 per cent. The return to a steady growth path was sustained by increased spending across all customer segments notably renovation projects, house building and commercial construction.

The Netherlands economy started to recover strongly in the second quarter with the phasing out of Covid-19 restrictions and returned to a more normal growth rate later in the year as the catch-up effects lessened. The number of home owners putting their homes on the

market fell and housing transactions were down because of the shortage of properties available for sale. The scarcity of supply and historically low interest rates pushed house prices up by 15 per cent. Increased spending on home improvement projects was driven by very strong labour market conditions and households spending some of the savings accumulated during the pandemic. The construction sector was impacted by supply chain disruption caused by shortages of labour and raw materials.

The Polvo business acquired in July 2019 had an excellent year growing revenue and profitability strongly. The business gained from favourable trading conditions in its markets including increased demand in the new housing market, a resumption of RMI work by housing corporations on social houses and increased activity on commercial projects.

The increase in operating profit in the Netherlands reflected the drop-through from growth in average daily like-for-like revenue of 5.6 per cent and an increase in the gross margin from purchasing initiatives that more than offset the adverse mix effect of increased revenue from volume projects.

In January 2021, the acquisition of Van den Anker Ijzerhandel Katwijk B.V., a single branch distributor of ironmongery, tools and fasteners, strengthened the market position of Polvo in the Mid-Western region. The acquisition in April of Govers B.V, a four branch ironmongery, tools and workwear business, expanded branch coverage into the North West Netherlands region. The Govers branches were integrated into the Isero branch network and ERP system in December. In January 2022, Isero acquired Regts B.V. ("Regts"), a distributor of ironmongery, tools and fixings with revenue of £23.0 million in 2021. Regts trades from five

branches in Friesland, a province in the North East of the Netherlands, where it has a strong regional market position. Regts and Govers are two high quality, complementary businesses that provided an attractive route to expand market coverage into the North East region of the Netherlands. The Regts acquisition increased the branch estate to 122.

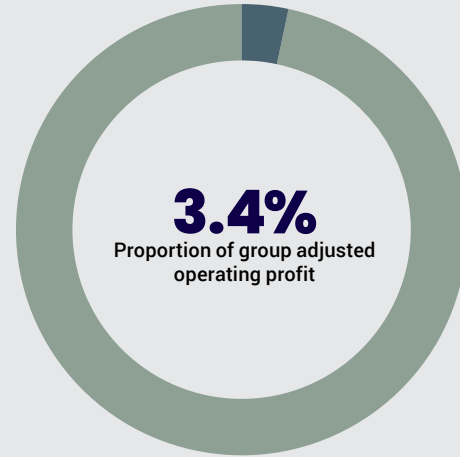
Organic developments in the period included the opening of a branch in Lelystad, a growth city in the centre of the Netherlands, and the successful relocation of two branches in Rotterdam to higher profile locations that have improved access and increased the level of customer collection transactions. Isero continued to invest in the future by upgrading five branches and now has 43 branches trading from its new format. We are investing in the branch estate by expanding showroom self-select areas to improve the customer experience and extending product ranges to ensure that they best reflect their changing needs.

As part of the shift to renewable energy, solar panels are generating part of the electricity required at the Head Offices and distribution centres of Isero at Waddinxveen and Polvo at Moerdijk. The Isero panels generate over 30 per cent of its current annual energy consumption at the head office and distribution centre. The remainder of its electricity, together with that for all branch locations is sourced from 100 per cent certificated renewable sources. The Polvo panels generate almost 50 per cent of its requirement at the HQ and distribution centre. Isero and Polvo also encourage energy efficient or electric cars, and they currently have over 30 electric cars and 7 electric vans in their fleet and an electric scooter for local deliveries.

## FINLAND DISTRIBUTION

The Finland distribution segment trades through a network of independent partner stores and 11 owned branches.

	2021 £'m
Revenue	70.8
Operating profit	10.0
Operating profit margin	14.1%



## KEY BRANDS



On 1 July 2021, Grafton acquired Isojoen Konehalli Oy and Jokapaikka Oy ("IKH"), one of Finland's largest workwear and personal protective equipment ("PPE"), tools, spare parts and accessories wholesalers and distributors.

IKH is a high-quality business with a strong market position and an experienced management team. This acquisition created a new growth platform for Grafton in the Nordic Region. It extended the Group's geographic reach into Finland and increased its revenue stream from the distribution of tools and personal protective equipment ("PPE").

IKH has developed organically since it was founded in 1956 and has a track record of uninterrupted revenue growth over the past two decades. It has 400 employees and is headquartered in Kauhajoki, Western Finland where its distribution and logistics centre is located. Over 50,000 Stock Keeping Units ('SKUs') are held in stock comprising quality private label and leading technical brands. IKH offers one of the widest and deepest category ranges in Finland.

Products are distributed nationally in Finland through a committed network of independently operated IKH partner stores that are the strategic cornerstone of the business. IKH also has third party distributors and it operates eleven owned stores located in major cities including a new store that we opened in the city of Hameenlinna in October 2021. IKH also continued to grow its market position in Sweden and Estonia through a network of local partner stores.

IKH operates in attractive segments of the technical trades' distribution market in Finland. Its end-customers are primarily SMEs that operate in the property construction, renovation, industrial, agricultural and repair shops sectors. The geographic coverage provided by partners and own stores, broad product ranges and excellent stock availability should continue to secure its competitive advantage.

IKH revenue, operating profit and cashflows were in line with pre-acquisition expectations under the Group's ownership of the business for the second half of the year.

## Acquisition framework

### Good market

Long term growth potential

'Ease of doing business' characteristics

Structured and disciplined markets

### Good business

Platform for growth/value adding bolt on

Differentiated proposition/ strong market position

Enduring or buildable competitive advantage

Achieves required financial returns

Sustainability synergies

Not turnarounds

### Good management team

Experienced

Accomplished – track record of success

Ambitious

Cultural fit

## Our investment criteria

Type of investment	Operating margin	ROCE
Organic investment	>8%	>13%
Platform acquisitions	>8%	>10%
Bolt-on acquisitions	>8%	>12%

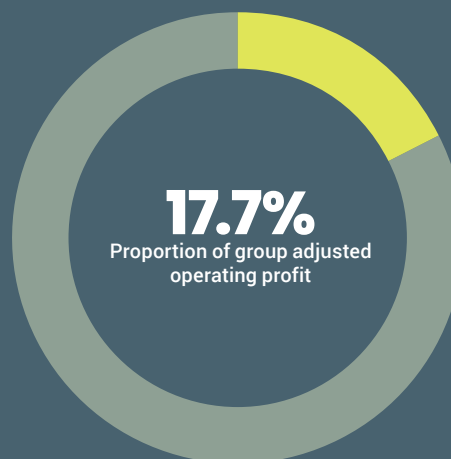
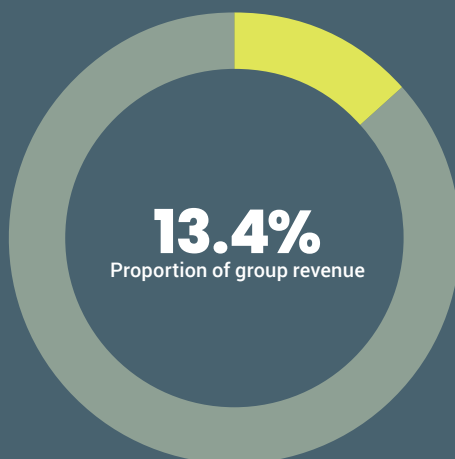
# Retailing segment

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.

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	282.8	246.6	205.5	14.7%	19.4%
Operating profit	50.9	42.0	22.6	21.0%	27.2%
Operating profit margin	18.0%	17.0%	11.0%	+100bps	–

\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers.

## KEY BRAND



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



The Woodie's DIY, Home and Garden business in Ireland was categorised as an essential retailer and remained open during the early months of the year when the country was in lockdown. The business made exceptional gains in the four months to mid-April increasing revenue by 69.7 per cent on the same period in 2019. Demand was very strong across all categories including core products and fast moving lines. There was an early start to seasonal trading in outdoor products and the business worked closely with supply chain partners to maximise inventory levels and overcome the impact of supply chain disruption for certain products at a time of high demand globally.

The rate of revenue growth eased very marginally compared to 2019 over the remainder of the first half following the full reopening of non-essential retail and other elements of the economy in May. The branches traded at record levels of activity in the first half making market share gains and improving the perception of Woodie's as one of Ireland's most distinctive retail brands.

Demand remained strong through the second half although the rate of growth moderated as expected from the post lockdown highs of 2020. While market conditions continued to normalise, Woodie's maintained a step change in performance with exceptional revenue growth of 21.7 per cent compared to the second half of 2019.

Revenue growth compared to 2019 was broadly based across all DIY, home and garden categories and was partly driven by pandemic tailwinds.

Woodie's puts its 1,700 colleagues at the heart of the business and was ranked A Great Place to Work in Ireland for the sixth consecutive year and was also ranked in the Top 75 of Europe's Best Workplaces benchmarked against the

largest international and domestic employers in Ireland and Europe. Creating a high performing workplace and an environment where colleagues feel valued and can develop professionally and personally has contributed greatly to the improved business and financial performance of Woodie's in recent years.

Woodie's has a 98 per cent level of brand recognition and awareness in Ireland coupled with a strong foothold in the community. A digital first approach is used to communicate with customers and enable them to engage with the brand. Social media and a market leading influencer strategy help acquire, grow and retain customers, drive brand engagement and increase website clicks in a seamless omnichannel environment. Significant progress was made building a new data platform of households and targeting customers with relevant and inspiring project and product content. Woodie's was one of the first retailers in Europe to launch Google's Beta feature that provides the option of contactless pick-up at stores, and it also introduced live chat on its website.

A new website, a new fulfilment centre and a new home delivery partner saw digital investment increase sixfold since 2019. The new fulfilment centre is located in the Woodie's branch in Drogheda and currently accommodates 12,000 products, with scalable ranges, that are available for home delivery through a new partner using the latest electronic labelling, track and trace and proof of delivery technology. Online transactions, the vast majority of which were Click & Collect, represented 4.3 per cent of revenue in the year. Woodie's now has the strategy and infrastructure in place and is well positioned to drive increased online revenue in the coming years.

Woodie's branches merchandised and sold record levels of inventory in response to

exceptional demand conditions while providing customers with a great service and a great shopping experience in a safe environment. Service levels were maintained with the appointment of 150 additional colleagues during the period. Sourcing with integrity and developing good long term relationships with a diversified supplier network in Ireland and internationally was fundamental to Woodie's fulfilling unprecedented levels of customer demand.

The number of shopping transactions increased by 14.3 per cent in the two years since 2019 and the average basket value increased by 25.9 per cent as customers increased the range of products purchased during a single store visit and seasonal products accounted for a higher proportion of revenue.

Gross margin was maintained in line with the prior year and was marginally ahead of the outturn in 2019 while the operating profit margin was a record 18.0 per cent.

Woodie's branches now have a "new look and feel" following the completion of a multi-year investment programme, including two branch upgrades during the year and the complete refurbishment of the Sallynoggin branch in South Dublin, that has helped to reposition Woodie's unique DIY, Home and Garden retail proposition in the Irish market.

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 for the second successive year due to the pandemic. Positive engagement with the communities where we operate is an important part of building a sustainable business and this year's fund raising brings to €2.5 million the amount raised for children's charities over the past seven years.

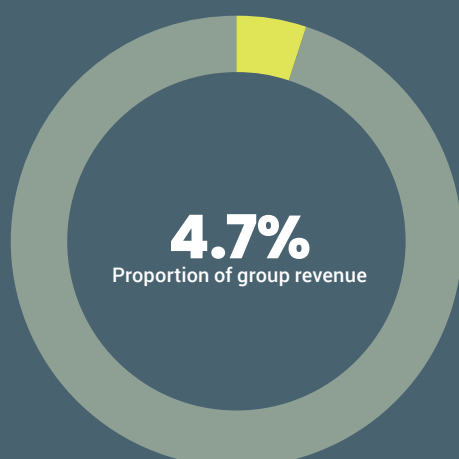
# Manufacturing segment

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.

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	99.6	61.3	79.4	62.4%	62.9%
Operating profit	24.0	13.3	18.6	80.8%	79.0%
Operating profit margin	24.1%	21.7%	23.5%	+240bps	–

\* Change represents the movement between 2021 v 2020 and is based on unrounded numbers.

## KEY BRANDS





Our manufacturing strategy is based on maintaining leadership positions in the mortar and staircase manufacturing markets in Great Britain.



CPI EuroMix silo system technology is used to produce a range of high quality ready-to-use dry mix mortars for residential construction projects. Its market leadership position is backed by a network of ten manufacturing facilities that provide almost national coverage in Great Britain to support its customer base of national, regional and local house builders and plastering contractors.

Market conditions were softer in January and February due to the disruption to house building caused by the pandemic before starting to recover in March. The recovery continued in the second quarter although volumes remained below the same period in 2019. The improving trend in mortar volumes in the first half continued through the second half and full year volumes were up 18.0 per cent on 2020. Volumes for the year were below the 2019 level partly due to a shortage of cement, tight mortar delivery capacity and disruption to the build programmes of customers caused by the pandemic and supply chain shortages.

Underlying demand for new houses remained strong and exceeded supply despite changes to the Help to Buy Scheme and stamp duty. The market was also supported by good mortgage availability and historically low interest rates that make home ownership more affordable.

CPI EuroMix invested in additional capacity had a record number of mortar silos on customers sites at the year-end building on its competitive advantage and reputation for service.

The operating profit margin was 20.0 per cent for the year.

Grafton recognises that the CPI EuroMix business is a significant contributor to the Group's carbon emissions, in particular from the mortar drying production process. The business is working with all stakeholders to reduce emissions. This includes working with one of its plant suppliers to develop more efficient drying solutions, with cement suppliers to develop more energy efficient raw materials and with fleet manufacturers to review future options for diesel alternatives. CPI EuroMix also partnered with Cambridge University on research to identify carbon reduction opportunities in its manufacturing process.

The manufacturing segment also incorporates StairBox, the market leading staircase manufacturer in Great Britain acquired in November 2020. StairBox had a very successful first full year under Grafton ownership and outperformed pre-acquisition expectations. Revenue for the year was £26.3 million and operating profit was £9.0 million, an operating margin of 34.2 per cent. StairBox

provides national coverage to trade customers operating in the residential RMI market from its manufacturing facility in Stoke-on-Trent.

Stairbox deploys cutting edge technology to design and manufacture an extensive range of customised staircases while maintaining traditional handcrafted quality standards. The StairBuilder online stairs designer software, the first of its kind in the UK, was updated in June to provide a new version of this interactive software with additional features and improved functionality making it easier for customers to design, price and buy a staircase online. The new features include a 3D model that updates with each click as customers create their own unique staircase designs virtually.

StairBox also launched Balustrade Designer, the latest addition to its online software that simplifies the process for renewing an existing staircase and allows customers to receive an instant quote and purchase the components required to complete projects in just a few clicks.

# Building on a resilient financial performance

Adjusted operating profit from continuing operations of £288.0 million (2020: £170.6 million) was up by 68.8 per cent, the highest level of profitability ever reported by Grafton.

## REVENUE

Group revenue from continuing operations, which excludes the traditional merchanting business in Great Britain that is classified as discontinued, increased by 25.6 per cent to £2.11 billion from £1.68 billion in 2020 and was up by 28.4 per cent from £1.64 billion in 2019.

Revenue in the continuing like-for-like business increased by 20.1 per cent (£337.8 million) on the prior year and by 16.5 per cent (£270.4 million) on 2019. Acquisitions contributed revenue of £120.9 million and new branches £9.0 million. A currency translation loss reduced revenue by £37.0 million.

2021	£2.11bn
2020*	£1.68bn

## ADJUSTED OPERATING PROFIT

Adjusted operating profit from continuing operations of £288.0 million (2020: £170.6 million) was up by 68.8 per cent, the highest level of profitability ever reported by Grafton.

Adjusted operating profit before property profit of £271.2 million (2020: £170.7 million) grew by 58.9 per cent and the adjusted operating profit margin before property profit increased by 270 basis points to 12.9 per cent.

2021	£288.0m
2020*	£170.6m

## PROPERTY

The Group recognised property profits of £16.7 million in the financial year.

The disposal of properties in Belgium that were retained following divestment of the distribution business in 2019, together with a small number of properties in Ireland, the UK and the Netherlands, generated proceeds of £22.2 million (2020: £7.2 million) and a profit on disposal of £6.8 million (2020: loss of £0.1 million).



\* The results for 2020 have been restated as the traditional merchanting business in Great Britain is classified as a discontinued operation. Details are set out in Note 27

## Revenue

**£2.11bn**

(2020: £1.68bn)

## Adjusted operating profit

**£288.0m**

(2020: £170.6m)

## Net cash (pre IFRS 16 leases)

**£588.0m**

(2020: £181.9m)

In addition, a fair value gain of £9.9 million was recognised on four properties which were transferred to investment properties during the period. These properties were retained by the Group following the agreement to divest the traditional merchanting business in Great Britain. These four properties have a fair value of £15.75 million and a market value of circa £25 million that reflected their planning potential.

**NET FINANCE INCOME AND EXPENSE**

The net finance expense decreased by £4.9 million to £19.4 million (2020: £24.2 million). This charge includes £14.6 million (2020: £15.6 million) of an interest charge on lease liabilities recognised under IFRS 16.

Interest payable on bank borrowings and US Private Placement Senior Unsecured Notes, net of bank interest received on deposits, decreased by £1.5 million to £6.1 million (2020: £7.5 million). The decline was mainly due to the repayment of cash drawdown during the first half of 2020 as a precautionary measure to increase liquidity in response to the Covid-19 crisis. The rate of interest receivable on bank deposits declined in 2021 because of lower sterling and euro market interest rates.

The net finance expense included a foreign exchange translation gain of £1.7 million which compares to a loss of £0.8 million in the same period last year.

**TAXATION**

The income tax expense of £43.0 million (2020: £24.1 million) is equivalent to an effective tax rate of 17.2 per cent on profit from continuing operations (2020: 18.1 per cent). This is a blended rate of corporation tax on profits in the four countries where the Group operates. The charge for the year includes a once-off increase in deferred tax arising from the UK tax rate increasing to 25 per cent from 19 per cent which is effective from 1 April 2023. This change was enacted in UK

legislation in May 2021 and adds 1.3 per cent to the tax rate on profits in the Group's continuing operations.

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, including the divested operations for the half year to 30 June 2021 was £303.2 million (2020: £377.7 million). The decline compared to the prior year was due to an investment of £64.1 million in working capital to support growth in revenue and to ensure that the Group's businesses were well placed to meet the anticipated level of activity entering 2022. There was a cash release of £81.2 million from working capital in 2020.

Expenditure on acquisitions was £123.3 million (2020: £47.5 million) which comprised the acquisition of IKH in Finland, Proline in Ireland and Van den Anker and Govers in the Netherlands.

**CAPITAL EXPENDITURE AND INVESTMENT IN INTANGIBLE ASSETS**

We maintained disciplined control over the allocation of capital and capital expenditure for the period was £43.6 million (2020: £35.2

million). There was also expenditure of £0.8 million (2020: £1.9 million) on software costs that are classified as intangible assets.

The Group incurred capital expenditure of £19.0 million (2020: £15.1 million) on a range of development initiatives including new branches in Selco, Leyland SDM and the Netherlands, upgrades to Woodie's, Chadwicks, Selco and Leyland SDM branches and the creation of additional manufacturing capacity in StairBox.

Asset replacement capital expenditure of £24.6 million (2020: £20.1 million) compares to the depreciation charge on property, plant and equipment of £38.3 million and related principally to the 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.



FINANCIAL REVIEW continued

Proceeds of £22.2 million (2020: £7.2 million) were received on disposal of fixed assets. Capital expenditure net of the proceeds on disposal of fixed assets was £21.4 million (2020: £28.0 million).

**PENSIONS**

The IAS 19 deficit on defined benefit pension schemes was £11.5 million at 31 December 2021, a decrease of £39.1 million from £50.6 million at 31 December 2020. A payment of £20.0 million was made in July 2021 as part of a funding arrangement with Trustees to reduce the deficit on the UK defined benefit scheme.

Changes to financial assumptions reduced scheme liabilities by £2.0 million and reflected the net impact of a gain from the increase in discount rates and a loss from the increase in inflation expectations. Experience gains and changes in demographic assumptions reduced the deficit by £1.1 million and by £0.9 million respectively.

There was an increase in discount rates used to discount scheme liabilities in line with increases in corporate bond rates. The rate used to discount UK liabilities increased by 50 basis points to 1.9 per cent and the rate used to discount Irish liabilities increased by 45 basis points to 1.15 per cent.

Market forecasts for future inflation increased significantly over the past 12 months. This impacted the value of liabilities as future benefit payments from the pension plans are directly or indirectly linked to future inflation.

This is more relevant to the UK scheme where inflation both in the period up to and after retirement increases the projected growth in benefits. In Ireland, pensions are fixed once they come into payment with inflation only increasing liabilities in the period up to the date that members retire.

There was an actuarial gain of £10.9 million on plan assets due to the investment performance in the period exceeding the assumed interest income on assets.

Grafton retained responsibility for the UK defined benefit pension scheme which was closed to future accrual at the end of 2020 when alternative arrangements were put in place.

**NET CASH/DEBT**

The Group's net cash position, before recognising lease liabilities, increased to £588.0 million at 31 December 2021, up from £181.9 million at 31 December 2020.

On 1 July 2021 the Group completed the IKH acquisition at a cost of €199.3 million on a cash and debt free basis.

The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 50.5 times (2020: 24.9 times).

Net cash including lease obligations was £139.0 million at 31 December 2021. This represents an improvement of £494.0 million from net debt of £355.0 million at

31 December 2020. The Group's net cash position benefitted from the proceeds received on the sale of the traditional merchanting business in Great Britain for an enterprise value of £520.0 million.

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

2021	£588.0m
2020	£181.9m

**LIQUIDITY**

Grafton started the year in a very strong financial position with excellent liquidity, net cash before IFRS 16 lease liabilities and a robust balance sheet.

The Group had liquidity of £1,235.4 million at 31 December 2021 (31 December 2020: £811.2 million) of which £840.7 million (31 December 2020: £452.0 million) was held in accessible cash and £394.7 million (31 December 2020: £359.2 million) in undrawn revolving bank facilities.

At 31 December 2021, the Group had bilateral loan facilities of £433.7 million with five relationship banks and debt obligations of £134.4 million (31 December 2020: £143.8 million) from the issue of unsecured senior notes in the US Private Placement market.





A new one-year facility for £84.0 million was put in place in 2021 and facilitated by one of the Group's five relationship banks under the ECB's Targeted Longer-Term Refinancing Operations. This facility was used to temporarily replace drawings on existing facilities on more attractive terms.

The average maturity of the committed bank facilities and unsecured senior notes at 31 December 2021 was 2.5 years.

The Group's key financing objective continues to be to ensure that it has the necessary liquidity and resources to support the short, medium and long-term funding requirements of the business. 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, the Netherlands and Finland following the acquisition of IKH on 1 July 2021.

#### IFRS 16 LEASES

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

IFRS 16 increased operating profit by £13.0 million and the finance (interest) expense by £14.6 million in the year. Profit before tax was reduced by £1.6 million and profit after tax by £1.4 million as a result of IFRS 16.

The right-of-use asset in the balance sheet at 31 December 2021 was £421.3 million (31 December 2020: £505.9 million).

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

#### SHAREHOLDERS' EQUITY

The Group's balance sheet strengthened further with shareholders' equity up by £252.6 million to £1.72 billion. Profit after tax increased shareholders' equity by £341.3 million and there was a loss of £25.2 million on translation of euro denominated net assets to sterling. Shareholders' equity was increased by £11.7 million for a remeasurement gain on pension schemes and reduced for dividends paid of £84.9 million. Other changes increased equity by £9.7 million.

#### RETURN ON CAPITAL EMPLOYED

Return on Capital Employed in continuing operations improved by 750 basis points to 19.4 per cent (2020: 11.9 per cent) including leased assets.

2021	19.4%
2020*	11.9%

#### David Arnold

Chief Financial Officer  
8 March 2022

# Managing our 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.

## 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 & 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

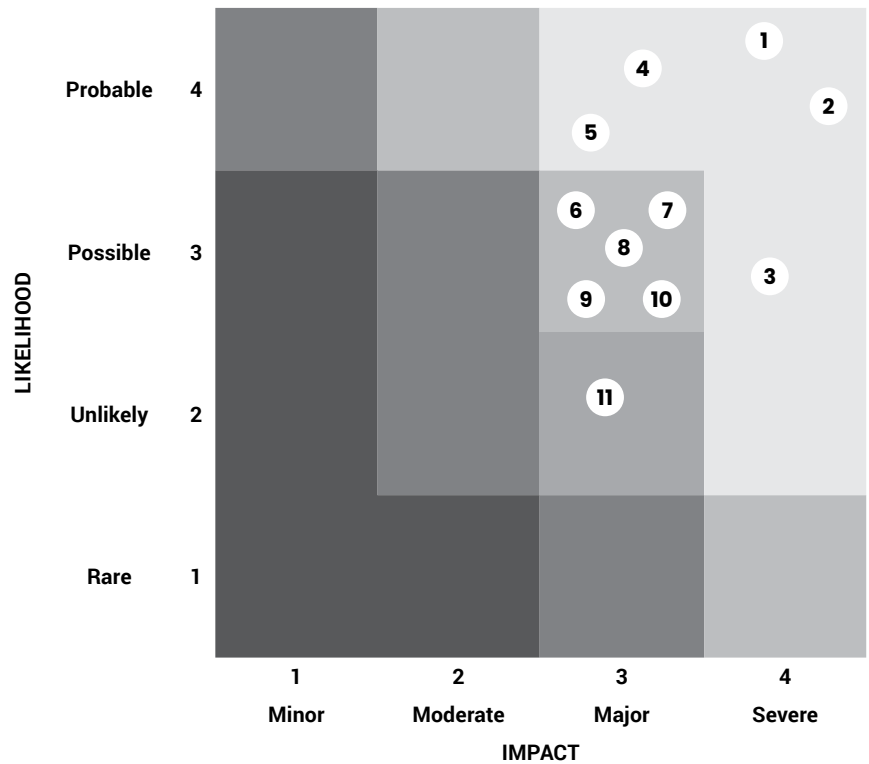
- Establishing and delivering a risk based annual Internal Audit plan;
- Reviewing internal controls and risk management actions as part of the Internal Audit plan and reporting the results to Management and the Board; and
- Reporting to the Audit and Risk Committee on the results of their audit work, 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's principal risks

1. Macro Economics
2. Cyber Security and Data Protection
3. Acquisitions and Integration of New Businesses
4. Supply Chain
5. Colleagues – Retention, Recruitment, Succession, Diversity, Wellbeing
6. Sustainability and Climate Change
7. Competition
8. Health and Safety
9. IT Systems Implementation
10. Pandemic Risk – Covid-19
11. Internal Controls and Fraud



### 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.

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 four times during the year to review the risk management processes in the businesses and to oversee the Corporate Risk Register ('CRR'). This included a horizon scanning exercise to identify any new or emerging risks which may impact the Group. In addition, the GRC performed deep dive reviews of specific risk areas including, potential risks arising from the divestment of the traditional Great Britain merchanting businesses, the use of Artificial Intelligence and Machine learning technologies in the Group, and the impact of climate change focusing on flood risk. The results of these exercises were shared with businesses and, where relevant, mitigating actions were established.

### CORPORATE RISK REGISTER

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 64 to 69. 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 2021:

Supply Chain risk has increased in severity because of the challenges in obtaining certain products, more general supply chain issues, and cost inflation. People risk has increased reflecting the current skills shortages, in operational and driver roles and rising pay rates.

Pandemic risk has been reduced with businesses demonstrating their ability to adapt to changing Covid restrictions and the likelihood that branches will remain open to trade throughout any further waves.

## RISK MANAGEMENT continued

**EMERGING RISKS**

The Board is required to undertake, under the 2018 UK Corporate Code, a robust assessment of the emerging risks that may impact the Group. 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 and requirements and internal controls standards applicable to all Group businesses.

In line with best practice, the Group's Risk Management and Internal Audit procedures are subject to a review of their effectiveness by an independent third party on a periodic basis. An external effectiveness review was

conducted in 2021 by a team from Grant Thornton with the results reported to the Audit and Risk Committee in January 2022. The review found that in both the Risk Management and Internal Audit functions there were several areas of good practices and improvement had been made since the previous review in 2017. The report did make a number of recommendations to develop further the maturity of both functions which will be actioned in 2022.

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.





## VIABILITY STATEMENT

The Directors have assessed the viability of the Group over a three-year period to 31 December 2024, 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 64 to 69. 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 2024.

### Period of Viability Statement

In accordance with Provision 31 of the UK Corporate Governance Code 2018, the Board has reviewed the length of time to be covered by the Viability Statement, particularly given its primary purpose of providing investors with a view of financial viability that goes beyond the period of the Going Concern Statement. The Directors have determined that the three-year period to 31 December 2024 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.

### Approach to Assessing Viability

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 with particular consideration given to the Group's debt funding covenants including its interest cover covenant. 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 or a cyber security denial of service attack on the business which might restrict trading or operations of the Group's businesses. In addition, the assessment considered a 'reverse' stress test to determine what level of disruption would need to be experienced before a breach of the Group's interest cover covenant was unavoidable.

The downside scenarios applied to the strategic plan are summarised in the charts below.

The reverse stress test shows that a breach of the interest cover covenant would occur on a full lockdown or denial of service without any income for a period of four months but the Group would still remain in a strong net cash position, before lease liabilities, and have adequate liquidity.

Whilst we believe the reverse stress test is highly unlikely the Group would be able to take a number of further mitigating actions including management of working capital, capital expenditure and dividends.

In making their assessment, the Directors have taken account of: (i) the Group's net cash (including lease liabilities) of £139.0 million at the end of 2021 (net cash position of £588.0 million on a pre IFRS 16 Lease basis); (ii) the Group's strong financial position; (iii) headroom and duration of loan facilities currently in place; (iv) key potential mitigating actions of reducing the Group's cost base, capital expenditure and dividend payments; and (v) 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.

## SEVERE BUT PLAUSIBLE DOWNSIDE SCENARIO

Scenario	Link to principal risks	Level of severity tested	Conclusion
Severe downturn in market conditions	Macro-Economic Conditions	Significant reduction in revenue and gross margin reduced for up to three years partly offset by cost reductions in each year.	Net cash position before lease liabilities falls but remains strong. The Group remains within its banking covenants.
Temporary suspension of trading	Pandemic Risk		

## REVERSE STRESS TEST SCENARIO

Scenario	Link to principal risks	Level of severity tested	Conclusion
Temporary suspension of trading for four months	Pandemic Risk Cyber Security and Data Protection	Inability to trade for four months during 2022 across all regions without any mitigating income.	Operating loss in 2022, with a significant cash outflow. Group would require a waiver from lenders for the interest cover covenant in that year but would return to meeting all covenants in 2023 and 2024. Note that the Group would remain in a strong net cash position before lease liabilities and could use surplus cash to repay bank facilities.

RISK MANAGEMENT continued

**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 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 63.

**Macro-economic conditions in the UK, Ireland, the Netherlands and Finland**

**Risk movement**



**Strategic links**



**RISK DESCRIPTION**

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

**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.

The strategic actions taken by the Group with the sale of the traditional distribution business in Great Britain

and the acquisition of IKH in Finland, have increased the geographical spread of the business and reduced the concentration of revenue arising from the UK market.

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.

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.

The Group is also mindful of the potential impact in changes in business model which may reduce sales or profit, for example modern construction methods, and monitors these closely so businesses react accordingly.

**Cyber security and data protection**

**Risk movement**



**Strategic links**



**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 or leakage 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 software. 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.

During 2021 a review of the Group cyber security maturity was conducted by third party specialists. The review found that many good practices and controls are in place and made recommendations to improve the Group's ability to both prevent and reduce the impact of any attack occurring. A programme of initiatives will be implemented in 2022 to further reduce cyber risk. This will be overseen by the Group's Information Security Steering Committee.

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. During 2021 the Group invested in new technology to maintain and improve its Data Protection management processes and controls.

Strategic links

Read more about our strategy pages 26 to 31

**Excellence in service**



**Strong financial base**



**Organic growth and acquisitions**



**Ethics and integrity**



**A supportive organisational structure and management**



**Acquisition and integration of new businesses**

**Risk movement**



**Strategic links**



**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 such as with IKH in Finland which was acquired in 2021.

Following the completion of the sale of the traditional Great Britain merchanting businesses, the Group will seek to make further acquisitions in new markets in line with its development strategy.

**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.

**Supply chain**

**Risk movement**



**Strategic links**



**RISK DESCRIPTION**

Product availability is a key factor for all Group businesses and the Group is exposed to the risk of failure to supply by key suppliers. During 2021 the Group's businesses, similar to the rest of the sector, faced challenges in securing the supply of certain products due to global supply chain issues.

The Group also recognises its potential exposure to ethical sourcing risks for certain products (e.g. timber) and the ethical behaviour of organisations in its supply chain which may not meet Grafton's expected standards.

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 product allocations.

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

Issues around product shortages in 2021 were effectively managed by business unit procurement teams working closely with key suppliers.

During 2021 the Group has implemented technology to improve its third-party risk management and compliance procedures. A consistent Group-wide process for screening and obtaining information from suppliers will be implemented in 2022. This will cover a range of ethical and quality areas to confirm compliance with Grafton policies and relevant regulatory standards.

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.

## Colleagues – retention, recruitment, succession, diversity and wellbeing

### Risk movement



### Strategic links



### RISK DESCRIPTION

The Group has in the region of 8,700 colleagues engaged in the operations and management of its portfolio of businesses. Colleagues are fundamental to the long term success and development of the business. Attracting and retaining colleagues 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.

As an employer the Group acknowledges its responsibility towards diversity and inclusion, and the benefits of recruiting and retaining colleagues from diverse backgrounds. We also recognise the importance of looking after the wellbeing of our colleagues mentally, physically and financially.

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.

The Group has recognised an increase in this risk during the year as a result of general tightening of labour markets and skill shortages in certain sectors, including drivers, which has led to pay inflation.

### MITIGATION

The Group and its businesses are committed to high standards of employment practice and are recognised as good employers in the UK, Ireland, the Netherlands and Finland. 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 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 allow colleagues to provide feedback to management. Action plans to address key issues arising from the surveys are developed and monitored. The Group has established local and national colleague forums in all countries, and developed wellness programmes for mental, physical and financial wellbeing.

## Sustainability and climate change

### Risk movement



### Strategic links



### 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, either due to physical risks such as adverse weather event, or transitional risks including changes in regulation affecting operations, our cost base or the products we sell.

### MITIGATION

The Group has developed a sustainability strategy covering five key focus areas: customer and product; people; planet; communities; and ethics. During 2021 the strategy was rolled out with each business unit developing programmes and activities with targets, aligned with the overall Group goals which are being monitored and reported on.

The Group continues to monitor its exposure to climate change risks and take steps to improve its resilience. In 2021, this involved an exercise to formally assess the risks and opportunities of climate

change to the Group as part of the Task Force on Climate-related Financial Disclosures (TCFD) requirements, this has driven a number of actions including improved flood defences for at-risk branches.

The Group measures its Scope 1 and 2 emission levels and is currently in the process of measuring Scope 3. The Group is committed to reducing its carbon footprint and will set a Science Based Target (Scope 1-3) by the end of 2024. Individual businesses are taking steps to reduce energy consumption and emission levels including LED lighting projects and moving to alternative-fuelled vehicles.

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, including campaigns to promote sustainable living. These will continue into 2022.

Read more about our strategy pages 26 to 31

## Strategic links

**Excellence  
in service**



**Strong  
financial base**



**Organic growth  
and acquisitions**



**Ethics  
and integrity**



**A supportive organisational  
structure and management**



## Competition in distribution, retailing and manufacturing markets

**Risk movement**



**Strategic links**



### 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 2021 the Group continued to invest in its online platforms which supported a further rise in online revenue. 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.

## Health and safety

**Risk movement**



**Strategic links**



### 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. Potential 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 principal health and safety risks relate primarily 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. Statistics covering accident frequency rates, lost time, hazard identification, 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.

## Information technology systems – infrastructure and new implementations

### Risk movement



### Strategic links



### 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 and upgrade legacy systems in Selco and CPI Mortars. These changes have the potential to disrupt operations.

### MITIGATION

The Group has established a Project Management Framework setting out the expected governance standards for significant change projects. 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 completed or made considerable progress 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.

## Pandemic risk – Covid-19

### Risk movement



### Strategic links



### RISK DESCRIPTION

The Group is exposed to the impact of the Covid-19 virus 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 health, safety and wellbeing of our colleagues, customers and business partners was our highest priority in shaping our response to the pandemic over the past two years. 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. Throughout 2021 these standards have been maintained whilst branches have continued to trade through further waves of the pandemic. The Group's office-based support colleagues have continued to work effectively with a mix of office and home working whilst following government guidance.

The resilience shown by the business through the pandemic and the low likelihood that branches will be required by Government to close has reduced the profile of this risk.

Strategic links

Read more about our strategy pages 26 to 31

**Excellence in service**



**Strong financial base**



**Organic growth and acquisitions**



**Ethics and integrity**



**A supportive organisational structure and management**



**Internal controls and fraud**

**Risk movement**



**Strategic links**



**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 will continue through 2022. Where instances of attempted fraud occur within the Group, lessons learnt are identified and shared across businesses.

# Building a sustainable future

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

At Grafton we believe there is a positive connection between sustainability and financial performance and we are facing up to the bigger questions about what's right for our business, for society and for the environment. We've developed a strategy that challenges us to take the lead on the material issues that are closest to our business, and which make the biggest contribution to the UN Sustainable Development Goals that are most relevant to us. Our businesses are focusing on the issues most relevant to them, and we are aligning resources to these key areas to deliver maximum impact.

We have set specific targets and KPIs across the five focus areas of our sustainability strategy to guide our performance and help us work in a way that's responsible and sustainable. Our sustainability programme informs our strategic decision making about where to innovate and where to invest, as well as the operational decisions we all make every day.

We have made good progress to date and will continue working towards our sustainability strategy commitments, whilst also aiming higher to ensure we make a valuable contribution to society and help build a sustainable future.

We were delighted to launch our first sustainability report at our Capital Markets Day on 10 November 2021. The report is available on the Group website [www.graftonplc.com](http://www.graftonplc.com) and contains further detail on the specific targets in our strategy and our roadmap to achieve them.

## BUILDING PROGRESS TOGETHER

Our Group purpose is 'building progress together', to enable a sustainable future that respects people and the planet for all our stakeholders. Our sustainability strategy provides the blueprint for how we achieve this across the activities, products and services of our Group and brands. It is purposeful, inclusive, useful and relevant.

We started on our sustainability journey by assessing and putting in place the framework to manage the material environmental and social risks and opportunities of our activities, products and services. This resulted in the identification of five key focus areas – Customer and Product, People, Planet, Community and Ethics.

Our focus areas are designed to align with several of the UN Sustainable Development Goals ('SDGs'), which set out a holistic approach to sustainability. We recognise their value in ensuring a sustainable, resilient and inclusive future for our customers, colleagues, suppliers and the communities in which we operate.

Five SDGs were initially selected that aligned with our five key focus areas. In 2021 the selection was expanded to eight SDGs as our Group sustainability ambitions have evolved. <https://graftonsustainability.com>

## Our sustainability strategy is...

### Purposeful

It shows the difference we want to make with sustainability.

### Inclusive

For all business areas, and for internal and external stakeholders alike.

### Useful

Considering our purpose when we make decisions helps us determine the right course of action at a Group and business level.

### Relevant

Responsible and trustworthy businesses will help maintain a strong financial base for Grafton's future growth.



## Our key focus areas are...



### CUSTOMER AND PRODUCT

Providing our customers with ethical, sustainable, and high-quality products.



### PEOPLE

Creating a culture for everyone to thrive and be safe inside and outside our business.



### PLANET

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.

## ...aligned with UN SDGs



## Our headline sustainability achievements and plans



### ENVIRONMENT

- CDP Climate Change disclosure for Scope 1 and 2 emissions completed for the first time for 2020 achieving a B- rating.
- Over 90 per cent certified renewable energy is being procured for all businesses across the Group.
- Trialling compressed natural gas trucks, electric vans and reviewing other alternative-fuel options to replace diesel
- Completed first disclosure under TCFD reporting recommendations – see disclosure on pages 82 to 85.
- Committing to calculating Scope 3 emissions and setting Science Based Targets (Scope 1-3) before end 2024.
- Target of 100 per cent new cars ordered for the business will be alternative fuelled by 2025.
- 25 per cent reduction in single use plastic packaging film for deliveries and storage by 2025.



### SOCIAL

- Maintenance of a Covid-19 safe environment in all our business locations to ensure that we keep all our colleagues, customers and suppliers safe.
- Year on year increase in the number of females working in the Group.
- As signatories to the Social Mobility Pledge, we will continue to take steps to boost opportunities and social mobility.
- Over £900,000 raised during the year for charity during 2021. We will introduce one paid volunteering day per colleague in 2022.
- By 2025 fundraising and community investment to target at least one per cent of profit.
- 100 per cent of colleagues to receive at least one per cent above minimum wage by 2023.



### GOVERNANCE

- Top down and bottom up approach to sustainability governance.
- Prioritised at Board level and implemented through the Sustainability Working Group, business unit management, and colleagues.
- Increased supplier engagement on responsible sourcing and supply chain integrity, with 80 per cent (by value) of suppliers completing our updated ESG questionnaire by the end of 2021.
- All colleagues have a channel available for feedback to Board and senior management (Colleague Forums).
- Bonus remuneration linked to sustainability targets for Chief Executives of key business units.
- Sustainability added to the due diligence process for acquisitions.

# Environmental

Relevant focus areas



**CUSTOMER AND PRODUCT**



**PLANET**

Relevant SDGs



## CUSTOMER & PRODUCT SUSTAINABLE PRODUCTS

To support the growth of green building products in the market, we are increasing our range of sustainable products including solar thermal and solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems.

Our sustainability strategy commits our businesses to an assessment across their product ranges against sustainability credentials with a view to achieving a year on year improvement in the sustainable rating of our product portfolio.

## TIMBER SOURCING

Our Timber Sourcing Policy 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.

## SUPPLY CHAIN TRANSPARENCY

To ensure compliance with Modern Slavery legislation and drive responsible sourcing across our supply chains, suppliers will be required to comply with Group Supplier Standards based on the Ethical Trading Initiative best practice. Our approach incorporates our modern slavery, anti bribery, timber sourcing policies and traceability requirements.

The Group Code of Business Conduct and Ethics confirms 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. We require that all suppliers comply with our anti-slavery policy as published on the Group website [www.graftonplc.com](http://www.graftonplc.com).

We have engaged 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, PEP lists or adverse media reports.

During 2021 we implemented 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.

As part of the implementation of this solution, we commenced a process of further engagement by way of an updated questionnaire to all suppliers with over £100,000 annual purchase spend. This questionnaire is designed to enhance the Group's supply chain transparency, improve supply chain governance and help rate our supply chain's sustainability credentials.

In 2022 we will be engaging with supply chain partners to measure and manage our Scope 3 emissions as part of our commitment to the Science Based Target initiative. We intend to work collaboratively with suppliers to support their own carbon reduction programmes where possible.

As part of our sustainability goals, the Group has also committed to working with our aggregate suppliers to ensure that 100 per cent of extraction sites are returned to sustainable use and removing harmful chemicals from the supply chain where an appropriate alternative can be found.

## CLIMATE CHANGE AND ENERGY MANAGEMENT

We have been measuring and managing our Scope 1 and 2 GHG emissions (CO<sub>2</sub>e) annually since 2014. A targeted 3 per cent annual reduction in CO<sub>2</sub>e intensity ratio was achieved again in 2019 and significantly exceeded in 2020, predominantly as a result of business closures during Covid-19.



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.

The total carbon emissions for continuing operations in 2021 (plus the addition of Stairbox and IKH) are similar to 2019 levels but the intensity ratio measure has improved further due in part to the impact of recent price inflation and more importantly, as a result of our ongoing improvements in fuel and energy efficiency. Group investment in energy efficiency measures included an investment of over £4 million in LED lighting projects and our transition to more fuel efficient, low and zero carbon transport has played a big part in this reduction over the last few years.

We completed the CDP Climate Change Questionnaire during 2021 for the first time and were pleased to score a B- which recognised the solid foundations that we have put in place. We will be progressing plans for measuring and disclosing Scope 3 emissions and we intend to update our future CO<sub>2</sub>e reduction targets in line with our commitment to the Science Based Targets initiative (SBTi) across Scope 1, 2 and 3. We aim to complete this submission before the end of 2024, which supports our climate change strategy to stay aligned with the objective of containing global temperature rises to below 1.5°C.

Over 90 per cent of Group businesses were procuring certificated renewable electricity by the end of 2021 and our intention is for 100 per cent supply as existing contracts end.

On the customer side, to drive the low carbon market, the Chadwicks business in Ireland has taken an innovative step to develop a carbon credit scheme for customers in association with the Sustainable Energy Authority of Ireland and Bord Gáis.

Selco are contributing to carbon removal through credible native forest planting. It created the Selco Forest near Jedburgh in the Scottish Borders which involved planting over 100,000 trees and Selco has plans to create another Selco Forest in Wales in 2022.

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

Emissions per £m turnover (tonnes CO<sub>2</sub>e)

2021	24.5
2020*	25.5

Total GHG Emissions (tonnes CO<sub>2</sub>e)

2021	51,646
2020*	42,765

Scope 1 GHG Emissions (tonnes CO<sub>2</sub>e)

2021	38,753
2020*	31,731

Scope 2 GHG Emissions (tonnes CO<sub>2</sub>e)

2021	12,892
2020*	11,035

\* The results for 2020 have been restated to exclude the traditional merchanting business in Great Britain that was sold on 31 December 2021.



## SUSTAINABILITY continued

## CASE STUDIES: PLANET

## Renewable energy generation from solar

As part of Grafton's move towards renewable energy, solar panels are generating electricity at the ISERO head office (HO) and distribution centre (DC) at Waddinxveen, NL, at the Polvo HO and DC at Moerdijk, NL, and at the TG Lynes DC in Enfield, UK.

Solar panels generate over 30 per cent of Isero's current annual energy consumption at the HO and DC. The remainder of its electricity uses including branches is sourced from 100 per cent certificated renewable sources.

Solar panels generate almost 50 per cent of requirements at the Polvo HO and DC.

Isero and Polvo encourage energy efficient or electric cars, and they currently have over 30 electric cars in their fleet along with seven electric vans and one electric scooter for local deliveries.

TG Lynes recently installed a solar PV system on the roof of its Enfield HO and DC which provides over 50 per cent of its electricity requirements with the remainder coming from 100 per cent renewable energy sources. Some of the excess energy is also used to power its company car fleet and other colleague-owned vehicles.



## ENVIRONMENTAL MANAGEMENT

The CPI Mortars and TG Lynes businesses are accredited to the ISO 14001 standard and the Group Environmental Management Systems (EMS) framework will be extended across all businesses by the end of 2025.

## FLEET AND LOGISTICS

We are committed to improving the fuel efficiency of our fleet and are moving to low or zero carbon transport wherever possible. Selco are trialling compressed natural gas alternatives in their transport fleet and other businesses are trialling electric vans and investigating the potential for using alternative fuels to replace diesel in their forklift trucks and commercial vehicles. We are targeting that 100 per cent of new company cars ordered will be alternative-fuelled by the end of 2025, subject to any supply and availability constraints.

## WASTE, PLASTIC AND PACKAGING

During 2021 we have maintained our focus on waste segregation and recycling to further reduce the quantity of waste sent to landfill. We reduced waste sent to landfill by five per cent during the year as all businesses continue to recover and recycle more of the waste that they generate. We also continued to work with suppliers to reduce overall packaging at source in order to reduce waste created throughout the supply chain.

### Total Recycling Rate

2021	56%
2020*	50%

### Total Recovery Rate

2021	40%
2020*	39%

### Waste diversion from Landfill

2021	96%
2020*	89%

\* The results for 2020 have been restated to exclude the traditional merchanting business in Great Britain that was sold on 31 December 2021.

# Social

## Our key focus areas



CUSTOMER  
AND PRODUCT



PEOPLE



COMMUNITY

## Relevant SDGs



Our people are key to everything we do, and the success of our business is closely aligned with the contribution and commitment of each of our colleagues.

### 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 our leadership of the health, safety and wellbeing agenda is most effective when it is integrated into routine business leadership behaviours, and we continue to drive this approach supported by our integrated Safety, Health and Environment (SHE) support teams in each business. This federated approach has created autonomous local management teams who own their own health, safety and wellbeing agendas, with appropriate support at Group level.

We deeply regret having to report that one of our colleagues was involved in a fatal accident in one of our branches during the year. This tragic event has had a huge impact on many people, especially the family, friends and colleagues of the deceased colleague. We continue to support those affected in every way we can, including through counselling. We have taken prompt action to try to ensure that such an accident will not happen again in our branches and we remain committed to doing everything we can to ensure that our colleagues, customers and business partners return home safe and well at the end of each day. This commitment is central to how we manage health, safety and wellbeing across the Group.

All colleagues are encouraged to take an active part in helping us to maintain and develop their own health, safety and wellbeing by raising any concerns with management. This is achieved through a combination of focus groups, team meetings, committee meetings and through the Group Risk Committee.

A key priority in 2021 was the ongoing maintenance of a Covid-safe environment in all our business locations to ensure that we could keep all our colleagues, customers and suppliers safe. Our bespoke risk assessments at each site required some of our yard, warehouse, office and trade counter areas to be reorganised to ensure that social distancing could be maintained. This approach helped to ensure that our branches remained open with minimal disruption from the pandemic. The Group's businesses also continued with their individual strategies for SHE improvement, focusing on the areas of health, safety and wellbeing most relevant to their operations. Each business is subject to regular health and safety audits including branch compliance checks by internal teams and reviews of the compliance procedures by Group Internal Audit.

### GROUP LOST TIME – INJURY FREQUENCY RATE (LTIFR)

Year	Lost time injuries per 100,000 hours worked	% change
2021	0.98	increased by 2%
2020	0.96	

### GROUP LOST DAYS – SEVERITY RATE

Year	Lost time injuries per 100,000 hours worked	% change
2021	0.24	reduced by 25%
2020	0.32	

\* The results for 2020 have been restated to exclude the traditional merchanting business in Great Britain that was sold on 31 December 2021.

## SUSTAINABILITY continued

A new Safety Management System ('Notify') has been launched across all businesses focused on streamlining the reporting of all incidents and unsafe events and the tracking of actions and improvements. Notify also centralises the completion of audits and internal checks with all actions combined in one place.

Further examples of different initiatives around the Group include:

- Chadwicks maintained its focus on traffic management to reduce vehicle movements in yards and to separate pedestrian traffic wherever possible and have seen a positive reduction in injury frequency and severity across all areas.
- The launch of the Workvivo internal communications platform across the whole Chadwicks operation provided a fresh opportunity for short targeted safety messages which proved very effective during the year.
- Isero, Polvo and Woodie's increased their focus on the central distribution networks and warehouses to improve the safe handling of all products with particular focus on hazardous goods in the Netherlands. They also worked with Notify to develop their own version of the Safety Management System in Dutch which was launched across the businesses in the second half of 2021.
- Selco prioritised in-store safety initiatives around vehicle movements and forklift truck activities with an additional focus area around delivery driver behaviours and load security.

**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. Practices on working from home established during 2020 as a result of the Covid-19 pandemic continued in 2021 and several businesses have now introduced flexible working policies.

**COMMUNITY**

We 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, raising a total of over £900,000.

**SELCO**

Selco raised over £100,000 in 2021 for its charity partner, Global Make Some Noise, which helps disadvantaged people across the UK, taking the total amount raised for the charity to over £200,000 since the start of 2020.

**CHADWICKS**

Chadwicks were proud to be involved in the second series of DIY SOS which will air on RTE, the Irish national television broadcaster, in 2022. As the exclusive building materials supplier for the season, Chadwicks supplied a wide range of building materials to presenter Baz Ashmawy and his team of volunteers as they renovated the homes of some of Ireland's most worthy families.

**CPI MORTARS**

CPI Mortars were proud to raise over £7,000 for ten beneficiaries with the company sponsoring every mile walked by colleagues as part of the September challenge.

**WOODIE'S**

Woodie's raised a total of €540,915 as part of their Woodie's Heroes campaign, now in its seventh year. The funds were raised over a four week period from a combination of customer donations, instore events and sponsorship and donations from suppliers. Two teams of cyclists embarked on a 1,000km cycle as part of the fund raising for the four charities nominated by colleagues: Childline, Barnardo's, Down Syndrome Ireland and Autism Assistance Dogs Ireland.

**IKH**

IKH continued with its long term partnership with SUL, the Finnish athletics federation, supporting the training and development of local athletes as well as athletics events and competitions.

**GROUP**

Colleagues in the Group Corporate Offices took part in a range of charity and fundraising initiatives during the year for their nominated charities Children's Health Foundation Crumlin and Hollytrees Animal Rescue Trust.



Colleagues took part in a wide range of fundraising and volunteering activities, raising a total of over £900,000 during 2021.

Total raised for charity

2021	£900,000
2020	£500,000
2019	£700,000

Selco raised over £140,000 for a range of charity and community organisations during the year.



Chadwicks were proud to support 'DIY SOS' which will air on national television in Ireland during 2022.



Cyclists from Woodie's who embarked on a 1,000km cycle as part of their Woodie's Heroes fundraising campaign.

## Diversity and Inclusion at Grafton

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.

Ensuring that Grafton is a truly diverse and inclusive business is a topic that the Group leadership team prioritise with leaders across the business.

In recent years we have been working on developing our Diversity & Inclusion agenda that promotes diversity in the broadest sense. A Group Diversity & Inclusion Working Group was formed in 2020 which consists of senior HR leaders across our business. The purpose of the Group is to support the businesses and to encourage an inclusive culture that promotes diversity. The Working Group identified a number of key areas that will support our Conscious Inclusion strategy: Gender, Race & Ethnicity, Faith, Disability, LGBTQI+ and Parents & Carers Status.

An Inclusion Network has also been established to provide opportunities for colleagues around the Group to participate in our Diversity and Inclusion agenda.

Our Diversity agenda is built around four key areas:

- **ABLE** – representing disability and mental wellbeing;
- **PRIDE** – representing gender and sexual orientation;
- **BALANCE** – representing gender equality and working families; and
- **REACH** – representing ethnicity.

In 2020 we signed up to the Social Mobility Pledge, the campaign aimed at increasing social mobility through outreach, access to opportunities and recruitment practice. We are also part of the Valuable 500, the global CEO community aimed at promoting disability inclusion.



We are rolling out "ReciteMe" accessibility software on the Group website and on the websites of a number of the Group's businesses.

### GENDER PAY

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.

We constantly review ways in which we can address differences in pay between gender and we work hard to support female colleagues' career development into senior roles. We are meeting our regulatory requirements by publicly reporting on gender pay gaps for Selco and Leyland SDM.

### PARTNERSHIPS

Both Woodie's and Chadwicks are part of the Irish Centre for Diversity, an organisation that is focused on measuring, improving and recognising efforts to improve diversity and inclusion. The Centre works in partnership with organisations across Ireland at all stages of the equality, diversity and inclusion journey.

In partnership with the Irish Wheelchair Association, Chadwicks carried out a review, as part of the refit programme, to ensure appropriate accessibility for wheelchair users.

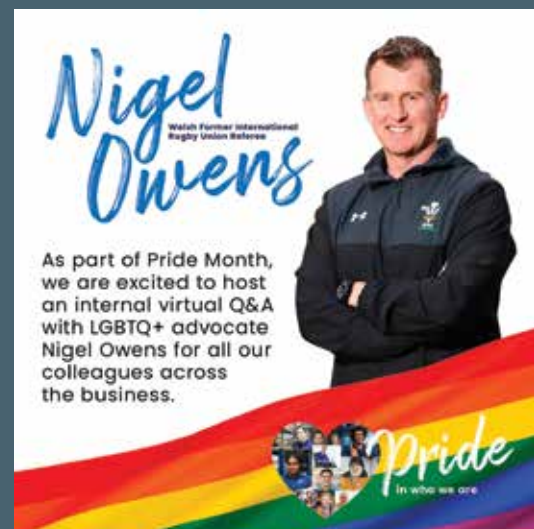
### RECRUITMENT

Selco undertook a review of its careers website with a view to identifying areas of improvement in terms of diversity and overall company appeal. A new careers website was developed

### CASE STUDY: D&I AT GRAFTON

#### Pride

During the month of June 2021, we celebrated Pride at Grafton. We shared information including the history of Pride and a blog from the CEO Gavin Slark and CFO David Arnold. Nigel Owens, the first openly gay international rugby union referee, hosted an inspirational virtual event with colleagues, which was very well attended.





with the aim of attracting a more diverse workforce. All branch managers undertook training to improve recruitment practices.

Woodie's introduced artificial intelligence technology to help reduce unconscious bias during the recruitment process. Following implementation of this technology, there was a significant increase in the recruitment of women and colleagues from ethnic minority backgrounds.

**DIVERSITY INFORMATION**

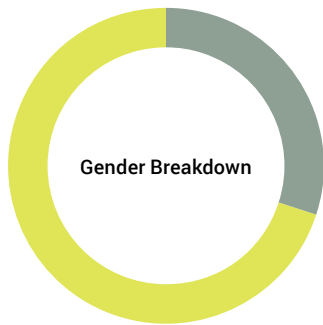
As part of our sustainability strategy we targeted a completion rate of 70 per cent for updating voluntary diversity information in our businesses in the UK and Ireland in 2021 and we are pleased to have exceeded this target with a response rate of 75 per cent. Collecting diversity information helps us to understand how we can improve and better meet the needs of our colleagues.



CASE STUDY: D&I AT GRAFTON

**Global Diversity Awareness and Black History Month**

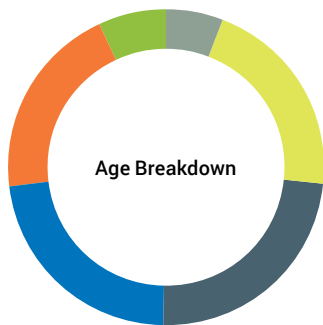
During October we launched the Everyone Deserves Respect campaign to celebrate Global Diversity Awareness and Black History Month. This included inspiring content and our guest speaker, the remarkable British TV presenter and wheelchair basketball player, Ade Adepitan, left an abiding impression on all who attended the event.



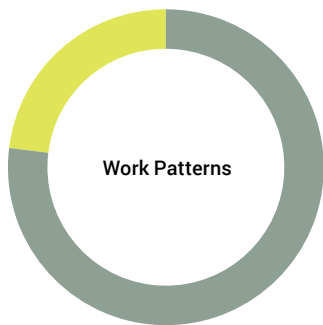
Female 30%  
Male 70%



Female 17%  
Male 83%



Under 21 6%    41-50 23%  
21-30 21%    51-60 20%  
31-40 23%    Over 60 7%



Full Time 77%  
Part Time 23%

# Governance

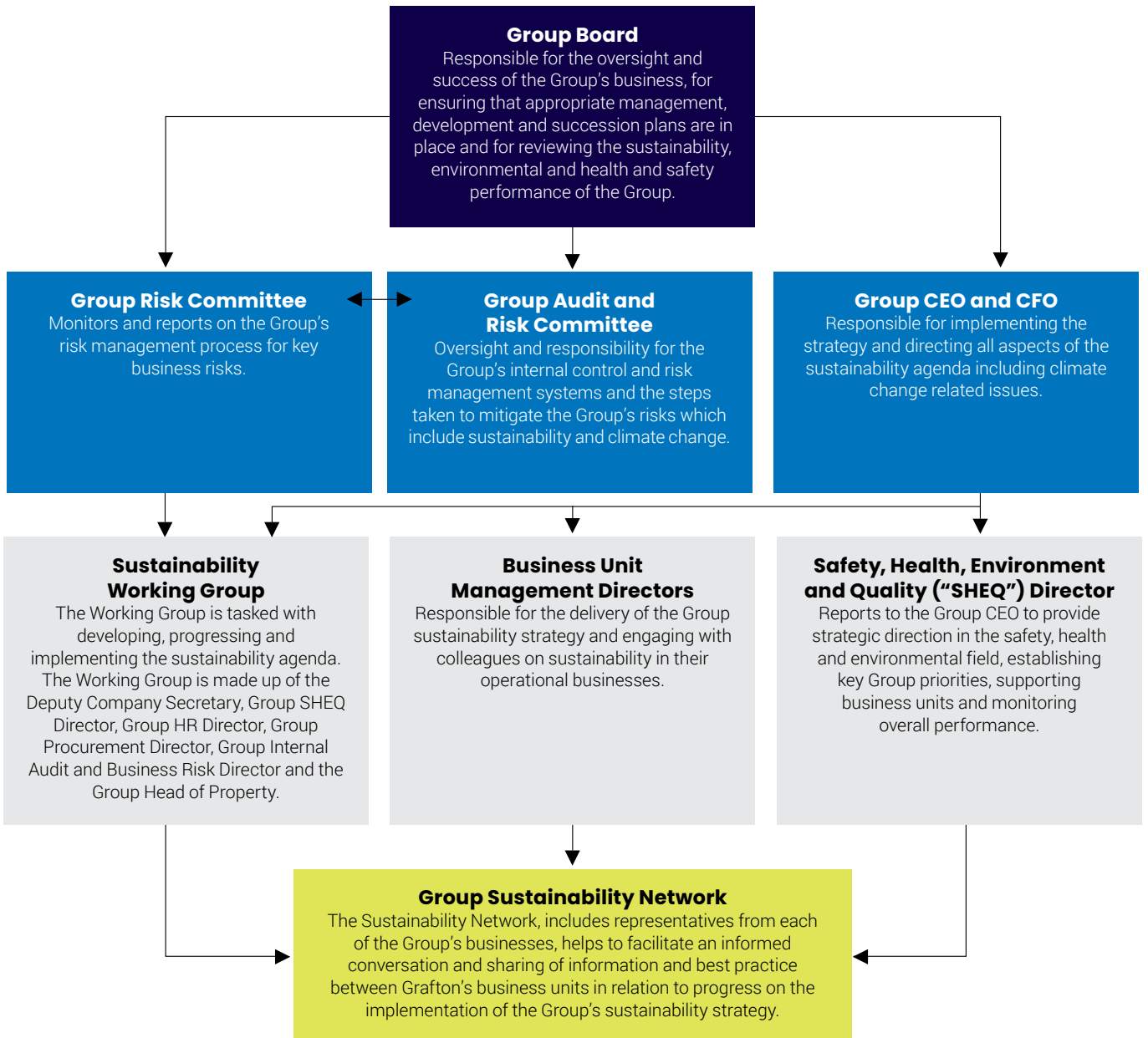
Relevant focus areas



Relevant SDGs



## Sustainability governance within Grafton



The Group Code of Business Conduct and Ethics reflects our responsibility to uphold high standards of ethics and integrity.

### ETHICAL BUSINESS BEHAVIOUR

The Group Code of Business Conduct and Ethics reflects our responsibility 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 is available on the Group website and made available to colleagues in each business in the local language. The Code and associated policies are the subject of mandatory training courses which are available to colleagues through the Group's online learning management system. Completion rates are recorded and reported to the GRC and Group Internal Audit who perform testing to confirm compliance with key aspects of the Code and Group policies as part of annual reviews.

Our commitment to ethical business behaviour and good governance was further strengthened during 2021:

- Mandatory training courses were refreshed including the Information Security course which now has an annual repeat requirement.
- Five short animated policy awareness videos were developed and circulated to colleagues. These emphasise key aspects of the SpeakUp, Group Anti-Bribery and Corruption, Anti-Money Laundering, Competition Law Compliance and Equality, Diversity and Inclusion policies. The videos are translated into local languages.
- Implementation of a third party classification and risk assessment system to assist with establishing 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 in significant business units and the Group Head 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 in the local language. All reports are passed to Group Internal Audit for investigation, with the outcome reported to the Audit and Risk Committee. Individuals who raise concerns are also informed on the outcome of the investigations. Contact details for the service are publicised to colleagues through posters and newsletters, on engagement platforms, and via the awareness video and mandatory training. Third parties can also raise any concerns about suspected wrongdoing by the Group or its colleagues via a link to the service on both the Group's website and websites of individual businesses.

### 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 a 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 requirements through mandatory training and awareness videos. Compliance with the policy and the management of potential conflicts of interest is reviewed and tested 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 a cyber attack incident plan setting out the steps to react to and recover from a cyber incident. The Group continues to run phishing awareness campaigns for colleagues, and carry regular penetration tests on all external facing websites to identify and resolve any vulnerabilities. During 2021 a review of the Group's cyber security maturity was conducted by a third party specialist firm. The review found many good practices and controls in place. It made recommendations to further improve the Group's ability to both prevent and reduce cyber attacks. There will be a programme of initiatives in 2022 to further reduce cyber risks. This will be overseen by the Group's Information Security Steering Committee.

## Task Force on Climate-related Financial Disclosures (TCFD)

We support the Task Force on Climate-related Financial Disclosures (TCFD) and have summarised our approach in relation to its recommendations.

Grafton has been formally managing its material climate risks and opportunities since 2014. Measuring, tracking to targets and implementing reductions across Scope 1 and 2 GHG emissions (CO<sub>2</sub>e) has been the main focus. As a next step we have committed to verifying to Science Based Targets initiative across Scope 1-3 by the end of 2024.

We are evolving our climate change and risk management approaches to align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). In 2020, Grafton moved sustainability and climate change to high risk in our corporate risk register and during 2021 the Group conducted an initial assessment of its climate-related risks and opportunities. An output from this assessment was a specific Group Sustainability and Climate Change risk register, and we will be doing further work in this area in 2022 to align our disclosure with TCFD including assessments at a business unit level.

### GRAFTON DISCLOSURE AGAINST THE RECOMMENDATIONS OF THE TCFD PROGRESS.

In line with the FCA requirement, the table below summarises the consistency of disclosures made in the current year with the TCFD framework and how we will build on these in the future.

Recommendations and supporting recommended disclosures	2021	2022	2023
<b>Governance</b> – Disclose the organisation’s governance around climate-related risks and opportunities.			
a) Describe the board’s oversight of climate-related risks and opportunities.	✓	✓	✓
b) Describe management’s role in assessing and managing climate-related risks and opportunities.	✓	✓	✓
<b>Strategy</b> – Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.			
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. *	✓	✓	✓
b) Describe the impact of climate related risks and opportunities on the organisation’s businesses, strategy, and financial planning.		✓	✓
c) Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.			✓

\* Limited initial disclosure made in 2021 which will develop as processes evolve in later years.

\*\* Scope 1&2 already disclosed, expected to disclose Scope 3 emissions from 2024.

## GOVERNANCE

The Governance of climate-related risks and opportunities is integrated into our overall risk management structures, as set out in the sustainability governance framework on page 80.

At its meeting in June 2021 the Board held an in-depth session on sustainability and climate change, including the approach for setting Scope 1, 2 and 3 emission targets, and more generally receives regular updates on our sustainability programme and targets. The Audit and Risk Committee is responsible for overseeing and monitoring the Group's risk management systems and steps taken to mitigate key risks including sustainability and climate change.

Climate risks and opportunities are assessed and reviewed by our Group Risk Committee (GRC), a committee chaired by the CFO with representatives from all relevant Group Functions and significant businesses which meets quarterly and reports to the Audit and Risk Committee. Sustainability and Climate

Change is a standing agenda item at GRC meetings. The Sustainability Working Group, led by the Deputy Company Secretary, includes functional Heads with expertise in procurement, people, environment and ethics. The Working Group is responsible for developing a sustainability strategy to respond to the identified climate risks and opportunities and to align with the relevant UN SDGs.

Having defined the Group Sustainability Strategy and climate programme, these have then been implemented at individual business unit level. The CEOs of each business are responsible for implementing and reporting on their own sustainability and climate change programme which is consistent with the Group's overall Strategy. The Sustainability Working Group provides progress updates at each GRC meeting encompassing climate related risks and opportunities.

Our due diligence process for potential new acquisitions includes an assessment of climate-related risks and an objective that any newly acquired businesses will align with the Group's sustainability targets within two years of the date of acquisition.

Recommendations and supporting recommended disclosures	2021	2022	2023
<b>Risk management</b> – Disclose how the organization identifies, assesses, and manages climate-related risks.			
a) Describe the organisation's processes for identifying and assessing climate-related risks.*	✓	✓	✓
b) Describe the organisation's processes for managing climate-related risks. *	✓	✓	✓
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	✓	✓	✓
<b>Metrics and targets</b> – Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.			
a) Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.		✓	✓
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. **	✓	✓	✓
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. *	✓	✓	✓

**STRATEGY**

Our assessment of climate risks and opportunities considered a range of scenarios which were identified based on the guidance published by TCFD, the International Panel on Climate Change (IPCC) and disclosures from other related businesses:

1. Rapid de-carbonisation – Government led move to a low carbon economy in the next 3-5 years with global temperature rises limited to below 1.5°C
2. Moderate de-carbonisation – Business led/ Government supported transition to a lower carbon economy over next 10-15 years. Global temperature rises around 2°C
3. Limited climate action – Little or no concerted effort to reduce carbon emissions resulting in global temperature rises in excess of 4°C

These scenarios were used to consider a range of possible outcomes for different climate risks and opportunities at Grafton Group over the short (1-3 years), medium (3-10 years) and long (+10 years) term. The assessment involved Group and Business management representing relevant functions and business

units. A review was further undertaken to identify what actions could be taken to mitigate climate risks and take advantage of opportunities.

Based on these scenarios the most material opportunities and the most material risks to the Group, as set out in the Group Sustainability and Climate Change Register, are set out in the table below.

Projects and actions to address the opportunities and risks identified have commenced and where relevant targets have been defined in our Sustainability strategy for the period up to 2030. We have outlined a number of carbon and climate change commitments within our 2021 Sustainability Report: <https://graftonsustainability.com/> some of which are referred to in the tables on pages 84 and 85.

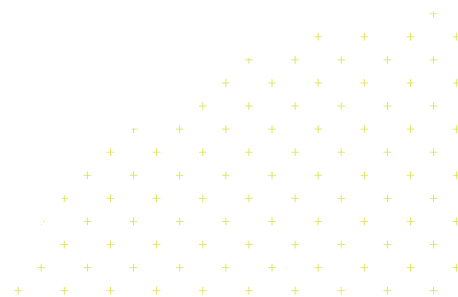
In 2022 we aim to repeat this assessment exercise at a business level to identify specific opportunities, risks and mitigating actions for individual business units.

**RISK MANAGEMENT**

Identification and management of climate risks and opportunities is incorporated into our strategic risk assessment processes. Our approach to climate risk takes on both a top down and bottom-up management approach. Climate risk is considered by the GRC and this is fed back to the individual business level, where each business maintains its own register of the risks that are material to their business along with their actions to mitigate them, which will include climate related risks. These individual business risk registers are then incorporated at a group level, where the combined registers are updated quarterly and reported to the Group Risk Committee who manage the Corporate Risk register of all material risks to the Group – see Principal Risks on pages 64 to 69.

For all our risks, including our climate-related risks, we assess the recurring or one-off impact on both financial measures, including revenue, profit, and cash, and non-financial, including management effort, regulatory compliance and impact on stakeholders. We have set numerical thresholds for each of these metrics to define 'material financial

Opportunities	Climate change scenario	Timeframe	Related projects/mitigating actions
The growing market for energy-efficient, sustainable products and services in a low carbon economy.	1 & 2	Short-Medium term	Establish a sustainable products rating system in collaboration with suppliers and relevant stakeholders by the end of 2022. 100 per cent of new cars ordered are alternative fuelled by 2025. Analysing further the risks and opportunities associated with the market for low carbon products and services and supply chain impacts.
Improvements to our operations and buildings with more efficient energy use and through reduction, reuse and recycling of consumables.	1 & 2	Short term	Committing to calculating Scope 3 emissions and setting Science Based Targets (Scope 1-3) before the end of 2024. Incorporate appropriate sustainable heating/cooling, insulation, power and water management systems in new-build properties by the end of 2022. All businesses aligned to a Group level Environmental Management Framework by 2025.
Reducing transport costs and emissions by using more energy efficient modes of transport.	1 & 2	Short-Medium term	Committing to calculating Scope 3 emissions and setting Science Based Targets (Scope 1-3) before the end of 2024.
increased competitive advantage through resilience planning around property, infrastructure and supply chain.	2 & 3	Medium-long term	Continuing to evolve our understanding of our climate related risks and opportunities. This work will include further analysis of our property portfolio, focusing on physical risks (such as flooding, increases in extreme weather) to our branches, distribution centres and head offices.



impact'. We monitor the likelihood of risks relating to climate change over the short (1-3 years), medium (3-10 years) and long-term (over 10 years).

Actions to manage climate related risks are overseen by the GRC through both Group and individual business-led projects and initiatives, consistent with the Group's sustainability strategy and targets. These will include projects to improve the energy efficiency of operations, transport and properties and activities to develop the resilience of our infrastructure and supply chain. See Sustainability section on pages 72 to 74 for examples.

Grafton maintains its awareness of climate change related risks, including changes to regulatory requirements, through membership of trade associations, working with third-party consultants and attending relevant seminars and training. The Group also consults with its stakeholders, including colleagues and investors, to ensure appropriate prioritisation of climate-related risks.

An example of action taken to manage climate risk within Grafton Group in 2020 was the use of third-party consultants to undertake extensive flood resilience surveys on 31 of our sites. Of the 31 sites surveyed, 8 sites were found to be exposed to medium or high risk of river or coastal flooding (primary flood risk drivers). A number of response measures were recommended and we are currently working with the businesses to implement those recommendations.

### METRICS AND TARGETS

As part of our Sustainability strategy, we have set a series of targets to help manage climate related risks and monitor progress, which align with two of our five focus areas: Customer and Product; and Planet. Relevant targets include improving the sustainability rating of our product portfolio; reducing our scope 1 & 2 carbon emissions (relative to revenue); measuring our Scope 3 emissions and then setting science-based targets to reduce scope 1, 2 and 3 emissions. Our current carbon reduction target is a 15 per cent reduction in Scope 1 & 2 emissions by 2025 compared to

the 2018 baseline. See Sustainability section on pages 72 to 74.

Scope 1 & 2 emissions are calculated in accordance with the GHG Protocol. For Scope 3 we will again report in accordance with the GHG Protocol as part of our planned SBTi submission.

As part of the further climate change scenario analysis that will be conducted next year, we will assess whether any additional metrics and targets are needed as part of this process and begin to develop financial analysis to help assess specific climate risks and opportunities.

Risk	Climate change scenario	Timeframe	Related projects/mitigating actions
Changes in legislation or regulation impacting our existing product range. This may result in reduced demand, lower revenue and profit.	1&2	Medium-long term	Establish a sustainable products rating system in collaboration with suppliers and relevant stakeholders by the end of 2022. Analysing further the risks and opportunities associated with the market for low carbon products and services and supply chain impacts.
The potential impact of rising energy and insurance costs on our business operations and supply chain	1&2	Short term	Committing to calculating Scope 3 emissions and setting Science Based Targets (Scope 1-3) before end 2024. Incorporate appropriate sustainable heating/cooling, insulation, power and water management systems in new-build properties by the end of 2022.
Changes in legislation or regulation resulting in higher operating and compliance costs, e.g., limits in emissions.	1&2	Medium-long term	Committing to calculating Scope 3 emissions and setting Science Based Targets (Scope 1-3) before the end of 2024. Incorporate appropriate sustainable heating/cooling, insulation, power and water management systems in new-build properties by the end of 2022. 100 per cent of new cars ordered are alternative fuelled by 2025.
Increased stakeholder concern due to lack of action on climate change leads to reduction in capital availability, loss of customers and impacts recruitment and retention of colleagues.	1&2	Short term	Committing to calculating Scope 3 emissions and setting Science Based Targets (Scope 1-3) before the end of 2024. Incorporate appropriate sustainable heating/cooling, insulation, power and water management systems in new-build properties by the end of 2022. 100 per cent of new cars ordered are alternative fuelled by 2025. All businesses aligned to a Group level Environmental Management Framework by 2025.
Impact of increasing severity and frequency of adverse weather events including storm and flood damage on Group properties result in loss of revenue due to closure, higher repair and maintenance costs.	2&3	Short-medium term	Continuing to evolve our understanding of our climate related risks and opportunities. This work will include further analysis of our property portfolio, focusing on physical risks (such as flooding, increases in extreme weather) to our branches, distribution centres and head offices.
Climate change and increasing severity and frequency of adverse weather impacts our supply chain and the availability of products.	2&3	Medium-long term	Analysing further the risks and opportunities associated with the market for low carbon products and services and supply chain impacts.

# Corporate governance

## **Governing our business**

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Colleague Engagement – Woodie's

**99%**

Participation rate

**GREAT PLACE TO WORK**

Woodie's was recognised as a Great Place to Work for the sixth consecutive year.

Woodie's retained its position as the top retailer in Ireland in the Great Place to Work Index and was also listed as one of Europe's Best Large Workplaces, as well as retaining its status as a Best Workplace for Women.

**For more see pages 14-15**



# Board of Directors



**Michael J. Roney  
(USA)**  
MBA

NON-EXECUTIVE  
CHAIRMAN



**Gavin Slark  
(UK)**

CHIEF EXECUTIVE  
OFFICER



**David Arnold  
(UK)**  
BSc, FCMA, FCT

CHIEF FINANCIAL  
OFFICER



**Paul Hampden Smith  
(UK)**  
FCA

SENIOR INDEPENDENT  
DIRECTOR

## CAREER

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.

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 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 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 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 was previously Non-Executive Director of Pendragon plc, Redrow plc, DX Services plc and Clipper Logistics plc.

## CURRENT EXTERNAL APPOINTMENTS

Non-Executive Chair 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.

Appointed a Non-Executive Director of Crest Nicholson Holdings plc with effect from 1 September 2021.

Joined the Board of Bellway plc in 2013, was appointed Non-Executive Chair in 2018 and is retiring from the Board on 1 April 2022.

## BOARD LENGTH OF SERVICE AS AT 8 MARCH 2022

5.9 years

10.9 years

8.5 years

6.5 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.

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 Chair 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, Wm Morrison Supermarkets plc and Mitchells & Butlers plc.

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.

5.4 years

Remuneration Committee (Chair), Audit and Risk Committee, Nomination Committee



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

NON-EXECUTIVE  
DIRECTOR

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

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.

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

5.4 years

Audit and Risk Committee  
Nomination Committee  
Remuneration Committee



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

NON-EXECUTIVE  
DIRECTOR

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

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.

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

2.2 years

Audit and Risk Committee  
Nomination Committee  
Remuneration Committee



**Avis Darzins  
(UK)**

NON-EXECUTIVE  
DIRECTOR

Avis Darzins was appointed to the Board on 1 February 2022.

Ms. Darzins is a former Partner at Accenture in London where she worked with many well-known national and international brands in the retail and consumer products sectors. She has extensive experience of business change in a variety of sectors including Director of Business Transformation at Sky plc. She is a former independent consultant with EY. She served as Non-Executive Director at Moss Bros Group plc until the business was taken private in June 2020.

Non-Executive Director of Marshalls plc, the UK's leading manufacturer of landscaping products for the construction and home improvement markets; Trustee and Trustee Board member of Barnardo's, the UK's largest children's charity.

0.1 Years



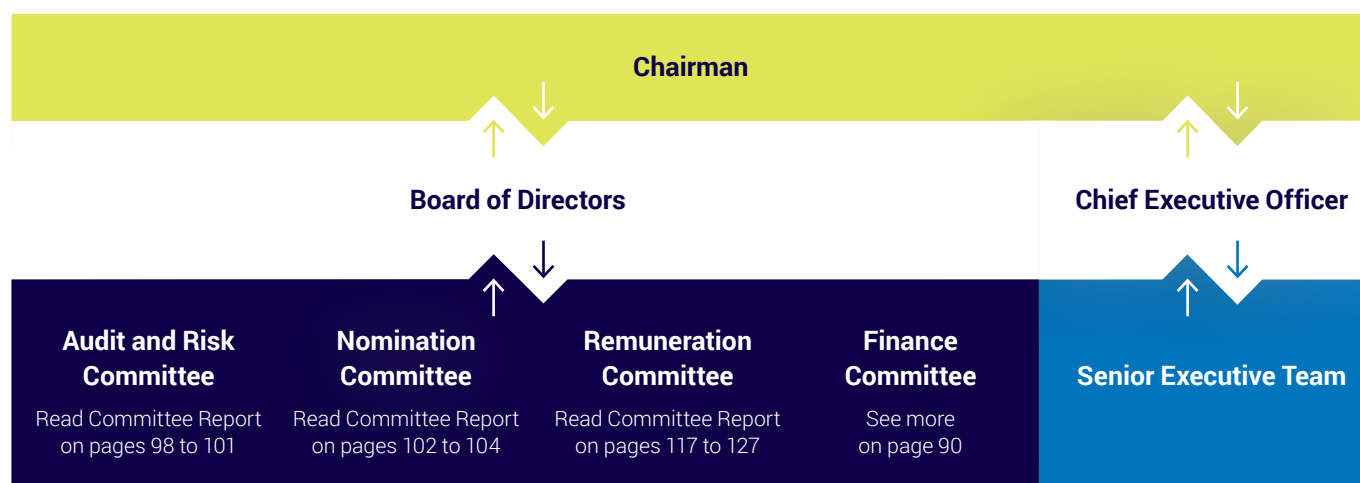
**Charles Rinn  
(IRL)  
MBA, FCCA**

GROUP FINANCIAL  
CONTROLLER &  
SECRETARY

N/A

Finance Committee

## Governance Framework



## WHAT THE BOARD DID IN 2021

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

## GROUP STRATEGY AND OPERATIONS

- Received updates at all meetings on trading, operations, markets, corporate development, colleagues, financial performance and outlook
- Reviewed and discussed papers from Group management on corporate developments
- Oversaw the strategic review and approved the divestment of the traditional merchanting business in Great Britain
- Considered and approved all acquisitions made during the year including IKH and received updates on other development opportunities
- Reviewed proposals for major items of capital expenditure and new store openings

## FINANCIAL REPORTING AND CONTROLS, CAPITAL STRUCTURE AND DIVIDEND POLICY

- Reviewed and discussed reports from Group Management on key financial reporting matters
- Monitored the Group's financial performance and financial results
- Approved the Final Results and Annual Report and Accounts for 2020 and the Interim Results for 2021
- Approved the reinstatement and payment of the second dividend for 2019, the payment of the full year dividend for 2020 and the interim dividend for 2021
- Approved the Group Budget for the year ending 31 December 2022, including capital expenditure

## PEOPLE, CULTURE AND STAKEHOLDER ENGAGEMENT

- Received and considered reports from the CEO at every meeting on Health and Safety
- Received regular reports on the impact of Covid-19 on colleagues, business activities and performance
- Received updates from the Company Secretary on shareholder consultation
- Attended the Group EGM and Group AGM
- Engaged with colleagues through National Colleague Forums

## SUCCESSION PLANNING AND BOARD EFFECTIVENESS

- Considered presentation from the CEO on management development and succession planning
- Reviewed the composition of the Board and its Committees
- Oversaw the search process leading to the appointment of Avis Darzins as Non-Executive Director on 1 February 2022 following a recommendation from the Nomination Committee
- Considered the findings of the 2020 internal Board evaluation and the findings of an externally-facilitated evaluation for 2021 of the Board's effectiveness and that of its Committees and individual Directors

## GOVERNANCE, REMUNERATION AND RISK

- Received updates on sustainability and approved the Group's sustainability strategy
- Oversaw the Migration of the Group's securities from CREST to Euroclear Bank
- Received updates at each meeting from the Chairs of the Audit and Risk Committee, Remuneration Committee and Nomination Committee on their activities
- Received an update on regulatory implications of Brexit
- Approved an updated Policy Statement on Modern Slavery
- Considered and agreed changes to Non-Executive Directors Fees
- Received a presentation on Cyber Security

## 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 12 occasions during 2021, and the attendance of individual directors at each meeting is set out in the table on page 95. 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](http://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 and he also supports the work of the Remuneration 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 Chair 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 12 to 13 and 36 to 31.

#### OBJECTIVES AND CONTROLS

The Group's strategic objectives are set out on pages 26 to 27 and a summary of performance against the Group's KPIs is at pages 36 to 39. 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 60 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 to 17 and further information on engagement with colleagues is set out in our People and Culture report on pages 14 and 15.

#### COLLEAGUE ENGAGEMENT

Colleague engagement is shared amongst Non-Executive Directors who attended meetings of the National Colleague Forums in the UK, Ireland and the Netherlands during the year. The topics covered at the meetings were those which were raised by colleagues as being most important to them. The forums discussed matters such as rewards, job security, wellbeing, sustainability, health and safety and remote working. The open dialogue at these meetings enabled Non-Executive Directors attending to hear colleague feedback at first-hand and to update the Board. The outcome of these meetings and the insights provided helped inform the Board's decision-making.

## DIRECTORS' REPORT ON CORPORATE GOVERNANCE continued

### WORKFORCE CONCERNS

The Board has established structures to provide for effective engagement by the Board with the wider workforce. These include the confidential colleague feedback surveys which provide the opportunity for colleagues to provide feedback to management.

### BUSINESS MODEL AND RISKS

The Group's Business model is set out on pages 24 and 25. The Risk Management Report on pages 60 to 69 contains an overview of the principal and emerging risks facing the Group and a description of how they are managed.

### 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 held via Teams provided opportunities for Directors to meet colleagues and enable their views to be heard at Board level. 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. In November the Group held a Capital Markets Day to update investors on the progress of the Group and its businesses, capital allocation model and sustainability strategy. The Group also issued Trading Updates in January, April, July and November of 2021.

Live audio conference calls for analysts and investors hosted by Gavin Slark and David Arnold were held via webcast on 25 February 2021 and 25 August 2021 following the announcement of the Final Results for 2020 and the Interim results for 2021 respectively. Pre-recorded presentations for the Final Results for 2020 and the Interim results for 2021 are available to view or download at <https://graftonplc.com>

Significant or noteworthy acquisitions are announced to the market. The Company's website <https://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 Chair 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 Chair 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 Chair 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. The Chair also attended the capital markets event which was hosted in London on 10 November 2021.

All shareholders are invited to attend the AGM which provides an opportunity for shareholders to put questions to the Chair, the Chair of each of the Board Committees and Executive Directors and to meet informally with Directors before and after the meeting. In 2021 due to the Covid-19 pandemic, shareholders were given the opportunity to attend the AGM remotely and could raise questions verbally during the meeting by way of a conference call facility.

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

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. All resolutions at the 2022 AGM will be decided on a poll in accordance with the Articles of Association of the Company and in line with market practice. 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.

The Company held an EGM on 21 January 2021 to approve the migration of securities from the CREST settlement system to Euroclear and the simplification of the Grafton Unit.

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 2021, it was not possible for shareholders to attend shareholder meetings in person however shareholders could participate in the meetings virtually via the Lumi platform. 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.

### 2022 AGM

The 2022 AGM will be held at the Radisson Blu St. Helens Hotel, Stillorgan, Dublin, A94 V6W3 at 10.30am on 28 April 2022. The health and safety of our shareholders, colleagues and advisers is a primary concern for the Company and its Board. We will take all recommendations and applicable law into account in the conduct of the AGM. Shareholders are advised to monitor the Group's website for updates relating to the AGM.

### TIME COMMITMENT OF THE CHAIR AND NON-EXECUTIVE DIRECTORS

The Chair and prospective Non-Executive Directors are required to confirm prior to appointment to the Board that they will have sufficient time available to discharge their responsibilities effectively and that they have no conflicts of interest. This matter is given very careful consideration by the Nomination Committee and the Board before any appointments are made. Following appointment, the Board considers requests by Directors wishing to undertake new directorships and considers both the time commitment involved and any potential conflicts of interest with their roles as Directors of Grafton.

The Board recognises the benefits of the Chair and Non-Executive Directors having varied and broad experiences. It considers investor guidance on this area as part of the annual review of the time commitments of each Director. The Chair and each of the Non-Executive Directors had a 100 per cent attendance record at all scheduled and unscheduled Board and Committee Meetings held during the year and they also demonstrated high levels of availability and responsiveness where discussions were required from time to time between Board Meetings. The Board remains confident that the Chair and individual members continue to devote sufficient time to undertake their responsibilities effectively.

No new Directorships were taken on by members of the Board during the year except for the previously announced appointment of Mr. David Arnold to the Board of Crest Nicholson plc. The Board supports Executive Directors having a non-executive directorship as part of their continuing development provided they have sufficient time to balance their commitments to the business with any external role.

### VOTES AGAINST 2021 AGM RESOLUTION

A resolution to re-elect the Company's Non-Executive Chair, Michael Roney, as a director of the Company was passed with the requisite majority of votes at the 2021 AGM. A minority of shareholders however chose not to support the resolution. In line with the provisions of the 2018 UK Corporate Governance Code, the Company reached out to a number of shareholders to gain an understanding of the reasons behind their votes and noted that the level of votes against Mr. Roney's re-election was influenced by only two of the Board's seven directors being female and a concern relating to Mr Roney holding Board roles in three listed companies including Grafton.

The Board is committed to prioritising diversity and supports the recommendations of both the FTSE Women Leaders Review (formerly the Hampton Alexander Review) on gender diversity and the Parker Review on ethnic diversity. Following the recent appointment of Avis Darzins as Non-Executive Director, three of the Board's eight directors are female (38 per cent). Ms. Darzins is from an ethnically diverse background as defined by the Parker Review. The Board's objectives of having at least one third female representation and at least one Director reflecting ethnic diversity are therefore met.

The Board believes that Michael Roney has always devoted sufficient time to his role as Chair and is confident that he effectively discharges his role. Mr. Roney brings significant business experience to the role, provides clear direction and leadership of the Board and makes a major contribution to the strategic development of Grafton Group. The Board is strongly supportive of the role and guidance that Mr. Roney provides to the Company for the benefit of all stakeholders.

As noted above, the Nomination Committee and the Board continues to monitor all directors' external commitments and would take appropriate action in the event of any concerns being raised about their ability to dedicate sufficient time to their roles as directors of the Company.

### 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.

## DIRECTORS' REPORT ON CORPORATE GOVERNANCE continued

### 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

### CHAIR

The responsibilities of the Chair, as set out on page 95, 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.

### 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 CHAIR

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

### INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The five Non-Executive Directors, Mr. Paul Hampden Smith, Mr. Vincent Crowley, Mrs. Susan Murray, Dr. Rosheen McGuckian and Ms. Avis Darzins 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 Chair, 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 Chair, 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 Chair and Non-Executives met with and without the executive Directors present.



## ROLES AND RESPONSIBILITIES

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

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

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	12	12	–	–	–	–	4	4
G. Slark	12	12	–	–	–	–	–	–
D. Arnold	12	12	–	–	–	–	–	–
P. Hampden Smith	12	12	4	4	4	4	4	4
S. Murray	12	12	4	4	4	4	4	4
V. Crowley	12	12	4	4	4	4	4	4
R. McGuckian	12	12	4	4	4	4	4	4

Ms. Avis Darzins was appointed to the Board with effect from 1 February 2022.

## EXTERNAL COMMITMENTS

The Board is satisfied that the external commitments of the Chair 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.

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**DIRECTORS' REPORT ON CORPORATE GOVERNANCE continued****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 102 to 104.

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 2021, the Board was made up of seven members comprising the Non-Executive Chair, two Executive Directors and four independent Non-Executive Directors. On 1 February 2022 the Board appointed Ms. Avis Darzins as Non-Executive Director bringing the total number of Directors to eight.

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 102 to 104.

**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 externally facilitated evaluation was conducted during the year by Trusted Advisors Partnership (TAP), with whom the Group has no other connection. The evaluation involved each Director and the Company Secretary 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. A one-to-one interview was also carried out between the TAP assessor and each Director and the Company Secretary. The key findings of the evaluation are set out in the Nomination Committee Report on page 103.

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

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, ethnicity 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.

A description of the activity of the Committee during the year is set out in the Nomination Committee Report on pages 102 to 104.

**DIRECTOR RE-ELECTION**

In accordance with the provisions of the Code, the Board has decided that all Directors should retire at the 2022 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 102 to 104.

**CHAIR TENURE**

Mr. Michael Roney was appointed as Chair Designate on 1 May 2016 and assumed the role of Non-Executive Chair 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. In 2021 the Board engaged Heidrick & Struggles to assist with the search for an additional Non-Executive Director.

**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 134.

**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 60 to 62.

**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 98 to 101. The Terms of Reference of the Committee are available on the Group's website [www.graftonplc.com](http://www.graftonplc.com).

A description of the activity of the Committee during the year is available in the Committee Report on pages 99 to 100.

**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 99.

**GOING CONCERN ASSESSMENT**

The Group's net cash position, before recognising lease liabilities, increased to £588.0 million at 31 December 2021, up from £181.9 million at 31 December 2020. Net cash including lease obligations was £139.0 million at 31 December 2021. This represents an improvement of £494.0 million from net debt of £355.0 million at 31 December 2020. The Group had liquidity of £1,235.4 million at 31 December 2021 (31 December 2020: £811.2 million) of which £840.7 million (31 December 2020: £452.0 million) was held in accessible cash and £394.7 million (31 December 2020: £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 64 to 69, 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

**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 2021 are contained in the Report of the Remuneration Committee on Directors' Remuneration on pages 105 to 127.



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 2021.

**Paul Hampden Smith**

Chair of the Audit and Risk Committee  
8 March 2022

Membership	Length of service*
P. Hampden Smith (Chair)	6.5 years
V. Crowley	5.1 years
S. Murray	4.2 years
R. McGuckian	1.9 years

\* As of 8 March 2022

## KEY DUTIES OF THE COMMITTEE

### 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;
- 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](http://www.graftonplc.com).

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 88 and 89 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.

## MEETINGS

The Committee met four times during the year and attendance by each Committee member is set out in the table on page 95.

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 and third party advisors 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 2021

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

<b>Financial reporting</b>	<p>The Committee reviewed the 2020 Final Results Announcement, the 2020 Annual Report and the 2021 Interim Results Announcement 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 Final Results Announcement, the 2020 Annual Report and the 2021 Interim Results Announcement to the Board for approval.</p> <p>As part of these reviews, the Committee considered significant accounting policies, estimates and 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 101.</p> <p>The Committee also reviewed papers on the Viability Statement and Going Concern including assumptions and financial forecasts.</p>
<b>Risk management and internal control</b>	<p>The Board has delegated responsibility to the Committee for monitoring the effectiveness of the Group's system of risk management and internal control, which is set out in further detail in the Risk Management Report on pages 60 to 62. 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 64 to 69 of the Strategic Report.</p> <p>The Committee also considered the risks associated with increased levels of cyber crime and the potential to disrupt trading including the loss of data.</p>

## AUDIT AND RISK COMMITTEE REPORT continued

<b>Internal audit</b>	<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 2022. An external review of the effectiveness of the Internal Audit function was carried out by Grant Thornton during 2021 and the results of this review were presented to the Committee in January 2022. The findings of the review were positive and a number of operational and strategic recommendations made will be acted upon.</p>
<b>External auditor</b>	<p>The Committee reviewed the External Auditor's plan for the 2021 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>In line with audit independence criteria, Mr. Paul O'Connor stepped down as Group Engagement Leader at the conclusion of the audit of the Financial Statements for 2020 and Ms. Siobhán Collier took over the role of Group Engagement Leader for the 2021 audit of the Group.</p>
<b>Non-audit services</b>	<p>The External Auditor is not prohibited from undertaking non-audit services that do not conflict with auditor independence, provided the provision of the services does not impair the 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 &amp; Risk Committee. The External Auditor is precluded from providing certain services, 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 2021 or 2020.</p>
<b>Whistleblowing and fraud</b>	<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>
<b>Anti-bribery and corruption</b>	<p>The Group's Code of Business Conduct and Ethics sets out the ethical standards to which all Group employees are expected to adhere. 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.</p>

## ESTIMATES AND JUDGMENTS

The Committee reviewed in detail the following areas of significant judgment, complexity and estimation in connection with the Financial Statements for 2021. 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 136 to 141. The Committee also had an in-depth discussion on these matters with the External Auditor.

**Valuation of goodwill** The Committee considered the goodwill impairment analysis provided by management and agreed with the conclusion reached that no impairment charge should be recognised in the year. In arriving at its decision, the Committee considered the impairment review conducted by management which involved comparing the recoverable amount and carrying amount of the CGUs.

The review by management involved discounting the forecasted cash flows of each CGU based on the Group's pre-tax weighted average cost of capital adjusted to reflect issues associated with each CGU and carrying out sensitivity analysis on the key assumptions used in the calculations including cash flow forecasts (revenue growth, margin), terminal growth rate and pre-tax discount rate.

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.

The Committee also assessed the allocation of goodwill to the traditional merchanting business within the UK Distribution CGU which is included in the net assets disposed within that business.

**Recognition of supplier rebates** 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.

In reaching its conclusion, the Committee reviewed information and reports prepared by the Internal Audit function which completed year-end reviews across a sample of significant Business Units with the primary objective of providing independent assurance on the accuracy of rebate receivable balances at year-end.

These reviews included re-performing calculations on a sample of rebate income for 2021 with reference to agreements with individual suppliers and reports of purchases made from suppliers. Rebates receivable in the continuing operations at the end of 2021 were materially up on the prior year end because of the increase in volumes and prices over the course of the year. The Committee also considered the value of rebates received after the year end relating to 2021.

**Valuation of inventory** The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow moving inventory. In arriving at its conclusion that the level of inventory provisioning was appropriate, the Committee received half year and full year updates from management on stock ageing and provisioning at Business Unit level.

The Committee reviewed the basis for calculating the valuation of rebate attributable to inventory and was satisfied that inventory was appropriately valued and that the Group continued to adopt a prudent approach to inventory provisioning.

As Chair of the Committee, I engaged with the Group CFO, the Group Internal Audit and Business Risk Director and the PwC Group Audit Engagement Leader independently of each other in preparation for Committee meetings and periodically as appropriate.

I will be in attendance at 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 2022



Dear Shareholder,

I am pleased to present the report of the Nomination Committee for the year ended 31 December 2021.

**Michael J. Roney**  
Chair of the Nomination Committee  
8 March 2022

Membership	Length of service*
M.J. Roney (Chair)	5.8 years
P. Hampden Smith	6.5 years
S. Murray	5.0 years
V. Crowley	5.0 years
R. McGuckian	1.9 years

\* As of 8 March 2022

## KEY DUTIES OF THE 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 on any changes.

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



## ACTIVITIES OF THE COMMITTEE DURING 2021

### INTRODUCTION

The primary areas of focus of the Committee during 2021 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 agreed to initiate a process to appoint an additional Non-Executive Director and to prioritise both gender and ethnic diversity in the search for suitable candidates. The search process, which is described later in this report, was completed in January 2022 and Ms. Avis Darzins was appointed as Non-Executive Director with effect from 1 February 2022.

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 2021 was as follows:

Length of service	Number of Non-Executive Directors
1-2 years	1
4-5 years	2
5-6 years	1
6-7 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

There were no Board or Committee membership changes to report save for the appointment of Ms. Avis Darzins as Non-Executive Director with effect from 1 February 2022 as noted above.

### ELECTION/RE-ELECTION OF DIRECTORS

The Committee agreed that a recommendation would be made to the Board to approve the election/re-election of all Directors at the 2022 AGM having considered their performance, ability and continued contribution to the Board.

### BOARD EFFECTIVENESS

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

The Board also 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 2021. The 2019 and 2020 evaluations were carried out internally using a questionnaire which was completed by each of the Directors.

The key findings of the independent evaluation carried out by TAP were that:

- The composition of the Board is highly regarded with no significant gaps, following the decision to appoint an additional Non-Executive Director, identified in the skillset of the Board and its Committees.
- The Chair of the Board is making a positive contribution to the management of the 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 has embraced its commitment to continually improve and made good progress on many of the themes identified in prior internal reviews.

The Board is keen to ensure that observations from the current independent review help to shape its priorities for the current year.

### 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, following consideration of the conclusions from 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.

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 maintain 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.

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.

## NOMINATION COMMITTEE REPORT continued

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.

### NON-EXECUTIVE DIRECTOR SUCCESSION

The Chair led the process to appoint a Non-Executive Director, receiving support from the Senior Independent Director and the Company Secretary as appropriate. Heidrick & Struggles, a leading international search firm, was appointed to assist with the process. It had no previous connection to the Company prior to appointment other than having previously conducted a search in 2019 for a Non-Executive Director. There was good communication throughout, and the Directors were kept well informed. The Committee held a number of meetings in connection with the appointment and members also received a number of informal updates during the process.

The Committee has a long-standing commitment to prioritise diversity and supports the recommendations of both the FTSE Women Leaders (Hampton Alexander) Review on gender diversity and the Parker Review on ethnic diversity. The Committee is committed to at least the minimum target of one-third for female representation as set out in the FTSE Women Leaders (Hampton Alexander) Review and also to having at least one Director reflecting ethnic diversity as defined in accordance with the Parker Review. The Committee agreed that the search should prioritise gender and ethnic diversity and it agreed the skills, experience and preferred attributes for the appointee.

A thorough international search of potential candidates was undertaken by Heidrick & Struggles who presented long lists of candidates with a broad range of skills, experience and backgrounds. The Committee eventually shortlisted a number of candidates for interview. The Chair, Senior Independent Director and Group CEO met with the shortlisted candidates who confirmed their interest in the role. Two of the shortlisted candidates met with the other members of the Committee and the Group CFO. The Board considered and approved a recommendation to appoint Ms. Avis Darzins as Non-Executive Director and her appointment took effect on 1 February 2022.

Ms. Darzins has a strong business background and varied experience including eight years as a Partner at Accenture in London where she worked closely with many well-known national and international brands operating in the retail and consumer products sectors to deliver successful outcomes and drive performance and growth. Ms. Darzins has extensive experience of business change in a variety of sectors including four years as Director of Business Transformation at Sky plc. She was previously an independent consultant with EY and in her early career held leadership roles in a number of major businesses and brands.

### 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.

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 and ethnic diversity of the Board.

Gender and ethnic diversity were prioritised when shortlisting candidates as part of the recent process of Board refreshment which resulted in appointment of Ms. Avis Darzins to the Board. I am pleased to confirm that the Board's objectives of having at least the minimum target of one-third for female representation as set out in the FTSE Women Leaders (Hampton Alexander) Review and also to having at least one Director reflecting ethnic diversity are currently met. Three of our eight Board directors are female (38 per cent) following the appointment of Ms. Avis Darzins to the Board. Ms. Darzins is from an ethnically diverse background as defined by the Parker Review.

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 J. Roney

Chair of the Nomination Committee  
8 March 2022

REPORT OF THE REMUNERATION COMMITTEE  
ON DIRECTORS' REMUNERATION

Corporate Governance



Dear Shareholder,  
I am pleased to present  
my report as Chair of the  
Remuneration Committee.

**Susan Murray**

Chair of the Remuneration Committee  
8 March 2022

Membership	Length of service*
S. Murray (Chair)	5.1 years
P. Hampden Smith	6.2 years
V. Crowley	1.9 years
R. McGuckian	1.9 years

\* All lengths of service are as at 8 March 2022

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 was appreciative of the high level of shareholder approval for the 2020 Annual Report on Remuneration which was supported by 95.56 per cent of shares lodged by proxy ahead of the 2021 AGM.

Our current Policy became effective from the conclusion of the 2020 AGM and the following pages describe how the Policy has been applied in 2021 and how it will apply in 2022. In line with regulatory requirements, a renewed policy will be put to shareholders at the 2023 AGM.

**OUR APPROACH TO REMUNERATION**

The Committee's overall remuneration philosophy has not changed over the year and 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.

## REPORT OF THE REMUNERATION COMMITTEE ON DIRECTORS' REMUNERATION continued

### PERFORMANCE OUTCOME FOR 2021

Grafton has performed strongly during 2021 with the share price increasing during the year as we continued to successfully execute our strategy. The Group had an exceptional performance in 2021 with record full year adjusted operating profit in continuing operations.

At the Capital Markets Day on 10 November 2021, we set out the Group's new medium-term financial return targets being an operating profit margin of 10 per cent and a return on capital employed of 13 per cent.

In July 2021, we announced the divestment of our traditional merchanting business in Great Britain for an enterprise value of £520 million and this transaction completed on 31 December 2021. This divestment was agreed following a comprehensive strategic review which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value. Completion of this transaction will also enable the Group to focus on its international development strategy which will be a key priority over the coming years. We also completed the acquisition of IKH in Finland during the year.

### REMUNERATION FOR 2021

The Committee approved a salary increase of 0.6 per cent with effect from 1 January 2021 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.

### ANNUAL BONUS SCHEME

The annual bonus for 2021 was based on two financial performance targets being operating profit (70 per cent) and return on capital employed (30 per cent). Reflecting the strong performance for the year, operating profit and return on capital employed performance exceeded the maximum targets set and a maximum bonus of 120 per cent of basic salary was awarded to the Chief Executive Officer. The bonus award to the Chief Financial Officer was 100 per cent of basic salary, the maximum potential bonus payable. To ensure performance is being assessed on a like-for-like basis with the targets set for the year, annual bonus targets were adjusted to remove the operating profit contribution of the traditional merchanting business in Great Britain for 2021 that was treated as a deemed disposal as at 30 June 2021 and classified as discontinued operations for the year.

### VESTING OF LTIP AWARDS MADE IN 2019

The performance conditions for LTIP awards granted in April 2019, that covered the performance period of the three years ending on 31 December 2021, 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 above the upper quintile, 100 per cent of this half of the award will vest.

The adjusted EPS targets for the financial year ended 31 December 2021 were in the range of 82.0 pence to 94.0 pence. Adjusted EPS for continuing operations for 2021 was 93.0 pence. In July 2021, the Group announced the divestment of the traditional merchanting business in Great Britain for an enterprise value of £520 million and, as noted above, this transaction completed on 31 December 2021. This business has been treated as discontinued for the year and is therefore not included in continuing operations. For the purpose of assessing EPS performance the Committee has adjusted the Adjusted EPS for continuing operations to ensure that performance is assessed on a like-for-like basis to the greatest extent possible with the targets set. To most closely align with the shareholder experience during the year, the Committee determined that it was appropriate to include the operating profit after tax of the traditional merchanting businesses in Great Britain for the period 1 January 2021 to 30 April 2021 and the daily ticker payment received from the purchaser for the period from 1 May 2021 to the date of completion on 31 December 2021. The consideration received on divestment was based on the balance sheet as at 30 April 2021 with all cashflow generated after that date for the benefit of the purchaser. The daily ticker payment received of £30.2 million compensated Grafton for the loss of profits from that date up to completion on 31 December 2021. This approach is consistent with the Committee's decision in 2019 when the Group divested its Plumbase and the Belgian merchanting businesses. This adjustment resulted in an increase in adjusted EPS of 18.1 pence from 93.0 pence to 111.1 pence.

The Committee further considered the adjusted EPS performance for 2021 to ensure that the performance reflected management actions and the shareholder experience during the year. Historically, property profits have been included when assessing performance outcomes. However, given the significant progress we have made with our property disposal programme and the fact that property profits are likely to be more difficult to forecast in future years, the Committee agreed that it was appropriate to exclude property profits when assessing performance in future years. In view of the high level of property profit in 2021 and the Committee's decision to exclude property profit from adjusted EPS in future years, the Committee agreed in the interests of consistency to exclude property profit from the adjusted EPS calculation for 2021 for the purpose of determining vesting of the 2019 LTIP award.

The Woodie's business was classified as an essential retailer and continued to trade in the early months of 2021 when Ireland was in lockdown and experienced exceptional demand particularly in the first four months of the year. The Committee, therefore, also agreed that it was appropriate to exclude profit associated with this exceptional demand when assessing the performance outcomes for the 2019 LTIP award.

The 111.1 pence adjusted EPS performance arrived at following adjustment for the divestment of the traditional merchanting business in Great Britain as described above was therefore reduced by earnings from property profits (5.6 pence) and the estimated exceptional profit in Woodie's (6.7 pence) to give an overall adjusted EPS outcome for the purpose of the LTIP of 98.8 pence. As this exceeded the target range of 94.0 pence, 100 per cent of this half of the award will vest.

On the basis of the foregoing, 100 per cent of the total awards granted in 2019 to the Chief Executive Officer and Chief Financial Officer will vest in May 2022.

### 2021 LONG TERM INCENTIVE PLAN

The renewed Grafton Group plc 2021 Long Term Incentive Plan (the "Plan") was approved by shareholders at the Annual General Meeting of the Company held on 28 April 2021. The Plan was 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.

### 2021 SAVE AS YOU EARN SCHEME

The renewed Grafton Group plc 2021 Approved SAYE Plan (the "SAYE Plan") was approved at the Annual General Meeting of the Company held on 28 April 2021. The SAYE Plan was updated for changes in legislation and the simplification of the Grafton Unit which was approved by shareholders at the 2021 EGM.

### OVERVIEW OF REMUNERATION FOR 2021

The Committee believes that the remuneration policy operated as intended in the context of the level of bonus payable relative to the demanding performance targets set by the Committee for 2021. Vesting of LTIP awards was based on the achievement of the upper range of the EPS target for the three years to the end of 2021 and the TSR element of the LTIP opportunity reflected the strong share price performance of Grafton relative to the FTSE 250 excluding investment trusts.

The Remuneration Committee was satisfied with the balance of short and long term elements of remuneration for the year.

### IMPLEMENTATION OF POLICY IN 2022

The Directors' Remuneration Policy was approved by c.95 per cent of the shares lodged by proxy at the AGM on 29 April 2020 and the Committee does not propose any changes to the Policy in 2022. In-line with the three-year regulatory cycle, a renewed policy will be put to a vote at the 2023 AGM. The Remuneration Policy is set out on pages 109 to 116.

### SALARY

The Committee approved a salary increase of 3.1 per cent with effect from 1 January 2022 for the Chief Executive Officer and Chief Financial Officer which reflects the typical level of salary increase for the wider workforce. Base salaries from 1 January 2022 will therefore be £629,756 and £431,310 respectively.

### BONUS OPPORTUNITY

As part of the 2020 Policy, the bonus opportunity was increased from 120 per cent to 150 per cent of base salary for the CEO and from 100 per cent to 125 per cent for the CFO. At that time the Committee indicated that it did not intend to utilise the increased headroom for 2020. Following the outbreak of Covid-19 the CEO and CFO voluntarily requested the suspension of the Bonus Scheme and no bonuses were paid in respect of 2020. Given the continuing uncertainty due to the Covid-19 pandemic, the Committee did not consider that it was appropriate to increase the annual bonus for 2021.

The full year Group adjusted operating profit in continuing operations increased by 68.8 per cent to £288.0 million. In November 2021, we announced the Group's new medium-term financial return targets of an operating profit margin of 10 per cent and a return on capital employed of 13 per cent.

As noted above, in July 2021, the Group completed the divestment of the traditional merchanting business in Great Britain for an enterprise value of £520 million on 31 December 2021 and as part of our international development strategy we completed the acquisition of IKH in Finland during the year.

Taking into account the strong performance of the business and the evolving complexity and geographical spread of its operations, the Committee has concluded that now is an appropriate time to increase the maximum annual bonus opportunity as provided for under our Policy.

For 2022 therefore the maximum annual bonus for the CEO will be 150 per cent of salary and 125 per cent of base salary for the CFO. Given this increase, if the bonus earned exceeds 120 per cent of salary for the CEO or 100 per cent of salary for the CFO then the additional amount earned will be required to be deferred into shares for three years. While this decision was not based on benchmarking data, the Committee did sense check the positioning of the annual bonus opportunity and the packages as a whole against other companies of a similar size and complexity. The Committee concluded that the revised package positioning was appropriate and not excessive for a company of our size and complexity.

The annual bonus for 2022 will continue to be based 70 per cent on operating profit and 30 per cent of ROCE. These measures are intended to focus the executive team on both profitability and the maintenance of a disciplined approach to the use of capital. For 2023 and future years the Committee will review the performance measures for the annual bonus and consider whether to introduce measures linked to our Sustainability strategy in addition to the financial measures.

The Committee consulted with major shareholders in advance of agreeing this change and was pleased with the level of support received.

## REPORT OF THE REMUNERATION COMMITTEE ON DIRECTORS' REMUNERATION continued

### LONG-TERM INCENTIVE PLAN (LTIP)

LTIP awards will continue to be made at 200 per cent of salary to the CEO and at 175 per cent of salary to the CFO.

Half of the awards will be based on a TSR performance condition and half on an adjusted EPS performance condition. This is in line with the awards made in 2021. 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.

When setting the target EPS range for the 2022 LTIP award, the Committee adjusted the base year EPS performance for 2021 to exclude property profit and profit associated with exceptional demand at Woodie's. This is consistent with the approach adopted when assessing performance for the 2019 LTIP award. As noted above, in respect of the 2019 LTIP vesting, historically, property profits have been included when assessing performance outcomes. However, given the significant progress we have made with our property disposal programme and the fact that property profits are likely to be more difficult to forecast in future years, the Committee agreed that it was appropriate to exclude property profits when assessing performance in future years.

Annual compound growth targets for the 2022 LTIP awards have been set at a slightly higher rate than in previous years at 8.0 per cent per annum for threshold vesting and 13.0 per cent per annum for maximum vesting applied to the revised 2021 base year adjusted EPS of 80.7 pence. This gives a threshold target of 101.7 pence and maximum target of 116.4 pence. The Committee believes that these targets are appropriately stretching against the adjusted EPS outturn for 2021 of 93.0 pence as reduced to exclude property profit of 5.6 pence and the exceptional profit in Woodie's of 6.7 pence.

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.

### PENSION

The pensions of incumbent Directors will be aligned to the level available for the majority of the wider workforce by the end of 2022 and for all future appointments to the Board, the pension will be set in line with the level available to the majority of our workforce, which is currently 3.1 per cent.

### 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.

Members of the Committee attended Colleague Forums during the year in the UK, Ireland and the Netherlands. Colleague Forums, made up of colleagues from each of our businesses, provide the opportunity for our people to engage with Non-Executive Directors and their views to be heard at management and board level.

### 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. 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 2022

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 126 and in the Chair's Annual Statement on page 107.

#### 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.

## REMUNERATION POLICY REPORT continued

**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.



## 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
<b>Base Salary</b>			
<b>To recruit, retain and reward executives of a suitable calibre for the roles and duties required</b>	<p>Salaries of Executive Directors are reviewed annually in January and any changes made are effective from 1 January.</p> <p>When conducting this review and the level of increase, the Committee considers a range of factors including:</p> <ul style="list-style-type: none"> <li>• The performance of the Group and the individual;</li> <li>• Market conditions;</li> <li>• The prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers;</li> <li>• The responsibilities and experience of each Executive Director; and</li> <li>• The level of salary increases implemented across the Group.</li> </ul>	<p>There 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"> <li>• To recognise an increase in the scale, scope or responsibility of a role; and</li> <li>• Development of an individual within the role.</li> </ul>	Not applicable
<b>Benefits</b>			
<b>Provide market competitive benefits</b>	<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
<b>Pension</b>			
<b>Provide market competitive benefits</b>	A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension.	<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 to the level available for the majority of the wider workforce at the date of appointment.</p>	Not applicable

## REMUNERATION POLICY REPORT continued

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
<b>Annual Bonus</b>			
<b>To encourage and reward delivery of the Group's annual financial and strategic objectives</b>	<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 114.</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>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 additional amount earned from the increase in the bonus opportunity in 2022 and future years will be required to be deferred into shares for three years.</p>
<b>Long Term Incentives ("LTIP")</b>			
<b>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</b>	<p>The 2021 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 114.</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 per cent 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 per cent 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>

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
<b>All-Employee Share Plans</b>			
<b>To encourage share ownership and align the interests of employees with shareholders</b>	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 2021 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
<b>Share Ownership Guidelines</b>			
<b>To increase the alignment of interests between Executive Directors and shareholders</b>	<p>An Executive Director is required to apply 30 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>Future LTIP awards made from 2020 onwards will be subject to the two year holding period and 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
<b>Chair and Non-Executive Director Fees</b>			
<b>To attract and retain a high-calibre Chair and Non-Executive Directors by offering a market competitive fee level</b>	<p>The Chair'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 Chair 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

## REMUNERATION POLICY REPORT continued

### CLAWBACK AND MALUS

#### ANNUAL BONUS

The Bonus scheme 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 either directly or indirectly in a bonus award vesting to a greater degree than would have been the case had that misstatement not been made;
- The Remuneration Committee forms the view that in assessing the extent to which any performance condition and or any other condition imposed on any bonus award was based on an error, or on inaccurate or misleading information or assumptions and that such error, information or assumptions resulted either directly or indirectly in a bonus being made to a greater degree than would have been the case had that error not been made;
- The Group or any part of the Group in the reasonable opinion of the Remuneration Committee, following consultation with the Audit & Risk Committee, suffered a material failure of risk management and where the Remuneration Committee forms the view that the conduct of a director contributed to the circumstances leading to such failure;
- A director is found guilty or pleads guilty to a crime that is related to or damages the business or reputation of any member of the Group;
- 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; or
- A director is in breach of any applicable restrictions on competition, solicitation or the use of confidential information.

#### LONG TERM INCENTIVES

The Remuneration Committee has the discretion, in circumstances in which the Remuneration Committee considers such action is appropriate, to decide at any time prior to the vesting of an award that the director to whom the award was issued shall be subject to forfeiture or reduction (including by way of imposition of additional conditions) of all or part of an award before it has vested.

The Remuneration Committee also has the discretion to require the repayment of vested awards (within six years of the date of award) in specified circumstances, including:

- where there is a material misstatement in the Company's financial results and that such misstatement resulted either directly or indirectly in an award vesting to a greater degree than would have been the case had that misstatement not been made;
- where in calculating the number of shares to which an award relates or in determining the performance conditions and/or any other condition imposed on the award or in assessing the extent to which any performance condition and/or any other condition imposed on the award was satisfied such calculation, determination or assessment was based on an error, or on inaccurate or misleading information or assumptions and that such error, information or assumptions resulted either directly or indirectly in that award vesting over a greater number of shares or to a greater degree than would have been the case had that error not been made;
- where it is determined that there has been a material failure of risk management; (d) where the conduct of the relevant participant contributed to circumstances leading to an insolvency or corporate failure resulting in the value of the Company's shares being materially reduced;
- where the relevant participant is found guilty of or pleads guilty to a crime that is related to or damages the business or reputation of any member of the Company's group;
- there is reasonable evidence of fraud or material dishonesty by the relevant participant that is related to or damages the business or reputation; and
- 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 to the level available for the majority of the wider workforce 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 Chair or Non-Executive Director will be set in line with the approved policy.

### SERVICE CONTRACTS & PAYMENTS FOR LOSS OF OFFICE

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

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

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

## REMUNERATION POLICY REPORT continued

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 award 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 2022 for Executive Directors vary under four performance scenarios – Minimum, In line with Expectation, Maximum and Maximum plus 50 per cent share price growth.

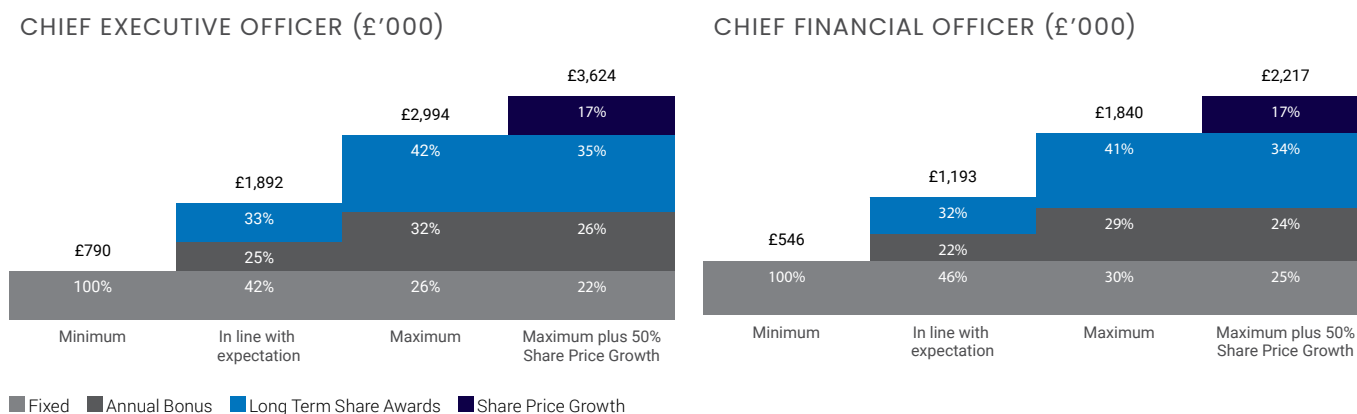


Chart labels show proposition of the total package comprised of each element.

### ASSUMPTIONS

**Minimum** = fixed pay only (2022 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.

Note these charts have been updated from those included in the Policy approved by shareholders at the 2020 AGM to reflect the implementation of the Policy in 2022.

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.

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, Chair, attended meetings of the Committee during 2021 by invitation and participated in discussions. 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.

Deloitte LLP ("Deloitte") are the Committee's advisor on remuneration matters and fees paid to them during the year were £34,300. Fees were charged on a time and material basis.

The Committee is satisfied that the Deloitte team, 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 services during the year which were not of a material nature.

During the year Deloitte provided a market practice update to the Committee on remuneration trends and governance. Deloitte also provided advice on the implementation of policy for 2022 and on other remuneration matters.

The Committee is satisfied that the advice provided by Deloitte is objective and independent. Deloitte are a signatory to the Remuneration Consultants' Code of Conduct which requires its advice to be impartial and Deloitte have confirmed to the Committee its compliance with the Code.

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**ANNUAL REPORT ON REMUNERATION continued****Activity During the Year**

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**January 2021**

- Considered a draft of the Report of the Remuneration Committee on Directors' Remuneration;
  - Determined the performance conditions for the 2021 Bonus Award; and
  - Initial review of the 2021 revised LTIP Scheme Rules.
- 

**February 2021**

- Considered and approved the Report of the Remuneration Committee on Directors' Remuneration;
  - Determined the extent of vesting of the LTIP awards made in 2018;
  - Agreed the quantum of 2021 LTIP awards to be granted to Executive Directors and the Company Secretary;
  - Considered the performance conditions for the 2021 LTIP awards including the EPS range;
  - Considered the TSR comparator Group for the 2021 LTIP award;
  - Considered and approved the revised scheme rules for the 2021 Long Term Incentive Plan for shareholder approval at the 2021 AGM;
  - Considered and approved the revised scheme rules for the 2021 Save As You Earn Scheme for shareholder approval at the 2021 AGM; and
  - Reviewed the CEO Pay Ratio with the wider workforce.
- 

**May 2021**

- Approved the partial vesting of LTIP awards granted in 2018.
- 

**October 2021**

- Considered an update from Deloitte on latest executive remuneration trends and corporate governance developments;
  - Considered shareholder and proxy advisor feedback received on the 2020 Report of the Remuneration Committee on Directors' Remuneration;
  - Considered an update on pay across the Group's workforce;
  - Considered whether any remuneration benchmarking is required and if remuneration policy remains appropriate;
  - Reviewed share allocation and dilution limits;
  - Reviewed and determined Chair's Fees; and
  - Reviewed the Committee Terms of Reference.
- 

**November 2021**

- Considered level of potential Bonus Awards for 2021;
  - Considered level of potential vesting of 2019 LTIP Awards in 2022;
  - Considered and determined 2022 Bonus Scheme opportunity and financial targets for the year including an increase in the bonus opportunity, in line with the Policy subject to consultation with shareholders;
  - Determined the rate of increase in basic salaries for 2022 for Executive Directors and Company Secretary;
  - Initial consideration of 2022 LTIP Awards; and
  - Reviewed Executive Directors' shareholdings against Policy.
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### SINGLE TOTAL REMUNERATION FIGURE OF DIRECTORS' REMUNERATION

The following table sets out the total remuneration for Directors for the year ending 31 December 2021 and the prior year.

	Salary/Fees (a)		Bonus (b)		Pension (c)		Other Benefits (d)		Long Term Incentive Plan (e)		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>Executive Directors</b>												
G. Slark	611	581	733	–	128	123	32	42	1,772	576	3,276	1,322
D. Arnold	418	398	418	–	84	80	28	41	1,062	345	2,010	864
	<b>1,029</b>	<b>979</b>	<b>1,151</b>	<b>–</b>	<b>212</b>	<b>203</b>	<b>60</b>	<b>83</b>	<b>2,834</b>	<b>921</b>	<b>5,286</b>	<b>2,186</b>
<b>Non-Executive Directors</b>												
M. J. Roney	231	220	–	–	–	–	–	–	–	–	231	220
P. Hampden Smith	61	59	–	–	–	–	–	–	–	–	61	59
F. van Zanten(i)	–	20	–	–	–	–	–	–	–	–	–	20
S. Murray	61	59	–	–	–	–	–	–	–	–	61	59
V. Crowley	61	59	–	–	–	–	–	–	–	–	61	59
R. McGuckian	61	59	–	–	–	–	–	–	–	–	61	59
	<b>475</b>	<b>476</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>475</b>	<b>476</b>
<b>Total Remuneration</b>	<b>1,504</b>	<b>1,455</b>	<b>1,151</b>	<b>–</b>	<b>212</b>	<b>203</b>	<b>60</b>	<b>83</b>	<b>2,834</b>	<b>921</b>	<b>5,761</b>	<b>2,662</b>

The following table sets out the total remuneration for Executive Directors split between fixed and variable pay for the year ending 31 December 2021 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.

	Total Fixed Pay		Total Variable Pay		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>Executive Directors</b>						
G. Slark	771	746	2,505	576	3,276	1,322
D. Arnold	530	519	1,480	345	2,010	864
	<b>1,301</b>	<b>1,265</b>	<b>3,985</b>	<b>921</b>	<b>5,286</b>	<b>2,186</b>

(i) Mr. F. van Zanten retired from the board on 29 April 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 £1,248,000 (2020: £459,000).

#### NOTES TO THE DIRECTORS' REMUNERATION TABLE:

- (a) This is the amount of salaries and fees earned in respect of the financial year. Non-Executive Directors' fees are payable in Euro. A benchmark review of fees payable to Non-Executive Directors and the Chair was undertaken during the year and it was agreed that a fee increase of 0.6 per cent to €70,420 would apply with effect from 1 January 2021. The sterling equivalent amounts to £60,533 on the basis of the average exchange rate for the year of 85.96 pence. During 2020 Directors took a voluntary reduction in salaries, fees and pension of 20 per cent effective from 8 April until 30 June 2020 in response to the Covid-19 pandemic and the impact on the business. The amount shown in the single figure is after this reduction.
- (b) 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. The amount in respect of 2021 will be paid in cash at the end of March 2022.
- (c) 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.
- (d) Benefits comprise permanent health and medical insurance and the provision of a company car.
- (e) For the year ended 31 December 2021, this is the value of LTIP awards that will vest in May 2022. The vesting of these awards was subject to performance conditions over the period from 1 January 2019 to 31 December 2021. The value of the awards is based on the average share price of £12.54 for the three months to 31 December 2021. This represents an increase of £4.06 or 47.9 per cent from the share price at the date of grant which was £8.48. For the year ended 31 December 2020, this is the value of LTIP awards that vested in May 2021 which has been updated from that disclosed last year to reflect the share price of £12.28 on the date of vesting. The amounts disclosed in the 2020 report were £373,000 in respect of G. Slark and £224,000 in respect of D. Arnold.

## ANNUAL REPORT ON REMUNERATION continued

## FIXED PAY IN 2021

## SALARY AND FEES

Having taken account of both external market developments and internal Group considerations, the Committee agreed in December 2020 that the basic salary of the Chief Executive Officer and the Chief Financial Officer would increase by 0.6 per cent from 1 January 2021 in line with the wider workforce.

	Salary/Fees		Change
	2021 £'000	2020 £'000	
G. Slark	<b>611</b>	607	<b>0.6%</b>
D. Arnold	<b>418</b>	416	<b>0.6%</b>

Non-Executive Directors' fees were increased by 0.6 per cent with effect from 1 January 2021 to £60,533 per annum (based on an exchange rate of Stg85.96 pence to 1 Euro) (constant currency (€70,420). No additional fees were paid for chairing Board Committees during the year. The fee paid to Mr. Roney, Non- Executive Chair, was increased by 0.6 per cent to £231,380 with effect from 1 January 2021.

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 Covid-19 pandemic 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 2021 Taxable Benefits £'000	Total 2020 Taxable Benefits £'000
G. Slark	9	23	<b>32</b>	42
D. Arnold	7	21	<b>28</b>	41

## 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.

	2021 Base Salary	% of salary	2021 Pension Contribution	2020 Pension Contribution
G. Slark	<b>611</b>	20.9%	<b>128</b>	123
D. Arnold	<b>418</b>	20.0%	<b>84</b>	80

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 £128,040 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 the level available for the majority of the wider workforce at that time.

## PAY FOR PERFORMANCE

## ANNUAL BONUS

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

The table below analyses the composition of the bonus opportunity for the year (% of salary):

	Operating Profit	Capital Employed	Bonus Payable
G. Slark	84%	36%	120%
D. Arnold	70%	30%	100%

Financial targets were set at the beginning of the year by reference to the Group's budget for 2021. The actual targets and performance against those targets are set out in the table below for 2021:

	Threshold (0% Payable)	Budget (50% Payable)	Stretch (100% Payable)	Actual	% of Maximum Payable
Operating profit (£'000)*	146,287	162,541	178,795	258,216	100
Return on capital employed**	16.0%	17.8%	19.5%	24.3%	100

\* Pre IFRS16 adjusted operating profit, before property profit, from continuing operations.

\*\*Based on capital employed in budget/monthly management accounts.

To ensure performance is being assessed on a like for like basis with the targets set for the year, annual bonus targets were adjusted to remove the operating profit contribution of the traditional merchanting business in Great Britain for 2021 that was treated as a deemed disposal as at 30 June 2021 and classified as discontinued operations for the year. This business was divested on 31 December 2021.

The award for each financial measure was based on a sliding scale from 90 per cent to 110 per cent of the Group's budget for 2021. No bonus was payable if performance was below a minimum threshold of 90 per cent of budget. The bonus opportunity then increased on a straight line basis up to 100 per cent of the bonus opportunity on achieving 110 per cent of budget.

The Committee considered the extent to which these targets were achieved and agreed a payment of 120 per cent of salary for Mr. Slark and 100 per cent of salary for Mr. Arnold out of a maximum bonus opportunity of 120 per cent and 100 per cent of salary respectively. The Committee determined that no changes to these outcomes were required.

### 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.

### LTIP AWARDS WITH A PERFORMANCE PERIOD COVERING THE THREE YEARS TO 31 DECEMBER 2021

The performance conditions for LTIP awards made in April 2019 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 2021.

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 82p	0%
Threshold	Median	25%	82p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	82-94p	25%-100%
Stretch or above	Above 80th percentile	100%	94p	100%
Actual achieved	Above 80th percentile	100%	98.8p	100%

The adjusted EPS targets for the financial year ended 31 December 2021 were in the range of 82.0 pence to 94.0 pence. Adjusted EPS for continuing operations for 2021 was 93.0 pence. In July 2021, the Group announced its agreement to divest the traditional merchanting business in Great Britain for an enterprise value of £520 million and this transaction completed on 31 December 2021. This business has been treated as discontinued for the year in line with IFRS and is therefore not included in the performance of continuing operations. For the purpose of assessing EPS performance the Committee has agreed to increase the Adjusted EPS for continuing operations to ensure that performance is assessed on a like-for-like basis to the greatest extent possible with the targets set. To most closely align with the shareholder experience during the year, the Committee determined that it was appropriate to include the operating profit after tax of the traditional merchanting businesses in Great Britain for the period 1 January 2021 to 30 April 2021 and the daily ticker cash payment received from the purchaser for the period from 1 May 2021 to the date of completion on 31 December 2021. The consideration received on divestment was based on the balance sheet as at 30 April 2021 with all cashflow generated after that date for the benefit of the purchaser. The daily ticker rate amounted to £30.2 million and compensated Grafton for the loss of profits from 1 May 2021 to completion on 31 December 2021. This approach is consistent with the Committee's decision in 2019 when the Group divested its Plumbase and the Belgian merchanting businesses. This adjustment resulted in an increase in adjusted EPS of 18.1 pence to 111.1 pence.

The Committee further considered the adjusted EPS performance for 2021 to ensure that the performance reflected management actions and the shareholder experience during the year. Historically, property profits have been included when assessing performance outcomes. However, given the significant progress we have made with our property disposal programme and the fact that property profits are likely to be more difficult to forecast in future years, the Committee agreed that it was appropriate to exclude property profits when assessing performance in future years. In view of the high level of property profit in 2021 and the Committee's decision to exclude property profit from adjusted EPS in future years, the Committee agreed in the interests of consistency to exclude property profit from the adjusted EPS calculation for 2021 for the purpose of determining vesting of the 2019 LTIP award.

The Woodie's business was classified as an essential retailer and continued to trade in the early months of 2021 when Ireland was in lockdown and experienced exceptional demand particularly in the first four months of the year. The Committee, therefore, also agreed that it was appropriate to exclude profit associated with this exceptional demand when assessing the performance outcomes for the 2019 LTIP award.

## ANNUAL REPORT ON REMUNERATION continued

The 111.1 pence adjusted EPS performance arrived at following the adjustment for the divestment of the traditional merchanting business in Great Britain described above was therefore reduced by earnings from property profits (5.6 pence) and the estimated exceptional profit in Woodie's (6.7 pence) to give an overall adjusted EPS outcome for the purpose of the LTIP of 98.8 pence. As this exceeded the target range of 94.0 pence, 100 per cent of this half of the award will vest.

The Committee considered the underlying financial performance of the Company during 2021, 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 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 2022:

Director	Total number of shares granted	Percentage of award vesting (%)	Number of shares vesting	Value of shares vesting (£) <sup>1</sup>
G. Slark	141,336	100%	141,336	1,772,354
D. Arnold	84,699	100%	84,699	1,062,125

<sup>1</sup> As these awards do not vest until 12 April 2022, a deemed share price is used to calculate the value of shares vesting. This is taken as the three-month average to 31 December 2021 being £12.54.

### LTIP AWARDS GRANTED DURING THE YEAR ENDED 31 DECEMBER 2021

The following awards were made during the year ended 31 December 2021:

	Date of Grant	Number of nil cost Units	% of Base Salary	Share Price at Grant Date	Value of Award at Grant Date
G. Slark	17 May 2021	101,761	200	£12.0050	£1,221,641
D. Arnold	17 May 2021	60,983	175	£12.0050	£732,101

The 2021 awards to Mr. Slark and Mr. Arnold are subject to the achievement of the following TSR and Adjusted EPS performance conditions:

	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%	70.4-80.7p	25%-100%
Stretch or above	Above 80th percentile	100%	Above 80.7p	100%

The TSR comparator group consists of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts.

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 also 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 £44,700 in 2021.

Mr. Arnold is a Non-Executive Director of Crest Nicholson Holdings plc and is permitted to retain his fee for the role which amounted to £20,000 in 2021.

### 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 2022

#### 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 Committee approved a salary increase of 3.1 per cent with effect from 1 January 2022 for the Chief Executive Officer and Chief Financial Officer which reflects the typical level of salary increase for the wider workforce.

The following salaries will apply from 1 January 2022:

	2022 Base Salary	2021 Base Salary	% Increase
G. Slark	<b>£629,756</b>	£610,820	<b>3.1 %</b>
D. Arnold	<b>£431,310</b>	£418,341	<b>3.1 %</b>

#### CHAIR AND NON-EXECUTIVE DIRECTORS' FEES

A benchmark review of fees payable to Non-Executive Directors and the Chair was undertaken during the year and it was agreed that a fee increase of 0.6 per cent would apply with effect from 1 January 2021 and an increase of 3.1 per cent would apply with effect from 1 January 2022 which reflects the general level of salary increase for the broader employee population. It was further agreed that with effect from 1 January 2022 additional fees of €11,594 would be paid to each of the Chairs of the Audit and Risk Committee and the Remuneration Committee. For further details on Non-Executive Director and Chair fees paid during 2021 see page 119.

#### 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 2021.

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 the level available for the majority of the wider workforce at the time.

#### ANNUAL BONUS

Taking into account the strong performance of the business and the evolving complexity and geographical spread of the Group's operations, the Committee has concluded that now is an appropriate time to increase the maximum annual bonus opportunity as provided for under our Policy. The maximum potential performance related bonus pay award will increase from 120 per cent to 150 per cent of salary for the Chief Executive Officer and from 100 per cent to 125 per cent for the Chief Financial Officer. Given this increase, if the bonus earned exceeds the current maximum bonus opportunity of 120 per cent of salary for the CEO and 100 per cent of salary for the CFO then the additional amount earned will be required to be deferred into shares for three years. This is in addition to the existing requirement for Executive Directors to apply 30 per cent of their annual bonus after statutory deductions for the purchase of share until their shareholding guideline is met.

For further information on the Committee's decision to increase the maximum annual bonus opportunity as provided for under Policy see page 107.

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 2022 are as follows:

CEO Bonus Based on	% of Salary 2022	% of Salary 2021
Operating profit	<b>105%</b>	84%
Return on capital employed	<b>45%</b>	36%

CFO Bonus Based on	% of Salary 2022	% of Salary 2021
Operating profit	<b>87.5%</b>	70%
Return on capital employed	<b>37.5%</b>	30%

The actual bonus targets are commercially sensitive and will be disclosed in the 2022 Annual Report.

Clawback provisions operate as set out in the Remuneration Policy on page 114.

#### LONG TERM INCENTIVES

Awards to be made in 2022 will be at the same level as 2021 being 200 per cent of salary for the CEO and 175 per cent of salary for the CFO. Vesting of the 2022 award will be based on relative TSR (50 per cent) and on EPS (50 per cent) performance conditions 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 101.7p	0%
Threshold	Median	25%	109.1p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	109.1p-116.4p	25%-100%
Above 80th percentile	Above 80th percentile	100%	116.4p	100%

## ANNUAL REPORT ON REMUNERATION continued

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.

When setting the target EPS range for the 2022 LTIP award the Committee adjusted the base year EPS performance for 2021 to exclude property profit and the performance associated with exceptional levels of demand during the year at Woodie's consistent with its approach to assessing performance for the 2019 LTIP award. As noted above in respect of the 2019 LTIP vesting, historically, property profits have been included when assessing performance outcomes. However, given the significant progress we have made with our property disposal programme and the fact that property profits are likely to be more difficult to forecast in future years, the Committee agreed that it was appropriate to exclude property profits when assessing performance in future years.

Annual compound growth targets for the 2022 LTIP awards have been set at a slightly higher rate than in previous years at 8.0 per cent per annum for threshold vesting and 13.0 per cent per annum for maximum vesting applied to the revised 2021 base year adjusted EPS of 80.7 pence. This gives a threshold target of 101.7 pence and maximum target of 116.4 pence. The Committee believes that these targets are appropriately stretching against the adjusted EPS outturn for 2021 of 93.0 pence as reduced to exclude property profit of 5.6 pence and the exceptional profit in Woodie's of 6.7 pence.

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 2021 financial year compared with the prior year.

	2021 £'000	2020 £'000	Percentage Change
Dividends payable	73,050	34,685	110.6%
Employee remuneration costs*	317,056	260,997	21.5%

\*From continuing operations

There were no share purchases by the Company in 2021.

## PERCENTAGE CHANGE IN DIRECTORS PAY

The table below shows the percentage year-on-year change in the value of salary/fees, annual bonus and benefits for all Directors between the current and previous year compared to that of the average employee.

	Salaries or fees (% change)		Benefits (% change)		Bonus (% change)	
	2020 to 2021*	2019 to 2020	2020 to 2021	2019 to 2020	2020 to 2021**	2019 to 2020
Gavin Slark	5.1%	(3.0%)	(23.3%)	(6.7%)	100%	(100.0%)
David Arnold	5.1%	(3.0%)	(32.4%)	(6.8%)	100%	(100.0%)
M. J. Roney	5.3%	(4.5%)	–	–	–	–
P. Hampden Smith	5.3%	(4.5%)	–	–	–	–
S. Murray	5.3%	(4.5%)	–	–	–	–
V. Crowley	5.3%	(4.5%)	–	–	–	–
R. McGuckian	5.3%	–	–	–	–	–
Average employee						
Salary, Benefits and Bonus (£)***	10.4%	(7.3%)				

\* During 2020 Directors took a voluntary reduction in salaries, fees and pension of 20 per cent effective from 8 April until 30 June 2020. The percentage change is calculated using unrounded figures in the currency of base pay after this reduction. Excluding the 2020 temporary reduction the increase was 0.6% for all Directors.

\*\* The CEO and CFO requested that the annual bonus plan be suspended for 2020 and therefore no bonus was payable.

\*\*\* Based on average number of persons employed during the year, from continuing operations. The increase in constant currency was 12.6 per cent.

## CEO PAY RATIO TO THE WORKFORCE

The table on page 125 shows the ratio of the CEO's total remuneration for 2021 and the lower, median and upper quartile full-time equivalent remuneration of the Group's UK employees. The pay ratios for 2020 and 2019 are also shown for comparison. Grafton Group plc has decided to use Option A as it provides the most statistically accurate method for identifying the pay ratios. Option A requires a company to calculate the total full-time equivalent pay and benefits of all its UK employees for the relevant financial year (using the same methodology as for CEO pay) in order to identify and rank the 25th, 50th and 75th percentiles.

The total remuneration for employees includes wages and salaries, taxable benefits, bonuses, share based payments remuneration and pensions.

The period of analysis is between 1 January and 31 December 2021. The total number of UK colleagues included in the 2021 pay ratio analysis was 3,085. The analysis included colleagues employed as of 31 December 2021.

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	Option A	93:1	77:1	59:1
2020	Option A	68:1	57:1	44:1
2021	Option A	150:1	130:1	99:1

#### TOTAL PAY AND BENEFITS AMOUNTS USED TO CALCULATE CEO PAY RATIO

Financial year	Method	25th percentile pay ratio		50th percentile pay ratio		75th percentile pay ratio	
		Total pay and benefits	Total Salary	Total pay and benefits	Total Salary	Total pay and benefits	Total Salary
2021	Option A	£21,419	£18,979	£24,662	£22,608	£32,246	£29,571

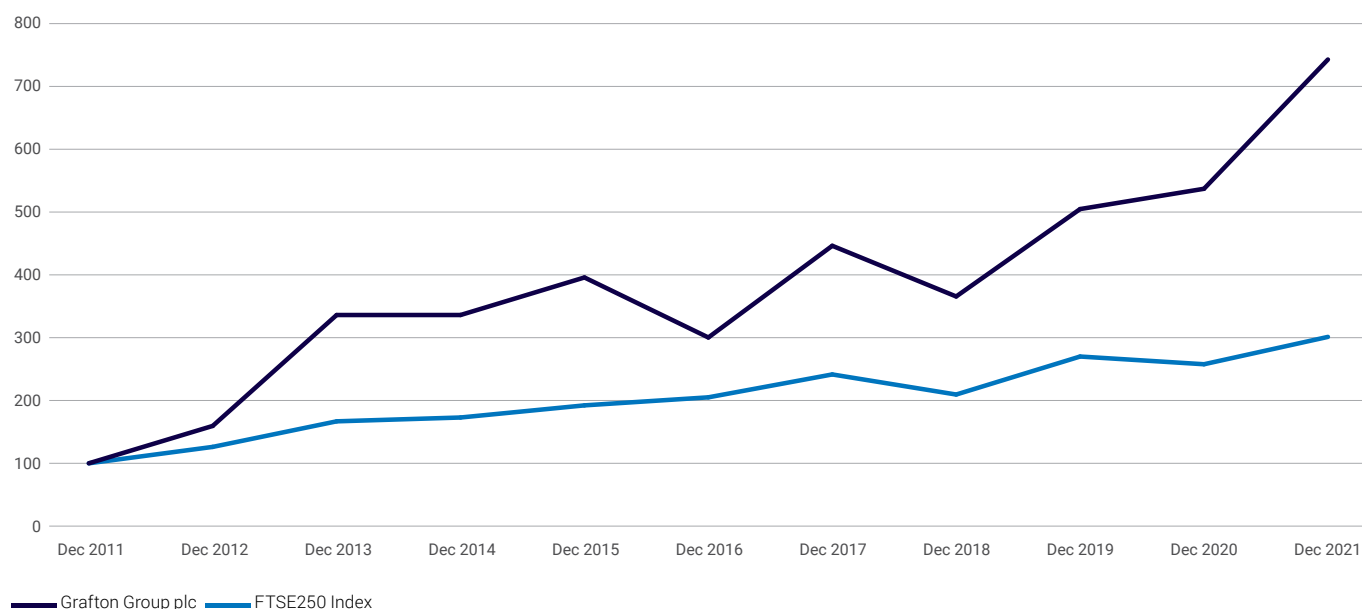
For the purpose of calculating the pay ratio, the CEO's remuneration is based on the single figure for 2021 which includes bonus and LTIP payments in respect of 2021 performance. Details of colleague bonus payments in respect of 2021 is based on bonuses paid in 2021. This is consistent with the calculation method used in previous years. Consistent with our practice in previous years, next year's report will be updated for bonuses paid to colleagues in respect of 2021.

The pay ratio reported for 2020 has been re-calculated to reflect the value of the CEO LTIP award that vested in May 2021. As outlined above, when we reported the 2020 ratio full details of colleague bonuses in respect of 2020 were not available and therefore colleague bonus pay data was based on bonuses paid in 2020, some of which relate to performance in respect of 2019. The ratio has also been updated to be based on colleague bonuses paid in respect of 2020 such that it is on a like for like basis the CEO's single figure calculation. On average bonuses for 2020 were lower than for 2019 due to the impact of the pandemic. These two adjustments resulted in the median CEO ratio increasing from 47:1 to 57:1.

#### 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 2011 to 31 December 2021.



Source: FactSet

This graph shows the value, by 31 December 2021, of £100 invested in Grafton Group plc on 31 December 2011, 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 constituent of the index and it includes comparable sized businesses. The other points plotted are the values at intervening financial year-ends.

## ANNUAL REPORT ON REMUNERATION continued

The table below shows the total remuneration figure for the position of CEO over the ten years to 2021.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO single total figure of remuneration (£'000)	1,001	1,524	3,080	2,255	1,692	1,689	2,211	1,852	1,322	<b>3,276</b>
Annual bonus payout relative to maximum	49%	49%	98%	53%	60%	100%	93%	19%	0%	<b>100%</b>
LTIP vesting	N/A	45%	100%	87%	50%	26%	72%	95%	30%	<b>100%</b>

## STATEMENT OF SHAREHOLDER VOTING

The 2020 Annual Report on Remuneration received the following votes from shareholders at the 2021 AGM:

	Total Number of Votes	% of Votes Cast
For	91,165,066	95.56
Against	4,234,358	4.44
Total	95,399,424	100

The number of votes withheld for the Annual Report on Remuneration was 508.

The 2020 Directors Remuneration Policy received the following votes from shareholders at the 2020 AGM:

	Total Number of Votes	% of Votes Cast
For	141,317,978	94.54
Against	8,158,554	5.46
Total	149,476,532	100

The number of votes withheld for the Remuneration Policy was 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 2021 Grafton Units**	31 December 2020 Grafton Units*	Unvested LTIP Awards**	Unvested SAYE Options***
G. Slark	<b>295,813</b>	451,236	<b>407,811</b>	–
D. Arnold	<b>149,383</b>	148,459	<b>244,391</b>	<b>1,557</b>
M. J. Roney	<b>33,824</b>	33,824	–	–
P. Hampden Smith	<b>32,990</b>	32,990	–	–
V. Crowley	<b>8,000</b>	8,000	–	–
S. Murray	<b>1,500</b>	1,500	–	–
R. McGuckian	<b>1,332</b>	1,332	–	–
Secretary				
C. Rinn	<b>460,307</b>	452,646	<b>77,636</b>	–

\* At 31 December 2020 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. At 31 December 2021 a Grafton Unit consists of one Ordinary Share of €0.05 in Grafton Group plc. The simplification of the Grafton Unit was approved by Shareholders at the Extraordinary General Meeting of Grafton Group plc held on 21 January 2021 and took effect from 7 March 2021.

\*\* Vesting of these awards is subject to performance conditions and includes awards granted in 2019, 2020 and 2021.

\*\*\* Option to buy shares at the agreed price within six months of the end of the three year period 1 December 2021 (1,367 units) and 1 December 2023 (1,557 units).

The closing price of a Grafton Unit on 31 December 2021 was 1,233.0p (31 December 2020: 922.5p) and the price range during the year was between 859.50p and 1412.0p (2020: 371.0p and 990.0p).

There have been no changes in the interests of the Directors and Secretary between 31 December 2021 and the date of this report.



To further align the interests of senior management with those of shareholders, Executive Directors are subject to share ownership guidelines. Executive Directors are required to build a holding of shares in the Company with a minimum value of 200 per cent of their salary. Directors are required to apply 30 per cent of their annual bonus after statutory deductions for the purchase of shares in the Group until this share ownership requirement is fulfilled.

Mr. Slark held shares at the year-end valued at 5.97 times his salary. Mr. Arnold held shares at the year-end valued at 4.4 times his salary. This is based on the closing price of a Grafton Unit on 31 December 2021 of 1,233p.

During the year 2018 LTIP awards over 46,905 Grafton Units vested in May in favour of Mr. Slark who instructed the Company to immediately sell 22,328 of these Grafton Units to meet tax liabilities and brokers commission and he retained the remainder being 24,577 Grafton Units.

2018 LTIP awards over 28,109 Grafton Units vested in May in favour of Mr. Arnold who instructed the Company to immediately sell 13,381 of these Grafton Units to meet tax liabilities and brokers commission and he retained the remainder being 14,728 Grafton Units.

#### DIRECTORS' AND SECRETARY'S INTERESTS UNDER THE 2011 & 2021 LONG TERM INCENTIVE PLANS

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						EPS Condition	TSR Condition	Performance Period	Vesting Date***
		1 January 2021	Granted	Lapsed	Shares Received	31 Dec 2021					
<b>G. Slark</b>	9 April 2018	£7.54	156,613	–	(109,708)	(46,905)*	–	–	–	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
	17 May 2021	£12.005	–	101,761	–	–	101,761	50,881	50,880	1 Jan 2021-31 Dec 2023	17 May 2024
			<b>462,663</b>	<b>101,761</b>	<b>(109,708)</b>	<b>(46,905)</b>	<b>407,811</b>	<b>121,549</b>	<b>286,262</b>		
<b>D. Arnold</b>	9 April 2018	£7.54	93,854	–	(65,745)	(28,109)*	–	–	–	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
	17 May 2021	£12.005	–	60,983	–	–	60,983	30,492	30,491	1 Jan 2021-31 Dec 2023	17 May 2024
			<b>277,262</b>	<b>60,983</b>	<b>(65,745)</b>	<b>(28,109)</b>	<b>244,391</b>	<b>72,841</b>	<b>171,550</b>		
<b>C. Rinn</b>	9 April 2018	£7.54	25,579	–	(17,918)	(7,661)*	–	–	–	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
	17 May 2021	£12.005	–	18,911	–	–	18,911	9,456	9,455	1 Jan 2021-31 Dec 2023	17 May 2024
			<b>84,304</b>	<b>18,911</b>	<b>(17,918)</b>	<b>(7,661)</b>	<b>77,636</b>	<b>22,601</b>	<b>55,035</b>		

\* The market price at the date of vesting was £12.28.

\*\* 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 was approved by shareholders at the 2011 AGM and expired in April 2021. The Grafton Group plc 2021 Long Term Incentive Plan (the "Plan") was approved by shareholders at the Annual General Meeting of the Company held on 28 April 2021 and the first awards made under the Plan were on 17 May 2021.

#### Susan Murray

Chair of the Remuneration Committee  
8 March 2022

## REPORT OF THE DIRECTORS

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2021.

### GROUP RESULTS

Group revenue from continuing operations which excludes the Traditional Merchanting Business in Great Britain that is classified as discontinued, increased by 25.6 per cent to £2.11 billion (2020: £1.68 billion) and by 28.5 per cent in constant currency. Statutory operating profit was £269.2 million (2020: £157.8 million). Adjusted operating profit from continuing operations of £288.0 million (2020: £170.6 million) increased by 68.8 per cent.

The net finance expense decreased by £4.8 million to £19.4 million (2020: £24.2 million). This charge includes £14.6 million (2020: £15.6 million) of an interest charge on lease liabilities recognised under IFRS 16.

The income tax expense of £43.0 million (2020: £24.1 million) is equivalent to an effective tax rate of 17.2 per cent on profit from continuing operations (2020: 18.1 per cent).

Basic earnings per share from continuing operations was 86.4 pence (2020: 45.9 pence). Adjusted earnings per share from continuing operations was 93.0 pence (2020: 50.3 pence).

The Group and Company financial statements for the year ended 31 December 2021 are set out in detail on pages 142 to 209.

### DIVIDENDS

On 21 January 2021, the Group announced the reinstatement of the second interim dividend 2019 (which was originally due to be paid on 6 April 2020 but suspended on 24 March 2020) of 12.5p per share. This second interim dividend was paid on 19 February 2021 in the amount of £29.9 million.

A final dividend for 2020 of 14.5p per ordinary share in Grafton Group plc was approved by shareholders at the AGM on 28 April 2021 and paid on 5 May 2021 to shareholders on the register of members at the close of business on 9 April 2021.

An interim dividend for 2021 of 8.5p per ordinary share in Grafton Group plc was paid on 1 October 2021 to shareholders on the register of members at the close of business on 3 September 2021. A final dividend for 2021 of 22.0p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 28 April 2022 and, if approved, will be paid on 5 May to shareholders on the register of members at the close of business on 8 April 2022. The ex-dividend date is 7 April 2022.

### 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 2021, the outlook for 2022 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 64 to 69 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 2021 Annual General Meeting and being eligible offered themselves for re-election. All Directors were re-elected to the Board on the same day.

The Board has decided that all Directors seeking re-election should retire at the 2022 Annual General Meeting and offer themselves for re-election.

### SHARE CAPITAL

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 of 5 cent each 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.

### ANNUAL GENERAL MEETING (AGM)

The AGM of the Company will be held at the Radisson Blu St. Helen's Hotel, Stillorgan Road, Dublin, A94 V6W3 at 10.30am on 28 April 2022. The Notice of Meeting for the 2022 AGM will be made available on the Group's website, [www.graftonplc.com](http://www.graftonplc.com). The resolutions to be considered at the Annual General Meeting are summarised below.

### FINANCIAL STATEMENTS

To receive and consider the Company's financial statements for the year ended 31 December 2021 together with the reports of the Directors and the Auditors.

### FINAL DIVIDEND

Shareholders are being asked to declare a final dividend of 22.0 pence per Ordinary Share for the year ended 31 December 2021 payable on 5 May 2022 to the holders of Ordinary Shares on the register of members at close of business on 8 April 2022.

### ELECTION/RE-ELECTION OF DIRECTORS

To elect/re-elect the directors of the Company.

### 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.

### REMUNERATION OF THE AUDITORS

As required under Section 381(1)(b) of the Companies Act 2014, a resolution is being presented authorising the Directors to fix the remuneration of the 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 105 to 108 and 117 to 127, 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 27 per cent of the issued share capital of the Company. 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 €599,028 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 2021 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 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. The Directors have no present intention to exercise this authority.

### 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.

## REPORT OF THE DIRECTORS continued

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 2023 or 15 months after the passing of these resolutions.

**AMENDMENT TO TRUST DEED FOR GROUP SHARE PARTICIPATION SCHEME**

Shareholders are asked to approve a change to the definition of Eligible Employee in the Trust Deed relating to the Grafton Group plc Employee Share Participation Scheme which would reduce the service requirement for participation in the scheme from 18 months to six months.

**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 2021 and 1 March 2022:

Name	31 December 2021		1 March 2022	
	Holding	%	Holding	%
Mr. Michael Chadwick*	21,926,409	9.15	21,926,409	9.15
Investec Asset Management Limited	19,046,178	7.95	19,046,178	7.95
Blackrock, Inc.	18,866,053	7.87	16,640,432	6.94
ABRDN plc	13,692,322	5.72	13,364,058	5.58
JPMorgan Asset Management Holdings Inc.	9,557,700	3.99	9,190,317	3.84
Dimensional Fund Advisors LP	9,513,966	3.97	9,513,966	3.97
Aegon N.V.	8,694,488	3.63	8,694,488	3.63
Aviva plc	7,133,503	2.98	7,202,072	3.01
GLG Partners LP	–	–	7,236,268	3.02

\* 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 1 March 2022 or at 31 December 2021 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](http://www.graftonplc.com), are deemed to be incorporated in this part of the Report of the Directors.

**CORPORATE GOVERNANCE REGULATIONS**

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 90 to 97 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 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 they 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 64 to 69 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 74
Social & Employee Matters	Sustainability Report	75 to 79
	Our People and Culture	14 to 15
	Engaging with our Stakeholders	16 to 17
	Note 11 to the Group Financial Statements	164
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Diversity	Sustainability Report	78 to 79
	Nomination Committee Report	94
Human Rights	Sustainability Report	81
Anti-bribery & Corruption	Sustainability Report	81
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Business Model	Business Model	24 to 25
Non-Financial KPIs	Key Performance Indicators	38 to 39
	Sustainability Report	73 to 74
Principal Risks	Risk Management	64 to 49
Financial Instruments	Note 21 to the Group Financial Statements	178 to 183

## SUBSIDIARIES

The Group's principal operating subsidiary undertakings are set out on page 208.

## 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 2021 that would require adjustment to or disclosure in this report, save as disclosed in Note 34 on page 199.

## 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.

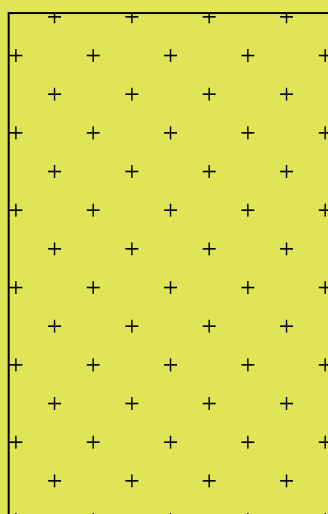
**Gavin Slark**  
Director  
8 March 2022

**David Arnold**  
Director  
8 March 2022

# Building stronger financials

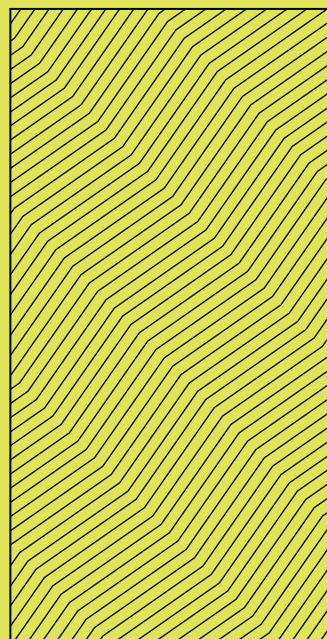
## Financial statements

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Total Revenue 2020

**£1.68bn**



Total Revenue 2021

**£2.11bn**

+26%

#### RECORD RESULTS AND CONTINUED GROWTH

Grafton achieved record results in 2021, a year that also marked the completion of a key phase of our strategic development with the divestment of the traditional merchanting business in Great Britain. We also continued to invest both organically and through acquisitions in our existing businesses and in July we acquired IKH in Finland which provides a new growth platform in the Nordics.

For more see pages 4 to 5



## 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.

Irish law requires the Directors to prepare Group and Company financial statements each year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have prepared 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 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 these 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 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. 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](http://www.graftonplc.com)). Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### RESPONSIBILITY STATEMENT AS REQUIRED BY THE LISTING RULES AND THE UK CORPORATE GOVERNANCE CODE

Each of the Directors, whose names and functions are listed on pages 88 and 89 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 2021 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 that a fair description of the principal risks and uncertainties faced by the Group is provided on pages 64 to 69; and
- The Annual Report and Consolidated Financial Statements, taken as a whole, provides the information necessary for shareholders to assess the Company's and Group's position and performance, business model and strategy and is fair, balanced and understandable.

On behalf of the Board

**Gavin Slark**  
Director  
8 March 2022

**David Arnold**  
Director



**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 2021 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 2021 (the "Annual Report"), which comprise:

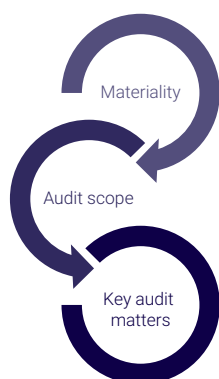
- the Group Balance Sheet as at 31 December 2021;
- the Company Balance Sheet as at 31 December 2021;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for 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**

- £9.75 million (2020: £8.0 million) – Group financial statements
- Equates to c. 4% of profit before tax (2020: Based on c. 5% of an average of profit before tax for the three years, FY18 to FY20).
- €7.1 million (2020: €7.5 million) - Company financial statements.
- Equates to c. 0.4% of total assets (2020: c. 0.5% of total assets).

**Audit scope**

- We conducted an audit of the complete financial information of 10 of the Group's 15 reporting components across the United Kingdom, Ireland, the Netherlands and Finland. These accounted for in excess of 90% of the Group's revenue, in excess of 87% of Group profit before tax from continuing operations and in excess of 90% of the Group's 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

### THE SCOPE OF OUR AUDIT

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

### KEY AUDIT MATTERS

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

#### Key audit matter

##### *Valuation of goodwill*

Refer to page 101 (Audit and Risk Committee Report), note 1, Summary of significant accounting policies and note 12, Goodwill. As at 31 December 2021 Goodwill amounted to £599.8 million. Goodwill is allocated to 5 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.

Goodwill must be tested for impairment on at least an annual basis. The Group tests goodwill for impairment using value-in-use ("VIU") models. The cash flows included in these VIU models are those included in the management approved budget for 2022 and management approved forecasts for the following years from 2023 to 2026 with long-term growth rates being used to estimate cash flows beyond that period.

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 operating margin assumptions in the years 2022 to 2026, long term growth rates used in estimating cash flows for the purposes of calculating a terminal value and pre-tax discount rates for each CGU.

Goodwill of £126.3 million has been allocated to the traditional merchanting business within the UK Distribution CGU and therefore has been accounted for as disposed as part of that business. The allocation of goodwill to the traditional merchanting business has been determined based on the relative values of the traditional merchanting business and the portion of the UK Distribution CGU which has been retained at the disposal date of 30 June 2021.

We determined valuation of goodwill to be a key audit matter:

- due to the significance of this asset, which accounts for 20% of total assets of the Group at 31 December 2021,
- as the Directors' assessment of the recoverable amount of goodwill involves complex and subjective judgements about the future results of the business, and
- because the allocation of goodwill to the disposed traditional merchanting business involves subjective judgements regarding the valuation of the residual UK Distribution CGU.

#### How our audit addressed the key audit matter

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

We considered the reliability of management's forecasting process by considering how actual results compared to forecasts for the years 2016 to 2021.

We critically assessed and challenged management on the key assumptions included in the models, in particular the revenue growth and operating margin assumptions over the period 2022 to 2026.

We compared the growth rates to external data and considered them to be within reasonable ranges. We assessed the appropriateness of forecast operating margins through comparison to actual historic margins achieved.

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 rates were within a reasonable range.

With assistance from our in-house valuation experts, we also considered the appropriateness of the discount rates applied to each of the groups of CGUs by recalculating an acceptable range of discount rates using observable inputs from independent external sources and concluded the discount rates used by management fell within that range.

We performed sensitivity analyses on the impact of changes in key inputs and assumptions on the goodwill impairment assessment, focussing on the cash flows, discount rate and the rates of growth assumed by management.

We also assessed management's estimate of the value of goodwill allocated to the disposed traditional merchanting business at the disposal date of 30 June 2021.

We assessed the appropriateness of the related disclosures in note 12 to the Group's financial statements.

**Key audit matter***Completeness and accuracy of rebate income and valuation of rebate receivables*

Refer to page 101 (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 2021 involves the use of estimates and because of the manual nature of the underlying calculations in some businesses.

*Valuation of inventory*

Refer to page 101 (Audit and Risk Committee Report), note 1, Summary of significant accounting policies and note 16, Inventories.

Inventory, net of provisions at 31 December 2021 amounted to £344.2 million. The inventory provision at 31 December 2021 was £41.9 million. The Group holds a significant number of product lines across its branch network in the UK, Ireland, the Netherlands and Finland. Significant judgement is exercised by management in assessing the level of inventory provision in respect of slow-moving or obsolete 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. 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 across multiple product lines and locations.

**How our audit addressed the key audit matter**

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

We recalculated, on a sample basis, rebate income 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 2021. Where responses were not received, we performed 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. 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 on a sample basis the rebates allocated to inventory held at year end, by reference to rebate arrangements applying to those purchases.

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

In establishing the scope of the Group audit, we identified 3 reporting components 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 7 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 10 reporting components being subject to an audit of their full financial information. Specific audit procedures on certain balances and transactions were performed at 3 of the remaining reporting components primarily to ensure appropriate audit coverage.

The full scope audits of reporting components and Group functions accounted for in excess of 87% of the Group's revenue, profit before tax and total assets.

The Group team was responsible for the scope and direction of the audit process. The Group audit team performed the work on 4 components. PwC ROI and other PwC network firms performed work on 5 components and 1 component was audited by a non-PwC network firm, operating under our instruction. 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 restrictions on travel and social distancing measures, enacted as a response to the global pandemic, 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 10 of the component audit closing meetings with local management by video conference. 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 and the component that was audited by a non-PwC network firm.

As part of our audit, we made enquiries of management to understand their assessment of the potential impact of climate change risk on the judgements and estimates used in the Group's financial statements, specifically in the impairment analysis. Management considers that the impact of climate change does not give rise to a material financial statement impact in this context. We used our knowledge of the Group to evaluate management's assessment. In particular, we considered how climate change risks could impact the assumptions made in the forecasts prepared by management. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

### 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:

	<b>Group financial statements</b>	<b>Company financial statements</b>
<b>Overall materiality</b>	£9.75 million (2020: £8.0 million).	€7.1 million (2020: €7.5 million).
<b>How we determined it</b>	Equates to c. 4% of profit before tax (2020: Based on c. 5% of an average of profit before tax for the three years, FY18 to FY20).	Equates to c. 0.4% of total assets (2020: c. 0.5% of total assets)
<b>Rationale for benchmark applied</b>	We have applied this benchmark as profit before tax is a key accounting benchmark, which is also a key performance indicator for the Group.	We considered total assets to be the most relevant benchmark as the Company is primarily an investment holding company 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 £487,500 (Group audit) (2020: £400,000) and €355,000 (Company audit) (2020: €375,000) 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 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 goodwill impairment; assessed liquidity through the going concern assessment period including considering the Group's available financing and maturity profile of facilities; tested the mathematical integrity of the budgets, forecasts and models and reconciled these to Board approved budgets; and reperformed management's 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.

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**INDEPENDENT AUDITORS' REPORT**  
TO THE MEMBERS OF GRAFTON GROUP PLC continued**REPORTING ON OTHER INFORMATION**

The other information comprises all of the information in the Annual Report and Accounts 2021 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).

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**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 2021 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)

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**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 64 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 63 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)

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**Other Code provisions**

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

- The statement given by the directors on page 134 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
  - The section of the Annual Report on pages 98 to 101 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.
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## 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](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.

### Siobhán Collier

for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
Dublin  
8 March 2022

GROUP INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 Restated £'000
<b>Revenue</b>	2	<b>2,109,909</b>	1,679,247
Operating costs before exceptional items	3	<b>(1,857,487)</b>	(1,518,868)
Property profits/(losses)		<b>16,740</b>	(83)
<b>Operating profit before exceptional items</b>		<b>269,162</b>	160,296
Exceptional items	4	<b>–</b>	(2,481)
<b>Operating profit</b>		<b>269,162</b>	157,815
Finance expense	7	<b>(21,269)</b>	(24,936)
Finance income	7	<b>1,904</b>	698
<b>Profit before tax</b>		<b>249,797</b>	133,577
Income tax charge	9	<b>(42,952)</b>	(24,149)
<b>Profit after tax for the financial year from continuing operations</b>		<b>206,845</b>	109,428
Profit/(loss) after tax from discontinued operations	27	<b>134,422</b>	(1,886)
<b>Profit after tax for the financial year</b>		<b>341,267</b>	107,542
<b>Profit attributable to:</b>			
Owners of the Parent		<b>341,267</b>	107,542
<b>Profit attributable to:</b>			
Continuing operations		<b>206,845</b>	109,428
Discontinued operations		<b>134,422</b>	(1,886)
<b>Earnings per ordinary share (continuing operations) – basic</b>	11	<b>86.44p</b>	45.90p
<b>Earnings per ordinary share (continuing operations) – diluted</b>	11	<b>86.27p</b>	45.89p
<b>Earnings per ordinary share (discontinued operations) – basic</b>	11	<b>56.17p</b>	(0.79p)
<b>Earnings per ordinary share (discontinued operations) – diluted</b>	11	<b>56.06p</b>	(0.79p)
<b>Earnings per ordinary share (total) – basic</b>	11	<b>142.61p</b>	45.11p
<b>Earnings per ordinary share (total) – diluted</b>	11	<b>142.33p</b>	45.10p

On behalf of the Board

**Gavin Slark**  
Director  
8 March 2022

**David Arnold**  
Director



GROUP STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2021

Financial Statements

	Notes	2021 £'000	2020 £'000
Profit after tax for the financial year		<b>341,267</b>	107,542
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to the income statement</b>			
<b>Currency translation effects:</b>			
– on foreign currency net investments		<b>(25,168)</b>	11,777
<b>Fair value movement on cash flow hedges:</b>			
– Effective portion of changes in fair value of cash flow hedges		<b>57</b>	(74)
Deferred tax on cash flow hedges	25	<b>–</b>	–
		<b>(25,111)</b>	11,703
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement gain/(loss) on Group defined benefit pension schemes	30	<b>14,886</b>	(21,779)
Deferred tax on Group defined benefit pension schemes	25	<b>(3,212)</b>	3,709
		<b>11,674</b>	(18,070)
<b>Total other comprehensive expense</b>		<b>(13,437)</b>	(6,367)
<b>Total comprehensive income for the financial year</b>		<b>327,830</b>	101,175
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		<b>327,830</b>	101,175
<b>Total comprehensive income for the financial year</b>		<b>327,830</b>	101,175

On behalf of the Board

**Gavin Slark**  
Director  
8 March 2022

**David Arnold**  
Director

GROUP BALANCE SHEET  
AS AT 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
<b>ASSETS</b>			
<b>Non – current assets</b>			
Goodwill	12	599,810	704,064
Intangible assets	15	144,327	115,905
Property, plant and equipment	13(a)	319,295	493,539
Right – of – use asset	13(b)	421,254	505,922
Investment properties	13(d)	26,527	12,328
Deferred tax assets	25	8,793	13,386
Lease receivable	17(b)	881	2,015
Retirement benefit assets	30	3,596	2,099
Other financial assets	14	126	128
<b>Total non – current assets</b>		<b>1,524,609</b>	1,849,386
<b>Current assets</b>			
Properties held for sale	13(c)	6,125	18,058
Inventories	16	344,172	321,558
Trade and other receivables	17(a)	233,486	336,944
Finance lease receivable	17(b)	212	301
Cash and cash equivalents	20	844,663	456,028
<b>Total current assets</b>		<b>1,428,658</b>	1,132,889
<b>Total assets</b>		<b>2,953,267</b>	2,982,275
<b>EQUITY</b>			
Equity share capital	18	8,570	8,569
Share premium account	18	219,447	216,496
Capital redemption reserve	19	643	621
Revaluation reserve	19	12,519	12,733
Shares to be issued reserve	19	11,837	6,714
Cash flow hedge reserve	19	(8)	(65)
Foreign currency translation reserve	19	56,751	81,919
Retained earnings		1,413,737	1,143,933
Treasury shares held	18	(3,897)	(3,897)
<b>Total equity attributable to owners of the Parent</b>		<b>1,719,599</b>	1,467,023
<b>LIABILITIES</b>			
<b>Non – current liabilities</b>			
Interest – bearing loans and borrowings	20	172,601	274,030
Lease liabilities	20	396,070	479,019
Provisions	23	14,862	20,620
Retirement benefit obligations	30	15,067	52,683
Deferred tax liabilities	25	56,402	54,399
<b>Total non – current liabilities</b>		<b>655,002</b>	880,751
<b>Current liabilities</b>			
Interest – bearing loans and borrowings	20	84,030	–
Lease liabilities	20	52,924	57,915
Derivative financial instruments	22	8	65
Trade and other payables	24	419,111	545,949
Current income tax liabilities		15,956	21,116
Provisions	23	6,637	9,456
<b>Total current liabilities</b>		<b>578,666</b>	634,501
<b>Total liabilities</b>		<b>1,233,668</b>	1,515,252
<b>Total equity and liabilities</b>		<b>2,953,267</b>	2,982,275

On behalf of the Board

Gavin Slark  
Director  
8 March 2022David Arnold  
Director

GROUP CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2021

Financial Statements

	Notes	2021 £'000	2020 Restated £'000
<b>Profit before taxation from continuing operations</b>		<b>249,797</b>	133,577
Profit/(loss) before taxation from discontinued operations	27	<b>143,846</b>	(839)
<b>Profit before taxation (including discontinued operations)</b>		<b>393,643</b>	132,738
Finance income	7	<b>(1,904)</b>	(698)
Finance expense (continuing and discontinued)	7	<b>22,512</b>	27,639
<b>Operating profit (including discontinued operations)</b>		<b>414,251</b>	159,679
Depreciation	13(a)(b)	<b>97,894</b>	107,212
Amortisation of intangible assets	15	<b>17,184</b>	14,146
Share – based payments charge	31	<b>5,601</b>	719
Movement in provisions	23	<b>(1,950)</b>	3,954
Loss on sale of property, plant and equipment		<b>522</b>	1,294
Property profit – continuing operations		<b>(6,890)</b>	(2,613)
Property profit – discontinued operations		<b>(396)</b>	–
Fair value gains recognised as property profits	13(d)	<b>(9,850)</b>	–
Asset impairment and fair value losses	13	<b>248</b>	5,498
Profit on sale of Group businesses	27	<b>(125,116)</b>	–
Gain on derecognition of leases		<b>(500)</b>	–
Contribution to pension schemes (in excess of)/less than IAS 19 charge	30	<b>(23,650)</b>	6,639
(Increase)/decrease in working capital	26	<b>(64,129)</b>	81,164
<b>Cash generated from operations</b>		<b>303,219</b>	377,692
Interest paid		<b>(20,464)</b>	(27,272)
Income taxes paid	9	<b>(43,722)</b>	(34,087)
<b>Cash flows from operating activities</b>		<b>239,033</b>	316,333
<b>Investing activities</b>			
<b>Inflows</b>			
Proceeds from sale of property, plant and equipment		<b>2,611</b>	816
Proceeds from sale of properties held for sale		<b>18,881</b>	6,378
Proceeds from sale of investment properties		<b>756</b>	–
Proceeds from sale of Group businesses (net)	27	<b>498,530</b>	–
Interest received		<b>193</b>	698
		<b>520,971</b>	7,892
<b>Outflows</b>			
Acquisition of subsidiary undertakings and businesses (net of cash acquired)	27	<b>(123,309)</b>	(47,508)
Investment in intangible assets – computer software	15	<b>(827)</b>	(1,893)
Purchase of property, plant and equipment	13(a)	<b>(43,616)</b>	(35,182)
		<b>(167,752)</b>	(84,583)
<b>Cash flows from investing activities</b>		<b>353,219</b>	(76,691)
<b>Financing activities</b>			
<b>Inflows</b>			
Proceeds from the issue of share capital		<b>2,974</b>	2,830
Proceeds from borrowings		<b>96,897</b>	261,099
		<b>99,871</b>	263,929
<b>Outflows</b>			
Repayment of borrowings		<b>(152,004)</b>	(348,636)
Dividends paid	10	<b>(84,921)</b>	–
Payment on lease liabilities		<b>(56,043)</b>	(56,493)
		<b>(292,968)</b>	(405,129)
<b>Cash flows from financing activities</b>		<b>(193,097)</b>	(141,200)
<b>Net increase in cash and cash equivalents</b>		<b>399,155</b>	98,442
<b>Cash and cash equivalents at 1 January</b>		<b>456,028</b>	348,787
Effect of exchange rate fluctuations on cash held		<b>(10,520)</b>	8,799
<b>Cash and cash equivalents at 31 December</b>		<b>844,663</b>	456,028
<b>Cash and cash equivalents are broken down as follows:</b>			
Cash at bank and short – term deposits		<b>844,663</b>	456,028

## GROUP STATEMENT OF CHANGES IN EQUITY

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
<b>Year to 31 December 2021</b>			
<b>At 1 January 2021</b>	<b>8,569</b>	<b>216,496</b>	<b>621</b>
Profit after tax for the financial year	-	-	-
<b>Total other comprehensive income</b>			
Remeasurement gain on pensions (net of tax)	-	-	-
Movement in cash flow hedge reserve (net of tax)	-	-	-
Currency translation effect on foreign currency net investments	-	-	-
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transactions with owners of the Parent recognised directly in equity</b>			
Dividends paid (Note 10)	-	-	-
Issue of Grafton Units	23	2,951	-
Cancellation of A Shares	(22)	-	22
Share – based payments charge	-	-	-
Tax on share – based payments	-	-	-
Transfer from shares to be issued reserve	-	-	-
Transfer from revaluation reserve	-	-	-
	<b>1</b>	<b>2,951</b>	<b>22</b>
<b>At 31 December 2021</b>	<b>8,570</b>	<b>219,447</b>	<b>643</b>

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
<b>Year to 31 December 2020</b>			
<b>At 1 January 2020</b>	<b>8,516</b>	<b>213,719</b>	<b>621</b>
Profit after tax for the financial year	-	-	-
<b>Total other comprehensive income</b>			
Remeasurement loss on pensions (net of tax)	-	-	-
Movement in cash flow hedge reserve (net of tax)	-	-	-
Currency translation effect on foreign currency net investments	-	-	-
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transactions with owners of the Parent recognised directly in equity</b>			
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	-	-	-
	<b>53</b>	<b>2,777</b>	<b>-</b>
<b>At 31 December 2020</b>	<b>8,569</b>	<b>216,496</b>	<b>621</b>

## Financial Statements

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
12,733	6,714	(65)	81,919	1,143,933	(3,897)	1,467,023
-	-	-	-	341,267	-	341,267
-	-	-	-	11,674	-	11,674
-	-	57	-	-	-	57
-	-	-	(25,168)	-	-	(25,168)
-	-	57	(25,168)	11,674	-	(13,437)
-	-	57	(25,168)	352,941	-	327,830
-	-	-	-	(84,921)	-	(84,921)
-	-	-	-	-	-	2,974
-	-	-	-	-	-	-
-	5,601	-	-	-	-	5,601
-	1,092	-	-	-	-	1,092
-	(1,570)	-	-	1,570	-	-
(214)	-	-	-	214	-	-
(214)	5,123	-	-	(83,137)	-	(75,254)
12,519	11,837	(8)	56,751	1,413,737	(3,897)	1,719,599

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

## 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 2021.

#### 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 2021, 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 2022, 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. As set out in the Directors' Report on Corporate Governance 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. 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, the measurement at fair value of all derivative financial instruments and the measurement at fair value of investment property. Assets classified as held for sale are stated at the lower of carrying value and fair value less costs to sell. 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".

In preparing the financial statements, the Directors have also considered the impact of climate change. These considerations did not have a material impact on the financial reporting judgements and estimates in the current year, specifically in the impairment and going concern analysis. The Group's analysis of the impact of climate change continues to evolve with Grafton committed to reducing its carbon impact.

The 2020 income statement has been restated as a result of the divestment of the traditional merchanting business in Great Britain which is treated as discontinued operations.

#### 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### BASIS OF CONSOLIDATION continued

#### SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker, being the Board, who is responsible for allocating resources and assessing performance.

#### FOREIGN CURRENCY TRANSLATION

#### FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in sterling. Items included in the financial statements of each of the Group's entities are measured using its functional currency, being the currency of the primary economic environment in which the entity operates which is primarily euro and sterling. The functional currency of the parent company is euro.

#### 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 merchandising 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.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued****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.

**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 business is disposed of from a CGU to which goodwill had been allocated on acquisition, an allocation is made to the disposed business and included in determining the profit or loss arising on disposal. The allocation of goodwill to the disposed business is determined on the basis of the fair value of the disposed business relative to the fair value of the portion of the CGU retained. Fair value of the disposed business is based on the disposal consideration and fair value of the portion of the CGU retained is determined on a value in use basis.

**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.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### INTANGIBLE ASSETS (OTHER THAN GOODWILL AND COMPUTER SOFTWARE)

An intangible asset, other than goodwill and computer software, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its fair value can be measured. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill at fair value on the date of acquisition if the intangible asset meets the definition of an asset and the fair value can be reliably measured.

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.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

## LEASES continued

**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.

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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### LEASES continued

#### 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.

#### 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 and purchased finished goods are valued on the basis of purchase cost on a first-in, first-out basis. In the case of manufactured 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.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued****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.

**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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES continued

#### (III) HEDGE OF NET INVESTMENT IN FOREIGN OPERATION

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or finance expense. Cumulative gains and losses remain in equity until disposal or partial disposal of the net investment in the foreign operation at which point the related differences are reclassified to the income statement as part of the overall gain or loss on sale.

#### INTEREST-BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

#### PROVISIONS

A provision is recognised on a discounted basis when the Group has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Group has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the lower of the present value of the expected cost of terminating the contract and the present value of the expected net cost of continuing with the contract.

#### 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") 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 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 – APPLICABLE FOR 2020**

Government grants were received in 2020 in relation to the ongoing Covid-19 pandemic. These comprised of amounts receivable under the Coronavirus Job Retention Scheme ("CJRS"). CJRS comprised of grants receivable in relation to the costs incurred by the Group for furloughed employees and were recognised in the income statement, within operating costs, in the same period as the related costs and when there was reasonable assurance that the grant would 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 302 branches in the UK, Ireland, the Netherlands and Finland. The traditional merchanting business in Great Britain was disposed in 2021.

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

	2021 £000	2020 Restated £'000
<b>Revenue</b>		
UK distribution	821,923	630,890
Ireland distribution	544,289	463,894
Netherlands distribution	290,540	276,563
Finland distribution	70,810	–
Total distribution – continuing	1,727,562	1,371,347
Retailing	282,756	246,576
Manufacturing	112,436	71,723
Less: inter-segment revenue – manufacturing	(12,845)	(10,399)
<b>Total revenue from continuing operations</b>	<b>2,109,909</b>	<b>1,679,247</b>
<b>Segmental operating profit before exceptional items, intangible amortisation arising on acquisitions and other acquisition related items</b>		
UK distribution	102,523	55,816
Ireland distribution	66,792	41,848
Netherlands distribution	30,544	28,590
Finland distribution	9,952	–
Total distribution – continuing	209,811	126,254
Retailing	50,858	42,028
Manufacturing	24,049	13,301
	284,718	181,583
<b>Reconciliation to consolidated operating profit</b>		
Central activities	(13,479)	(10,887)
	271,239	170,696
Property profits/(losses)	16,740	(83)
<b>Operating profit before exceptional items, intangible amortisation arising on acquisitions and other acquisition related items</b>	<b>287,979</b>	<b>170,613</b>
Acquisition related items	(4,129)	(1,380)
Amortisation of intangible assets arising on acquisitions	(14,688)	(8,937)
Exceptional items	–	(2,481)
<b>Operating profit</b>	<b>269,162</b>	<b>157,815</b>
Finance expense	(21,269)	(24,936)
Finance income	1,904	698
<b>Profit before tax</b>	<b>249,797</b>	<b>133,577</b>
Income tax expense	(42,952)	(24,149)
<b>Profit after tax for the financial period from continuing operations</b>	<b>206,845</b>	<b>109,428</b>
Profit/(loss) after tax from discontinued operations	134,422	(1,886)
<b>Profit after tax for the financial period</b>	<b>341,267</b>	<b>107,542</b>

The amount of revenue, from continuing operations, by geographic area is as follows:

	2021 £'000	2020 Restated £'000
<b>Revenue*</b>		
United Kingdom	914,971	687,251
Ireland	833,588	715,433
Netherlands	290,540	276,563
Finland	70,810	–
Total revenue – continuing operations	2,109,909	1,679,247

\* Service revenue from continuing operations, which is recognised over time, amounted to £8.7 million for the period (2020: £8.3 million)

The analysis of geographic revenue above is the same whether it is based on location of assets or customers.



## 2. SEGMENT INFORMATION continued

### GROUP BALANCE SHEET

	2021 £'000	2020 £'000
<b>Segment assets</b>		
Distribution	1,782,973	2,190,663
Retailing	210,400	216,907
Manufacturing	102,716	103,064
	<b>2,096,089</b>	2,510,634
<b>Unallocated assets</b>		
Deferred tax assets	8,793	13,386
Retirement benefit assets	3,596	2,099
Other financial assets	126	128
Cash and cash equivalents	844,663	456,028
<b>Total assets</b>	<b>2,953,267</b>	2,982,275
	2021 £'000	2020 £'000
<b>Segment liabilities</b>		
Distribution	658,122	861,964
Retailing	201,147	225,258
Manufacturing	30,335	25,737
	<b>889,604</b>	1,112,959
<b>Unallocated liabilities</b>		
Interest bearing loans and borrowings (current and non-current)	256,631	274,030
Retirement benefit obligations	15,067	52,683
Deferred tax liabilities	56,402	54,399
Current income tax liabilities	15,956	21,116
Derivative financial instruments (current)	8	65
<b>Total liabilities</b>	<b>1,233,668</b>	1,515,252

### OTHER SEGMENT INFORMATION – CONTINUING AND DISCONTINUED OPERATIONS

	Year Ended 31 December							
	Distribution		Retailing		Manufacturing		Group	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Capital expenditure	34,357	32,782	5,440	1,246	3,819	1,154	43,616	35,182
Investment in intangible assets	243	631	–	1,262	584	–	827	1,893
Intangible assets acquired	79,094	2,113	–	–	–	20,402	79,094	22,515
Depreciation on property, plant & equipment	31,520	38,597	3,579	3,529	3,171	2,846	38,270	44,972
Depreciation on right-of use asset	43,174	45,234	15,621	16,553	829	453	59,624	62,240
Amortisation of intangible assets	15,000	13,811	122	124	2,062	211	17,184	14,146

### ADDITIONAL GEOGRAPHIC ANALYSIS – CONTINUING AND DISCONTINUED OPERATIONS

The following is a geographic analysis of the information presented above.

	Finland		Ireland		Netherlands		UK		Group	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Capital expenditure	1,268	–	12,075	6,790	3,529	2,905	26,744	25,487	43,616	35,182
Investment in intangible assets	–	–	–	1,456	75	350	752	87	827	1,893
Intangible assets acquired	74,354	–	4,740	933	–	–	–	21,582	79,094	22,515
Segment non-current assets	128,591	–	440,020	490,648	207,553	199,980	736,142	1,143,446	1,512,306	1,834,074
Properties held for sale									6,125	18,058
Inventories									344,172	321,558
Trade and other receivables									233,486	336,944
Total segment assets									<b>2,096,089</b>	2,510,634
Segment liabilities	32,034	–	377,483	396,946	78,834	80,872	401,253	635,141	<b>889,604</b>	1,112,959

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**3. OPERATING COSTS AND INCOME BEFORE EXCEPTIONAL ITEMS**

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

	2021 Continuing £'000	2021 Total £'000	2020 Continuing £'000	2020 Reported £'000
(Increase)/decrease in inventories (Note 26)	<b>(74,856)</b>	<b>(81,014)</b>	(3,817)	8,572
Purchases and consumables	<b>1,353,858</b>	<b>1,745,756</b>	1,049,368	1,644,794
Staff costs before non-recurring items (Note 6)	<b>317,056</b>	<b>373,552</b>	260,997	363,725
Auditor's remuneration – Group and subsidiaries	<b>1,020</b>	<b>1,040</b>	815	1,110
Auditor's remuneration – Audit services provided by other firms	<b>186</b>	<b>186</b>	141	141
Depreciation (Note 13a)	<b>30,289</b>	<b>38,270</b>	27,824	44,972
Depreciation on right-of-use assets (Note 13b)	<b>54,552</b>	<b>59,624</b>	51,747	62,240
Lease rentals and other hire charges (Note 13b)	<b>1,374</b>	<b>1,464</b>	973	1,228
Amortisation of intangible assets (Note 15)	<b>15,536</b>	<b>17,184</b>	9,877	14,146
Loss on disposal of property, plant and equipment	<b>337</b>	<b>522</b>	231	1,294
Acquisition related costs	<b>4,129</b>	<b>4,129</b>	1,380	1,380
Selling, distribution and administrative expenses	<b>154,006</b>	<b>190,647</b>	119,332	183,736
	<b>1,857,487</b>	<b>2,351,360</b>	1,518,868	2,327,338

Operating profit includes Government Assistance of £Nil (2020: £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 £1.0 million (2020: £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 £1.1 million (2020: £3.6 million) in the year.

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

	2021 £'000	2020 £'000
Audit services (i)		
– Group Auditor – PwC Ireland	<b>662</b>	547
– Other network firm – PwC*	<b>355</b>	540
	<b>1,017</b>	1,087
Other assurance services (ii)		
– Group Auditor – PwC Ireland	<b>13</b>	13
– Other network firm – PwC	<b>10</b>	10
	<b>23</b>	23
Auditor's remuneration – Group and subsidiaries (i) & (ii)	<b>1,040</b>	1,110
Other non-audit services		
– Group Auditor – PwC Ireland	–	–
– Other network firm – PwC	–	–
Tax advisory services		
– Group Auditor – PwC Ireland	–	–
– Other network firm – PwC	–	–
	–	–
<b>Total (including expenses)</b>	<b>–</b>	<b>–</b>
– Group Auditor – PwC Ireland	<b>675</b>	550
– Other network firm – PwC	<b>365</b>	550
	<b>1,040</b>	1,110

\* 2021 fees disclosed include overruns from previous years of £Nil (2020: £20,000).

#### 4. EXCEPTIONAL ITEMS

There were no exceptional items recognised in 2021 other than the disposal costs of the discontinued operations which are detailed in Note 27. Branch and organisational changes were implemented in a number of our traditional UK distribution businesses in the second half of 2020. These measures provided 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). £22.2 million of the exceptional charge related to the traditional merchanting business in Great Britain which was disposed in 2021 (Note 27).

	2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total
<b>Exceptional items</b>			
Redundancy	140	7,513	7,653
Fixed asset write-offs	–	1,809	1,809
Inventory write-offs	–	1,151	1,151
Pension scheme changes (Note 30)	–	8,019	8,019
Lease impairments	–	2,176	2,176
Dilapidation provisions	–	838	838
Other	2,341	698	3,039
	2,481	22,204	24,685

#### 5. DIRECTORS' REMUNERATION, PENSION ENTITLEMENTS AND INTERESTS

	2021 £'000	2020 £'000
Emoluments	2,927	1,741
Benefits under Long Term Incentive Plan ("LTIP")*	2,834	921
Total emoluments	5,761	2,662
Emoluments above include the following:		
Pension payments/contributions**	212	203
	212	203

\* For the year ended 31 December 2021, this is the value of LTIP awards that will vest in May 2022. The vesting of these awards was subject to performance conditions over the period from 1 January 2019 to 31 December 2021. The value of the awards is based on the average share price of £12.54 for the three months to 31 December 2021. For the year ended 31 December 2020, this is the value of LTIP awards that vested in May 2021. The value of this award has been updated from that disclosed last year to reflect the share price of £12.28 on the date of vesting.

\*\* This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a taxable payment in lieu of pension made through the payroll. This amount is accruing to two directors at 31 December 2021 (2020: 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 105 to 127.

#### 6. EMPLOYMENT

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

	2021 Continuing	2021 Total	2020 Continuing	2020 Reported
Distribution	6,819	10,236	6,327	9,944
Retailing	1,544	1,544	1,228	1,228
Manufacturing	332	332	296	296
Holding company	22	22	23	23
	8,717	12,134	7,874	11,491

The aggregate remuneration costs of employees were:

	2021 Continuing* £'000	2021 Total £'000	2020 Continuing* £'000	2020 Reported £'000
Wages and salaries	271,683	321,337	224,071	315,022
Social welfare costs	29,383	33,836	25,689	34,916
Share based payments charge	4,387	5,601	836	719
Defined benefit pension (Note 30)	2,932	2,932	2,829	2,829
Defined contribution pension and related costs	8,671	9,846	7,572	10,239
<b>Staff costs charged to operating profit</b>	<b>317,056</b>	<b>373,552</b>	260,997	363,725
Net finance cost on pension scheme obligations (Note 30)	383	383	339	339
<b>Charged to income statement</b>	<b>317,439</b>	<b>373,935</b>	261,336	364,064
Remeasurement (gain)/loss on pension schemes (Note 30)	(14,886)	(14,886)	21,779	21,779
<b>Total employee benefit cost</b>	<b>302,553</b>	<b>359,049</b>	283,115	385,843

\* This amount represents the aggregate remuneration costs of employees from continuing operations only.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**6. EMPLOYMENT continued**

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 2021 were £Nil (2020: £Nil).

**KEY MANAGEMENT**

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

	2021	2020
Number of individuals*	<b>8</b>	8
	<b>2021 £'000</b>	2020 £'000
Short term employee benefits	<b>3,276</b>	1,856
Share-based payment charge	<b>1,395</b>	514
Retirement benefits expense	<b>272</b>	262
Charged to operating profit	<b>4,943</b>	2,632

\* 2020 includes Mr. Frank van Zanten to the end of April 2020.

**7. FINANCE EXPENSE AND FINANCE INCOME**

	2021 £'000	2020 Restated £'000
<b>Finance expense:</b>		
Interest on bank loans, US senior notes and overdrafts	<b>6,249*</b>	8,218*
Interest on lease liabilities	<b>14,637*</b>	15,553*
Net finance cost on pension scheme obligations	<b>383</b>	339
Foreign exchange loss	<b>–</b>	826
	<b>21,269</b>	24,936
<b>Finance income:</b>		
Interest income on bank deposits	<b>(193)*</b>	(698)*
Foreign exchange gain	<b>(1,711)</b>	–
	<b>(1,904)</b>	(698)
Net finance expense recognised in income statement	<b>19,365</b>	24,238

\* Net bank/loan note interest of £6.1 million (2020: £7.5 million). Including interest on lease liabilities, this amounts to £20.7 million (2020 restated: £23.1 million)

**Amounts relating to items not at fair value through income statement**

– Total finance expense on financial liabilities	<b>21,269</b>	24,936
– Total finance income on financial assets	<b>(1,904)</b>	(698)
<b>Recognised directly in other comprehensive income</b>		
Currency translation effects on foreign currency net investments	<b>(25,168)</b>	11,777
Effective portion of changes in fair value of cash flow hedges	<b>57</b>	(74)
	<b>(25,111)</b>	11,703

**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 2021 was Stg85.96 pence (2020: Stg88.97 pence). The sterling/euro exchange rate at 31 December 2021 was Stg84.03 pence (2020: Stg89.9 pence).

## 9. INCOME TAX

## (A) INCOME TAX RECOGNISED IN INCOME STATEMENT

	2021 £'000	2020 Restated £'000
<b>Current tax expense</b>		
Irish corporation tax	15,324	10,004
UK and other corporation tax	23,190	15,590
	<b>38,514</b>	25,594
<b>Deferred tax expense</b>		
Irish deferred tax relating to the origination and reversal of temporary differences	731	(169)
Deferred tax expense resulting from change in tax rates	3,493	2,006
UK and other deferred tax expense/(credit) relating to the origination and reversal of temporary differences	214	(3,282)
	<b>4,438</b>	(1,445)
<b>Total income tax expense in income statement</b>	<b>42,952</b>	24,149

## TAXATION

The income tax expense of £43.0 million (2020: £24.1 million) was equivalent to an effective tax rate of 17.2 per cent on profit from continuing operations (2020: 18.1 per cent). The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland, the Netherlands and Finland. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The charge for the year includes a once-off increase in deferred tax arising from the UK tax rate increasing to 25 per cent from 19 per cent which is effective from 1 April 2023. This change was enacted in UK legislation in May 2021 and adds 1.3 per cent to the tax rate on profits in the Group's continuing operations.

Taxation paid in 2021 was £43.7 million (2020: £34.1 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

	2021 £'000	2020 Restated £'000
Profit before tax	249,797	133,577
Profit before tax multiplied by the Irish standard rate of tax of 12.5% (2020: 12.5%)	31,225	16,697
Effects of:		
Expenses not deductible for tax purposes	1,522	2,638
Differences in effective tax rates on overseas earnings	9,149	3,303
Effect of change in tax rates	3,493	2,006
Items not previously recognised for deferred tax	(629)	(17)
Other differences	(1,808)	(478)
<b>Total income tax expense in income statement</b>	<b>42,952</b>	24,149

## (C) DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY/OTHER COMPREHENSIVE INCOME

	2021 £'000	2020 £'000
Actuarial movement on pension schemes (Note 30)	3,212	(3,709)
Employee share schemes	(1,092)	352
Financing – cash flow hedge	–	–
	<b>2,120</b>	(3,357)

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

	2021 £'000
<b>Group</b>	
Interim dividend for 2019 of 12.50p per Grafton Unit – paid 19 February 2021	29,892
Final dividend for 2020 of 14.50p per Grafton Unit – paid 5 May 2021	34,685
Interim dividend for 2021 of 8.50p per Grafton Unit – paid 1 October 2021	20,344
	<b>84,921</b>

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 final dividend for the year ended 31 December 2020 of 14.5p was paid on 5 May 2021 in the amount of £34.7 million.

An interim dividend for 2021 of 8.5p per share was paid on 1 October 2021 in the amount of £20.3 million.

A final dividend for 2021 of 22.0p per share will be paid to all holders of Grafton Units on the Company's Register of Members at the close of business on 8 April 2022 (the 'Record Date'). The Ex-dividend date is 7 April 2022. The cash consideration will be paid on 5 May 2022. A liability in respect of the final dividend has not been recognised at 31 December 2021, as there was no obligation to pay any dividends at the end of the year.

## 11. EARNINGS PER SHARE – GROUP

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

	2021 £'000	2020 Restated £'000
<b>Numerator for basic, adjusted and diluted earnings per share:</b>		
Profit after tax for the financial year from continuing operations	206,845	109,428
Profit/(loss) after tax for the financial year from discontinued operations	134,422	(1,886)
<b>Numerator for basic and diluted earnings per share</b>	<b>341,267</b>	107,542
Profit after tax for the financial year from continuing operations	206,845	109,428
Amortisation of intangible assets arising on acquisitions	14,688	8,937
Tax relating to amortisation of intangible assets arising on acquisitions	(3,151)	(2,013)
Acquisition related items*	4,129	1,380
Tax on acquisition related items	(74)	–
Exceptional items	–	2,481
Tax on exceptional items	–	(400)
Numerator for adjusted earnings per share	222,437	119,813
<b>Denominator for basic and adjusted earnings per share:</b>		
	Number of Grafton Units	Number of Grafton Units
Weighted average number of Grafton Units in issue	239,294,286	238,379,488
Dilutive effect of options and awards	478,708	82,675
<b>Denominator for diluted earnings per share</b>	<b>239,772,994</b>	238,462,163
<b>Earnings per share (pence) – from continuing operations</b>		
– Basic	86.44	45.90
– Diluted	86.27	45.89
<b>Adjusted earnings per share (pence) – from continuing operations*</b>		
– Basic	92.95	50.26
– Diluted	92.77	50.24
<b>Earnings per share (pence) – from discontinued operations</b>		
– Basic	56.17	(0.79)
– Diluted	56.06	(0.79)
<b>Earnings per share (pence) – from total operations</b>		
– Basic	142.61	45.11
– Diluted	142.33	45.10

The weighted average potential employee share entitlements over 1,169,931 Grafton Units (2020: 1,076,909) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

\* The adjustment of acquisition related items to the adjusted earnings per share APM is a change on previous years and thus the 2020 comparative has been restated to conform to current year presentation.

## 12. GOODWILL

Cost	2021 £'000	2020 £'000
At 1 January	<b>704,064</b>	657,845
Arising on acquisitions (Note 27)	<b>40,725</b>	31,702
Disposal of Group businesses (Note 27)	<b>(126,291)</b>	–
Translation adjustment	<b>(18,688)</b>	14,517
<b>At 31 December</b>	<b>599,810</b>	704,064

### GOODWILL ACQUIRED

Goodwill acquired during the year in the amount of £40.7 million (2020: £31.7 million) was allocated to the Ireland and Finland distribution CGUs. 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 2021, the Group completed the disposal of the traditional merchanting business in Great Britain which was no longer considered to be a good strategic fit in the Group's portfolio of businesses. This resulted in a reduction of goodwill amounting to £126.3 million.

### GOODWILL IMPAIRED

There were no impairments during the year (2020: £Nil). Total accumulated impairment losses at 31 December 2021 amounted to £Nil (2020: £Nil).

### CASH GENERATING UNITS

Goodwill arising as part of a business combination is allocated to groups of cash generating units ("CGUs") for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. The CGUs represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, Operating Segments. A total of seven CGUs (2020: six) have been identified and these are analysed between the three reportable segments as follows:

	Cash Generating Units		Goodwill	
	2021 Number	2020 Number	2021 £'000	2020 £'000
Distribution	<b>4</b>	3	<b>571,355</b>	675,609
Retailing	<b>1</b>	1	–	–
Manufacturing	<b>2</b>	2	<b>28,455</b>	28,455
	<b>7</b>	6	<b>599,810</b>	704,064

### 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 (2020: £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 2022 and management forecasts for each of the following years from 2023 to 2026 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 2026. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects of 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 9.3 per cent to 10.1 per cent (2020: 6.6 per cent to 7.5 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 (2020: two per cent). The rate assumed was based on an assessment of the likely long term growth prospects of the individual CGUs.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**12. GOODWILL continued****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	
	2021	2020	2021	2020	2021	2020
Goodwill	<b>275,769</b>	401,353	<b>155,938</b>	163,399	<b>105,206</b>	110,857
Recoverable amount basis	<b>Value-in-use</b>	Value-in-use	<b>Value-in-use</b>	Value-in-use	<b>Value-in-use</b>	Value-in-use
Revenue growth rate average	<b>4.1%</b>	2.4%	<b>4.2%</b>	3.1%	<b>3.8%</b>	5.5%
Long term growth rate	<b>2.0%</b>	2.0%	<b>2.0%</b>	2.0%	<b>2.0%</b>	2.0%
Discount rate (pre-tax)	<b>10.2%</b>	7.5%	<b>9.3%</b>	7.0%	<b>10.1%</b>	6.6%

The remaining goodwill balance of £62.9 million (2020: £28.5 million) is allocated to the Finland Distribution CGU and the UK manufacturing CGU (2020: UK Manufacturing CGU) and the goodwill amount of these CGU's 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.

**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
<b>Year ended 31 December 2021</b>					
Opening net book amount	<b>268,375</b>	<b>73,580</b>	<b>99,129</b>	<b>52,455</b>	<b>493,539</b>
Additions	<b>1,428</b>	<b>6,617</b>	<b>29,100</b>	<b>6,471</b>	<b>43,616</b>
Arising on acquisitions (Note 27)	<b>11,244</b>	–	<b>5,912</b>	<b>880</b>	<b>18,036</b>
Disposal of Group businesses (Note 27)	<b>(115,532)</b>	<b>(10,598)</b>	<b>(24,884)</b>	<b>(26,501)</b>	<b>(177,515)</b>
Disposals	<b>(2,054)</b>	<b>(99)</b>	<b>(900)</b>	<b>(80)</b>	<b>(3,133)</b>
Depreciation charge (Note 3)	<b>(3,420)</b>	<b>(6,740)</b>	<b>(19,995)</b>	<b>(8,115)</b>	<b>(38,270)</b>
Impairment charge	–	<b>(20)</b>	<b>(146)</b>	–	<b>(166)</b>
Reclassification to properties held for sale	<b>(324)</b>	–	–	–	<b>(324)</b>
Reclassification to investment properties	<b>(5,900)</b>	–	–	–	<b>(5,900)</b>
Exchange adjustment	<b>(7,455)</b>	<b>(434)</b>	<b>(2,417)</b>	<b>(282)</b>	<b>(10,588)</b>
Closing net book amount	<b>146,362</b>	<b>62,306</b>	<b>85,799</b>	<b>24,828</b>	<b>319,295</b>
<b>At 31 December 2021</b>					
Cost	<b>189,626</b>	<b>113,265</b>	<b>259,281</b>	<b>48,253</b>	<b>610,425</b>
Accumulated depreciation & impairment loss	<b>(43,264)</b>	<b>(50,959)</b>	<b>(173,482)</b>	<b>(23,425)</b>	<b>(291,130)</b>
Net Book Amount	<b>146,362</b>	<b>62,306</b>	<b>85,799</b>	<b>24,828</b>	<b>319,295</b>
<b>Year ended 31 December 2020</b>					
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	1,204	–	901	323	2,428
Disposals	(25)	(178)	(1,745)	(162)	(2,110)
Depreciation charge	(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



### 13. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSET, PROPERTIES HELD FOR SALE AND INVESTMENT PROPERTIES continued

#### 13. (A) PROPERTY, PLANT AND EQUIPMENT continued

##### 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

The Group's freehold and long leasehold properties located in the Republic of Ireland were professionally valued as at December 1998 by professional valuers in accordance with the Appraisal and Valuation Manual of the Society of Chartered Surveyors. Property acquired/purchased after December 1998 is stated at fair value or cost. The valuations, which were made on an open market for existing use basis, were deemed to be cost for the purpose of the transition to IFRS as adopted by the EU. The remaining properties, which are located in the United Kingdom, the Netherlands and Finland, are included at cost less depreciation.

Following a review of the assets in the UK distribution businesses during 2020, an impairment charge of £2.0 million was recognised. £1.8 million of these impairment charges related to the branch and organisational changes in the second half of 2020 and were recognised in exceptional items in 2020 (Note 4).

#### 13. (B) RIGHT-OF-USE ASSET

	Property & Land Leases £'000	Vehicles £'000	Other Assets £'000	Total £'000
<b>Year ended 31 December 2021</b>				
Opening balance at 1 January 2021	492,139	13,681	102	505,922
Additions	15,004	6,808	818	22,630
Arising on acquisitions (Note 27)	24,192	–	–	24,192
Depreciation charge (Note 3)	(54,034)	(5,488)	(102)	(59,624)
Disposal of Group businesses (Note 27)	(55,162)	(5,415)	(36)	(60,613)
Disposals	(2,603)	(193)	–	(2,796)
Remeasurements	5,341	467	13	5,821
Translation adjustment	(13,822)	(451)	(5)	(14,278)
Closing net book amount	411,055	9,409	790	421,254
<b>Year ended 31 December 2020</b>				
Recognised at 1 January 2020	507,597	14,483	165	522,245
Additions	13,603	6,353	47	20,003
Arising on acquisitions	8,669	–	–	8,669
Depreciation charge	(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

The impairment charge in 2020 of £3.4 million primarily related to the branch and organisational changes in the UK in the second half of the year, of which £2.2 million was recognised in exceptional items (Note 4).

The carrying value of assets, which the Group sublease as operating leases and generate income from, amounted to £14.5 million (2020 £26.1 million).

Cashflows relating to extension options and termination options, which are not reflected in the measurement of lease liabilities are £Nil (2020: Nil).

The average lease term is 4.0 years (2020: 5.9 years).

The amounts recognised in the income statement include:

	2021 Continuing £'000	2021 Total £'000	2020 Continuing £'000	2020 Reported £'000
Depreciation expense on right-of-use assets (Note 3)	54,552	59,624	51,747	62,240
Interest expense on lease liabilities (Note 7)	14,637	15,880	15,553	18,256
Expense relating to short term leases (Note 3)	1,167	1,257	903	1,158
Expense relating to leases of low-value assets (Note 3)	38	38	46	46
Expense relating to variable lease payments not included in the measurements of lease liability (Note 3)	169	169	24	24
Income from subleasing right-of-use assets – operating leases	883	883	651	651

## 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. (B) RIGHT-OF-USE ASSET continued**

The total cash outflow for leases amounted to £70.7 million (2020: £75.2 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 £0.6 million for years one to three, £0.5 million for year four, £0.4 million for year five onwards with total income from subleasing right-of-use assets amounting to £3.3 million (2020: £2.6 million).

Further detail on the impact of IFRS 16 "Leases" is set out within the APM's.

**13. (C) PROPERTIES HELD FOR SALE**

	<b>Carrying Amount £'000</b>
<b>At 1 January 2020</b>	<b>16,274</b>
Transfers from property, plant and equipment	3,901
Transfers from investment properties	810
Fair value losses	(25)
Disposals	(3,765)
Translation adjustment	863
<b>At 31 December 2020</b>	<b>18,058</b>
Transfers from property, plant & equipment	<b>324</b>
Transfers from investment properties	<b>546</b>
Disposals	<b>(11,915)</b>
Translation adjustment	<b>(888)</b>
<b>At 31 December 2021</b>	<b>6,125</b>

During the year, five UK and two Irish held for sale properties were sold. The six properties in Belgium were also sold in 2021. One property was transferred from property, plant and equipment and one property from investment properties. The total number of properties held for sale at 31 December 2021 was 8 (2020: 19), of which seven (2020: 11) are located in the UK and one (2020: two) in Ireland. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. Four properties are included at a fair value of £4.8 million (2020: seven properties at £6.8 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**

	<b>Fair Value £'000</b>
<b>At 1 January 2020</b>	<b>12,526</b>
Transfers to properties held for sale	(810)
Transfers from property, plant & equipment	313
Transfers to property, plant & equipment	(101)
Translation adjustment	400
<b>At 31 December 2020</b>	<b>12,328</b>
Fair value gains	<b>9,850</b>
Fair value losses	<b>(82)</b>
Transfers from property, plant & equipment	<b>5,900</b>
Transfers to properties held for sale	<b>(546)</b>
Disposals	<b>(436)</b>
Translation adjustment	<b>(487)</b>
<b>At 31 December 2021</b>	<b>26,527</b>

The total number of investment properties at 31 December 2021 was 15 (2020: 13) of which seven (2020: three) are located in the UK and eight (2020: 10) in Ireland. These properties are being held with a view to enhancing their value.

Investment properties of £26.5 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 151 and 153, properties held for sale are held at the lower of carrying amount and fair value less costs to sell. Investment properties are carried at fair value. Fair value is defined as the price that would be received if the asset was sold in an orderly transaction between market participants based on the asset's highest and best use. Valuations are reviewed each year by the Directors with movements in fair value recognised in the income statement.

The Group reviewed its property portfolio during the year. Properties held for sale comprise land and buildings in a number of locations across the UK and Ireland. Investment properties, comprising land and buildings located in the UK 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 £1.4 million (2020: £11.2 million) and properties held at a fair value of £4.8 million (2020: £6.8 million). Investment properties are held at a fair value of £26.5 million (2020: £12.3 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 2021

	Comparable market transactions £'000	Offers from third parties £'000	Total 2021 £'000
<b>Properties Held for Sale</b>			
Distribution segment	4,757	–	4,757
	Comparable market transactions £'000	Other methods £'000	Total 2021 £'000
<b>Investment Properties</b>			
Distribution segment	23,171	–	23,171
Manufacturing segment	2,213	1,143	3,356
Total	25,384	1,143	26,527

At 31 December 2020

	Comparable market transactions £'000	Offers from third parties £'000	Total 2020 £'000
<b>Properties Held for Sale</b>			
Distribution segment	6,813	–	6,813
	Comparable market transactions £'000	Other methods £'000	Total 2020 £'000
<b>Investment Properties</b>			
Distribution segment	8,544	–	8,544
Manufacturing segment	2,561	1,223	3,784
Total	11,105	1,223	12,328

## 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 2021 balance for level 3 fair values:

	Properties held for sale 2021 £'000	Investment properties 2021 £'000
Balance at beginning of year	18,058	12,328
Transfers from property, plant and equipment	324	5,900
Transfers to properties held for sale	546	(546)
Disposals	(11,915)	(436)
Fair value gains and losses*	–	9,768
Foreign exchange movement	(888)	(487)
<b>Balance at end of year</b>	<b>6,125</b>	<b>26,527</b>
Recorded at fair value	4,757	26,527
Recorded at cost	1,368	–
<b>Total</b>	<b>6,125</b>	<b>26,527</b>

\* During 2021, a fair value gain of £9.9 million was recognised on five properties which were transferred to investment properties during the period. Four of these were properties which were retained by the Group following the agreement to divest the traditional merchanting business in Great Britain. These four properties have a fair value of £15.75 million and a market value of circa £25 million that reflected their planning potential. A net fair value loss of £0.1 million was also recognised on two Irish investment properties.

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	–
<b>Total</b>	<b>18,058</b>	<b>12,328</b>

### 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

#### 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.

#### PROPERTIES HELD FOR SALE

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<b>Comparable market transactions – price per square metre:</b> The value is based on comparable market transactions after discussion with independent agents and/or with reference to other information sources.	<b>UK – Regional (excluding major cities)</b> <ul style="list-style-type: none"> <li>Comparable industrial development land prices of £50,000 – £460,000 per acre.</li> </ul> <b>Ireland – Urban (major cities)</b> <ul style="list-style-type: none"> <li>Comparable industrial or development land prices of £240,000 per acre.</li> </ul>	<b>The estimated fair value would increase/ (decrease) if:</b> <ul style="list-style-type: none"> <li>Comparable market prices per square metre were higher/(lower).</li> </ul>

#### INVESTMENT PROPERTIES

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<b>Comparable market transactions – price per square metre:</b> The value is based on comparable market transactions after discussion with independent registered property appraisers and/or with reference to other information sources.	<b>Ireland – Urban</b> <ul style="list-style-type: none"> <li>Comparable office market prices of £226 – £1,283 per square metre (2020: £450 – £1,176 per square metre).</li> <li>Comparable minimum warehouse market prices of £210 – £837 per square metre (2020: £225 – £895 per square metre).</li> <li>Comparable agricultural land market prices of £11,334 per acre (2020: £12,137 per acre).</li> <li>Comparable minimum industrial land price of £84,080 per acre (2020: £89,900 per acre).</li> </ul> <b>Ireland – Regional</b> <ul style="list-style-type: none"> <li>Comparable warehouse market prices of £150 – £315 per square metre (2020: £160 – £373 per square metre).</li> </ul> <b>UK – Regional (excluding major cities)</b> <ul style="list-style-type: none"> <li>Comparable warehouse market price of £350 per square metre (2020: £350 per square metre).</li> <li>Comparable residential market prices of dilapidated residential in region of £50,000.</li> <li>Comparable industrial development land at £250,000 per acre.</li> </ul> <b>UK – Urban</b> <ul style="list-style-type: none"> <li>Comparable market prices for development sites of £0.6 million – £4.5 million per acre.</li> </ul>	<b>The estimated fair value would increase/ (decrease) if:</b> <ul style="list-style-type: none"> <li>Comparable market prices per square metre were higher/(lower).</li> </ul>

## 14. OTHER FINANCIAL ASSETS

	Other Investments £'000
<b>At 1 January 2020</b>	127
Translation adjustment	1
<b>At 31 December 2020</b>	<b>128</b>
<b>Translation adjustment</b>	<b>(2)</b>
<b>At 31 December 2021</b>	<b>126</b>

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
<b>Cost</b>				
At 1 January 2020	43,631	7,311	77,079	128,021
Additions	1,893	–	–	1,893
Acquisitions	–	6,276	16,239	22,515
Translation adjustment	97	247	2,616	2,960
<b>At 1 January 2021</b>	<b>45,621</b>	<b>13,834</b>	<b>95,934</b>	<b>155,389</b>
Additions	827	–	–	827
Acquisitions (Note 27)	388	23,172	55,534	79,094
Disposal of Group businesses (Note 27)	(39,019)	(501)	(4,681)	(44,201)
Translation adjustment	(250)	(899)	(4,578)	(5,727)
<b>At 31 December 2021</b>	<b>7,567</b>	<b>35,606</b>	<b>142,209</b>	<b>185,382</b>
<b>Amortisation</b>				
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
<b>At 1 January 2021</b>	<b>12,675</b>	<b>2,677</b>	<b>24,132</b>	<b>39,484</b>
Charge for the year	2,496	2,928	11,760	17,184
Disposal of Group businesses (Note 27)	(11,497)	(279)	(2,598)	(14,374)
Translation adjustment	(108)	(135)	(996)	(1,239)
At 31 December 2021	3,566	5,191	32,298	41,055
<b>Net book amount</b>				
<b>At 31 December 2021</b>	<b>4,001</b>	<b>30,415</b>	<b>109,911</b>	<b>144,327</b>
<b>At 31 December 2020</b>	32,946	11,157	71,802	115,905

Computer software of £4.0 million at 31 December 2021 (2020: £32.9 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 (2020: 6.9 years).

The amortisation expense of £17.2 million (2020: £14.1 million) has been charged in operating costs in the income statement. Amortisation on acquired intangibles amounted to £14.7 million (2020: £8.9 million).

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## 16. INVENTORIES

	2021 £'000	2020 £'000
Raw materials	4,716	3,467
Finished goods	1,524	1,667
Goods purchased for resale	337,932	316,424
	<b>344,172</b>	<b>321,558</b>

The inventory provision at 31 December 2021 was £41.9 million (2020: £47.9 million).

## MOVEMENT IN IMPAIRMENT PROVISION

	2021 £'000	2020 £'000
At 1 January	47,856	37,386
Utilised/released during year	(2,922)	(2,380)
Acquired during the year	3,820	50
Disposed during the year	(12,967)	–
Additional provision*	7,431	11,653
Translation adjustment	(1,275)	1,147
At 31 December	<b>41,943</b>	<b>47,856</b>

\* 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

	2021 £'000	2020 £'000
<b>Amounts falling due within one year:</b>		
Trade receivables	153,155	238,150
Other receivables	80,331	98,794
	<b>233,486</b>	<b>336,944</b>

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 £64.8 million (2020: £78.6 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	
	2021 £'000	2020 £'000
United Kingdom	87,970	215,177
Ireland	88,049	82,521
Netherlands	40,051	39,246
Finland	17,416	–
	<b>233,486</b>	<b>336,944</b>

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 2021 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
<b>Not Past Due</b>	<b>195,253</b>	<b>(1,415)</b>	<b>193,838</b>	<b>0.7%</b>
<b>Past Due</b>				
0-30 days	32,731	(4,435)	28,296	13.5%
30-60 days	8,738	(2,422)	6,316	27.7%
+60 days	6,754	(1,718)	5,036	25.4%
	<b>48,223</b>	<b>(8,575)</b>	<b>39,648</b>	<b>17.8%</b>
	<b>243,476</b>	<b>(9,990)</b>	<b>233,486</b>	<b>4.1%</b>

## 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 2020 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
<b>Not Past Due</b>	286,388	(2,074)	284,314	0.7%
<b>Past Due</b>				
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%

## MOVEMENT IN IMPAIRMENT PROVISION

	2021 £'000	2020 £'000
At 1 January	12,511	9,350
Written-off during the year	(2,178)	(3,828)
Additional provision	4,033	6,762
Acquired during the year	–	18
Disposed during the year	(4,039)	–
Translation adjustment	(337)	209
At 31 December	9,990	12,511

## 17. (B) FINANCE LEASE RECEIVABLES

Finance lease receivables are presented in the balance sheet as follows:

	2021 £'000	2020 £'000
<b>Lease receivables:</b>		
Lease receivables – falling due within one year	212	301
Lease receivables – falling due after more than one year	881	2,015
	1,093	2,316

The maturity profile of the Group's finance lease receivables can be summarised as follows:

	2021 £'000	2020 £'000
<b>Lease receivables:</b>		
Due within one year	212	301
Between one and two years	192	291
Between two and three years	168	264
Between three and four years	134	203
Between four and five years	128	195
After five years	259	1,062
	1,093	2,316

The average lease term is 4.0 years (2020: 20.5 years). The finance income on the finance lease receivable recognised during the year amounted to £0.1 million (2020 Restated: £0.1 million).

## 18. SHARE CAPITAL AND SHARE PREMIUM

## GROUP AND COMPANY

	2021 €'000	2020 €'000
<b>Authorised:</b>		
<b>Equity shares</b>		
306 million ordinary shares of 5c each (2020: 300 million)	15,300	15,000
30 billion 'A' ordinary shares of 0.001c each	–	300
	15,300	15,300



## 18. SHARE CAPITAL AND SHARE PREMIUM continued

GROUP AND COMPANY continued

Year Ended 31 December 2021

	Issue Price	Number of Shares	2021 Nominal Value £'000
<b>Issued and fully paid:</b>			
<b>Ordinary shares – nominal value of €0.05 At 1 January</b>		<b>239,535,567</b>	<b>8,547</b>
Issued under UK SAYE scheme*		<b>453,388</b>	<b>19</b>
<b>2011 Long Term Incentive Plan</b>			
April 2018 LTIP Award	<b>Nil</b>	<b>82,675</b>	<b>4</b>
<b>At 31 December</b>		<b>240,071,630</b>	<b>8,570</b>
<b>'A' ordinary shares</b>			
<b>At 1 January</b>		<b>4,072,104,639</b>	<b>22</b>
'A' ordinary shares issued in year		<b>2,353,684</b>	<b>–</b>
Cancellation of 'A' ordinary shares		<b>(4,074,458,323)</b>	<b>(22)</b>
<b>At 31 December</b>		<b>–</b>	<b>–</b>
<b>Total nominal share capital issued</b>			<b>8,570</b>

\* Refer to Note 31 which outlines the issue price of the 2020, 2019, 2018 and the 2017 SAYE Schemes.

Year Ended 31 December 2020

	Issue Price	Number of Shares	2020 Nominal Value £'000
<b>Issued and fully paid:</b>			
<b>Ordinary shares – nominal value of €0.05</b>			
<b>At 1 January</b>		238,307,798	8,494
Issued under UK SAYE scheme**		413,489	18
<b>2011 Long Term Incentive Plan</b>			
April 2017 LTIP Award	Nil	748,994	32
May 2017 LTIP Award	Nil	65,286	3
<b>At 31 December</b>		<b>239,535,567</b>	<b>8,547</b>
<b>'A' ordinary shares</b>			
<b>At 1 January</b>		<b>4,051,232,566</b>	<b>22</b>
'A' ordinary shares issued in year (net of cancellations)		<b>20,872,073</b>	<b>–</b>
<b>At 31 December</b>		<b>4,072,104,639</b>	<b>22</b>
<b>Total nominal share capital issued</b>			<b>8,569</b>

\*\* Refer to Note 31 which outlines the issue price of the 2020, 2019, 2018 and the 2017 SAYE Schemes.

## SHARE PREMIUM

Group	2021 £'000	2020 £'000
At 1 January	<b>216,496</b>	213,719
Premium on issue of shares under UK SAYE scheme	<b>2,951</b>	2,777
<b>At 31 December</b>	<b>219,447</b>	216,496

## GRAFTON UNITS ISSUED AND CANCELLED DURING 2021

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 536,063 (2020: 1,227,769). Costs relating to the issues were £Nil (2020: £Nil). The number of Grafton units cancelled during the year was Nil (2020: Nil). The total consideration received, net of cancellations, amounted to £2,974,000 (2020: £2,830,000).

## GRAFTON UNITS

At 31 December 2020, 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.

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 and as at 31 December 2021, a Grafton Unit comprised one ordinary share of Euro five cent in Grafton Group plc.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**18. SHARE CAPITAL AND SHARE PREMIUM** continued**ORDINARY SHARES**

The holders of ordinary shares are entitled to attend, speak and vote at all General Meetings of the Company.

**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 (2020: 500,000) Grafton Units at a cost of £3,897,000 (2020: £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**

	2021 £'000	2020 £'000
<b>Non-current liabilities</b>		
Euro bank loans	38,699	130,842
US senior notes	133,902	143,188
Total interest-bearing loans and borrowings	172,601	274,030
Lease liabilities	396,070	479,019
	<b>568,671</b>	753,049
<b>Current liabilities</b>		
Euro bank loans	84,030	–
Lease liabilities	52,924	57,915
	<b>136,954</b>	57,915

The decrease in non-current interest-bearing loans and borrowings largely reflects a movement to current liabilities and a 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 2021 £'000	US senior 2021 £'000	Lease liabilities 2021 £'000	Total 2021 £'000	Bank loans 2020 £'000	US senior 2020 £'000	Lease liabilities 2020 £'000	Total 2020 £'000
Due within one year	84,030	–	52,924	136,954	–	–	57,915	57,915
Between one and two years	38,699	–	53,024	91,723	–	–	57,208	57,208
Between two and three years	–	–	52,492	52,492	130,842	–	55,983	186,825
Between three and four years	–	–	51,131	51,131	–	–	54,558	54,558
Between four and five years	–	–	47,436	47,436	–	–	52,695	52,695
After five years	–	133,902	191,987	325,889	–	143,188	258,575	401,763
	<b>122,729</b>	<b>133,902</b>	<b>448,994</b>	<b>705,625</b>	130,842	143,188	536,934	810,964
Derivatives				8				65
Gross debt				<b>705,633</b>				811,029
Cash and short term deposits				<b>(844,663)</b>				(456,028)
Net (cash)/debt				<b>(139,030)</b>				355,001
Shareholders' equity				<b>1,719,599</b>				1,467,023

Net cash, excluding the impact of leases, amounted to £588.0 million (2020: £181.9 million).

## 20. INTEREST-BEARING LOANS AND BORROWINGS continued

## MATURITY OF FINANCIAL LIABILITIES continued

The following table indicates the effective interest rates at 31 December 2021 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	–	–	–	–	–	–	–
Sterling deposits	0.10%	16,714	16,714	–	–	–	–
Cash at bank	(0.65%) – 0.10%	827,949	827,949	–	–	–	–
Total cash and cash equivalents		844,663	844,663	–	–	–	–
<b>Floating rate debt:</b>							
Euro loans	(0.34%)	(122,729)	(122,729)	–	–	–	–
Total floating rate debt		(122,729)	(122,729)	–	–	–	–
<b>Fixed rate debt:</b>							
Lease liabilities	3.26%	(448,994)	(26,462)	(26,462)	(53,024)	(151,059)	(191,987)
US senior notes	2.49%	(133,902)	–	–	–	–	(133,902)
Total fixed rate debt		(582,896)	(26,462)	(26,462)	(53,024)	(151,059)	(325,889)
Derivatives		(8)	(8)	–	–	–	–
Total net cash/(debt)		139,030	695,464	(26,462)	(53,024)	(151,059)	(325,889)

## BORROWING FACILITIES AND US SENIOR NOTES

At 31 December 2021, the Group had bilateral loan facilities of £433.7 million (2020: £490.7 million) with five relationship banks which all mature in March 2023.

A new one-year term facility for £84.0 million was put in place in 2021 facilitated by one of the Group's five relationship banks under the ECB's Targeted Longer-Term Refinancing Operations. This facility was used to temporarily replace drawings on existing facilities on more attractive terms.

The Group had an undrawn committed borrowing facility at 31 December 2021 of £394.7 million (2020: £359.2 million) in respect of which all conditions precedent were met. In 2020, 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. The CCF was allowed to lapse unutilised on 31 December 2020. The Group had liquidity of £1,235.4 million at 31 December 2021 (2020: £811.2 million) of which £840.7 million (2020: £452.0 million) was held in accessible cash and £394.7 million (2020: £359.2 million) in undrawn revolving bank facilities.

In September 2018, the Group raised €160 million (31 December 2021: £134.4 million before costs; 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.

The average maturity of committed bank facilities and unsecured senior notes at 31 December 2021 was 2.5 years (2020: 3.7 years).

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**20. INTEREST-BEARING LOANS AND BORROWINGS continued****BORROWING FACILITIES AND US SENIOR NOTES continued**

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 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%	7,461	7,461	–	–	–	–
Sterling deposits	0.11%	129,624	129,624	–	–	–	–
Cash at bank	(0.65%) – 0.10%	318,943	318,943	–	–	–	–
<b>Total cash and cash equivalents</b>		<b>456,028</b>	<b>456,028</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Floating rate debt:</b>							
Euro loans	0.60%	(130,842)	(130,842)	–	–	–	–
<b>Total floating rate debt</b>		<b>(130,842)</b>	<b>(130,842)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Fixed rate debt:</b>							
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)
<b>Total fixed rate debt</b>		<b>(680,122)</b>	<b>(28,957)</b>	<b>(28,958)</b>	<b>(57,208)</b>	<b>(163,236)</b>	<b>(401,763)</b>
Derivatives		(65)	(65)	–	–	–	–
<b>Total Net Debt</b>		<b>(355,001)</b>	<b>296,164</b>	<b>(28,958)</b>	<b>(57,208)</b>	<b>(163,236)</b>	<b>(401,763)</b>

**21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK**

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

**At 31 December 2021**

	Fair value through OCI £'000	Amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	126	–	126	–
Trade and other receivables*	–	233,486	233,486	–
Lease receivables*	–	1,093	1,093	–
Cash and cash equivalents*	–	844,663	844,663	–
	<b>126</b>	<b>1,079,242</b>	<b>1,079,368</b>	<b>–</b>
Interest rate swaps and other derivatives	(8)	–	(8)	(8)
Euro bank loans	–	(122,729)	(122,729)	(123,017)
US senior notes	–	(133,902)	(133,902)	(134,448)
Lease liabilities	–	(448,994)	(448,994)	(448,994)
Trade and other payables*	–	(419,111)	(419,111)	–
	<b>(8)</b>	<b>(1,124,736)</b>	<b>(1,124,744)</b>	<b>(706,467)</b>

**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	–
	<b>128</b>	<b>795,288</b>	<b>795,416</b>	<b>–</b>
Interest rate swaps	(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)	–
	<b>(65)</b>	<b>(1,356,913)</b>	<b>(1,356,978)</b>	<b>(812,360)</b>

\* 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.

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK continued

### 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 2021, £4.0 million of cash (2020: £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.

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.

	2021 Total £'000	2021 Level 2 £'000
<b>Liabilities measured and recognised at fair value</b>		
<b>Designated as hedging instruments</b>		
Other derivative instruments	(8)	(8)
<b>Liabilities not measured at fair value</b>		
<b>Liabilities at amortised cost</b>		
Euro bank loans	(123,017)	(123,017)
US senior notes	(134,448)	(134,448)

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK continued

## FAIR VALUE continued

	2020 Total £'000	2020 Level 2 £'000
<b>Liabilities measured and recognised at fair value</b>		
<b>Designated as hedging instruments</b>		
Other derivatives and interest rate swaps	(65)	(65)
<b>Liabilities not measured at fair value</b>		
<b>Liabilities at amortised cost</b>		
Euro bank loans	(131,521)	(131,521)
US senior notes	(143,840)	(143,840)

## Level 2 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<b>Financial assets and liabilities measured at fair value</b>			
Interest rate swaps 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
<b>Financial assets and liabilities not held at fair value</b>			
Other financial liabilities*	Discounted cash flows	Not applicable	Not applicable

\* Other financial liabilities include Euro bank loans and US senior notes.

## 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.

## RISK EXPOSURES AND GROUP TREASURY POLICY

The manner in which the Group is exposed to each of these risks and the risk management policies applied are discussed below. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. The Board and the Audit and Risk Committee have reviewed the process for identifying, evaluating and managing the significant risks affecting the business.

## CREDIT RISK

Credit risk arises from credit granted to customers. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions.

Exposure to credit risk is monitored on an ongoing basis. The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by Business Unit credit control teams. Credit insurance is in place, 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.

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK continued

### RISK EXPOSURES AND GROUP TREASURY POLICY continued

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 2021.

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 2021 and 31 December 2020 was:

	2021 £'000	2020 £'000
Trade and other receivables	<b>233,486</b>	336,944
Cash and cash equivalents	<b>844,663</b>	456,028
	<b>1,078,149</b>	792,972

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	
	2021 £'000	2020 £'000
United Kingdom	<b>747,536</b>	346,116
Republic of Ireland	<b>55,825</b>	98,805
Netherlands	<b>17,949</b>	6,658
Finland	<b>17,538</b>	–
France	<b>5,815</b>	4,426
Belgium	–	23
	<b>844,663</b>	456,028

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.

	2021 £'000	2020 £'000
Gross amounts of cash and cash equivalents	<b>857,197</b>	457,148
Amounts set off in the balance sheet*	<b>(12,534)</b>	(1,120)
Net amounts of cash and cash equivalents in the balance sheet	<b>844,663</b>	456,028

\* The Group has netting arrangements in place with Bank of Ireland and HSBC 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, Dutch and Finnish businesses is in euro. Sterling is the principal currency for the Group's UK businesses. Currency risks are regularly monitored and managed by utilising spot and forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A proportion of the Group's net worth is denominated in euro. This is reflected in profit after tax reserves retained in euro denominated trading and finance companies which gives rise to translation differences on conversion to sterling. Borrowings made in a non-functional currency are swapped into a functional currency.

### SENSITIVITY ANALYSIS

A ten per cent strengthening of the sterling exchange rate against the euro exchange rate at the balance sheet date would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each euro functional currency entity and interest rates, remained constant. A ten per cent weakening of the sterling exchange rate against the euro exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity £'000	Profit after tax £'000
<b>31 December 2021</b>		
<b>10% strengthening of sterling currency against the euro</b>	<b>(52,944)</b>	<b>(16,053)</b>
31 December 2020		
10% strengthening of sterling currency against the euro	(39,134)	(6,168)

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK continued****HEDGING**

The Group has exposure to changes in interest rates on certain debt instruments and can hedge an element of this risk by entering into interest rate swaps. There were no contracts outstanding at 31 December 2021 (2020: £Nil).

**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 2021: £134.4 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 £0.6 million (2020: £0.7 million) on the basis of the Group's gross debt of £705.6 million at 31 December 2021. £122.7 million of the gross debt is exposed to variable rates with the interest rate on the US senior notes of £133.9 million and the implicit interest rate on lease liabilities of £449.0 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 £1.16 billion at 31 December 2021.

At 31 December 2021 the net debt to equity ratio was negative 8 per cent (2020: 24 per cent) as the Group was in a net cash position of £139.0 million (2020: £355.0 million net debt) and shareholders' equity was £1.72 billion. EBITDA, from continuing operations, for the year was £373.4 million (2020: £250.6 million) and underlying EBITDA interest cover for 2021 was 18.0 times (2020: 10.9 times). On a pre-IFRS 16 basis, the Group had net cash of £588.0 million and EBITDA for the year was £305.8 million and underlying EBITDA interest cover for 2021 was 50.5 times.

**FUNDING AND LIQUIDITY**

The Group has cash resources at its disposal through the holding of deposits and cash balances of £844.7 million at the year end (2020: £456.0 million) which together with undrawn bank facilities of £394.7 million (2020: £359.2 million) and cash – flow from operation provides flexibility in financing its operations.

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

**31 December 2021**

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
<b>Non-Derivative Financial Liabilities</b>						
Bank loans	122,729	122,676	83,642	39,034	–	–
US senior notes	133,902	160,250	3,341	3,341	10,023	143,545
Lease liabilities	448,994	536,325	71,388	65,256	178,034	221,647
Trade and other payables	419,111	419,111	419,111	–	–	–
<b>Derivative Financial Instruments</b>						
Other derivatives	8	8	8	–	–	–
	<b>1,124,744</b>	<b>1,238,370</b>	<b>577,490</b>	<b>107,631</b>	<b>188,057</b>	<b>365,192</b>

\* Includes interest based on the rates in place at 31 December 2021.



## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK continued

### FUNDING AND LIQUIDITY continued

#### 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
<b>Non-Derivative Financial Liabilities</b>						
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	–	–	–
<b>Derivative Financial Instruments</b>						
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.

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur.

#### 31 December 2021

	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
<b>Other derivatives</b>	(8)	(8)	(8)	–	–	–	–	–

#### 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
<b>Other derivatives</b>	(65)	(65)	(65)	–	–	–	–	–

## 22. DERIVATIVES

	2021 £'000	2020 £'000
<b>Included in current liabilities and current assets:</b>		
Fair value of other derivatives	(8)	(65)

The movement in derivatives at 31 December 2021 is due to the movement in the fair values of the other derivatives.

#### Nature of Derivative Instruments as at 31 December 2021

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding	Notional receivable amount of contracts outstanding	Fair value asset £'000	Fair value liability £'000
<b>Foreign Currency Forwards*</b>	December 2021 – January 2022	Forward purchase of foreign currency liabilities	£646,000	£646,000	–	(8)

\* The fair value of foreign currency forwards (derivative financial instruments) are shown as current liabilities of £8,000 in the balance sheet.

#### 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
<b>Foreign Currency Forwards*</b>	September 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.

## 23. PROVISIONS

	2021 £'000	2020 £'000
<b>Non-current liabilities</b>		
Insurance provision	8,790	10,221
Dilapidations provision	4,396	8,193
Other provisions	1,676	2,206
	<b>14,862</b>	20,620
<b>Current liabilities</b>		
Insurance provision	3,760	4,040
Dilapidations provision	–	1,086
Disposal provisions	1,321	2,370
Other provisions	1,556	1,960
	<b>6,637</b>	9,456

	Insurance		Dilapidations	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>At 1 January</b>	<b>14,261</b>	12,546	<b>9,279</b>	6,293
Charge in year	4,227	4,265	554	3,089
Utilised	–	–	(159)	(197)
Released	(2,740)	(1,268)	(65)	–
Paid during the year	(2,284)	(2,003)	–	–
Disposed during the year (Note 27)	–	–	(5,075)	–
Foreign exchange	(914)	721	(138)	94
<b>At 31 December</b>	<b>12,550</b>	14,261	<b>4,396</b>	9,279
<b>Non-current</b>	<b>8,790</b>	10,221	<b>4,396</b>	8,193
<b>Current</b>	<b>3,760</b>	4,040	–	1,086

	Disposal Provisions		Other Provisions		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>At 1 January</b>	<b>2,370</b>	2,401	<b>4,166</b>	3,845	<b>30,076</b>	25,085
Charge in year	–	–	–	7,755	4,781	15,109
Utilised	(915)	(165)	(280)	(7,468)	(1,354)	(7,830)
Released	–	–	(288)	(54)	(3,093)	(1,322)
Paid during the year	–	–	–	–	(2,284)	(2,003)
Disposed during the year (Note 27)	–	–	(264)	–	(5,339)	–
Foreign exchange	(134)	134	(102)	88	(1,288)	1,037
<b>At 31 December</b>	<b>1,321</b>	2,370	<b>3,232</b>	4,166	<b>21,499</b>	30,076
<b>Non-current</b>	–	–	<b>1,676</b>	2,206	<b>14,862</b>	20,620
<b>Current</b>	<b>1,321</b>	2,370	<b>1,556</b>	1,960	<b>6,637</b>	9,456

## 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 2022 is expected to be at a similar level to 2021. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2021 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 does not control the extent and duration of the legal process, and hence, it does not appear that it has an unconditional right to defer settlement.

### 23. PROVISIONS continued

#### 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.

#### DISPOSALS PROVISION

The disposal provision covers the future legal costs in relation to the disposal of the Belgium business.

#### 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

	2021 £'000	2020 £'000
Trade payables	270,862	402,081
Accruals	114,146	106,138
Social welfare	1,218	3,764
Employee income tax	4,550	6,294
Value added tax	28,335	27,672
	<b>419,111</b>	<b>545,949</b>

### 25. DEFERRED TAXATION

#### Recognised Deferred Tax Assets and Liabilities

	Assets 2021 £'000	Liabilities 2021 £'000	Net (assets)/ liabilities 2021 £'000	Assets 2020 £'000	Liabilities 2020 £'000	Net (assets)/ liabilities 2020 £'000
Property, plant and equipment	(119)	23,362	23,243	(2,943)	31,659	28,716
Employee share schemes	(2,309)	–	(2,309)	(943)	–	(943)
Other items	(4,729)	1,106	(3,623)	(840)	1,186	346
Intangibles	–	31,934	31,934	–	21,554	21,554
Pension	(1,636)	–	(1,636)	(8,660)	–	(8,660)
<b>(Assets)/liabilities</b>	<b>(8,793)</b>	<b>56,402</b>	<b>47,609</b>	<b>(13,386)</b>	<b>54,399</b>	<b>41,013</b>

The decrease in the deferred tax asset reflects a large decrease in the deferred tax asset on the pension scheme deficit and a decrease in the deferred tax asset in respect of property, plant and equipment offset by an increase in the deferred tax asset on employee share schemes and other items.

At 31 December 2021, there were unrecognised deferred tax assets in relation to capital losses of £3.1 million (31 December 2020: £1.7 million), trading losses of £1.1 million (31 December 2020: £2.0 million) and deductible temporary differences of £8.5 million (31 December 2020: £7.7 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.

#### Analysis of Net Deferred Tax (asset)/liability – 2021

	Balance 1 Jan 21 £'000	Recognised in profit or loss £'000	Recognised in profit or loss (discontinued) £'000	Recognised in equity/other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on disposal £'000	Arising on acquisitions £'000	Balance 31 Dec 21 £'000
Property, plant and equipment	28,716	4,827	3,146	–	(966)	(12,503)	23	23,243
Employee share schemes	(943)	(274)	–	(1,092)	–	–	–	(2,309)
Other items	346	(3,298)	–	–	(62)	–	(609)	(3,623)
Intangibles	21,554	(535)	1,000	–	(1,011)	(4,459)	15,385	31,934
Pension	(8,660)	3,718	–	3,212	94	–	–	(1,636)
	<b>41,013</b>	<b>4,438</b>	<b>4,146</b>	<b>2,120</b>	<b>(1,945)</b>	<b>(16,962)</b>	<b>14,799</b>	<b>47,609</b>

**25. DEFERRED TAXATION continued****Analysis of Net Deferred Tax (asset)/liability – 2020**

	Balance 1 Jan 20 £'000	Recognised in profit or loss (Total Operations) £'000	Recognised in equity/other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on acquisitions £'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)
Other items	420	(102)	–	30	(2)	346
Intangibles	16,577	212	–	546	4,219	21,554
Pension	(3,228)	(1,581)	(3,709)	(142)	–	(8,660)
	39,509	(760)	(3,357)	1,269	4,352	41,013

**26. MOVEMENT IN WORKING CAPITAL**

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
<b>At 1 January 2020</b>	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)
<b>At 1 January 2021</b>	<b>321,558</b>	<b>336,944</b>	<b>(545,949)</b>	<b>112,553</b>
Translation adjustment	(10,864)	(8,546)	15,501	(3,909)
Acquisitions (Note 27)	51,717	22,640	(14,777)	59,580
Disposal of Group businesses (Note 27)	(99,253)	(216,013)	242,467	(72,799)
Deferred acquisition consideration (Note 27)	–	–	(1,007)	(1,007)
Movement in 2021	81,014	98,461	(115,346)	64,129
<b>At 31 December 2021</b>	<b>344,172</b>	<b>233,486</b>	<b>(419,111)</b>	<b>158,547</b>
<b>Working Capital Movement</b>				
Discontinued operations	6,158	63,763	(62,427)	7,494
Continuing operations	74,856	34,698	(52,919)	56,635
<b>At 31 December 2021</b>	<b>81,014</b>	<b>98,461</b>	<b>(115,346)</b>	<b>64,129</b>

**27. ACQUISITION & DISPOSALS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES****ACQUISITION OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES**

On 22 December 2020, the Group announced that it had agreed to acquire Proline Architectural Hardware Limited (“Proline”), a leading distributor of architectural ironmongery products for doors from a single location in Dublin. Proline specialises in the supply of a wide range of high quality traditional and contemporary architectural ironmongery products, in a variety of designs and finishes, including door locks, hinges and handles. The acquisition was completed on 11 February 2021 and is incorporated in the distribution segment.

On 13 January 2021, the Group acquired the entire share capital of Van Den Anker IJzerhandel Katwijk B.V. (“VDA”). VDA is a single branch merchandising business based in the Netherlands and is incorporated in the distribution segment. On 21 April 2021, the Group acquired the entire share capital of Govers B.V. (“Govers”). Govers is a four-branch business located in the Netherlands that complements the Isero branch network and is incorporated in the distribution segment.

Further to the announcement on 22 June 2021, the Group completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy (“IKH”) on 1 July 2021. IKH is one of the largest workwear, personal protective equipment (“PPE”), tools, spare parts and accessories technical wholesalers and distributors in Finland. The business is incorporated in the distribution segment.

On 9 December 2021, the Group expanded its coverage of the Northern Ireland market with the acquisition of P. McDermott & Sons (Omagh) Ltd. (“McDermotts”), a single branch builders’ distribution business located in Omagh, County Tyrone. The business is incorporated in the distribution segment.

Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies that should be realised as part of the enlarged Group.

## 27. ACQUISITION & DISPOSALS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued

### ACQUISITION OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued

The fair values of assets and liabilities acquired in 2021 are set out below:

	IKH £'000	Other £'000	Total £'000
Property, plant and equipment (Note 13a)	16,321	1,715	18,036
Right-of-use asset (Note 13b)	21,497	2,695	24,192
Intangible assets – customer relationships (Note 15)	53,259	2,275	55,534
Intangible assets – trade names (Note 15)	20,707	2,465	23,172
Intangible assets – computer software (Note 15)	388	–	388
Inventories (Note 26)	47,422	4,295	51,717
Trade and other receivables (Note 26)	16,194	6,446	22,640
Trade and other payables (Note 26)	(11,031)	(3,746)	(14,777)
Lease liability	(21,497)	(2,695)	(24,192)
Corporation tax liability	(2,370)	(303)	(2,673)
Deferred tax liability (Note 25)	(14,793)	(615)	(15,408)
Deferred tax asset (Note 25)	609	–	609
Debt acquired*	(55,647)	–	(55,647)
Cash acquired	7,582	4,814	12,396
Net assets acquired	78,641	17,346	95,987
Goodwill (Note 12)	35,263	5,462	40,725
<b>Consideration</b>	<b>113,904</b>	<b>22,808</b>	<b>136,712</b>
Satisfied by:			
Cash paid	113,904	21,801	135,705
Deferred consideration (Note 26)	–	1,007	1,007
	<b>113,904</b>	<b>22,808</b>	<b>136,712</b>

#### Net cash outflow – arising on acquisitions

Cash consideration	113,904	21,801	135,705
Less: cash and cash equivalents acquired	(7,582)	(4,814)	(12,396)
	<b>106,322</b>	<b>16,987</b>	<b>123,309</b>

\* Debt of £55.6 million (€64.7 million), which was outstanding following the buy-back of shares from minority shareholders, was settled on completion. The total cash consideration paid for IKH of £113.9 million excludes the debt amount whereas the amount previously announced of €199.3 million was on a cash and debt free basis.

Acquisitions would have contributed revenue of £177.4 million (unaudited) and operating profit of £25.6 million (unaudited) in the year ended 31 December 2021 on the assumption that they had been acquired on 1 January. Acquisitions completed in 2021 contributed revenues of £88.3 million and operating profit of £12.3 million for the period from the date of acquisition until the year end.

In 2021, the Group incurred acquisition related costs of £4.1 million (2020: £1.4 million). These have been included in operating costs in the Group Income Statement. The fair value of identifiable net assets acquired in 2021 was £96.0 million.

	Fair Value £'000	Consideration £'000	Goodwill £'000
Total acquisitions	95,987	136,712	40,725

Any adjustments to these fair values within the twelve month timeframe from the date of acquisition will be disclosed in the 2022 Annual Report as stipulated by IFRS 3 Business Combinations.

There were no adjustments processed during the year to the fair value of business combinations completed during the year ended 31 December 2020.

Deferred consideration is payable within 3 years and is not contingent. In addition to this deferred consideration, the Group has an agreement to make further payments to selling shareholders who as part of the agreement are required to remain in employment with the Group for the deferred period.

## DISPOSAL OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES

### TRADITIONAL MERCHANTING BUSINESS IN GREAT BRITAIN – DISPOSAL

In April 2021, the Group announced that it had appointed Rothschild & Co to undertake a review of a number of its traditional merchanting businesses in Great Britain. This strategic review was focused solely on the Buildbase, Civils & Lintels, PDM Buildbase, The Timber Group, Bathroom Distribution Group and NDI businesses.

On 30 June 2021, the Group entered into an agreement to divest its traditional merchanting business in Great Britain (“the Business”) for an enterprise value of £520.0 million to Huws Gray, one of the UK’s largest independent builders’ merchants, that is controlled by equity funds managed by Blackstone. The Group retained freehold properties with development potential that have a market value of circa £25 million (fair value of £15.75 million).

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**27. ACQUISITION & DISPOSALS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued**  
**DISPOSAL OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued**  
**TRADITIONAL MERCHANTING BUSINESS IN GREAT BRITAIN – DISPOSAL continued**

The decision to divest followed a comprehensive strategic review of the Business which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value. Completion of this transaction will also enable the Group to focus on its international development strategy which will be a key priority over the coming years.

In accordance with IFRS, for reporting purposes, the disposal of the traditional merchanting business in Great Britain has been accounted for as discontinued operations, in line with the accounting treatment of the deemed disposal at 30 June 2021. As a result, the net assets of the Group increased by £113.2 million representing an overall profit on disposal after costs of disposal. The profit on the disposal reflects the cash consideration of £602.3 million offset by the net book value of the assets being disposed of £477.2 million. The net assets disposed include the write-off of the carrying value of the allocated goodwill of £126.3 million.

The transaction completed on 31 December 2021 and the proceeds, which amounted to £602.3 million, were received on that date. These included £116.0 million of intercompany balances which were due to Grafton Group at 30 June 2021.

The carrying value of assets and liabilities disposed in 2021 are set out below:

	Total £'000
Goodwill	126,291
Intangible assets	29,827
Property, plant and equipment	177,515
Right-of-use assets	60,613
Lease receivable	1,931
Deferred tax asset	1,729
Inventories	99,253
Trade and other receivables	216,013
Cash	103,778
Trade and other payables	(242,467)
Provisions	(5,339)
Lease liabilities (current and non-current)	(67,100)
Deferred tax liability	(18,691)
Corporation tax liability	(6,161)
<b>Net assets disposed</b>	<b>477,192</b>
Cash consideration received and settlement of intercompany balances	(602,308)
<b>Net profit on disposal of Group businesses, before disposal costs</b>	<b>(125,116)</b>
	Total £'000
<b>Reconciliation of cash consideration receivable from 30 June 2021</b>	
Cash consideration receivable at 30 June 2021	465,734
Cash received for intercompany balances owed to Group at 30 June 2021	115,969
Additional consideration payable to date of completion (daily ticker rate)	20,385
Other adjusting items upon completion	220
	<b>602,308</b>
	Total £'000
<b>Net cash inflow on disposal of Group businesses</b>	
Cash consideration received and settlement of intercompany balances	602,308
Cash disposed with Group businesses	(103,778)
	<b>498,530</b>
	Total £'000
<b>Amounts recognised in the period within discontinued operations</b>	
Gross profit on disposal of Group businesses	125,116
Disposal costs*	(11,945)
Net profit on disposal of Group businesses	113,171
Result for the period from discontinued operations	21,251
	<b>134,422</b>

\* Disposal costs include professional fees of £4.9 million, legal fees of £1.0 million, vendor financial, tax & IT due diligence fees of £0.9 million, property related costs of £0.3 million and £4.8 million of other costs related to the divestment of the business.

27. ACQUISITION & DISPOSALS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued  
 DISPOSAL OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued  
 PROFIT/(LOSS) BEFORE TAXATION FROM DISCONTINUED OPERATIONS

CASH FLOWS FROM DISCONTINUED OPERATIONS

	2021 £'000	2020 £'000
Net cash flow from operating activities	36,592	84,427
Net cash flow from investing activities	(3,346)	530
Net cash flow from financing activities	(4,794)	(9,845)
<b>Net cash flow from discontinued operations</b>	<b>28,452</b>	<b>75,112</b>

PROFIT/(LOSS) BEFORE TAXATION FROM DISCONTINUED OPERATIONS

	2021 £'000	2020 £'000
Results from discontinued operations	30,675	(839)
Profit on disposal of Group businesses, net of disposal costs	113,171	–
<b>Profit/(loss) before taxation from discontinued operations</b>	<b>143,846</b>	<b>(839)</b>

RESULTS OF DISCONTINUED OPERATIONS

	2021 £'000	2020 £'000
<b>Revenue</b>	<b>522,895</b>	829,842
Operating costs	(493,873)	(808,470)
<b>Operating profit before property profits</b>	<b>29,022</b>	21,372
Property profits	396	2,696
<b>Operating profit pre-exceptional items</b>	<b>29,418</b>	24,068
Exceptional items*	2,500	(22,204)
<b>Operating profit</b>	<b>31,918</b>	1,864
Net finance costs	(1,243)	(2,703)
<b>Profit/(loss) before tax</b>	<b>30,675</b>	(839)
Income tax	(9,424)	(1,047)
<b>Profit/(loss) after tax for the financial period</b>	<b>21,251</b>	(1,886)

\* Exceptionals items at 31 December 2021 relates to an IAS 19 past service credit booked in 2020 (Note 30). The 2020 costs related to branch and organisational changes which were implemented in the traditional merchanting business in the second half of 2020 (Note 4).

The overall impact on the Group income statement for 2021 and 2020 is set out below.

IMPACT ON THE GROUP INCOME STATEMENT

For the year ended 31 December 2021

	2021 Continuing £'000	2021 Discontinued £'000	2021 Total £'000
<b>Revenue</b>	<b>2,109,909</b>	<b>522,895</b>	<b>2,632,804</b>
Operating costs	(1,857,487)	(493,873)	(2,351,360)
<b>Operating profit before property profits</b>	<b>252,422</b>	<b>29,022</b>	<b>281,444</b>
Property profits	16,740	396	17,136
<b>Operating profit before exceptional items</b>	<b>269,162</b>	<b>29,418</b>	<b>298,580</b>
Exceptional items	–	2,500	2,500
<b>Operating profit</b>	<b>269,162</b>	<b>31,918</b>	<b>301,080</b>
Finance expense	(21,269)	(1,243)	(22,512)
Finance income	1,904	–	1,904
<b>Profit before tax</b>	<b>249,797</b>	<b>30,675</b>	<b>280,472</b>
Income tax expense	(42,952)	(9,424)	(52,376)
<b>Profit after tax for the financial period</b>	<b>206,845</b>	<b>21,251</b>	<b>228,096</b>

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

## 27. ACQUISITION &amp; DISPOSALS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued

## DISPOSAL OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES continued

Impact on the Group Income Statement  
For the year ended 31 December 2020

	2020 Continuing £'000	2020 Discontinued £'000	2020 Total £'000
<b>Revenue</b>	1,679,247	829,842	2,509,089
Operating costs	(1,518,868)	(808,470)	(2,327,338)
<b>Operating profit before property profits</b>	160,379	21,372	181,751
Property profits	(83)	2,696	2,613
<b>Operating profit before exceptional items</b>	160,296	24,068	184,364
Exceptional items	(2,481)	(22,204)	(24,685)
<b>Operating profit</b>	157,815	1,864	159,679
Finance expense	(24,936)	(2,703)	(27,639)
Finance income	698	–	698
<b>Profit before tax</b>	133,577	(839)	132,738
Income tax expense	(24,149)	(1,047)	(25,196)
<b>Profit after tax for the financial period</b>	109,428	(1,886)	107,542

## 28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH/(DEBT)

	2021 £'000	2020 £'000
Net increase in cash and cash equivalents	<b>399,155</b>	98,442
Net movement in derivative financial instruments	<b>57</b>	(72)
Lease liabilities disposed with Group businesses	<b>67,100</b>	–
Bank loans and loan notes acquired with subsidiaries*	<b>(55,647)</b>	–
Lease liabilities acquired with subsidiaries	<b>(24,192)</b>	–
Movement in debt and lease financing	<b>84,863</b>	107,329
<b>Change in net debt resulting from cash flows</b>	<b>471,336</b>	205,699
Translation adjustment	<b>22,695</b>	(26,866)
<b>Movement in net debt in the year</b>	<b>494,031</b>	178,833
Net debt at 1 January	<b>(355,001)</b>	(533,834)
<b>Net cash/(debt) at 31 December</b>	<b>139,030</b>	(355,001)

\* Repaid at completion.

## Analysis of Net Debt – 2021

	Balance 1 Jan 21 £'000	Cashflow £'000	Acquisition (Note 27) £'000	Disposals (Note 27) £'000	Non-cash movements £'000	Translation adjustment £'000	Balance 31 Dec 21 £'000
Cash and cash equivalents	456,028	490,537	12,396	(103,778)	–	(10,520)	844,663
<b>Interest bearing loans and borrowings:</b>							
Non-current liabilities	(274,030)	140,087	(55,647)	–	–	16,989	(172,601)
Current liabilities	–	(84,980)	–	–	–	950	(84,030)
<b>Total interest-bearing loans and borrowings</b>	<b>(274,030)</b>	<b>55,107</b>	<b>(55,647)</b>	<b>–</b>	<b>–</b>	<b>17,939</b>	<b>(256,631)</b>
Lease liabilities	(536,934)	72,165	(24,192)	67,100	(42,409)	15,276	(448,994)
Derivatives – current	(65)	57	–	–	–	–	(8)
<b>Net cash/(debt)</b>	<b>(355,001)</b>	<b>617,866</b>	<b>(67,443)</b>	<b>(36,678)</b>	<b>(42,409)</b>	<b>22,695</b>	<b>139,030</b>

## 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
<b>Interest bearing loans and borrowings:</b>						
Non-current liabilities	(339,261)	87,537	–	–	(22,306)	(274,030)
Current liabilities	–	–	–	–	–	–
<b>Total interest-bearing loans and borrowings</b>	<b>(339,261)</b>	<b>87,537</b>	<b>–</b>	<b>–</b>	<b>(22,306)</b>	<b>(274,030)</b>
Lease liabilities	(543,367)	74,634	(8,669)	(46,173)	(13,359)	(536,934)
Derivatives – current	7	(72)	–	–	–	(65)
<b>Net debt</b>	<b>(533,834)</b>	<b>248,911</b>	<b>2,961</b>	<b>(46,173)</b>	<b>(26,866)</b>	<b>(355,001)</b>



## 29. CAPITAL EXPENDITURE COMMITMENTS

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

	2021 £'000	2020 £'000
Contracted for	<b>8,625</b>	4,927
Not contracted for	<b>76,742</b>	67,701
	<b>85,367</b>	72,628

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

	2021 £'000	2020 £'000
UK	<b>54,265</b>	51,910
Ireland	<b>20,547</b>	15,785
Netherlands	<b>7,249</b>	4,933
Finland	<b>3,306</b>	–
	<b>85,367</b>	72,628
Amounts relating to intangibles included above	<b>2,788</b>	1,334

## 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. 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.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

## 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 2021 Irish schemes	At 31 Dec 2021 UK schemes	At 31 Dec 2020 Irish schemes	At 31 Dec 2020 UK schemes
Valuation method	<b>Projected Unit</b>	<b>Projected Unit</b>	Projected Unit	Projected Unit
Rate of increase in salaries	<b>3.30%</b>	<b>0.00%*</b>	2.25%	0.00%*
Rate of increase of pensions in payment	–	<b>3.10%</b>	–	2.70%
Discount rate	<b>1.15%</b>	<b>1.90%</b>	0.70%	1.40%
Inflation rate increase	<b>2.10%</b>	<b>2.70%/3.30%**</b>	1.05%	2.00%/2.80%**

\* Pensionable salaries are not adjusted for inflation.

\*\* The inflation assumption shown for the UK is based on both the Consumer Price Index (CPI) and the Retail Price Index (RPI).

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2021 and 2020 year end IAS 19 disclosures are as follows:

2021 Mortality (years)		Ireland	UK	2020 Mortality (years)		Ireland	UK
<b>Future Pensioner aged 65:</b>	<b>Male</b>	<b>23.0</b>	<b>21.4</b>	Future Pensioner aged 65:	Male	22.9	21.7
	<b>Female</b>	<b>25.2</b>	<b>24.1</b>		Female	25.2	24.0
<b>Current Pensioner aged 65:</b>	<b>Male</b>	<b>21.8</b>	<b>20.9</b>	Current Pensioner aged 65	Male	21.7	21.1
	<b>Female</b>	<b>24.2</b>	<b>23.3</b>		Female	24.1	23.2

## SCHEME ASSETS

The assets in these schemes are analysed below:

	%	2021 £'000	%	2020 £'000
UK equities	<b>1</b>	<b>3,656</b>	1	3,452
Overseas (non-UK) equities	<b>21</b>	<b>60,574</b>	22	57,066
Government bonds	<b>23</b>	<b>65,218</b>	24	63,952
Corporate bonds	<b>18</b>	<b>50,563</b>	17	45,522
Property	<b>1</b>	<b>4,959</b>	4	10,955
Diversified growth funds	<b>23</b>	<b>64,337</b>	22	57,648
Liability driven investment ("LDI")	<b>12</b>	<b>33,349</b>	9	23,679
Cash	<b>1</b>	<b>1,049</b>	1	1,330
	<b>100</b>	<b>283,705</b>	100	263,604
Actuarial value of liabilities		<b>(295,176)</b>		(314,188)
<b>Deficit in the schemes</b>		<b>(11,471)</b>		(50,584)

Represented by:

Retirement benefit assets	<b>3,596</b>	2,099
Retirement benefit obligations	<b>(15,067)</b>	(52,683)
	<b>(11,471)</b>	(50,584)

The net pension scheme deficit of £11,471,000 is shown in the Group balance sheet at 31 December 2021 as (i) retirement benefit obligations (non-current Liabilities) of £15,067,000 of which £14,379,000 relates to the Euro schemes and £688,000 relates to a UK scheme and (ii) retirement benefit assets (non-current assets) of £3,596,000 relating to another Euro scheme.

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 actual return on plan assets is set out below:

	2021 £'000	2020 £'000
Actual return on plan assets	<b>13,753</b>	14,580

## 30. PENSION COMMITMENTS continued

## SCHEME ASSETS continued

Plan assets are comprised as follows:

	2021 Quoted £'000	2021 Unquoted £'000	2021 Total £'000	2020 Quoted £'000	2020 Unquoted £'000	2020 Total £'000
Equity – UK	3,656	–	3,656	3,452	–	3,452
Equity – Other	60,574	–	60,574	57,066	–	57,066
Bonds – Government	65,218	–	65,218	63,952	–	63,952
Bonds – Corporate	50,563	–	50,563	45,522	–	45,522
Property	4,959	–	4,959	10,955	–	10,955
Cash	1,049	–	1,049	1,330	–	1,330
Diversified growth funds	64,337	–	64,337	57,648	–	57,648
LDI	33,349	–	33,349	23,679	–	23,679
<b>Total</b>	<b>283,705</b>	<b>–</b>	<b>283,705</b>	263,604	–	263,604

## SENSITIVITY OF PENSION LIABILITY TO JUDGEMENTAL/ASSUMPTIONS

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 4.4%
Rate of salary growth	Increase by 0.25%	Increase by 0.8%
Rate of inflation*	Increase by 0.25%	Increase by 2.8%
Life expectancy	Increase by 1 year	Increase by 3.9%

\* 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)	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>At 1 January</b>	<b>263,604</b>	249,933	<b>(314,188)</b>	(271,116)	<b>(50,584)</b>	(21,183)
Interest income on plan assets	2,836	3,998	–	–	2,836	3,998
Contributions by employer	24,082	4,209	–	–	24,082	4,209
Contributions by members	469	598	(469)	(598)	–	–
Benefit payments	(9,128)	(11,701)	9,128	11,701	–	–
Current service cost	–	–	(2,359)	(2,443)	(2,359)	(2,443)
Past service cost – exceptional (Note 4)	–	–	–	(5,000)	–	(5,000)
Past service credit – discontinued (Note 27)	–	–	2,500	–	2,500	–
Curtailment cost – exceptional (Note 4)	–	–	–	(2,463)	–	(2,463)
Other long term expense	–	–	(191)	(81)	(191)	(81)
Interest cost on scheme liabilities	–	–	(3,219)	(4,337)	(3,219)	(4,337)
Administration costs – exceptional (Note 4)	–	(556)	–	–	–	(556)
Administration costs	(382)	(305)	–	–	(382)	(305)
<b>Remeasurements</b>						
Actuarial gain / (loss) arising from						
– experience variations	–	–	1,131	(4,433)	1,131	(4,433)
– financial assumptions	–	–	1,992	(27,394)	1,992	(27,394)
– demographic assumptions	–	–	846	(534)	846	(534)
Return on plan assets excluding interest income	10,917	10,582	–	–	10,917	10,582
Translation adjustment	(8,693)	6,846	9,653	(7,490)	960	(644)
<b>At 31 December</b>	<b>283,705</b>	263,604	<b>(295,176)</b>	(314,188)	<b>(11,471)</b>	(50,584)
Related deferred tax asset (net)					1,636	8,660
<b>Net pension liability</b>					<b>(9,835)</b>	(41,924)

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**30. PENSION COMMITMENTS** continued

## EXPENSE RECOGNISED IN INCOME STATEMENT

	2021 £'000	2020 £'000
Current service cost	2,359	2,443
Other long term benefit expense	191	81
Administration costs	382	305
Total operating charge	2,932	2,829
Net finance costs on pension scheme obligations	383	339
<b>Total expense recognised in income statement</b>	<b>3,315</b>	<b>3,168</b>

## (CREDIT)/EXPENSE RECOGNISED IN EXCEPTIONAL ITEMS – DISCONTINUED

	2021 £'000	2020 £'000
Past service (credit)/cost	(2,500)	5,000
Curtailment loss	–	2,463
Administration costs (non-recurring)	–	556
<b>Total (credit)/expense recognised in exceptional items</b>	<b>(2,500)</b>	<b>8,019</b>

The Group retained responsibility for the UK defined benefit pension scheme following the divestment of the traditional merchanting business in Great Britain. This scheme was closed to future accrual at the end of 2020 when alternative arrangements were put in place. 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 was recognised in exceptional items. These all related to the traditional merchanting business in Great Britain which was disposed in 2021.

During 2021, this increase in liability was reduced to £2.5 million following an exercise undertaken by the Group to contractually settle a disputed benefit with impacted members of the scheme. Consequently, a credit of £2.5 million has been recognised in exceptional items of discontinued operations (Note 27) and a charge of £1.1 million was recognised in the gross profit on disposal of the traditional merchanting business in Great Britain.

## RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME

	2021 £'000	2020 £'000
Remeasurement gain/(loss) on pensions	14,886	(21,779)
Deferred tax on pensions	(3,212)	3,709
	<b>11,674</b>	<b>(18,070)</b>

## 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 2022, 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 for the Irish schemes commenced on 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 due to be carried out for the UK scheme as at 31 December 2023.

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 2022 total approximately £4.3 million.

### 30. PENSION COMMITMENTS *continued*

#### AVERAGE DURATION AND SCHEME COMPOSITION

	Ireland		UK	
	2021	2020	2021	2020
Average duration of defined benefit obligation (years)	<b>19.00</b>	19.00	<b>18.00</b>	18.00

#### ALLOCATION OF TOTAL DEFINED BENEFIT OBLIGATION BY PARTICIPANT

	2021	2020
Active plan participants	<b>24%</b>	24%
Deferred plan participants	<b>40%</b>	42%
Retirees	<b>36%</b>	34%
	<b>100%</b>	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 £5,601,000 (2020: £719,000), analysed as follows:

	2021 £'000	2020 £'000
LTIP	<b>4,715</b>	111
UK SAYE Scheme	<b>886</b>	608
	<b>5,601</b>	719

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 105 to 127. Awards over 683,694 Grafton Units were granted under the plan on 17 May 2021 (2020: 669,128 on 10 September 2020). A summary of the award granted on 17 May 2021 is set out below:

Grant date	LTIP 2021 17 May 2021	LTIP 2020 10 Sept 2020
Share price at date of award	<b>£12.01</b>	£7.37
Exercise price	<b>N/A</b>	N/A
Number of employees	<b>244</b>	228
Number of share awards	<b>683,694</b>	669,128
Vesting period	<b>3 years</b>	3 years
Expected volatility	<b>50.0%</b>	50.7%
Award life	<b>3 years</b>	3 years
Expected life	<b>3 years</b>	3 years
Risk free rate	<b>0.12%</b>	(0.11%)
Expected dividends expressed as dividend yield	<b>2.31%</b>	0.92%
Valuation model – EPS/Service	<b>Black Scholes/</b>	Black Scholes/
Valuation model – TSR	<b>Monte-Carlo</b>	Monte-Carlo
Fair value of share award – Service component	<b>–</b>	£7.17
Fair value of share award – EPS component	<b>£11.20</b>	–
Fair value of share award – TSR component	<b>£8.32</b>	£4.43

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.

## NOTES TO THE GROUP FINANCIAL STATEMENTS continued

**31. SHARE BASED PAYMENTS continued****LONG TERM INCENTIVE PLAN ("LTIP") continued**

A reconciliation of all share awards granted under the LTIP is as follows:

	2021 Number	2020 Number
<b>Outstanding at 1 January</b>	<b>1,632,706</b>	2,550,579
Granted in year	<b>683,694</b>	669,128
Forfeited#	<b>(39,073)</b>	(758,674)
Expired unvested	<b>(55,348)</b>	(14,047)
Exercised	<b>(82,675)</b>	(814,280)
<b>Outstanding at 31 December</b>	<b>2,139,304</b>	1,632,706

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

At 31 December 2021 and 31 December 2020 none of the LTIPs were exercisable as the conditions for exercise were not fulfilled before the year-end.

**UK SAYE SCHEME**

Options over 1,169,931 (2020: 1,843,547) Grafton Units were outstanding at 31 December 2021, pursuant to the existing 2020, 2019 and 2018 three year saving contracts under the Grafton Group (UK) plc 2011 Approved SAYE Plan at a price of £5.78, £6.33 and £6.58 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 and December 2021 for the 2018 SAYE scheme.

The number of Grafton Units issued during the year under the 2017 SAYE scheme was 210,181 (2020: 410,179) and the total consideration received amounted to £1,394,000 (2020: £2,811,000). Options forfeited in the year were 51,503 (2020: 152,768).

The number of Grafton Units issued during the year under the 2018 SAYE Scheme was 242,068 (2020: 3,069) and the total consideration received amounted to £1,573,000 (2020: £18,000). Options forfeited in the year were 28,887 (2020: 101,235).

The number of Grafton Units issued during the year under the 2019 SAYE Scheme was 1,139 (2020: 241) and the total consideration received amounted to £7,000 (2020: £1,000). Options forfeited in the year were 46,182 (2020: 66,340).

The number of Grafton Units issued during the year under the 2020 SAYE Scheme was Nil (2020: Nil) and the total consideration received amounted to £Nil (2020: £Nil). Options forfeited in the year were 93,656 (2020: 6,908).

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

	Number	2021 Option price £	Number	2020 Option price £
<b>Outstanding at 1 January</b>	<b>261,684</b>	<b>6.77</b>	824,631	6.77
Granted	-	-	-	-
Forfeited	<b>(51,503)</b>	<b>6.77</b>	(152,768)	6.77
Exercised	<b>(210,181)</b>	<b>6.77</b>	(410,179)	6.77
<b>Outstanding at 31 December</b>	<b>-</b>		261,684	

A reconciliation of options granted under the 2018 SAYE is as follows:

	Number	2021 Option price £	Number	2020 Option price £
<b>Outstanding at 1 January</b>	<b>367,219</b>	<b>6.58</b>	471,523	6.58
Granted	-	-	-	-
Forfeited	<b>(28,887)</b>	<b>6.58</b>	(101,235)	6.58
Exercised	<b>(242,068)</b>	<b>6.58</b>	(3,069)	6.58
<b>Outstanding at 31 December</b>	<b>96,264</b>		367,219	

**31. SHARE BASED PAYMENTS continued**

## UK SAYE SCHEME continued

A reconciliation of options granted under the 2019 SAYE is as follows:

	Number	2021 Option price £	Number	2020 Option price £
<b>Outstanding at 1 January</b>	<b>300,190</b>	<b>6.33</b>	366,771	6.33
Granted	–	–	–	–
Forfeited	<b>(46,182)</b>	<b>6.33</b>	(66,340)	6.33
Exercised	<b>(1,139)</b>	<b>6.33</b>	(241)	6.33
<b>Outstanding at 31 December</b>	<b>252,869</b>		300,190	

A reconciliation of options granted under the 2020 SAYE is as follows:

	Number	2021 Option price £	Number	2020 Option price £
<b>Outstanding at 1 January</b>	<b>914,454</b>	<b>5.78</b>	–	–
Granted	–	–	921,362	5.78
Forfeited	<b>(93,656)</b>	<b>5.78</b>	(6,908)	5.78
Exercised	–	<b>5.78</b>	–	–
<b>Outstanding at 31 December</b>	<b>820,798</b>		914,454	

There were no new SAYE grants in 2021.

The weighted average share price for the period was £11.68 (2020: £7.31).

At 31 December 2021 none of the 2021 or the 2020 UK SAYE shares were exercisable. The weighted average remaining life is 1.2 years (2020: 2.3 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 £599.8 million at 31 December 2021 (2020: £704.1 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 2021, the Group disposed of a number of businesses which resulted in a write off of goodwill amounting to £126.3 million based on an allocation of goodwill attaching to the UK Distribution CGU. The allocation has been determined based on the fair value of the traditional merchanting business relative to the fair value of the portion of the UK Distribution CGU which has been retained.

**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 £295.2 million at 31 December 2021 (2020: £314.2 million). Plan assets at 31 December 2021 amounted to £283.7 million (2020: £263.6 million) giving a net scheme deficit of £11.5 million (2020: £50.6 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. The sensitivities of the principal assumptions used to measure defined benefit pension scheme obligations are set out in Note 30.

## 32. ACCOUNTING ESTIMATES AND JUDGEMENTS continued

### 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 2021 amounting to £41.9 million (2020: £47.9 million).

### 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 2021 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 105 to 127 provides detailed disclosure for 2021 and 2020 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

The Group completed three bolt-on acquisitions since the year end. On 11 January 2022, Regts B.V., a distributor of ironmongery, tools and fixings, with revenue of £23.0 million in 2021 was acquired. Woodfloor Warehouse Limited, a leading in-store and online timber flooring distributor with revenue of £8.3 million in 2021, was acquired on 14 February 2022. On 28 February 2022, the Group completed the acquisition of Sitetech Building Products Limited ("Sitetech"). Sitetech is the market leader in the distribution of specialist construction accessories in Ireland where the business trades from two locations in Dublin and Cork. Revenue was £17.8 million in 2021. Due to the short timeframe between completion of these transactions and approval of these financial statements, it was not possible to reliably estimate the fair value of assets and liabilities or the goodwill amount associated with these acquisitions.

The Group is monitoring events related to the war in Ukraine at this time but it is too early to make an assessment of the likely adverse impact on energy prices or the wider economic implications for the Group's businesses and markets.

There have been no other material events subsequent to 31 December 2021 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 142 to 199 on 8 March 2022.

COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2021

	Notes	2021 €'000	2020 €'000
<b>Fixed assets</b>			
Intangible assets	4(a)	243	304
Tangible assets	4(a)	57	130
Right-of-use asset	4(b)	420	433
Financial assets	5	937,067	532,361
<b>Total fixed assets</b>		<b>937,787</b>	533,228
<b>Current assets</b>			
Debtors (including €Nil (2020: €Nil) due after more than one year)	6	1,229,886	1,453,608
Cash at bank and in hand		5,992	31,667
<b>Total current assets</b>		<b>1,235,878</b>	1,485,275
Creditors: amounts falling due within one year	7	(882,323)	(773,092)
<b>Net current assets</b>		<b>353,555</b>	712,183
<b>Total assets less current liabilities</b>		<b>1,291,342</b>	1,245,411
Creditors: amounts falling due after one year	7	(225)	(255)
<b>Net assets</b>		<b>1,291,117</b>	1,245,156
<b>Capital and reserves</b>			
Called-up share capital	10	12,003	12,017
Share premium account	10	310,820	307,338
Capital redemption reserve		978	938
Shares to be issued reserve		12,869	8,180
Profit and loss account		960,193	922,429
Treasury shares held		(5,746)	(5,746)
<b>Shareholders' equity</b>		<b>1,291,117</b>	1,245,156

There was a profit after tax of €100.2 million (2020: loss of €24.1 million) attributable to the parent undertaking for the financial year.

On behalf of the Board.

**Gavin Slark**  
Director  
8 March 2022

**David Arnold**  
Director

## COMPANY STATEMENT OF CHANGES IN EQUITY

## Financial Statements

	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
<b>Year to 31 December 2021</b>							
At 1 January 2021	12,017	307,338	938	8,180	922,429	(5,746)	1,245,156
Profit after tax for the financial year	-	-	-	-	100,170	-	100,170
<b>Total other comprehensive income</b>							
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	100,170	-	100,170
<b>Transactions with owners of the Company recognised directly in equity</b>							
Issue of Grafton Units	26	3,482	-	-	-	-	3,508
Cancellation of 'A' Shares	(40)	-	40	-	-	-	-
Dividends paid	-	-	-	-	(64,231)	-	(64,231)
Share based payments charge	-	-	-	6,514	-	-	6,514
Transfer from shares to be issued reserve	-	-	-	(1,825)	1,825	-	-
	(14)	3,482	40	4,689	(62,406)	-	(54,209)
<b>At 31 December 2021</b>	<b>12,003</b>	<b>310,820</b>	<b>978</b>	<b>12,869</b>	<b>960,193</b>	<b>(5,746)</b>	<b>1,291,117</b>
<b>Year to 31 December 2020</b>							
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)
<b>Total other comprehensive income</b>							
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	(24,096)	-	(24,096)
<b>Transactions with owners of the Company recognised directly in equity</b>							
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
<b>At 31 December 2020</b>	<b>12,017</b>	<b>307,338</b>	<b>938</b>	<b>8,180</b>	<b>922,429</b>	<b>(5,746)</b>	<b>1,245,156</b>

## 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 (FRS 101)). 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 155 of the Consolidated Financial Statements.

**IFRS 16 LEASES**

The accounting policy applicable to IFRS 16 leases is addressed in detail on pages 151 to 153 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.

## 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 approved by the shareholders of 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:

	2021 €'000	2020 €'000
Statutory audit (refer to Note 3 of Group Financial Statements)	75	75
Depreciation (Note 4a)	87	94
Depreciation on right-of-use assets (Note 4b)	210	149
Intangible asset amortisation (Note 4a)	61	88
Directors' remuneration	<b>4,856</b>	2,474

The interest expense on lease liabilities in the year was €10,000 (2020: €11,000).

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 105 to 127.

The average number of persons employed by the Company during the year was 22 (2020: 23).

	2021 €'000	2020 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	5,694	3,709
Social welfare costs	247	261
Share-based payments charge	1,807	522
Defined contribution and pension related costs	384	566
<b>Charged to operating profit</b>	<b>8,132</b>	5,058
Net finance cost on pension scheme obligations	–	–
<b>Charged to income statement</b>	<b>8,132</b>	5,058
Actuarial loss on pension scheme	–	–
<b>Total employee benefit cost</b>	<b>8,132</b>	5,058

## 4. TANGIBLE, INTANGIBLE AND RIGHT-OF-USE ASSETS

## 4. (A) TANGIBLE AND INTANGIBLE ASSETS

	Plant and Equipment 2021 €'000	Intangible Assets 2021 €'000
<b>Company Cost</b>		
At 1 January	3,208	550
Additions	14	–
<b>At 31 December</b>	<b>3,222</b>	<b>550</b>
<b>Depreciation</b>		
At 1 January	3,078	246
Charge for year	87	61
<b>At 31 December</b>	<b>3,165</b>	<b>307</b>
<b>Net book amount</b>		
<b>At 31 December</b>	<b>57</b>	<b>243</b>
At 1 January	130	304

## 4. (B) RIGHT-OF-USE ASSET

	Right-of-Use Asset* 2021 €'000
<b>Company Cost</b>	
At 1 January	731
Additions	197
<b>At 31 December</b>	<b>928</b>
<b>Depreciation</b>	
At 1 January	298
Charge for year	210
<b>At 31 December</b>	<b>508</b>
<b>Net book amount</b>	
<b>At 31 December</b>	<b>420</b>
At 1 January	433

\* The lease term remaining as at 31 December 2021 is 3.2 years (2020: 2.9 years).

## 5. FINANCIAL ASSETS

	Other Investments €'000	Investments in subsidiary undertakings €'000	Total €'000
<b>At 1 January 2020</b>	14	532,038	532,052
Additions	–	–	–
Capital contribution – share-based payments	–	309	309
<b>At 31 December 2020</b>	14	532,347	532,361
Additions*	–	<b>400,000</b>	<b>400,000</b>
Capital contribution – share-based payments	–	<b>4,706</b>	<b>4,706</b>
<b>At 31 December 2021</b>	<b>14</b>	<b>937,053</b>	<b>937,067</b>

Other investments represent sundry equity investments at cost less provision for impairment.

\* Additions in the year relate to additional investment into two of the Group's Irish subsidiary holding companies.

## 6. DEBTORS

	2021 €'000	2020 €'000
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	<b>1,227,758</b>	1,449,311
Deferred tax	<b>43</b>	47
Other receivables	<b>2,085</b>	4,250
	<b>1,229,886</b>	1,453,608

## 7. CREDITORS

	2021 €'000	2020 €'000
<b>Amounts falling due within one year:</b>		
Accruals	<b>7,139</b>	4,839
Lease liability*	<b>200</b>	149
Amounts owed to subsidiary undertakings	<b>874,984</b>	768,104
	<b>882,323</b>	773,092

	2021 €'000	2020 €'000
<b>Amounts falling due after one year:</b>		
Lease liability*	<b>225</b>	255

\* The Company's incremental borrowing rate applied to the lease liability as at 31 December 2021 was 2.4% (2020: 2.1%).

The maturity analysis of the lease liability is as follows:

	2021 €'000	2020 €'000
Year 1	<b>200</b>	149
Year 2	<b>187</b>	152
Year 3	<b>32</b>	103
Year 4	<b>6</b>	–
Year 5	–	–
Onwards	–	–

## NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

## 8. DEFERRED TAXATION

## RECOGNISED DEFERRED TAX (ASSETS) AND LIABILITIES

	Assets 2021 €'000	Liabilities 2021 €'000	Net (assets)/ liabilities 2021 €'000	Assets 2020 €'000	Liabilities 2020 €'000	Net (assets)/ liabilities 2020 €'000
Other items	(43)	–	(43)	(47)	–	(47)

	Balance 1 Jan 21 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 21 €'000
Other items	(47)	4	–	–	–	(43)

	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)

## 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 2021 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 2021 Company scheme	At 31 Dec 2020 Company scheme
Valuation Method	Projected Unit	Projected Unit
Rate of increase of pensions in payment	–	–
Discount rate	1.15%	0.70%
Inflation rate increase	2.10%	1.05%

The Company's obligations to the scheme at the end of 2021 and 2020 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)	
	2021 €'000	2020 €'000	2021 €'000	2020 €'000	2021 €'000	2020 €'000
<b>At 1 January</b>	<b>1,327</b>	1,327	<b>(1,327)</b>	(1,327)	–	–
Interest income on plan assets	9	14	–	–	9	14
Benefit payments	(76)	(76)	76	76	–	–
Interest cost on scheme liabilities	–	–	(9)	(14)	(9)	(14)
Remeasurement gains/(losses)	(39)	62	39	(62)	–	–
<b>At 31 December</b>	<b>1,221</b>	1,327	<b>(1,221)</b>	(1,327)	–	–
Related deferred tax asset (net)					–	–
<b>Net pension liability</b>					–	–

No contributions are expected to be paid to the Company's defined benefit scheme in 2022 (2021: €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	2021 Nominal Value €'000	2020 Nominal Value €'000
<b>Issued and fully paid:</b>				
<b>Ordinary shares</b>				
<b>At 1 January</b>		<b>239,535,567</b>	<b>11,977</b>	11,916
Issued under UK SAYE scheme*		<b>453,388</b>	<b>22</b>	20
<b>2011 Long Term Incentive Plan</b>				
April 2018 LTIP Awards	Nil	<b>82,675</b>	<b>4</b>	–
April 2017 LTIP Awards			–	38
May 2017 LTIP Awards			–	3
<b>At 31 December</b>		<b>240,071,630</b>	<b>12,003</b>	11,977
<b>'A' ordinary shares</b>				
<b>At 1 January</b>		<b>4,072,104,639</b>	<b>40</b>	40
'A' ordinary shares issued in year		<b>2,353,684</b>	–	–
Cancellation of 'A' ordinary shares		<b>(4,074,458,323)</b>	<b>(40)</b>	–
<b>At 31 December</b>		–	–	40
<b>Total nominal share capital issued</b>			<b>12,003</b>	12,017

\* Refer to Note 31 to the Group Financial Statements which outlines the issue price of the SAYE Schemes.

## SHARE PREMIUM

Company	2021 €'000	2020 €'000
<b>At 1 January</b>	<b>307,338</b>	304,266
Premium on issue of shares under UK SAYE scheme	<b>3,482</b>	3,072
<b>At 31 December</b>	<b>310,820</b>	307,338

## 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 €8.4 million (2020: €6.4 million) for the year ended 31 December 2021;
- Loans were granted to and by the Company to its subsidiaries; and
- Dividend income in the year of €80.5 million (2020: €Nil) was received from Irish Group subsidiary companies as part of a simplification process of the Group's Irish structure.

### 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.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

**13. PRINCIPAL OPERATING SUBSIDIARIES**

The principal operating subsidiaries operating in Ireland are:

<b>Name of Company</b>	<b>Nature of Business</b>
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:

<b>Name of Company</b>	<b>Nature of Business</b>
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 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.

The principal operating subsidiaries in the Netherlands are:

<b>Name of Company</b>	<b>Nature of Business</b>
Isero B.V.	Ironmongery, tools and fixings
Gunters en Meuser B.V.	Ironmongery, tools and fixings
Polvo B.V.	Ironmongery, tools and fixings
GKL Ventilatie Techniek B.V.	Ironmongery, tools and fixings

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the Netherlands.

The registered office of Isero B.V. is Barwoutswaarder 1, 3449 HE Woerden, 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. The registered office of GKL Ventilatie Techniek B.V. is Touwbaan 1 H, 2352CZ Leiderdorp.

The principal operating subsidiaries in Finland are:

<b>Name of Company</b>	<b>Nature of Business</b>
Isojoen Konehalli Oy	Technical trades distribution
Jokapaikka Oy	Technical trades distribution

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in Finland.

The registered office of Isojoen Konehalli Oy and Jokapaikka Oy is Keskustie 26, 61850 Kauhajoki, Finland.

#### 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 2021 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 2021:

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, Heatavent Ireland Limited, Heiton Buckley Limited, Heiton Group plc, Haylen Investments Limited, Heiton McCowen Limited, Heiton McFerran Limited, House of Woods Limited, J.E.Telford Limited, Jarkin Properties Limited, Jarsen Distribution Limited, Kenn Truss Limited, Knottingley Limited, Lacombe Properties Limited, Leeway Properties Limited, Leo Wright Holdings Limited, Market Hardware Limited, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Mooney & O'Dea Limited, Morgan McMahon & Co. Limited, Multy Products (Ireland) Limited, Paddy Power (Kilbarry) Limited, Panelling Centre Limited, Payless D.I.Y. Limited, Perchura Limited, Plumbing Distributors Limited, Plumbland Limited, Pouladuff Developments Limited, Pouladuff Manufacturing Limited, Powlett Properties Limited, Resadale Properties Limited, Sam Hire Holdings Limited, Sam Hire Limited, Stettler Properties Limited, Telford Group Limited, Telfords (Athy) Limited, Telfords (Portlaoise) Limited, Timber Frame Limited, Tiska Limited, Titanium Limited, Topez Limited, Tribiani Limited, Tullamore Hardware Limited, Universal Providers Limited, W&S Timber Components Limited, Weeksbury Limited, Woodies DIY (Irl) Limited and Woodie's DIY Limited.

#### 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 B.V., Gunters en Meuser B.V., Polvo B.V., Polvo Real Estate B.V. and GKL Ventilatie Techniek B.V. in accordance with article 2:403 paragraph (f) of the Dutch Civil Code and such declarations will be filed at the Dutch commercial register (Kamer van Koophandel) in accordance with article 2:403 paragraph (g).

The Company has given guarantees in respect of the bank borrowings of subsidiary undertakings which amounted to €306.4 million at the balance sheet date. The guarantee is over bank debt of €146.4 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 2021 on 8 March 2022.

# Supplementary Information

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## SUPPLEMENTARY FINANCIAL INFORMATION

## ALTERNATIVE PERFORMANCE MEASURES

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

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS.

The key Alternative Performance Measures ("APMs") of the Group are set out below. As amounts are reflected in £'m some non-material rounding differences may arise. Numbers that refer to 2020 are available in the 2020 Annual Report, subject to restatement for discontinued operations and acquisition related items.

The term "Adjusted" means before exceptional items and acquisition related items. These items do not relate to the underlying operating performance of the business and therefore to enhance comparability between reporting periods and businesses, management do not take these items into account when assessing the underlying profitability of the Group.

Acquisition related items comprise deferred consideration payments relating to the retention of former owners of businesses acquired, transaction costs and expenses, professional fees, adjustments to previously estimated earn outs, customer relationships asset impairment charges and goodwill impairment charges. Customer relationships, technology and brands amortisation, acquisition related items and any associated tax are considered by management to form part of the total spend on acquisitions or are non-cash items resulting from acquisitions and therefore are also included as adjusting items. The adjustment of acquisition related items is a change on previous years and thus the 2020 comparative APMs have been restated to conform to current year presentation.

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 216 to 220. 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.

Note: The traditional merchanting business in Great Britain is now classified as discontinued operations for the year ended 31 December 2021. In the computation of APMs below the revenue and operating profit of the disposed business are excluded from the Group. Revenue and the operating result are reflected in the profit/(loss) after tax from discontinued operations. Prior year comparatives have been updated to conform to the current year presentation.

APM	Description
<b>Adjusted Operating Profit/EBITA</b>	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items, net finance expense and income tax expense.
<b>Adjusted Operating Profit/EBITA Before Property Profit</b>	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items, net finance expense and income tax expense.
<b>Adjusted Operating Profit/EBITA Margin Before Property Profit</b>	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
<b>Adjusted Profit Before Tax</b>	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items and income tax expense.
<b>Adjusted Profit After Tax</b>	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items and exceptional items but after deducting the income tax expense.
<b>Capital Turn</b>	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
<b>Constant Currency</b>	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
<b>Dividend Cover</b>	Group earnings per share divided by the total dividend per share for the Group.
<b>EBITDA</b>	Earnings before exceptional items, acquisition related items, net finance expense, income tax expense, depreciation and intangible assets amortisation. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
<b>EBITDA Interest Cover</b>	EBITDA divided by net bank/loan note interest.
<b>Free Cash Conversion</b>	Free cash flow as a percentage of adjusted operating profit.
<b>Free Cash Flow</b>	Cash generated from operations less replacement capital expenditure (net of disposal proceeds), less interest paid (net) and income taxes paid.
<b>Gearing</b>	The Group net (cash)/debt divided by the total equity attributable to owners of the Parent times 100, expressed as a percentage.

## Supplementary Information

APM	Description
<b>Like-for-like Revenue</b>	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
<b>Operating Profit/EBIT Margin</b>	Profit before net finance expense and income tax expense as a percentage of revenue.
<b>Return On Capital Employed</b>	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.
<b>Adjusted Earnings Per Share</b>	A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares.

## ADJUSTED OPERATING PROFIT/EBITA BEFORE PROPERTY PROFIT

	2021 £'m	2020 £'m
Revenue	2,109.9	1,679.2
Operating profit	269.2	157.8
Property (profit)/loss	(16.7)	0.1
Exceptional items	–	2.5
Other acquisition related items	4.1	1.4
Amortisation of intangible assets arising on acquisitions	14.7	8.9
<b>Adjusted operating profit/EBITA before property profit</b>	<b>271.2</b>	<b>170.7</b>
<b>Adjusted operating profit/EBITA margin before property profit</b>	<b>12.9%</b>	<b>10.2%</b>

## OPERATING PROFIT/EBITA MARGIN

	2021 £'m	2020 £'m
Revenue	2,109.9	1,679.2
Operating profit	269.2	157.8
<b>Operating profit/EBIT margin</b>	<b>12.8%</b>	<b>9.4%</b>

## ADJUSTED OPERATING PROFIT/EBITA &amp; MARGIN

	2021 £'m	2020 £'m
Operating profit	269.2	157.8
Exceptional items	–	2.5
Other acquisition related items	4.1	1.4
Amortisation of intangible assets arising on acquisitions	14.7	8.9
<b>Adjusted operating profit/EBITA</b>	<b>288.0</b>	<b>170.6</b>
<b>Adjusted operating profit/EBITA margin</b>	<b>13.6%</b>	<b>10.2%</b>

## ADJUSTED PROFIT BEFORE TAX

	2021 £'m	2020 £'m
Profit before tax	249.8	133.6
Exceptional items	–	2.5
Other acquisition related items	4.1	1.4
Amortisation of intangible assets arising on acquisitions	14.7	8.9
<b>Adjusted profit before tax</b>	<b>268.6</b>	<b>146.4</b>

## ADJUSTED PROFIT AFTER TAX

	2021 £'m	2020 £'m
Profit after tax for the financial year	206.8	109.4
Exceptional items	–	2.5
Tax on exceptional items	–	(0.4)
Other acquisition related items	4.1	1.4
Tax on other acquisition related items	(0.1)	(0.0)
Amortisation of intangible assets arising on acquisitions	14.7	8.9
Tax on amortisation of intangible assets arising on acquisitions	(3.2)	(2.0)
<b>Adjusted profit after tax</b>	<b>222.4</b>	<b>119.8</b>

## SUPPLEMENTARY FINANCIAL INFORMATION continued

RECONCILIATION OF PROFIT TO EBITDA – CONTINUING OPERATIONS		
	2021 £'m	2020 £'m
Profit after tax for the financial year	206.8	109.4
Exceptional items	–	2.5
Other acquisition related items	4.1	1.4
Net finance expense	19.4	24.2
Income tax expense	43.0	24.1
Depreciation	84.8	79.6
Intangible asset amortisation	15.3	9.4
<b>EBITDA</b>	<b>373.4</b>	<b>250.6</b>
NET (CASH)/DEBT TO EBITDA		
	2021 £'m	2020 £'m
EBITDA	373.4	250.6
Net (cash)/debt	(139.0)	355.0
<b>Net (cash)/debt to EBITDA – times</b>	<b>(0.37)</b>	<b>1.42</b>
EBITDA INTEREST COVER		
	2021 £'m	2020 £'m
EBITDA	373.4	250.6
Net bank/loan note interest including interest on lease liabilities	20.7	23.1
<b>EBITDA interest cover – times</b>	<b>18.0</b>	<b>10.9</b>
EBITDA INTEREST COVER (EXCLUDING INTEREST ON LEASE LIABILITIES)		
	2021 £'m	2020 £'m
EBITDA	373.4	250.6
Net bank/loan note interest excluding interest on lease liabilities	6.1	7.5
<b>EBITDA interest cover – times</b>	<b>61.7</b>	<b>33.4</b>
FREE CASH FLOW		
	2021 £'m	2020 £'m
Cash generated from operations	303.2	377.7
Replacement capital expenditure	(24.6)	(20.1)
Proceeds on sale of property, plant and equipment	2.6	0.8
Proceeds on sale of properties held for sale/investment properties	19.6	6.4
Interest received	0.2	0.7
Interest paid	(20.5)	(27.3)
Income taxes paid	(43.7)	(34.1)
<b>Free cash flow</b>	<b>237.0</b>	<b>304.1</b>
GEARING		
	2021 £'m	2020 £'m
Total equity attributable to owners of the Parent	1,719.6	1,467.0
Group net (cash)/debt	(139.0)	355.0
<b>Gearing</b>	<b>(8%)</b>	<b>24%</b>



## Supplementary Information

## RETURN ON CAPITAL EMPLOYED – CONTINUING OPERATIONS

	2021 £'m	2020 £'m
Operating profit	269.2	157.8
Exceptional items	–	2.5
Other acquisition related items	4.1	1.4
Amortisation of intangible assets arising on acquisitions	14.4	8.4
Adjusted operating profit	287.7	170.1
Total equity – current period end (from continuing operations)	1,719.6	1,467.0
Adjustment re disposal of Group businesses	–	115.4
Net (cash)/debt – current period end	(139.0)	355.0
Adjustment re disposal of Group businesses	–	(545.0)
Capital employed – current period end	1,580.6	1,392.4
Total equity – prior period end (from continuing operations)	1,467.0	1,362.7
Adjustment re disposal of Group businesses	115.4	115.4
Net debt – prior period end	355.0	533.8
Adjustment re disposal of Group businesses	(545.0)	(545.0)
Capital employed – prior period end	1,392.4	1,466.9
Average capital employed	1,486.5	1,429.6
<b>Return on capital employed</b>	<b>19.4%</b>	<b>11.9%</b>

## CAPITAL TURN

	2021 £'m	2020 £'m
Revenue	2,109.9	1,679.2
Average capital employed	1,486.5	1,429.6
<b>Capital turn – times</b>	<b>1.4</b>	<b>1.2</b>

## DIVIDEND COVER

	2021 £'m	2020 £'m
Group adjusted EPS – basic (pence)	92.95	50.26
Group dividend (pence)	30.50	14.50
<b>Group dividend cover – times</b>	<b>3.0</b>	<b>3.5</b>

## FREE CASH CONVERSION

	2021 £'m	2020 £'m
Free cash flow	237.0	304.1
Adjusted operating profit	288.0	170.6
<b>Free cash conversion</b>	<b>82%</b>	<b>178%</b>

## LIQUIDITY

	2021 £'m	2020 £'m
Cash and cash equivalents	844.7	456.0
Less: cash held against letter of credit	(4.0)	(4.0)
Accessible cash	840.7	452.0
Undrawn revolving bank facilities	394.7	359.2
<b>Liquidity</b>	<b>1,235.4</b>	<b>811.2</b>

## NET CASH – BEFORE IFRS 16 LEASES

	2021 £'m	2020 £'m
Net cash/(debt) – after IFRS 16 Leases	139.0	(355.0)
IFRS 16 Lease Liability	449.0	536.9
<b>Net cash – before IFRS 16 Leases</b>	<b>588.0</b>	<b>181.9</b>

## SUPPLEMENTARY FINANCIAL INFORMATION continued

## LIKE-FOR-LIKE REVENUE

	2021 £'m	2020 £'m
2020/2019 revenue (restated)	1,679.2	1,643.6
Organic growth	337.8	(57.8)
Organic growth – new branches	9.0	9.1
Total organic growth	346.8	(48.7)
Acquisitions	120.9	69.8
Foreign exchange	(37.0)	14.5
2021/2020 revenue	2,109.9	1,679.2
Like-for-like movement (organic growth, excluding new branches, as % prior year revenue)	20.1%	(3.5%)

## THE IMPACT OF IFRS 16 “LEASES” ON APM’S

## RECONCILIATION OF PROFIT TO EBITDA – PRE-IFRS 16 (CONTINUING)

	2021 £'m	2020 £'m
Profit after tax for the financial year	208.2	112.0
Exceptional items	–	2.5
Other acquisition related items	4.1	1.4
Net finance expense	4.7	8.9
Income tax expense	43.2	24.9
Depreciation	30.3	27.8
Intangible asset amortisation	15.3	9.9
<b>EBITDA</b>	<b>305.8</b>	<b>187.4</b>

## EBITDA INTEREST COVER – PRE-IFRS 16

	2021 £'m	2020 £'m
EBITDA	305.8	187.4
Net bank/loan note interest excluding interest on lease liabilities	6.1	7.5
<b>EBITDA interest cover – times</b>	<b>50.5</b>	<b>24.9</b>

## 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.

## OVERALL IMPACT OF IFRS 16 “LEASES” – GROUP INCOME STATEMENT

For the year ended 31 December 2021

	2021 pre-IFRS 16 Impact £'000	2021 IFRS 16 Impact £'000	2021 Reported £'000
<b>Revenue</b>	<b>2,109,909</b>	<b>–</b>	<b>2,109,909</b>
Operating costs	(1,870,511)	13,024	(1,857,487)
<b>Operating profit before property profits</b>	<b>239,398</b>	<b>13,024</b>	<b>252,422</b>
Property profits	16,740	–	16,740
<b>Operating profit before exceptional items</b>	<b>256,138</b>	<b>13,024</b>	<b>269,162</b>
Exceptional items	–	–	–
<b>Operating profit</b>	<b>256,138</b>	<b>13,024</b>	<b>269,162</b>
Finance expense	(6,632)	(14,637)	(21,269)
Finance income	1,935	(31)	1,904
<b>Profit before tax</b>	<b>251,441</b>	<b>(1,644)</b>	<b>249,797</b>
Income tax expense	(43,197)	245	(42,952)
<b>Profit after tax for the financial year from continuing operations</b>	<b>208,244</b>	<b>(1,399)</b>	<b>206,845</b>
Profit after tax from discontinued operations	133,044	1,378	134,422
<b>Profit after tax for the financial year</b>	<b>341,288</b>	<b>(21)</b>	<b>341,267</b>

## Supplementary Information

## GROUP BALANCE SHEET AS AT 31 DECEMBER 2021

ASSETS	2021 pre-IFRS 16 Impact £'000	2021 IFRS 16 Impact £'000	2021 Reported £'000
<b>Non-current assets</b>			
Goodwill	599,810	–	599,810
Intangible assets	144,327	–	144,327
Property, plant and equipment	321,118	(1,823)	319,295
Right-of-use asset	–	421,254	421,254
Investment properties	26,527	–	26,527
Deferred tax assets	7,873	920	8,793
Lease receivable	–	881	881
Retirement benefit assets	3,596	–	3,596
Other financial assets	126	–	126
<b>Total non-current assets</b>	<b>1,103,377</b>	<b>421,232</b>	<b>1,524,609</b>
<b>Current assets</b>			
Properties held for sale	6,125	–	6,125
Inventories	344,172	–	344,172
Trade and other receivables	240,168	(6,682)	233,486
Lease receivable	–	212	212
Cash and cash equivalents	844,663	–	844,663
<b>Total current assets</b>	<b>1,435,128</b>	<b>(6,470)</b>	<b>1,428,658</b>
<b>Total assets</b>	<b>2,538,505</b>	<b>414,762</b>	<b>2,953,267</b>
<b>Equity</b>			
Equity share capital	8,570	–	8,570
Share premium account	219,447	–	219,447
Capital redemption reserve	643	–	643
Revaluation reserve	12,519	–	12,519
Shares to be issued reserve	11,837	–	11,837
Cash flow hedge reserve	(8)	–	(8)
Foreign currency translation reserve	56,570	181	56,751
Retained earnings (prior years)	1,155,378	(11,445)	1,143,933
Retained earnings (current year)	269,825	(21)	269,804
Treasury shares held	(3,897)	–	(3,897)
<b>Total equity</b>	<b>1,730,884</b>	<b>(11,285)</b>	<b>1,719,599</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	172,601	–	172,601
Lease liabilities	–	396,070	396,070
Provisions	21,071	(6,209)	14,862
Retirement benefit obligations	15,067	–	15,067
Deferred tax liabilities	56,402	–	56,402
<b>Total non-current liabilities</b>	<b>265,141</b>	<b>389,861</b>	<b>655,002</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	84,030	–	84,030
Lease liabilities	–	52,924	52,924
Derivative financial instruments	8	–	8
Trade and other payables	433,068	(13,957)	419,111
Current income tax liabilities	17,676	(1,720)	15,956
Provisions	7,698	(1,061)	6,637
<b>Total current liabilities</b>	<b>542,480</b>	<b>36,186</b>	<b>578,666</b>
<b>Total liabilities</b>	<b>807,621</b>	<b>426,047</b>	<b>1,233,668</b>
<b>Total equity and liabilities</b>	<b>2,538,505</b>	<b>414,762</b>	<b>2,953,267</b>

## SUPPLEMENTARY FINANCIAL INFORMATION continued

## GROUP CASH FLOW STATEMENT

	2021 pre-IFRS 16 Impact £'000	2021 IFRS 16 Impact £'000	2021 Reported £'000
<b>Profit before taxation – total operations</b>	<b>394,320</b>	<b>(677)</b>	<b>393,643</b>
Finance income	(1,935)	31	(1,904)
Finance expense	6,632	15,880	22,512
<b>Operating profit</b>	<b>399,017</b>	<b>15,234</b>	<b>414,251</b>
Depreciation	38,270	59,624	97,894
Amortisation of intangible assets	17,184	–	17,184
Share-based payments charge	5,601	–	5,601
Movement in provisions	(4,298)	2,348	(1,950)
Asset impairment/fair value adjustments	(9,602)	–	(9,602)
Loss on sale of property, plant and equipment	522	–	522
Property profit – total operations	(7,286)	–	(7,286)
Gain on derecognition of leases	–	(500)	(500)
Profit on disposal of Group businesses	(121,531)	(3,585)	(125,116)
Contribution to pension schemes in excess of IAS 19 charge	(23,650)	–	(23,650)
Movement in working capital	(61,527)	(2,602)	(64,129)
<b>Cash generated from operations</b>	<b>232,700</b>	<b>70,519</b>	<b>303,219</b>
Interest paid	(4,553)	(15,911)	(20,464)
Income taxes paid	(43,722)	–	(43,722)
Cash flows from operating activities	184,425	54,608	239,033
<b>Investing activities</b>			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	2,611	–	2,611
Proceeds from sale of properties held for sale & investment properties	19,637	–	19,637
Proceeds from sale of Group businesses (net of cash disposed)	498,530	–	498,530
Interest received	193	–	193
	520,971	–	520,971
<i>Outflows</i>			
Acquisition of subsidiary undertakings (net of cash acquired)	(123,309)	–	(123,309)
Investment in intangible asset – computer software	(827)	–	(827)
Purchase of property, plant and equipment	(43,616)	–	(43,616)
	(167,752)	–	(167,752)
<b>Cash flows from investing activities</b>	<b>353,219</b>	<b>–</b>	<b>353,219</b>
<b>Financing activities</b>			
<i>Inflows</i>			
Proceeds from the issue of share capital	2,974	–	2,974
Proceeds from borrowings	96,897	–	96,897
	99,871	–	99,871
<i>Outflows</i>			
Repayment of borrowings	(152,004)	–	(152,004)
Dividends paid	(84,921)	–	(84,921)
Payment on lease liabilities	(1,435)	(54,608)	(56,043)
	(238,360)	(54,608)	(292,968)
<b>Cash flows from financing activities</b>	<b>(138,489)</b>	<b>(54,608)</b>	<b>(193,097)</b>
<b>Net increase in cash and cash equivalents</b>	<b>399,155</b>	<b>–</b>	<b>399,155</b>
Cash and cash equivalents at 1 January	456,028	–	456,028
Effect of exchange rate fluctuations on cash held	(10,520)	–	(10,520)
<b>Cash and cash equivalents at the end of the year</b>	<b>844,663</b>	<b>–</b>	<b>844,663</b>

## Supplementary Information

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH/(DEBT)

	2021 pre-IFRS 16 Impact £'000	2021 IFRS 16 Impact £'000	2021 Reported £'000
Net increase in cash and cash equivalents	399,155	–	399,155
Net movement in derivative financial instruments	57	–	57
Debt acquired with subsidiaries	(55,647)	–	(55,647)
Lease liabilities acquired with subsidiaries	–	(24,192)	(24,192)
Lease liabilities disposed	–	67,100	67,100
Movement in debt and lease financing	56,542	28,321	84,863
<b>Change in net debt resulting from cash flows</b>	<b>400,107</b>	<b>71,229</b>	<b>471,336</b>
Currency translation adjustment	7,362	15,333	22,695
<b>Movement in net debt in the year</b>	<b>407,469</b>	<b>86,562</b>	<b>494,031</b>
Net cash/(debt) at 1 January	180,555	(535,556)	(355,001)
<b>Net cash at end of the year</b>	<b>588,024</b>	<b>(448,994)</b>	<b>139,030</b>

## SUPPLEMENTARY FINANCIAL INFORMATION

## SEGMENTAL ANALYSIS

	2021 pre-IFRS 16 Impact £'000	2021 IFRS 16 Impact £'000	2021 Reported £'000
<b>Revenue</b>			
UK distribution	821,923	–	821,923
Ireland distribution	544,289	–	544,289
Finland distribution	70,810	–	70,810
Netherlands distribution	290,540	–	290,540
Total distribution	1,727,562	–	1,727,562
Retailing	282,756	–	282,756
Manufacturing	112,436	–	112,436
Less: Inter-segment revenue – manufacturing	(12,845)	–	(12,845)
<b>Total revenue</b>	<b>2,109,909</b>	<b>–</b>	<b>2,109,909</b>
<b>Segmental operating profit before exceptional items, intangible amortisation arising on acquisitions and other acquisition related items</b>			
UK distribution	95,347	7,176	102,523
Ireland distribution	66,434	358	66,792
Finland distribution	9,900	52	9,952
Netherlands distribution	28,997	1,547	30,544
Total distribution	200,678	9,133	209,811
Retailing	47,145	3,713	50,858
Manufacturing	23,896	153	24,049
	271,719	12,999	284,718
<b>Reconciliation to consolidated operating profit</b>			
Central activities	(13,504)	25	(13,479)
	258,215	13,024	271,239
Property profits	16,740	–	16,740
<b>Operating profit before exceptional items, intangible amortisation arising on acquisitions and other acquisition related items</b>	<b>274,955</b>	<b>13,024</b>	<b>287,979</b>
Acquisition related items	(4,129)	–	(4,129)
Amortisation of intangible assets arising on acquisitions	(14,688)	–	(14,688)
<b>Operating profit before exceptional items</b>	<b>256,138</b>	<b>13,024</b>	<b>269,162</b>
Exceptional items	–	–	–
<b>Operating profit</b>	<b>256,138</b>	<b>13,024</b>	<b>269,162</b>
Finance expense	(6,632)	(14,637)	(21,269)
Finance income	1,935	(31)	1,904
<b>Profit before tax</b>	<b>251,441</b>	<b>(1,644)</b>	<b>249,797</b>
Income tax expense	(43,197)	245	(42,952)
<b>Profit after tax for the financial year</b>	<b>208,244</b>	<b>(1,399)</b>	<b>206,845</b>

	2021 £'m	2020 £'m	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m
<b>Group Income Statements</b>							
<b>Revenue</b>	<b>2,109.9</b>	2,509.1	2,672.3	2,952.7	2,715.8	2,507.3	2,212.0
<b>Operating profit</b>	<b>271.2</b>	190.7	197.9	189.6	160.9	137.1	120.6
<b>Operating margin %</b>	<b>12.9%</b>	7.6%	7.4%	6.4%	5.9%	5.5%	5.5%
Restructuring (costs)/credit	–	(24.7)	0.0	(1.9)	0.0	(19.7)	1.4
Intangible amortisation on acquisitions & acquisition related items	<b>(18.8)</b>	(8.9)	(7.0)	(5.1)	(2.8)	(2.2)	(0.5)
Property profit	<b>16.7</b>	2.6	6.9	4.9	2.7	4.9	6.7
Finance (expense)/ income (net)	<b>(19.4)</b>	(26.9)	(25.1)	(6.1)	(6.4)	(5.9)	(7.9)
<b>Profit before taxation</b>	<b>249.8</b>	132.7	172.6	181.3	154.5	114.2	120.3
Taxation	<b>(43.0)</b>	(25.2)	(28.7)	(30.9)	(26.6)	(21.1)	(23.8)
<b>Profit after taxation</b>	<b>206.8</b>	107.5	143.9	150.4	127.8	93.1	96.5
<b>Group Balance Sheets</b>							
<b>Capital employed</b>							
Goodwill and intangibles	<b>744.1</b>	820.0	761.1	726.0	646.1	610.8	554.2
Property, plant and equipment/ROU Asset	<b>740.6</b>	999.5	1,023.2	521.6	504.4	461.7	430.1
Financial assets	<b>0.1</b>	0.1	0.1	0.1	0.1	0.1	0.1
Net current assets**	<b>142.3</b>	100.3	173.6	161.7	136.3	141.5	149.6
Other net non-current liabilities	<b>(46.5)</b>	(97.9)	(61.5)	(59.8)	(49.4)	(52.6)	(31.3)
	<b>1,580.6</b>	1,822.0	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7
<b>Financed as follows:</b>							
Shareholders' equity	<b>1,719.6</b>	1,467.0	1,362.7	1,296.5	1,174.6	1,062.1	985.7
Non-controlling interest	–	–	–	–	–	3.1	3.4
Net (cash)/debt	<b>(139.0)</b>	355.0	533.8	53.1	62.9	96.3	113.6
	<b>1,580.6</b>	1,822.0	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7
<b>Other Information</b>							
Net (cash)/debt pre-IFRS 16	<b>(588.0)</b>	(181.9)	(7.8)	53.1	62.9	96.3	113.6
Acquisitions & investments	<b>123.3</b>	47.5	92.6	73.8	40.4	11.9	98.6
Purchase of fixed assets/investment in intangible assets	<b>43.6</b>	35.2	52.4	73.6	81.4	60.4	51.6
	<b>166.9</b>	82.7	145.0	147.4	121.8	72.3	150.2
Depreciation and intangible amortisation	<b>115.1</b>	121.4	114.8	49.0	43.5	38.1	33.1
<b>Financial Highlights</b>							
Adjusted EPS*** (pence)	<b>93.0</b>	56.7	62.8	66.0	54.9	47.7	41.2
Dividend/share purchase per share (pence)	<b>30.5</b>	14.5	19.0	18.0	15.5	13.8	12.5
Cash flow per share (pence)#	<b>134.5</b>	96.0	108.8	83.9	72.4	642.0	54.9
Net assets per share (pence)	<b>717.8</b>	613.7	573.0	545.3	495.0	449.5	419.0
Underlying EBITDA interest cover (times)	<b>18.0</b>	11.9	12.1	48.0	48.4	37.9	27.3
Dividend/share purchase cover	<b>3.0</b>	3.9	3.3	3.7	3.5	3.5	3.3
Net debt to shareholders' funds	<b>(8%)</b>	24%	39%	4%	5%	9%	12%
ROCE	<b>19.4%</b>	10.4%	10.8%	15.0%	13.6%	12.5%	12.2%

\* The summary financial information is stated under IFRS. 2019, 2020 and 2021 are presented as the post-IFRS 16 reported balances.

\*\* Excluding net debt/(cash).

\*\*\* Before amortisation of intangible assets arising on acquisitions, exceptional items and acquisition related items in 2021. 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.

## GRAFTON GROUP PLC FINANCIAL HISTORY – 2007 TO 2021\*

	2014 £'m	2013 £'m	2012 <sup>‡</sup> £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m
<b>Group Income Statements</b>								
<b>Revenue</b>	2,081.7	1,899.8	1,760.8	1,782.5	1,719.4	1,763.8	2,128.5	2,193.3
<b>Operating profit</b>	110.1	77.2	59.1	47.5	41.5	21.3	92.7	180.4
<b>Operating margin %</b>	5.3%	4.1%	3.4%	2.7%	2.4%	1.2%	4.4%	8.2%
Restructuring (costs)/credit	–	2.8	(21.2)	(27.8)	(13.2)	(17.0)	(13.7)	–
Intangible amortisation on acquisitions & acquisition related items	–	–	–	–	–	–	–	–
Property profit	–	–	–	–	–	–	–	5.0
Finance (expense)/ income (net)	(8.9)	(12.3)	(12.9)	(10.8)	(6.4)	7.8	(28.0)	(24.0)
<b>Profit before taxation</b>	101.2	67.7	25.0	8.9	21.9	12.1	51.0	161.4
Taxation	(21.2)	(5.6)	6.6	(6.7)	33.0	(0.2)	(5.1)	(21.0)
<b>Profit after taxation</b>	80.0	62.1	31.6	2.2	54.9	11.9	45.9	140.4
<b>Group Balance Sheets</b>								
<b>Capital employed</b>								
Goodwill and intangibles	485.9	481.0	476.2	474.9	479.7	489.3	516.0	448.7
Property, plant and equipment/ROU Asset	423.4	413.4	458.3	471.9	489.6	537.1	603.2	516.1
Financial assets	0.1	0.1	0.2	0.1	3.4	3.5	0.2	0.6
Net current assets**	112.8	136.5	133.7	121.2	122.2	122.6	193.0	256.9
Other net non-current liabilities	(40.6)	(23.0)	(85.9)	(58.4)	(22.8)	(56.4)	(69.9)	(35.7)
	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5	1,186.6
<b>Financed as follows:</b>								
Shareholders' equity	902.3	870.3	813.5	821.0	852.5	809.7	827.6	783.0
Non-controlling interest	4.0	4.0	4.1	–	–	–	–	–
Net (cash)/debt	75.3	133.7	164.9	188.7	219.6	286.4	414.9	403.6
	981.6	1,008.0	982.5	1,009.7	1,072.1	1,096.1	1,242.5	1,186.6
<b>Other Information</b>								
Net (cash)/debt pre-IFRS 16	75.3	133.7	164.9	188.7	219.6	286.4	414.9	403.6
Acquisitions & investments	33.1	5.9	17.6	11.1	2.1	6.1	22.4	61.0
Purchase of fixed assets/investment in intangible assets	46.9	24.7	23.0	30.6	8.2	11.0	62.6	71.7
	80.0	30.6	40.6	41.7	10.3	17.1	85.0	132.7
Depreciation and intangible amortisation	32.5	31.5	33.9	37.1	40.1	44.7	45.0	40.4
<b>Financial Highlights</b>								
Adjusted EPS*** (pence)	34.4	22.3	15.1	13.4	15.9	4.8	25.6	57.7
Dividend/share purchase per share (pence)	10.8	8.5	7.0	6.5	6.0	4.5	11.9	15.1
Cash flow per share (pence)#	48.4	39.5	29.9	24.9	44.8	26.6	39.6	74.1
Net assets per share (pence)	387.9	374.4	350.6	354.1	368.5	351.0	359.5	341.2
Underlying EBITDA interest cover (times)	19.4	11.0	8.6	6.4	10.0	5.6	4.5	8.2
Dividend/share purchase cover	3.2	2.6	2.2	2.1	2.6	1.1	2.1	3.8
Net debt to shareholders' funds	8%	15%	20%	23%	26%	35%	50%	52%
ROCE	11.1%	7.8%	6.1%	4.6%	3.8%	1.8%	7.6%	16.1%

# 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.



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<b>Registrars</b>	Link Asset Services Link Registrars Limited PO Box 1110, Maynooth, Co. Kildare Phone: +353 (0)1 553 0050 Email: <a href="mailto:enquiries@linkgroup.ie">enquiries@linkgroup.ie</a> <a href="http://www.linkassetsservices.com">www.linkassetsservices.com</a>
<b>Solicitors</b>	Arthur Cox, Dublin A&L Goodbody, Dublin Squire Patton Boggs, London Allen & Overy, Amsterdam
<b>Bankers</b>	Bank of Ireland HSBC Bank plc Ulster Bank Barclays Bank plc ABN AMRO Bank N.V. Lloyds Bank plc
<b>Stockbrokers</b>	Goodbody, Dublin Numis Securities Limited, London
<b>Auditors</b>	PricewaterhouseCoopers
<b>Company Registration Number</b>	8149

## FINANCIAL CALENDAR 2022

<b>Final Results for 2021</b>	24 February 2022
<b>Annual General Meeting 2022</b>	28 April 2022
<b>Half-Year Results for 2022</b>	25 August 2022
<b>Final Dividend for 2021</b>	
<b>Record date</b>	8 April 2022
<b>Payment date</b>	5 May 2022

## ANNUAL GENERAL MEETING 2022

The Annual General Meeting of the Company will be held at the Radisson Blu St. Helen's Hotel, Stillorgan Road, Dublin 4 at 10.30am on Thursday 28 April 2022. Shareholders will also be provided with a facility to view the business of the meeting and ask questions via a webcast facility. Details of this facility will be outlined in the meeting Circular and will also be available on the Group's website [www.graftonplc.com](http://www.graftonplc.com).

## GLOSSARY OF TERMS

<b>AGM</b>	Annual General Meeting
<b>APM</b>	Alternative Performance Measure
<b>BES 6001</b>	Framework Standard for Responsible Sourcing
<b>BRR</b>	Business Risk Register
<b>bps</b>	Basis Points
<b>CA14</b>	Companies Act 2014
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CGU</b>	Cash Generating Unit
<b>CJRS</b>	Coronavirus Job Retention Scheme
<b>CO<sub>2</sub>e</b>	Carbon Dioxide Equivalent
<b>CPC</b>	Construction Products Certification
<b>CPI</b>	Consumer Price Index
<b>CRR</b>	Corporate Risk Register
<b>CSR</b>	Corporate Social Responsibility
<b>DB Schemes</b>	Defined Benefit Schemes
<b>EBITA</b>	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items, net finance expense and income tax expense
<b>EBITDA</b>	Earnings before exceptional items, acquisition related items, net finance expense, income tax expense, depreciation and intangible assets amortisation
<b>EGM</b>	Extraordinary General Meeting
<b>EMS</b>	Environmental Management Services
<b>EPS</b>	Earnings per Share
<b>FRS</b>	Financial Reporting Standard
<b>FSC</b>	Forest Stewardship Council
<b>FVOCI</b>	Fair Value through Other Comprehensive Income
<b>FVPL</b>	Fair Value through Profit or Loss
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GDPR</b>	EU General Data Protection Regulation
<b>Grafton</b>	Grafton Group plc
<b>GRC</b>	Group Risk Committee
<b>HVO</b>	Hydrogenated Vegetable Oil
<b>IAS</b>	International Accounting Standards
<b>IAASA</b>	Irish Auditing and Accounting Supervisory Authority
<b>IBNR</b>	Incurred But Not Reported
<b>IFRS</b>	International Financial Reporting Standards
<b>IGBC</b>	Irish Green Building Council

<b>IOSH</b>	Institution of Occupational Safety and Health
<b>IPCC</b>	International Panel on Climate Change
<b>ISAs (Ireland)</b>	International Standards on Auditing (Ireland)
<b>KPI</b>	Key Performance Indicators
<b>LDI</b>	Liability Driven Investment
<b>LSDM Limited</b>	Leyland SDM Limited
<b>LTIFR</b>	Lost Time Injury Frequency Rate
<b>LTIP</b>	Long Term Incentive Plan
<b>PEFC</b>	Programme for the Endorsement of Forest Certification
<b>PPE</b>	Property, Plant & Equipment
<b>QQI</b>	Quality and Qualifications Ireland
<b>Record Date</b>	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
<b>RMI</b>	Repair, Maintenance and Improvement
<b>ROCE</b>	Return on Capital Employed
<b>ROUA</b>	Right Of Use Asset
<b>RPI</b>	Retail Price Index
<b>SAYE</b>	Save As You Earn
<b>SDGs</b>	Sustainable Development Goals
<b>SKU</b>	Stock-Keeping Unit
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
<b>The Code</b>	2018 UK Corporate Governance Code
<b>The Company</b>	Grafton Group plc
<b>The Group</b>	Grafton Group plc and its subsidiaries
<b>TSR</b>	Total Shareholder Return
<b>Unit/Grafton Unit</b>	A Grafton Unit, comprising one ordinary share of 5 cents each in Grafton Group plc
<b>VIU</b>	Value-In-Use
<b>WEEE</b>	Waste Electrical and Electronic Equipment



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NOTES







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