



Building progress together

Grafton Group plc
Annual Report and Accounts 2022



Grafton Group plc is...

...an international distributor of building materials 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



Balanced spread of operations

Across geographic markets and sectors.

More information on pages 46 to 61

Excellent performance

In distribution businesses in Ireland and the Netherlands.

More information on pages 52 to 55

Further progress on our sustainability agenda

Building a more sustainable future.

More information on pages 76 to 95

Appointment of Eric Born as CEO

With effect from 28 November 2022

More information on page 36 to 37

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We are...

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

Distribution:

Number of branches

316

Locations



Brands



Retailing:

Number of branches

35

Locations



Brands



Manufacturing:

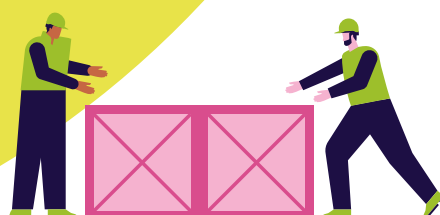
Number of factories

12

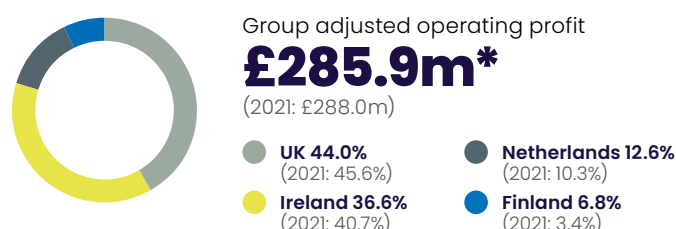
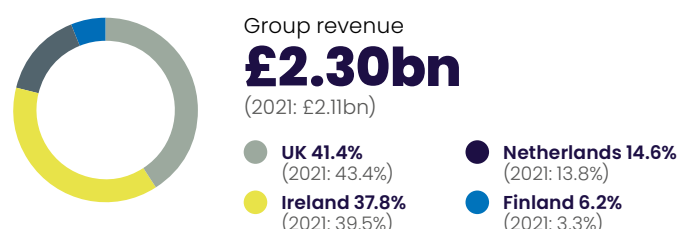
Locations





Brands





...and continuing to grow
our Group.



 UK
Number of branches & factories 139 (2021: 134)
Revenue £951.6m (2021: £915.0m)
Adjusted operating profit** £107.4m (2021: £124.9m)
Adjusted operating profit margin 11.3% (2021: 13.7%)
Market positions
Building materials distribution*** 4th
Mortar manufacturing Staircase manufacturing 1st

 IRELAND
Number of branches 89 (2021: 87)
Revenue £870.0m (2021: £833.6m)
Adjusted operating profit** £108.5m (2021: £119.3m)
Adjusted operating profit margin 12.5% (2021: 14.3%)
Market positions
Building materials distribution 1st
DIY, home and garden retailing 1st

 NETHERLANDS
Number of branches 123 (2021: 117)
Revenue £336.7m (2021: £290.5m)
Adjusted operating profit** £37.6m (2021: £30.5m)
Adjusted operating profit margin 11.2% (2021: 10.5%)
Market positions
Ironmongery, tools and fixings distribution market 1st

 FINLAND
Number of branches 12 (2021: 11)
Revenue £143.2m (2021: £70.8m)
Adjusted operating profit** £20.3m (2021: £10.0m)
Adjusted operating profit margin 14.2% (2021: 14.1%)
Market positions
Distribution of tools and personal protective equipment ('PPE') 2nd

* After central activity costs of £13.5 million (2021: £13.5 million), including property profit of £25.4 million (2021: 16.7 million) and a non-recurring curtailment gain of £3.7m (2021: £Nil). Other "Alternative Performance Measures" ('APMs') are detailed on pages 232 to 236.

** Before property profit of £25.4 million (2021: £16.7 million) and central activity costs of £13.5 million (2021: £13.5 million). Includes £3.7 million non-recurring curtailment gain in 2022 in Ireland.

*** Excluding plumbing and heating distribution.

Strong results...

...against a less favourable market backdrop

Financial highlights – continuing operations

Revenue

£2.30bn +9.1%



Adjusted operating profit⁽ⁱ⁾

£285.9m -0.7%



Adjusted operating profit margin⁽ⁱ⁾⁽ⁱⁱ⁾

11.3% -160bps



Cash generation from operations

£278.8m -8.1%



Dividend

33.0p +8.2%



Net cash (pre-IFRS 16)

£458.2m -£129.8m



Adjusted return on capital employed⁽ⁱ⁾

17.2% -220bps



Adjusted earnings per share – basic⁽ⁱ⁾

96.6p +3.9%



Free cash conversion

77% -5.9%



(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 232 to 236.

(ii) Before property profit.

Operational highlights

Excellent performance in distribution businesses in Ireland and the Netherlands

Exceptionally strong performance in Chadwicks with an operating profit margin of 11.6 per cent while the Isero ironmongery, tools and fixings business in the Netherlands reported excellent growth in revenue and profitability and increased its operating profit margin by 70 basis points to 11.2 per cent.

More information on pages 52 to 55

Good profit contribution from IKH in Finland in its first full year

IKH, the workwear, personal protective equipment, tools and spare parts wholesaler acquired in July 2021, made a good contribution to operating profit in the year and reported an operating profit margin of 14.2 per cent.

More information on pages 56 and 57

Further progress made on our sustainability agenda

We have continued to develop the sustainability processes and systems within our businesses. Our newly appointed Group Head of Sustainability, Rosie Howells joined the business in September 2022.

More information on pages 76 to 95

Continued investment in Selco branch network

Having opened branches in Liverpool, Orpington, Canning Town and Rochester in 2021, Selco increased the branch estate to 74 during the year with the opening of branches in Exeter and Cheltenham during 2022.

More information on pages 47 and 48



Statutory highlights

Statutory operating profit

£264.3m -1.8%



Net cash

£8.9m -£130.1m



Statutory operating profit margin

11.5% -130bps



Statutory earnings per share – basic

89.3p +3.4%



Profit before tax

£251.7m +0.8%



Our top brands



Distribution

316 distribution branches
(2021: 302)

The distribution segment distributes building materials from 316 branches in the UK, Ireland, the Netherlands and Finland.

Distribution revenue

£1.94bn

+12.1%



Leyland SDM

leylandsgm.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.



ISERO

isero.nl

Isero is the leading specialist distributor of tools, ironmongery and fixings in the Netherlands. Isero trades from 72 branches and offers a comprehensive range of quality products to trade professionals supported by an exceptional level of customer service.



Chadwicks Group

chadwicks.ie

Chadwicks Group operates from 53 branches in the Republic of Ireland where it is the number one distributor of building materials.



TG Lynes

tglyn.es.co.uk

TG Lynes is a distributor of materials and plant for mechanical services, heating, plumbing and air movement, operating from a distribution centre in Enfield, north London.



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's branch coverage.



Selco

selcobw.com

Trading from 74 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 products and service model is primarily focused on customers engaged in small residential RMI projects.



MacBlair

macblair.com

MacBlair is the leading distributor of building materials in Northern Ireland where it trades from 21 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.

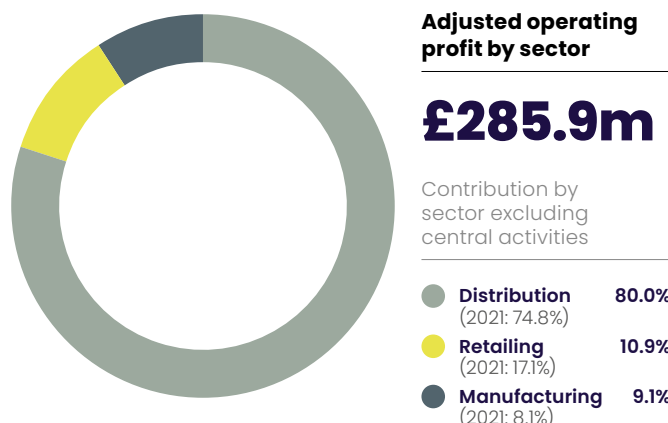
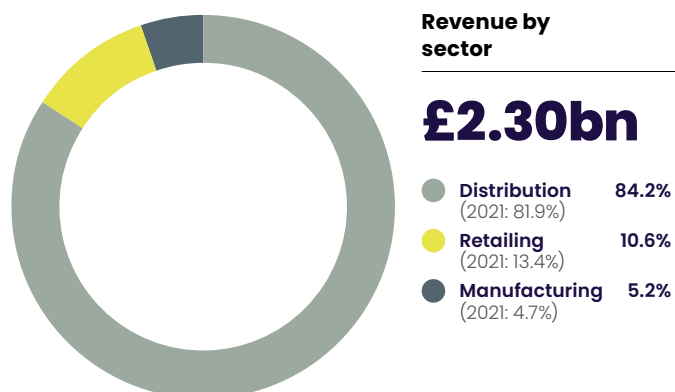


IKH

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 12 branches and has a number two market position in its core tools and PPE segment.





Including central activities, the total per cent by sector including property profit was: Distribution 83.7% (2021: 77.0%), Retailing 11.4% (2021: 17.7%), Manufacturing 9.6% (2021: 8.3%) and Central (4.7%) (2021: (3.0%)).



Retailing

35 branches
(2021: 35)

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

Retail revenue

£244.0m -13.7%



Manufacturing

12 factories
(2021: 12)

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

Manufacturing revenue

£120.6m +21.1%



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.



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.



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.



The foundations of our success

Our purpose

We understand how important it is to have the right foundations in order to build a successful and sustainable business that respects people and the planet. Our purpose is the driving force behind our ambitions and our passion for progress.

That is why our purpose is Building Progress Together.

Our core values

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



Value our people



Be brilliant for our customers



Ambitious



Entrepreneurial and empowering



Sustainable, trustworthy and responsible

Read more on pages 14 and 15

Our strategy

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



Excellence in service



Strong financial base



Ethics and integrity



Organic growth and acquisitions



A supportive organisational structure and management

Read more on pages 30 to 35

Our business model

Our business model is core to our strategy and enables us to create value for all our stakeholders.

Read more on pages 28 and 29

Our stakeholders

The support and engagement of our stakeholders is critical to our business.



Colleagues

Our colleagues are key to everything we do and our success is closely aligned to their contribution and commitment.



Customers

Our customers rely on us to provide a wide range of essential products and services.



Shareholders

We create value for our shareholders in a sustainable and responsible way.



Suppliers

Building strong, long term relationships with our suppliers is key to our success.



Communities and the environment

We are aware of our role in society and the contribution we can make to the communities we work in and the part we play in effective management of the wider environment.

Read more on pages 20 and 21

Our sustainability pillars

The aim of our sustainable strategy is Building a Sustainable Future. This is supported by our five key focus areas:



Planet

Reducing, reusing, and recycling across our operations.



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 businesses.



Community

Making a positive contribution to the communities and customers we serve.



Ethics

Ensuring every part of our business operates with integrity.

Read more on pages 76 to 95

Why invest in Grafton?

Great businesses

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

High calibre management

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

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 16 to 19 and 83 to 86.

Strong market positions

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.

Sustainable, trustworthy and 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.

Emissions reduction in 2022 per £ million of revenue

11%

Strong financial base

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

Net cash before IFRS 16 leases

£458.2m

(2021: £588.0m)

Dividends returned to shareholders since 2017 and share buybacks in 2022

£410m

Group adjusted EPS

96.6p

(2021: 93.0p)

Free cash conversion

77%

(2021: 82%)

A growing portfolio of winning businesses supported by a strong financial base

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.

Number of acquisitions in 2022

3

Number of colleagues at Grafton at the year end

>9,000

Federated structure

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

Acquisition expertise

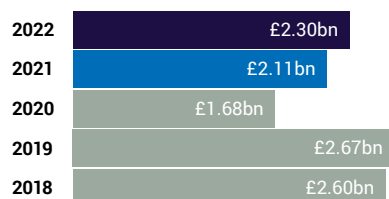
Our ambition is to grow whilst maintaining a disciplined approach to capital allocation.



Key stats

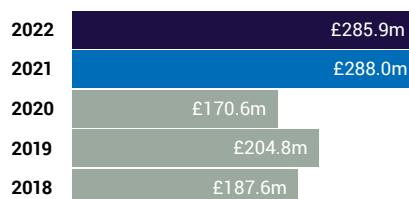
Revenue

£2.30bn



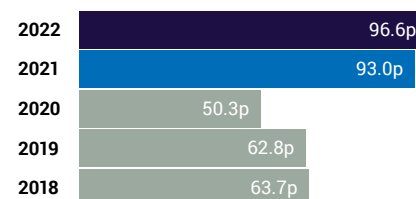
Adjusted operating profit⁽ⁱ⁾

£285.9m



Adjusted earnings per share – basic⁽ⁱ⁾

96.6p



(i) 2018 is presented on a pre-IFRS 16 basis.

Story of our year

Excellent performance in distribution businesses in Ireland and the Netherlands, good contribution from acquisition in the Nordics, continued focus on sustainability and appointment of new Chief Executive Officer.

January

Acquisition of Regts

The Group completed the acquisition of Regts B.V. ('Regts') in Friesland in January 2022, further expanding Isero's coverage into the Northeast region of the Netherlands.

Netherlands branch estate increased to

123



For more, see page 55

February

Acquisition of Woodfloor Warehouse and Sitetech in Ireland

MacBlair acquired Woodfloor Warehouse, a leading in-store and online timber flooring distributor with branches in Bangor, Belfast and Warrington in February 2022.

Chadwicks acquired Sitetech, a distributor of specialist construction accessories in Ireland where the business trades from two locations in Dublin and Cork.

MacBlair branch network

21

Chadwicks branch network

53



For more, see pages 50 and 53

June

Good profit contribution from IKH in Finland

IKH, the workwear, personal protective equipment, tools and spare parts wholesaler acquired in July 2021, made a good contribution to operating profit in the year since acquisition.

IKH operating profit margin for 2022

14.2%



For more, see pages 56 and 57



August

Announced strong first half performance in distribution businesses in Ireland and the Netherlands

Chadwicks, the market leader in the distribution of building materials in Ireland, produced an exceptionally strong performance in a market that returned to more normalised trading conditions, while the Netherlands ironmongery, tools and fixings business reported excellent growth in first half revenue and profitability.



For more, see pages 52 to 55

September

Appointment of Head of Sustainability

In another step towards delivering on our sustainability goals, the Group announced the appointment of Rosie Howells to the newly created role as Group Head of Sustainability in September.

Rosie has almost thirteen years' experience in sustainability roles and her experience will be invaluable to Grafton as we continue to develop and implement our long-term sustainability strategy.



For more, see pages 76 to 95

November

Appointment of Eric Born as CEO

Following an extensive search process led by the Board's Nomination Committee with the support of an executive search firm, the Group announced the appointment of Mr. Eric Born as Chief Executive Officer. Mr. Born joined the Board and the Group as CEO on 28 November 2022.



For more, see pages 36 and 37

Building progress together

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

A shared passion for progress is at the heart of everything we do at Grafton.

From our constant focus on innovating for our customers, to our deep commitment to developing our people and keeping everyone safe; from the entrepreneurial spirit that powers our growth to the strategic approach that delivers strong value for our shareholders; progress in all its forms makes us what we are.

This ambitious outlook and passion for progress guides our strategy and how we build our wider relationships.

It's who we are. That's why our purpose is **Building Progress Together**.

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

Our five core values support our purpose and help ensure that everything we do as a business is aligned with what we stand for as a Group.



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.

Our sustainable, engaged culture

Our corporate culture defines who we are and how we do business.

Country colleague committees

Colleague committees made up of colleagues from each of our businesses in Ireland, the UK and the Netherlands provide the opportunity for our people to engage with Non-Executive Directors and for their views to be heard at management and Board level. A colleague committee was also established during the year in Finland.

The Board has nominated three individual Non-Executive Directors: Paul Hampden Smith, Rosheen McGuckian and Vincent Crowley to attend Country Colleague forums with colleagues from the UK, Ireland and the Netherlands respectively. The Country Committees cover a range of topics including:

- **Management and leadership**

How colleagues feel about and communicate with their direct manager/line manager.

- **Group and Company leadership**

Colleagues' views about the leadership of the business, strategy and values.

- **Pride in the Company**

The level of engagement that colleagues have with their job and the Company.

- **Trust**

The extent to which colleagues trust the Company.

- **Personal growth**

Training, personal development and prospects for career growth.

- **Corporate social responsibility**

The extent to which the Company has a positive impact on society and the environment.

- **Wellbeing**

How the Company supports colleague well-being.

- **Diversity**

The way the Company encourages diversity and inclusion and supports minority groups.

- **Strategic direction and key business issues**

How colleagues feel about the Group's strategic direction and priorities and executive remuneration.



Paul Hampden Smith



Rosheen McGuckian



Vincent Crowley

Colleague engagement surveys

Annual engagement surveys are carried out in all businesses which allow colleagues to provide feedback to management. Action plans to address key issues arising from the surveys are developed and monitored. Based on its survey results during the year, Selco were proud to finish 17th on the 'big companies' list as part of the 'Best Companies' awards. Woodie's were recognised as a Great Place to Work both in Ireland and in Europe, and as a 'Best workplace for Women'. IKH participated in the Great Place to Work survey for the first time and exceeded the threshold for recognition as a Great Place to Work in Finland.



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.

- Selco offers numerous career development opportunities to its colleagues, with several hundred benefitting from apprenticeship programmes, including the introduction of a Driver Academy to offer employees the chance to retrain as HGV drivers.
- Chadwicks were delighted to see the return of its 12-month Sales Academy course and it also relaunched its Leadership Development Programme where 23 colleagues will complete a range of leadership modules over the next 18 months in a programme run by the Irish Management Institute.
- Woodie's continued its eXcellerate Leadership Development programme and Conscious Inclusion training for people leaders. It also introduced a new design consultant training programme while its Apprenticeship in Retail programme continued into its third year.
- The Isero business in the Netherlands runs an in-house academy to train apprentice customer service representatives.
- CPI Mortars continued to support the career development of its central finance team, operational managers and sales team with a focus on a Management Development Programme and Insights.
- Leyland ran its Fast Track Managers training programme which supports colleagues to move up to a leadership role in the business.
- The IKH business in Finland continued its 18-month management development programme during the year and also offers the opportunity for warehouse colleagues to complete a degree in service logistics.
- During 2022, senior leaders and our top talent took part in two key programmes, Wavelength Inspire and the Change Catalyst leadership programme. These guided programmes used the latest technology to connect colleagues to a global network of inspirational leaders. The courses were designed to inspire our colleagues to think and lead differently, whilst also giving them the opportunity to network with leaders from across other sectors and within Grafton.



Internal communication

Internal communication platforms across a number of businesses are used to facilitate effective sharing of information and updates. The 'Grafton Together' online magazine is distributed on a monthly basis to share information on colleague activity from around the Group.

The anonymous and independently run SpeakUp reporting line also allows colleagues to report any concerns on a confidential basis.

GRAFTON TOGETHER

Colleague Newsletter

Pride Guest Speaker

For Pride this year, we were joined by Mohsin Zaidi, an award-winning author, commentator and lawyer. An advocate for LGBT rights, BAME representation and social mobility, Mohsin sits on the board of Stonewall and is listed by The Financial Times as a top future LGBT leader.

[Click here to watch the session.](#)

Leyland SDM were at London Pride!

Leyland's first pride event and to say they went all out is an understatement! They celebrated Pride all month long with party bags (the cake & skittles didn't last very long) and pronoun badges. They shared some insightful stories from colleagues and tips on how to be a great ally to the LGBTQ+ Community!

Many colleagues joined together to take part in their biggest event 'London Pride 2022' at Trafalgar Square filled with face painting, photo booths using LeylandSDM props and competitions to add to the fun!

Thank you to everyone who worked hard, displayed high levels of energy, and really showed support throughout the month of Pride celebrations!!



Benefits and rewards

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. In the UK and Ireland 97.5 per cent of our colleagues were paid at least one per cent above the national minimum wage. Our other businesses operate in countries that have industry level agreements.

Colleagues in the UK and Ireland have access to online benefits platforms and they receive a Colleague Discount Card which provides generous discounts when they shop with Group businesses. The Group also operates a number of colleague share schemes that enable eligible colleagues to share in the success of the overall Group. During the year we also ran a number of pensions awareness events to enable colleagues to be informed of their pension rights and entitlements.

Colleague support

Supporting colleagues and doing as much as possible at a very challenging time was a top priority for the Group. Amongst the support given across the Group, Selco provided 96 per cent of its 3,000 colleagues with a cost of living support payment of £750 each spread over five months from November 2022 to March 2023 at a total cost of £2.5 million.

A number of our Group businesses introduced supports during the year to help with the increased cost of living. These included additional payments direct to colleagues, 'early pay' and flexible pay facilities so that colleagues can access accrued salary before scheduled pay date, and availability of free breakfast with locally sourced products.

Read more about our People on pages 16 to 19 and 83 to 86

Colleague recognition

The Group has colleague recognition programmes in place across a number of businesses.

During 2022, Leyland SDM introduced service awards with colleagues receiving tokens of appreciation for reaching service milestones.

Woodie's held its fifth annual 'Woscars' ceremony to recognise colleagues and teams from across the 35 stores and the support office.

CPI Mortars introduced a 'Colleagues Choice Awards' initiative during the year, asking colleagues to nominate a worthy fellow colleague for going the extra mile.

Chadwicks launched its inaugural Chadwicks Appreciation and Recognition Awards (CARAs) which celebrate and recognise colleague excellence across the business.

Engaging with our stakeholders

Our key stakeholders and their material issues



Colleagues

- A strong sense of purpose and a company that lives by its values
- A diverse and inclusive work environment, where their overall safety, health and wellbeing is valued
- Flexible working arrangements where appropriate to business requirements
- Creating a culture where people can thrive, with opportunities for training, development and progression



Customers

- Availability of a wide range of products and services at competitive prices and on time
- A safe and efficient on-site experience at convenient branch locations
- Online capability and ease of access to products
- Providing responsibly sourced and more sustainable options to customers



Shareholders

- Financial performance and growth that maximises shareholder returns in a responsible way
- A clearly communicated strategy and business model
- Appropriate and considered decision making that is in the long-term interests of the Group



Suppliers

- An efficient route to market for their products
- Communication and engagement
- Feedback on market demand and customer reaction
- Long term collaboration to build strong, lasting relationships



Communities and the environment

- Supporting local and national causes
- Operating our business in a way that respects the environment and biodiversity
- Making a positive contribution to the communities where we operate
- Building a successful and sustainable business that respects people and planet

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 on pages 102 and 103 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 groups.

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

How we engage

We have an open and collaborative management structure and engage regularly with our colleagues. Engagement methods include colleague engagement surveys, CEO town hall meetings, Company presentations, Group and business unit intranet sites, newsletters and wellness programmes. Colleague engagement is measured in all our businesses and we have established colleague forums chaired by a number of Non-Executive Directors to gather the views of our workforce.

Our businesses engage closely with their 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 via SpeakUp, contact details for which are available on the Group's website.

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.

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.

We engage with the local community through local activity at branch level, volunteering, charitable donations and providing employment and work experience opportunities. We also liaise with various industry bodies to enhance the positive impact we have on the communities in which we operate.

Activity in 2022

Non-Executive Directors attended meetings of the National Colleague Forums with colleagues from the UK, Ireland and the Netherlands to hear the views of colleagues. A new colleague forum was also established in Finland.

Colleague engagement surveys across each of our businesses provided the opportunity for colleagues to provide feedback. Internal communications platforms facilitated information sharing between colleagues and teams.

Our businesses carried out customer satisfaction surveys and reviewed feedback received from customers to ensure that our customer expectations are met.

We also invested in our online trading capability and made improvements across our branch network to continually improve the quality of our service proposition.

Our AGM in 2022 was held as a hybrid meeting whereby shareholders could either attend in person or view the proceedings and ask questions via a webcast facility.

We carried out consultations with investors on key issues and executive management regularly engage with investors following results announcements and at other times throughout the year.

The commercial teams in each of our business units managed the direct relationships with suppliers through day-to-day contact as well as review meetings.

Our ongoing supply chain risk management process, which is managed at Group level, provided an additional layer of engagement with suppliers to better understand their operation's sustainability credentials under a board range of dimensions, policies and procedures.

Many of our businesses have established community engagement programmes which were developed during the year, while others have developed their programmes in 2022.

During 2022 we have also worked to formalise the data capture and reporting of the community engagement activity in our Group businesses.

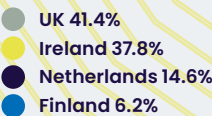
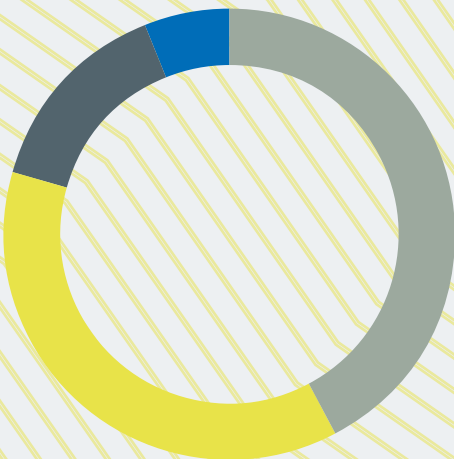
Building a better future

Building on our strong market positions

Our objective is to continue to invest and build on our strong market positions in existing markets and to optimise operational leverage in these markets.

For more see pages 24 to 27

Revenue by geography



Strategic report

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Building on our strong market positions

Dear Shareholder,

2022 was another strong year for Grafton despite the macro-economic headwinds that we encountered in some of our markets.

We remained focused on our portfolio of high quality, high returning businesses delivering a good outcome for the year and benefited from the geographic spread of our operations which has created a more diversified and resilient earnings base.

Our distribution businesses in Ireland and the Netherlands performed strongly growing profits organically and through acquisitions. Profitability was down in the UK distribution business as households reduced discretionary spending on residential RMI projects in response to the decline in real disposable incomes. The IKH distribution business in Finland acquired in July 2021 had a good first full year under Grafton ownership and performed in line with pre-acquisition expectations despite more challenging market conditions. Profitability was lower in the DIY, Home and Garden retail business in Ireland as exceptional pandemic related gains made in the prior year reversed as anticipated. The mortars and staircase manufacturing businesses in the UK performed strongly.

We continued to upgrade our branch networks and improve the customer and colleague experience. We also invested in IT systems and in the platforms that support on-line trading.

These results were made possible by the leadership teams in our individual businesses and by the exceptional commitment of colleagues in our branches, stores, distribution centres and offices. I sincerely thank them for supporting each other, our customers and business partners.





Adjusted operating profit margin before property profit

11.3%

Adjusted earnings per share

96.6p

“

Our two key strategic levers for outperformance over the coming years are improved purchasing and increased deployment of capital on acquisitions in existing and new geographies.”

Results review

The Group delivered a strong financial performance for the year, with revenue up by 9.1 per cent to £2.30 billion (2021: £2.11 billion). Adjusted earnings per share increased by 3.9 per cent to 96.6p (2021: 93.0p).

The Group's adjusted operating profit margin before property profit was 11.3 per cent (2021: 12.9 per cent) and now benefits from structurally higher margin businesses in all segments following the divestment in recent years of the lower margin distribution businesses.

Cash flow and balance sheet

The Group ended the year in a very strong financial position with net cash, before IFRS16 lease liabilities, of £458.2 million (31 December 2022: £588.0 million). Cash flow from operations was £278.8 million and the Group returned £208.9 million to shareholders through share buybacks and dividend payments.

The Group's very strong balance sheet was underpinned by shareholders' equity of £1.75 billion. The return on capital employed was 17.2 per cent (2021: 19.4 per cent).

Dividend

In line with our progressive dividend policy, the Board is recommending a final dividend for 2022 of 23.75p per ordinary share. An interim dividend of 9.25p per share was paid on 7 October 2022. The total dividend for the year is 33.0p per share, an increase of 8.2 per cent on dividends of 30.5p paid for 2021.

The total dividend for 2022 of 33.0p is 2.9 times (2021: 3.0 times) covered by adjusted earnings per share of 96.6p and is in line with guidance for cover of between two and three times. This reflects the Group's very strong balance sheet, profitability and cashflow from operations for the year.

The Group's cash outflow on dividends paid during the year was £73.9 million. A liability has not been recognised at 31 December 2022 for the final dividend as there was no payment obligation at the year end.

The final dividend will be paid on 11 May 2023 to shareholders on the Register of Members at the close of business on 14 April 2023, the record date. The ex-dividend date is 13 April 2023. The final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 4 May 2023.

Allocation of capital

Acquisitions have been an important part of the Grafton growth story supporting entry into new markets and diversifying its earnings base as well as increasing its presence in existing markets. The Group has a long history of identifying, acquiring and integrating businesses and a skilled and experienced acquisition team to complete transactions.

Following receipt of the proceeds from the disposal of our traditional merchanting business in Great Britain in December 2021, we recognise that our balance sheet is very strongly positioned with pre IFRS 16 net cash of £458.2 million at the year end. In the medium term we are targeting to return to a more appropriate level of financial leverage rather than holding net cash. We have demonstrated over many years a disciplined approach to capital allocation and our priority remains on deploying surplus capital into generating acquisitive growth providing it makes good strategic and financial sense. In 2022, the decline in valuations in the public equity markets was not matched by a similar decline in vendor expectations for businesses in private ownership and, consequently, our acquisition activity was limited to three bolt-on transactions costing £46.0m. We continue to actively evaluate acquisition opportunities in our preferred geographies and market segments that meet the Group's target rates of return over the medium term.

Chair's Statement continued

With the decline in public equity valuations seen in 2022, the Board felt that relative to other opportunities our own equity represented an attractive investment rather than simply a return of capital and, as noted above, it initiated a share buyback programme. The size and timing of the programme was appropriate for the delivery of value for shareholders whilst at the same time leaving plenty of scope for acquisition opportunities. This buyback programme, together with our progressive dividend policy, saw £208.9 million returned to shareholders during the year. The Board will continue to keep the allocation of capital under review including share buybacks.

Strategy

Our objective is to continue to invest and build on our strong market positions in existing markets and to optimise operational leverage in these markets. We also want to allocate capital to build a high margin, high return and less capital intensive business and to acquire new growth platforms in differentiated segments of the building materials distribution market in preferred geographies. Our two key strategic levers for outperformance over the coming years are improved purchasing and increased deployment of capital on acquisitions in existing and new geographies. We made further progress during 2022 implementing our strategy and advancing our strategic priorities. Development of our market leading distribution and DIY, Home and Garden businesses in Ireland is mainly driven by organic growth complemented by bolt-on acquisitions. We acquired the Sitetech specialist construction accessories business in February 2022 and also invested in upgrading a number of Chadwicks branches.

Our Selco Builders Warehouse business now accounts for almost three quarters of our UK distribution activities and we increased the estate to 74. The MacBlair business in Northern Ireland acquired Woodfloor Warehouse, a leading on-line and in store distributor of timber flooring. The TG Lynes and Leyland SDM specialist distributors developed organically in the London market.

The Netherlands business grew organically and also extended coverage into the Northeast region with the acquisition of the five-branch Regts B.V. business in Friesland.

IKH, the Finnish workwear, PPE, tools and spare parts wholesalers acquired in 2021, provided a new growth platform for Grafton in the Nordic region and performed in line with expectations.

StairBox, the staircase manufacturing business, expanded its capacity and secured the future of its operations in Stoke-on-Trent.

Board composition

Grafton has a strong Board of Directors and management team 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.

At the end of June 2022, Mr. Gavin Slark informed the Board of his intention to step down as Chief Executive Officer ("CEO") at the end of the year after almost 12 years in the role. Mr. Slark provided exceptional leadership during his period as CEO and made a significant contribution to the growth and development of Grafton. Gavin left Grafton with our sincere thanks and best wishes for the future.

The Group initiated a search for a new CEO in early July 2022 with the support of an international search firm and was very pleased to appoint Mr. Eric Born as CEO with effect from 28 November 2022. This appointment followed an extensive international search led by the Board's Nomination Committee. Details of the selection process are set out more fully in the Report of the Nomination Committee on page 117.

Mr. Born brings a wealth of international business experience to the role having served for five years as Chief Executive of Swissport International AG, the leading global aviation services provider, and for a similar period as Chief Executive of Wincanton plc, a major provider of supply chain solutions in the UK and Ireland. He was formerly President, West & South Europe of Gategroup, the largest global airline catering provider, and in the decade prior to that he held a variety of senior roles in the retail sector in Switzerland and the UK. He also served as Non-Executive Director of Serco Group plc, which specialises in the delivery of essential public services, and John Menzies plc, a leading distribution and aviation services business.

Mr. Born is a very experienced CEO and business leader with a proven track record of creating shareholder value in publicly listed and private equity owned national and international businesses of scale. The Board is confident that in Eric it has a CEO with the skills and experience to help Grafton grow and prosper in the years ahead and to develop and implement its strategy.

As referred to in last year's statement, we were delighted to welcome Ms. Avis Darzins to the Board as Non- Executive Director of the Company with effect from 1 February 2022. Her extensive business knowledge and experience, gained over several decades, complements that of other Directors and will be of great benefit to the Board over the coming years.

The Board is committed to promoting diversity and supports the recommendations of the FTSE Women Leaders Review on gender diversity and the Parker Review on ethnic diversity. Female representation on the Board is currently 38 per cent and the Board will continue to prioritise diversity when making future appointments as part of the ongoing process of Board refreshment and renewal. The Board meets the Parker Review target of having at least one director from an ethnically diverse background.

Board evaluation

An internal Board evaluation was conducted during the year and followed an external evaluation in 2021. 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 findings and observations from this internal review will help to inform and shape the Board's 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 and 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 operating well at national level in the UK, Ireland and the Netherlands. A Colleague Committee was established during the year in Finland. The purpose of the meetings is to provide Non-Executive Directors with an opportunity to hear the views of colleagues on a range of issues so that these can be considered by the Board and inform its decisions.

Our commitment to our culture and values helps to differentiate us from our competitors. Our colleagues across the Group play a key role in the development of a strong and healthy culture in Grafton.

Sustainability strategy

Sustainability remained a central part of the Group Board agenda during 2022 and we remain committed to building a sustainable business for all of our stakeholders. We were delighted to welcome Rosie Howells to the business during the year as our first Group Head of Sustainability to work with our businesses to drive continued progress against our sustainability goals.

We have today published our second Sustainability Report which is available on our website and which sets out our progress and achievements since our first Sustainability Report was published in November 2021. It also outlines progress against the targets that we have set in order to achieve each element of our strategy and our plans for the future. The objective of this strategy is to build a more sustainable future for everyone with a focus on the five key areas of focus and activity

that we have identified for the Group and its businesses: Customer and Product; People; Planet; Communities; and Ethics.

While we have made good progress during the year through a range of initiatives linked to these goals, we recognise that this is an ongoing process and we are very proud of the continuing commitment that all of our businesses have shown to sustainability and of the progress that we have made against the strategy we set out in 2021.

Annual general meeting

In line with the Group's policy, all Directors will retire and seek election/re-election at the 2023 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 AGM.

Looking ahead

While mindful of the challenges faced in the short term, our businesses look to the future from a position of strength. Grafton has developed a track record in recent years of showing resilience and emerging stronger in challenging times. Our financial position leaves us well placed to invest in the future and to respond to opportunities that emerge and to deliver for all our stakeholders.

Michael Roney

Chair

1 March 2023



Creating value

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

Driven by

Our purpose:

Building Progress Together

is at the heart of everything we do and our people are the key to our success as a Group.

By developing a strong culture with our five core values at the centre, we ensure that our desire to progress remains as powerful today as it always has been.

What we rely on

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 more 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 add value

Our core operations:



Distribution

Read more on pages 46 to 57



Retailing

Read more on pages 58 and 59



Manufacturing

Read more on pages 60 and 61



Value created for shareholders

Our key strengths:

- Leading market positions and brands in each of the countries where we operate.
- 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.
- A geographically diversified network of 363 branches and factories with opportunities for further growth through acquisition and organic development.
- A portfolio of highly cash generative and profitable businesses.
- Sound financial metrics based on excellent cash generation, a strong balance sheet and the financial resources to fund ongoing development activity.
- Skills and experience in acquiring and integrating businesses.

Our shareholders

Maximising shareholder returns in a responsible and sustainable way.

33.0p
dividend
per share

Our customers

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

363
branches and factories
across our operations

Our people

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

>9,000
colleagues at the year
end

Our suppliers

Working with our suppliers to drive sustainability and innovation.

>98%
% of building timber in
Selco certified FSC or PEFC

Our communities

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

>£1m
raised for charities

Our strategy

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





Excellence in service

What it means

- 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.

Progress in 2022

- Significant investment in Selco online offering including launch of new app to enable customers to purchase materials more easily;
- Upgrades across the Group's branch network including Isero, Chadwicks and Selco stores;
- ECO Centres opened in 10 Chadwicks Group branches supplying a range of energy efficient products and bringing the total number opened to 12;
- New partner stores in Finland increase geographic coverage of IKH.

Targets for 2023

Group businesses will continue to pursue opportunities to enhance our customers' experience through store upgrades, investment in our digital offering and optimisation of our product offering

Links to risks

- Competition;
- Colleagues;
- IT systems and infrastructure;
- Cyber security & data protection;
- Supply chain;
- Internal controls & fraud;
- Sustainability & climate change;
- Pandemic risk

Links to KPIs

ECO Centres in Chadwicks Branches

12

2022	12
2021	2

Case study

Excellence in service

Chadwicks new retail website

In November 2022 Chadwicks launched its new retail website Chadwicks.ie. This announcement forms part of a multi-million euro investment across the business, which began in 2018 and includes the ongoing digital transformation and nationwide branch upgrade programme to deliver an unrivalled customer experience.

The new transactional website offers over 10,000 products to trade and retail customers with delivery and collection options from 37 locations nationwide, increasing customer engagement and providing flexibility and convenience.

For more information see pages 52 and 53





Strong financial base

What it means

- 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.

Progress in 2022

- Group revenue from continuing operations increased by 9.1 per cent to £2.3 billion and by 9.5 per cent in constant currency;
- Operating profit in continuing operations decreased by 0.7 per cent to £285.9 million;
- The adjusted operating profit margin decreased by 120 basis points to 12.4 per cent and decreased by 160 basis points to 11.3 per cent excluding property profit;
- Return on Capital Employed decreased by 220 basis points to 17.2 per cent;
- Net Cash (before IFRS 16 leases) of £458.2

million at year end;

- The dividend for the year increased by 8.2 per cent in line with the Group's progressive dividend policy;
- Share buyback programmes launched during the year in line with the Group's disciplined approach to capital allocation and supported by its strong balance sheet.

Targets for 2023

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. Medium term targets include operating margin of 10% and ROCE of 13%.

Links to risks

- Macro-economic conditions;
- Competition;
- Acquisition and integration of new businesses;
- Supply chain;
- Internal controls & fraud;
- Sustainability;
- Pandemic risk.

Links to KPIs

Revenue

£2.30bn

2022	£2.30bn
2021	£2.11bn

Case study

Strong financial base

Revenue from continuing operations

Group revenue from continuing operations, increased by 9.1 per cent to £2.3 billion from £2.1 billion in the prior year.

The Group continued to benefit from the geographic diversity of its markets with over half of revenue derived in Ireland, the Netherlands and Finland.

For more information see pages 62 to 65





Ethics and integrity

What it means

- Conducting business to a high standard of integrity for the benefit of all stakeholders and in a responsible way.
- 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.

Progress in 2022

- SpeakUp reporting line allows colleagues to report any concerns on a confidential basis;
- Group lost days (severity rate) reduced by 21 per cent as compared with 2021;
- Implementation of a third party supplier classification and risk assessment system;
- Completion rate for mandatory compliance training across all Group colleagues at 31 December 2022 was 92 per cent.

- The Group has focused on implementation of key cyber security controls including network segregation and monitoring of access to detect unusual activity.

Targets for 2023

We will maintain high ethical standards for the benefit of all stakeholders and continue to focus on health and safety as a key priority.

Links to risks

- Colleagues;
- Health & safety;
- Sustainability;
- Internal controls & fraud;
- Pandemic risk.

Links to KPIs

Colleagues compliant with business conduct & ethics training

92%



Case study

Ethics and integrity

SpeakUp whistleblowing process

The Group has an established whistleblowing process (SpeakUp) which allows colleagues to report concerns confidentially to an independent party with safeguards in place to ensure cases are investigated fully and prevent retaliation to reporters. Awareness of the process is established via colleague training, business communications and posters in each site. A link to the reporting website is also included on the Group and individual business unit websites.

For more information see pages 88 and 89

“If you ever see something in your interaction with any member of the Grafton Group that could be deemed unsafe, unethical or unscrupulous, please SpeakUp! We take concerns given in good faith very seriously and will not tolerate retaliation of any kind to anyone who reports such instances.”

Eric Born
Grafton Group CEO





Organic growth and acquisitions

What it means

Deploying mature acquisition and integration skills to increase market coverage and move into new territories where opportunities exist to achieve good returns on capital invested, achieving and maintaining leading market positions in national and regional markets, adding value to familiar business models operating in unconsolidated markets, and focusing on organic growth strategy in established businesses

Progress in 2022

- New Selco branches opened in Exeter and Cheltenham;
- The acquisition of Regts B.V. further strengthened the market position of Isero in the Netherlands North East region;
- The acquisition in February of Woodfloor Warehouse provides additional timber flooring expertise to the MacBlair business;
- The development of a second Stairbox site significantly increases its manufacturing capability;
- Specialist Sitetech business acquired in February 2022 provides access to complementary products and expertise.

Targets for 2023

Growth by acquisition in new and existing geographic markets continues to be a high strategic priority, and the Group will continue to pursue its organic growth strategy in its established businesses.

Links to risks

- Macro-economic conditions;
- Competition;
- Acquisition and integration of new businesses

Links to KPIs

Capital expenditure on development initiatives

£22.1m

2022	£22.1m
2021	£19.0m



Case study

Organic growth and acquisitions



StairBox new site

StairBox developed and opened a second site during 2022 which includes a new assembly facility, showroom and trade counter located in close proximity to their original factory.

This expansion doubles its manufacturing capacity, providing additional capacity in response to the exceptional growth in volumes in recent years and secures the future development of the business at its current location in Stoke-on-Trent.

It is also a step along in the business' sustainability journey thanks to the new site's excellent sustainability credentials.

For more information see pages 60 and 61



Supportive organisational structure and management

What it means

Focus on colleague engagement across the Group through clear communication, training and development opportunities and support for colleague wellbeing.

A decentralised structure confers significant autonomy on high calibre local management teams within a tight Group control environment.

Progress in 2022

- Management and colleague development programmes in place across the Group's businesses;
- Annual engagement surveys carried out in all business units with action plans developed to address key issues arising
- Internal communication platforms such as Workvivo and Yoobic enable effective sharing of information and updates;
- Local and national colleague Forums provided opportunities for colleague views to be heard at Board level.

Targets for 2023

The Group will continue to focus on the engagement and development of colleagues and management teams, to equip colleagues with key training and leadership skills and to promote a supported and engaged workforce.

Links to risks

- Colleagues;
- IT systems and infrastructure;
- Cyber security & data protection;
- Health & safety;
- Acquisition and integration of new businesses;
- Internal controls & fraud;
- Sustainability & climate change;
- Pandemic risk.

Links to KPIs

Female workforce percentage

29%

2022	29%
2021	30%

Case study

Supportive organisational structure and management

Chadwicks Management Development Programme & Sales Academy Graduation

Chadwicks Group launched its Leadership Development Programme in October 2022. The programme will run until March 2024 and will enable participants to gain the competencies, capabilities and leadership mindsets essential for our future leaders in an ever changing retail, trade and working environment.

Meanwhile participants of the previous Management Development Programme and Sales Academy graduated in December.

For more information see pages 16 and 17



Eric Born

Chief Executive Officer

Appointed CEO on

28 November 2022

Experienced CEO and business leader

in international and national organisations of scale across multiple industries

Proven track record of creating shareholder value in publicly listed and private equity-owned businesses

Deep experience in the retail, logistics and aviation services sectors

Former Chief Executive of leading global aviation services provider Swissport International AG for over five years

Previously Chief Executive of Wincanton plc, leading provider of supply chain solutions in the UK and Ireland, for 5 years

Former President, West & South Europe of global airline catering provider Gategroup

“

The Board is confident that in Eric Born it has a CEO with the skills and experience to help Grafton grow and prosper in the years ahead and to develop and implement its strategy.”

Michael Roney
Chair of Grafton Group plc

Over a decade of senior roles in the retail sector in Switzerland and the UK

Previously Non-Executive Director of Serco Group plc

Previously Non-Executive Director of John Menzies plc

Bachelor in Business Administration from the University of Applied Science in Zurich

Master in Business Administration from Simon Business School at the University of Rochester, New York



Q&A

What attracted you to Grafton?

Grafton is a very interesting Group with a federated structure made up of good businesses in interesting markets with strong underlying growth in the medium term. I was attracted to its portfolio of quality, high returning businesses with good market positions that provide an excellent platform for future growth.

What are your initial impressions of the Company?

Since joining the Group on 28th November 2022, I have had the opportunity to visit the operating businesses in each of the countries where we operate, as well as the Group offices in Dublin and Birmingham. I have been very impressed with the enthusiasm and commitment of our colleagues and the efficiency with which each of the businesses are run.

Your view on the culture at Grafton Group plc

The culture at Grafton is reflected very well in the Group's purpose of "Building Progress Together" – there is a great sense of shared passion for progress and a commitment to doing the best job we can for our customers, our shareholders and all of our stakeholders. Our people are key to this and there is a great sense of pride within Grafton where people are engaged and empowered to make a positive impact in their role within the Group.

Where do you think Grafton's core strengths lie?

- People and culture – very engaged and high calibre management teams and colleagues, with a strong entrepreneurial spirit.
- Strong balance sheet, providing optionality and future growth potential.
- Excellent market positions of each operating business, geographic diversity and mainly scaleable businesses.
- Our focus on customer service and providing the best possible experience for our customers across each of our trading businesses.

What are your priorities for the coming year?

I will be focused on making sure that each operating company within the Group executes against the strategy that it has in place so that we continue to deliver value for all of our stakeholders, while also building out the roadmap for future development of the Group over the coming years in a sustainable way.

What do you enjoy doing when you're not at work?

I enjoy sport, in particular skiing, judo and going for the odd run. I also enjoy good food and wine, and spending time with my family and friends.

Well positioned to invest in future growth

In my first set of results as Chief Executive, I am pleased to report a strong performance by the Group which is ahead of market expectations. This is a great achievement by my new colleagues across the business and is testament to their dedication and professionalism. It has also confirmed the qualities of the business which attracted me to join Grafton.



Grafton had a successful year and is reporting a strong financial result ahead of market expectations. Despite macro-economic challenges in its markets, the Group continued to perform well with operating profit close to last year's record result against a less favourable market backdrop.

Trading returned to more normal levels following the exceptional rise in spending on the home during the pandemic and supply chain pressures eased considerably. Building materials prices rose sharply for the second successive year as the market absorbed increases in the cost of producing energy intensive products. Certain product categories including timber and steel experienced price deflation following a period of soaring prices caused by a spike in global demand.

Across all geographies, volumes were generally down in residential repair, maintenance and improvement ("RMI") markets as households reduced discretionary spending on the home under pressure from declines in real disposable incomes and rising interest rates. Activity in RMI markets was also affected by the increased cost of building materials and rising labour costs which reduced affordability.

We remained focused on delivering a strong performance and these results show the strength of our businesses, brands and market positions. In particular, they demonstrate the benefits of the Group's spread of operations across multiple geographic markets and sectors that has helped to create a more diversified and resilient earnings base.

Distribution Ireland

Chadwicks, the market leader in the distribution of building materials in Ireland and the Group's most profitable business, delivered a very strong performance. Revenue growth reflects both building materials price inflation and the impact of acquisitions. Operating profit grew strongly supported by an operating profit margin of 11.4 per cent.



Operating profit margin

11.3%

Adjusted return on capital employed

17.2%

“

Importantly, with a very strong balance sheet, Grafton is well positioned to invest in future growth opportunities. We look forward with confidence to another year of progress at Grafton.”

Demand was underpinned by residential RMI spending, the construction of scheme and one-off houses and non-residential construction projects.

The specialist Sitetech business acquired in February 2022, a leader in the adjacent construction accessories new build market, made an excellent contribution to profit.

UK

Volumes in the UK RMI market were down compared to the prior year when there was a record level of spending on the home during the pandemic and lower spending in other areas of the economy. During 2022 households under pressure from increased energy and food prices quickly reduced discretionary spending on smaller value home improvements as the economy weakened and consumer sentiment declined. Revenue in the like-for-like business ended the year only marginally lower as a decline in volumes was largely offset by double digit materials price inflation.

Operating profit was down when benchmarked against a strong prior year result and the operating margin of 9.8 per cent reflected gross margin pressure in a competitive market and the operational gearing impact of lower volumes. Selco, which accounted for almost three quarters of UK distribution revenue, continued to invest in its business and branch network increasing it to 74.

The Netherlands

Isero, the market leading specialist ironmongery, tools and fixings business, achieved excellent results for the year, in broadly favourable markets. A strong underlying performance was complemented by a good contribution from acquisitions and benefits realised from implementing performance improvement measures. The operating profit margin increased by 70 basis points to 11.2 per cent. Market coverage expanded into the Northeast of the Netherlands with the acquisition in January of the five branch Regts business in Friesland which made a very good contribution to profit and increased the overall branch network to 123.

Finland

IKH, the workwear, personal protective equipment, tools and spare parts wholesaler acquired in July 2021, had a good first full year under Grafton ownership delivering an operating profit contribution that was in line with pre-acquisition expectations despite more challenging market conditions. Revenue in the early months of the year was down, on the pre-acquisition comparative period, due to lower demand for a number of weather sensitive product categories and weaker consumer sentiment following the invasion of Ukraine but recovered in the second half and ended the year strongly. The operating profit margin for the year was 14.2 per cent.

Retailing

Woodie's, the market leading DIY, Home and Garden business in Ireland successfully navigated a unique set of trading conditions in 2022 as exceptional pandemic related spending in the prior year unwound and there was also pressure on volumes from the decline in real disposable incomes and a sharp drop in consumer confidence. Operating profit normalised to a level that was 43.9 per cent higher than the pre-pandemic result for 2019. The operating profit margin for 2022 was 13.3 per cent.

Manufacturing

CPI EuroMix, the market leader in the manufacture of mortar in Great Britain, reported growth in revenue and a good increase in operating profit. Volumes were softer in the final months of the year as activity in the new housing market moderated and were marginally down for the year.

StairBox, the market leading manufacturer of bespoke staircases primarily for the secondary housing market, experienced record demand from trade customers across Great Britain and increased revenue and profitability.

The operating profit margin in the manufacturing segment was 22.7 per cent.



Cash flow

The Group's cashflow from operations was £278.8 million of which £208.9 million was returned to shareholders in dividend payments and share buybacks (excluding the buyback on LTIP awards).

Investment in capital expenditure and acquisitions amounted to £103.8 million.

The Group had net cash (before IFRS 16 lease liabilities) of £458.2 million at the year end, a decline of £129.8 million from £588.0 million at 31 December 2021. Net cash including IFRS 16 lease liabilities was £8.9 million (31 December 2021: £139.0 million).

Property

The Group recognised property profits of £25.4 million (2021: £16.7 million) in the year. A significant proportion of this profit arose from a small number of freehold properties that were retained following the sale in 2021 of the traditional merchanting business in Great Britain. Disposal of three of these properties generated cash proceeds of £26.2 million and realised a profit of £19.9 million. In addition, a fair value gain of £5.0 million was recognised on the remeasurement of a number of investment properties to fair value under International Financial Reporting Standards as adopted by the European Union ("IFRS").

Share buyback

In line with the Group's disciplined approach to capital allocation and supported by its strong financial position, 12.28 million ordinary shares in the Company were repurchased on the London Stock Exchange for cancellation between 9 May 2022 and 12 September 2022 at a total cost of £100 million, excluding

transaction costs, and an average price of £8.14 per share. This represented 5.1 per cent of the issued share capital of the Company (excluding treasury shares) when the programme commenced. A second share buyback programme for a maximum consideration of up to £100 million, subject to the limitations of the shareholders authority granted at the AGM of the Company in April 2022, was launched on 10 November 2022. Between 10 November 2022 and 31 December 2022, 4.4 million shares were repurchased for cancellation at a total cost of £35.0 million, excluding transaction costs. Since the year end and up to and including 28 February 2023, the number of shares repurchased in the second buyback programme increased by 3.0 million shares at a total cost of £27.5 million.

Implementing our sustainability strategy

Sustainability remained a key priority on the Grafton Board Agenda during the year. Rosie Howells joined the business in September as the new Group Head of Sustainability to support implementation of the sustainability strategy and to work with the Group's businesses to drive continuing progress against key sustainability objectives. We have today published our second Sustainability Report which sets out in more detail our strategy and achievements in 2022.

The strategy, Building a More Sustainable Future, is structured on five priority areas: Planet, Customer & Product, People, Community and Ethics. While there is still much to do, the businesses demonstrated strong progress during 2022.

Planet

- Achieved an 11 per cent reduction in Scope 1 and 2 CO₂e per £ million of revenue. This was equivalent to a 3 per cent reduction in absolute emissions.
- Achieved a reduction of 17 per cent in operational waste relative to revenue on the prior year with 97 per cent diversion from landfill.
- Progressed Scope 3 carbon assessment which will also be a priority in 2023.

Customer & Product

- Rental, refurbishment and recycling offerings are available in a number of businesses.
- Responsible timber sourcing is an important area of focus for our distributor businesses and over 98 per cent of Selco's building timber was FSC or PEFC certified.

People

- Our Diversity and inclusion working group continued to support our businesses to encourage an inclusive culture that promotes diversity. Over 90 per cent of our colleagues in the UK and Ireland completed the voluntary diversity information questionnaire and 77 per cent answered all questions.
- Woodie's is the first retailer to be accredited as a gold investor in Diversity by the Irish Centre for Diversity following a three year partnership. It recently achieved gender balance and is now also reflective of national demographics on ethnicity, age and LGBTQI+ status.
- Our belief that 'there is nothing we do that is so urgent we cannot do it safely' drove our health and safety programme across our business and resulted in a reduction in the lost time incident frequency rate by 8 per cent and a reduction in the severity rate by 21 per cent.

Community

- Grafton invested over £1.0 million in communities through cash, volunteering and in-kind products and services including a donation of over £250,000 to the Red Cross to support the Ukraine appeal.

Ethics

- A strong focus was placed on ethical business training programmes and there was 92 per cent compliance with the business conduct and ethics programme.
- The Group's businesses continued to embed a supply chain management system in partnership with an expert risk management company.

Grafton's sustainability agenda is based on focusing on those areas that are most material to the business and deliver tangible results and outcomes that will make a real difference to its stakeholders. The Group's sustainability programme informs both longer term strategic investment decisions and day to day operational decisions and recognises the positive connection between sustainability and financial performance.

Colleagues

The Board would like to express its appreciation to colleagues across the Group for their exceptional support and commitment to customers and to each other. Their hard work, skill, and dedication were essential to achieving a strong outturn in challenging markets.

Outlook

The Group's portfolio of higher margin businesses is well positioned to withstand short-term market conditions that may impact demand in the year ahead. Grafton has an excellent position with both market leading brands and geographic diversity as more than half of revenues are now coming from outside the UK in Ireland, Finland and the Netherlands.

Importantly, with a very strong balance sheet and net cash before IFRS 16 leases, the Group is extremely well placed to invest in future growth opportunities.

The fall in real disposable incomes will continue to weigh on activity in the RMI market and project affordability will be impacted by higher materials and labour costs. Interest rate increases are expected to lead to a cooling of demand in new housing markets as affordability reduces. These common themes are likely to impact demand to varying degrees in individual markets.

Despite these headwinds, we expect some important factors to help mitigate some of the adverse effects on household spending and the current economic outlook appears brighter than many feared in the second half of last year. Strong labour markets with low levels of unemployment and declining energy prices and inflation should have a positive impact on consumer spending.

In the UK, housing RMI activity is expected to remain weak as discretionary spending remains under pressure. House building is also likely to slow as house builders respond to the cooling market by reducing starts in response to lower demand.

In Ireland, the economy has proven resilient and is forecast to grow at a more moderate pace which should support a good level of consumer spending in the RMI and DIY markets. House completions are expected to be held back by the decline in commencements and concerns about the viability of new developments.

In the Netherlands, growth and volumes are expected to be subdued with the housing market likely to remain softer due to higher mortgage rates.

In Finland, IKH's exposure to a range of end use markets is expected to help shield it from some of the effects of a mild economic downturn and anticipated fall in house building, following a period of strong growth.

Notwithstanding the current economic conditions, the strength of Grafton's businesses, its geographic diversity and balance sheet leaves it well placed to continue to execute its strategy and to respond to opportunities that emerge. The Group's objective is to outperform in its chosen markets through the cycle. We will allocate organic development capital appropriately to ensure that the Group's brands can continue to support their customers and strengthen their existing market positions. In addition, we aim to further enhance our business portfolio in selective geographies to support earnings progress and deliver sustainable returns for our shareholders.

Eric Born
Chief Executive Officer
1 March 2023

“

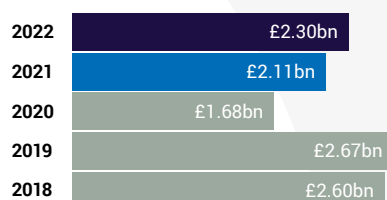
We still face many of the external challenges that we faced in 2022, but I am encouraged by the quality of the Group's portfolio of higher margin businesses that are sensibly positioned with both market leading brands and geographic diversity. We now have more than half of our revenues coming from outside the UK in Ireland, Finland and the Netherlands.”



Financial KPIs

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

£2.30bn



Revenue

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

Strategic links



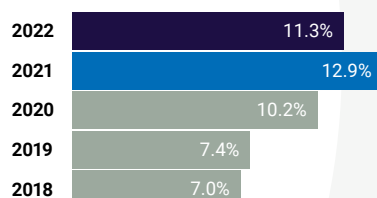
Our progress in 2022

Revenue from continuing operations increased by 9.1 per cent to £2.30 billion, an increase of 9.5 per cent in constant currency.

Risks

- Macro-economic conditions
- Competition
- Pandemic risk

11.3%



Adjusted operating profit margin before property profit*

Adjusted operating profit before property profit as a percentage of revenue provides a good measure of performance.

Strategic links



Our progress in 2022

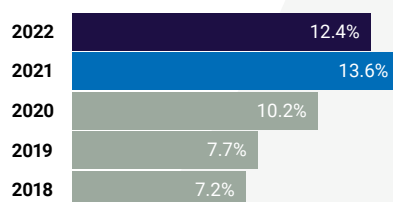
The term 'adjusted' means before amortisation of intangible assets arising on acquisitions, exceptional items and acquisition related items.

The adjusted pre-property operating margin decreased by 160bps to 11.3 per cent from the record operating margin of 12.9 per cent in 2021 due to slightly lower operating profit on revenue that was up by 9.1 per cent.

Risks

- Macro-economic conditions
- Competition
- Pandemic risk

12.4%



Adjusted operating profit margin*

Adjusted operating profit as a percentage of revenue.

Strategic links



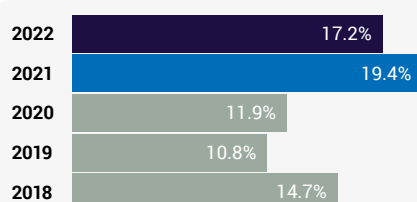
Our progress in 2022

The adjusted operating profit margin is down 120 bps to 12.4 per cent.

Risks

- Macro-economic conditions
- Competition
- Pandemic Risk

17.2%



Adjusted 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 debt/ (cash) at each period end) times 100.

Strategic links



Our progress in 2022

ROCE decreased by 220 basis points primarily due to an increase in average capital employed.

Risks

- Macro-economic conditions
- Competition

* 2018 is presented on a pre-IFRS16 basis.

Strategic links



Excellence in service



Strong financial base



Ethics and integrity



Organic growth and acquisitions

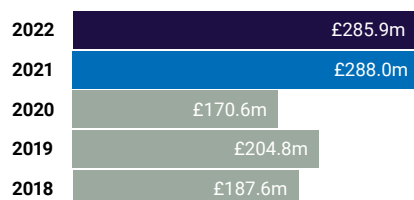


A supportive organisational structure and management

For more information on alternative measures see pages 232 to 236

For more information on risk management see pages 66 to 67

£285.9m



Adjusted operating profit*

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

Strategic links



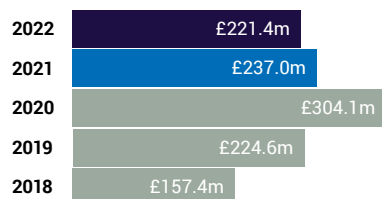
Our progress in 2022

Adjusted operating profit, including property profit, decreased by 0.7 per cent to £285.9m.

Risks

- Macro-economic conditions
- Competition
- Pandemic risk

£221.4m



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



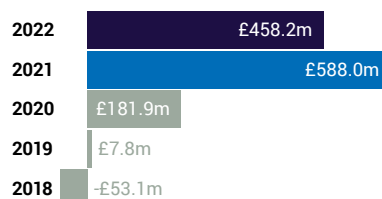
Our progress in 2022

Free cash flow decreased by £15.6 million to £221.4 million.

Risks

- Macro-economic conditions
- Competition

£458.2m



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



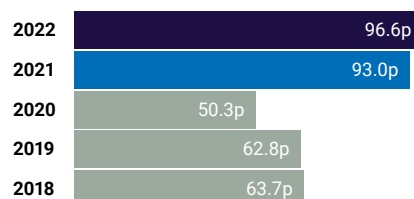
Our progress in 2022

Very strong cash position with net cash, before lease liabilities, of £458.2 million, a decrease of £129.8 million from net cash of £588.0 million at the end of 2021. The movement in the year relates primarily to the share buyback programmes.

Risks

- Macro-economic conditions
- Competition
- Acquisition & integration

96.6p



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



Our progress in 2022

Adjusted earnings per share from continuing operations was up 3.9 per cent on prior year and benefitted from the impact of the share buyback.

Risks

- Macro-economic conditions
- Competition
- Pandemic risk

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

0.90



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 2022

In 2022 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.

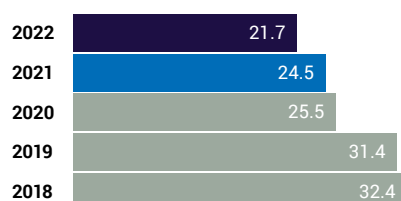
During the year, the Group lost time injury frequency rate, a measure of the number of lost time injuries per 100,000 hours worked, reduced by 8 per cent from the 2021 level and the corresponding Group Lost Time Severity Rate reduced by 25 per cent.

Environmental

Reducing our carbon footprint

CO₂e emissions (tonnes per £'m of revenue)

21.7



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 2022

We exceeded our CO₂e emissions reduction target of 2 per cent for Scope 1 & 2 emissions per £ million of revenue, achieving an 11 per cent reduction. Absolute emissions reduced by three per cent from 2021 on a like for like basis.

We have implemented a more robust data management system for our Scope 1 and 2 emissions. We have also made strong progress collecting data for our Scope 3 emissions calculations which is a top priority for 2023.

Selco and CPI Mortars have committed to investment in five forests as part of a forestry programme in the UK. It is predicted that these forests will sequester 34,000 tonnes of carbon over their lifetime.

Strategic links



Excellence in service



Strong financial base



Ethics and integrity



Organic growth and acquisitions



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 2022

We have made significant progress in the collection of voluntary diversity information, with 90 per cent of colleagues in the UK and Ireland completing the voluntary diversity information questionnaire. Collecting this information helps us as a Group to understand how we can improve and better meet the needs of our colleagues.

Inclusion Networks have been active in the UK and Ireland to provide opportunities for colleagues to participate in our Diversity and Inclusion agenda.

A number of our businesses achieved recognition as diverse employers and a Great Place to Work and we will be continuing to build on this good work by providing training and support to our colleagues and management to encourage allyship and continuing to review our websites and recruitment practices to attract a more diverse workforce.

Unfortunately the percentage of colleagues in the Group that are female has dropped slightly from 30 per cent in 2021 to 29 per cent, primarily due to tight labour markets in all our geographies which have made it increasingly challenging to select from a wider pool of diverse talent when recruiting new colleagues. This is a target for improvement in the coming years.

Customer and product

Managing our supply chain and providing our customers with sustainable and high quality products

Our aim

Our aim is to collaborate with our suppliers to secure the consistent supply of products for our customers and to ensure that the principles of our sourcing standards are met. We are also focused on providing responsibly sourced and more sustainable options to our customers and increasing circular economy opportunities.

Strategic links



Our progress in 2022

During 2022 we implemented technology to improve our third party risk management and compliance procedures, enabling a Group-wide process for screening and information collection to be implemented. This covers a range of ethical, financial and quality areas to confirm compliance with our policies and relevant regulatory standards.

A number of Group businesses offer rental and hire services for a range of products while our Netherlands business have been conducting a pilot on circularity to reclaim, restore and refurbish sanitaryware products.

Distribution segment

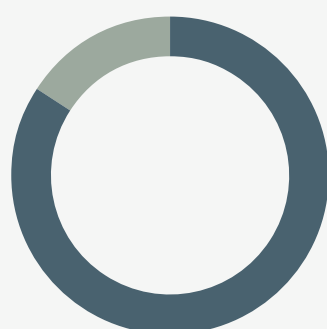
The Distribution businesses in the UK, Ireland, the Netherlands and Finland contributed 84.2 per cent of Group revenue (2021: 81.9 per cent).

UK Distribution generated 36.5 per cent (2021: 39.0 per cent) of Group revenue, Irish Distribution 26.9 per cent (2021: 25.8 per cent), Netherlands Distribution 14.6 per cent (2021: 13.8 per cent) and Finland Distribution 6.2 per cent (2021: 3.3 per cent).

	2022 £'m	2021 £'m**	Change*
Revenue	1,936.8	1,727.6	12.1%
Adjusted operating profit before property profit	210.3	209.8	0.2%
Adjusted operating profit margin before property profit	10.9%	12.1%	(120bps)
Adjusted operating profit	235.6	221.8	6.3%
Adjusted operating profit margin	12.2%	12.8%	(60bps)

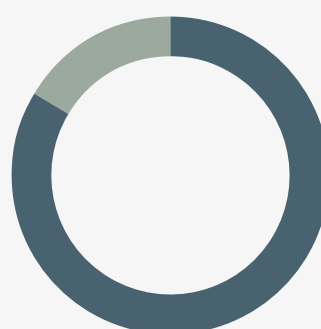
* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.

** The 2021 results for the distribution segment do not include the traditional merchanting business in Great Britain that was divested in 2021 and classified as discontinued operations.



Proportion of Group revenue

84.2%



Proportion of Group adjusted operating profit***

83.7%

*** Including a £3.7 million non-recurring curtailment gain in Irish Distribution in 2022.

UK distribution

Following the divestment of the traditional merchanting business in Great Britain in 2021, the Group's distribution business in the UK now comprises Selco, Leyland SDM, MacBlair and TG Lynes.

	2022 £'m	2021** £'m	Change*
Revenue	838.6	821.9	2.0%
Adjusted operating profit before property profit	81.8	102.5	(20.2%)
Adjusted operating profit margin before property profit	9.8%	12.5%	(270bps)
Adjusted operating profit	106.2	113.0	(6.0%)
Adjusted operating profit margin	12.7%	13.7%	(100bps)

* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.

** The 2021 results for the UK distribution business do not include the traditional merchanting business in Great Britain that was divested in 2021 and classified as discontinued operations.



Proportion of Group adjusted operating profit

37.2%

Key brands



Revenue growth of 2.0 per cent comprises a decline of 2.0 per cent in the like-for-like business and growth of 4.0 per cent from acquisitions and new branch openings. Average daily like-for-like revenue declined by 1.2 per cent.

New Selco and Leyland SDM branches contributed revenue of £15.9 million and the acquisitions in Northern Ireland of the P. McDermott & Sons branch in Omagh, acquired in 2021, and Woodfloor Warehouse, acquired in 2022, contributed incremental revenue in the year of £17.4 million.

Gross margin was down by 200 basis points reflecting a normalisation of trading as the businesses reverted to a more traditional trade and retail mix as well as the impact of non-recurring inflation related stock gains realised in the prior year, a more competitive trading environment with greater product availability (compared to supply chain pressures in 2021 that resulted in a shortage of core building materials) and investment by Selco in pricing in a competitive market.

Adjusted operating profit before property profit declined to £81.8 million (2021: £102.5 million) and the adjusted operating profit margin, before property profit of 9.8 per cent, was 270 basis points lower than in 2021 due to the small decline in like-for-like revenue, normalisation of the gross margin and increased operating costs.

Selco Builders Warehouse

Revenue declined by a net 1.7 per cent comprising growth of 2.2 per cent from new branches (which are treated as part of like-for-like operations on the first anniversary of opening) and a decline of 3.9 per cent in the like-for-like branch network.

Revenue trends in 2022 developed against the backdrop of a pandemic related surge in activity and record trading levels in the first half of the prior year. Trading normalised in the second half of 2021 as the high level of demand for building materials and supply chain pressures gradually eased.

Significant price increases continued to come through from suppliers as they passed

on higher energy, commodity and raw materials prices.

Average daily like-for-like revenue declined by 1.4 per cent in the first half following the exceptional growth in the first half of the prior year. Building materials' cost price inflation averaged circa 17.0 per cent year-on-year in the first half. The decline in first half volumes was circa 18.4 per cent. Average daily like-for-like revenue declined by 4.9 per cent in the second half. Building materials price inflation eased to 7.0 per cent and the decline in volumes moderated to 11.9 per cent in the second half. Average daily like-for-like revenue for the year was down by 3.1 per cent and volumes fell by 15.1 per cent.

Housing RMI volumes fell sharply as the economy weakened, inflation climbed to the highest rate for 40 years, consumer confidence remained weak and interest rates rose. Households were also forced to change their spending patterns as they struggled to adapt to soaring energy costs in the face of reduced real disposable incomes and they cut back on discretionary spending. Selco's trade

Operating review continued



customers are primarily engaged on small residential RMI projects and volumes were also affected by the very sharp increase in the cost of building materials for the second successive year that reduced affordability and discretionary spending on the home.

Demand was also affected by a post-pandemic shift away from spending on improving indoor and outdoor living space, that drove the rise in RMI activity in 2021, to spending on recreational, travel and leisure activities. Households were less inclined to spend on their homes with house price growth significantly moderating and interest rates rising. Non-essential RMI spending on the home was the part of the Selco market that was most exposed to cutbacks on spending as homeowners opted to defer expenditure until visibility on the prospects for the economy and for their personal finances improved. Branches in London and the South East performed more strongly than those in the regions.

Gross margin was down by 200 basis points on the prior year, which had benefitted from a more favourable customer and product mix and inventory gains during a period of rising prices and supply chain pressures. Selco invested in price on core products in a more competitive market that struggled to immediately absorb the combined effect of high building materials price inflation being passed on to customers and falling volumes.

Overall costs were very tightly controlled notwithstanding inflationary pressure on

payroll costs in a very tight labour market and increased rents on a number of branch properties that were subject to five yearly reviews.

Operating profit was down on the record result achieved in the prior year due to the sharp decline in volumes, that were partly offset by inflation, and contraction in the gross margin in a very competitive market.

The branches that were opened in 2021 in Canning Town and Rochester substantially outperformed plan. Selco's long-established presence in the South West, where it trades from two branches in Bristol, was extended with the opening of a branch in Exeter in April and one in Cheltenham in December that increased the estate to 74 branches. A new branch in Peterborough will open in April 2023. Given the weaker growth outlook for the UK economy and the difficulties experienced by developers in funding new projects we have reassessed Selco's plans for the rollout of its new stores which had targeted an increase in the estate to 100 by 2026. Our current plans envisage a store estate of approximately 80-90 stores over the medium term.

Selco provides a flexible omni-channel offering to trade customers who can enjoy the benefits of a wide range of products in stock, excellent customer service and competitive trade pricing. Stores are at the heart of the omni-channel experience and serve as a competitive advantage for how the majority of our customers want to shop today. Selco

is engaged in an ongoing store upgrade programme that delivers a better experience for customers and colleagues and ensures that the overall estate is maintained to a good standard. During the year it completed major upgrades to the Kingsbury, Cardiff and Baguley stores and mini upgrades to nine other stores.

Selco made a significant investment in recent years upgrading its online platform and website and continued its digital journey with the recent launch of a new App that provides further flexibility, improved functionality and new features that enable customers to more easily purchase building materials. Digital sales accounted for 5.1 per cent of revenue and approximately 80 per cent of on-line orders were fulfilled through deliveries from branches and delivery hubs.

Preparatory work was completed on upgrading the Microsoft Dynamics 365 finance and operations ERP system to a version that incorporates the latest technology. The upgrade was successfully tested and trialled in three branches before the year end and deployment in the Corporate Office and remainder of the branch network has commenced.

Selco implemented a range of initiatives in recent years to enhance the colleague experience and work environment for its 3,000 colleagues and was recognised as one of the best places to work in the UK and ranked in 17th position in the large company category by colleagues who participated in the Best Companies engagement survey.

An initiative to offset Selco's carbon footprint was launched with the planting of more than 100,000 trees near Jedburgh in the Scottish Borders in 2021 and as part of Selco's ongoing commitment to create a sustainable business it joined with the landowner and a key timber supplier in the planting of 160,000 trees on 60 hectares of land located near Llandrindod Wells in Wales. In another move to reduce carbon emissions, the process to transition the entire fleet of over 300 forklift trucks (as they come up for replacement over the coming years) commenced with the purchase of 28 electrically powered forklift trucks.

A new gas management system to optimise energy usage and reduce carbon emissions was implemented across the branch estate. Selco is also exploring energy generation opportunities across the estate and completed a successful trial of solar panels on the roof of the Barking branch. In addition, seven Compressed Natural Gas (CNG) vehicles are currently in operation with plans to introduce a further three in the new delivery hub in Birmingham. All delivery vehicles in the two delivery hubs are now fuelled by lower carbon emission HVO rather than diesel.

Case study

HVO and CNG vehicles

Hydrotreated Vegetable Oil (HVO) provides significant reduction in carbon emissions and Compressed Natural Gas (CNG) minimises particulates released into the atmosphere, which is a significant issue in inner metropolitan city areas where the Group operates. TG Lynes has now introduced HVO vehicles to its fleet with two of its 18 tonne lorries converted to run on HVO and the business has installed a 10,000 litre tank for easy on-site refuelling. Selco has also introduced HVO and has purchased over 130,000 litres in 2022. Selco currently has seven CNG vehicles in operation, with plans to introduce a further three.

For more information on our sustainability strategy see pages 76 to 95



Operating review continued

Leyland SDM

Footfall in Leyland SDM, London's largest specialist decorators' and DIY business, started to gradually recover in the early months of the year as visitors and workers began to return to the city. These groups are key drivers of RMI activity in the leisure and office sectors. Average daily like-for-like revenue grew by 2.0 per cent in the first half and picked up as the year developed exceeding 10.0 per cent in the fourth quarter driven by inflation and a return to volume growth.

Revenue in the Clapham Junction, Dulwich and Bayswater stores that were opened last year was in line with plan.

A decline in the gross margin and increased costs contributed to a decline in operating profit.

MacBlair

The MacBlair distribution business in Northern Ireland operated at a more normalised level of activity following a record result in the prior year that benefitted from exceptional pandemic related spending on housing RMI.

Building materials' price inflation offset a decline in volumes and average daily like-for-like revenue was flat for the year. Transactions with retail customers declined from the exceptional level in the prior year which saw record spending by households on home and garden improvement and maintenance projects. The decline in RMI revenue was

offset by an increase in house building, a market that was subdued in the early months of the prior year before gradually recovering. Self-build customers, developers of small housing schemes and timber frame house manufacturers generated good growth in revenue.

There was a decline in the gross margin in the like-for-like business because of the fall in higher margin collected transactions with retail customers and an increase in the volume of core building materials delivered to house builders' sites.

The branch in Omagh acquired in December 2021 was integrated into the MacBlair branch network and procurement arrangements were aligned. In February 2022, MacBlair acquired Woodfloor Warehouse, a leading on-line distributor of timber flooring in Great Britain, Northern Ireland and the Republic of Ireland. It also operates branches in Bangor, Belfast and Warrington. Revenue was down on the pre-acquisition level because of a decline in on-line revenue transactions with retail customers in Great Britain, in a weaker RMI market, that accounts for a significant proportion of activity.

Operating profit was down on the prior year including contributions from the two acquisitions and a high single digit operating profit margin was reported for the enlarged business.

TG Lynes

TG Lynes, a leading distributor of commercial pipes and fittings principally in London, performed very strongly in what was a record year for the business with excellent growth in revenue and operating profit. Operating profit saw a continuation of a trend of strong growth since the business was acquired by Grafton in 2015.

TG Lynes continued to improve its market position, increasing volumes with subcontractors to the national housebuilders. Volumes were also higher from the post pandemic recovery in the upgrading of schools and hospitals. Investment also increased in the hotel, leisure, retail and office sub-sectors of the market. New build projects with long lead times account for two-thirds of revenue and were not immediately impacted by the downturn in the economy.

Voice picking technology was successfully trialled in the warehouse in Enfield and will go live in the first quarter of this year. It will provide an optimal path for picking orders, reducing errors and increasing warehouse efficiency.

The installation of solar panels in the prior year reduced the carbon footprint by generating the equivalent of two thirds of the electricity required to operate the business and lowered demand for energy from the national grid.



Case study

Colleague Engagement

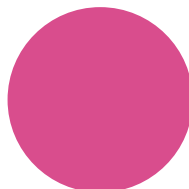


Our businesses have been focused on colleague engagement with a number of businesses receiving recognition during the year based on the results of annual engagement surveys. Selco were proud to finish 17th on the 'big companies' list as part of the 'Best Companies' awards.

Woodie's was recognised as a Great Place to Work for the seventh consecutive year. It was ranked 11th in Ireland's and 41st in Europe's Best Workplaces benchmarked against the largest international and domestic employers.

IKH participated in the Great Place to Work colleague engagement survey for the first time and exceeded the threshold for recognition as a Great Place to Work in Finland.

For more information see pages 16 to 19



Irish distribution

The Irish distribution segment trades from 53 branches, principally under the Chadwicks brand.

	2022 £'m	2021 £'m	Change*	Constant Currency Change*
Revenue	618.3	544.3	13.6%	14.4%
Adjusted operating profit before property profit	70.5	66.8	5.5%	5.7%
Adjusted operating profit margin before property profit	11.4%	12.3%	(90bps)	—
Adjusted operating profit	71.5	68.2	4.7%	0.6%
Adjusted operating profit margin	11.6%	12.5%	(90bps)	—

* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.



Proportion of Group adjusted operating profit**

26.3%

** Including a £3.7 million non-recurring curtailment gain in 2022.

Key brands



Chadwicks' distribution business in Ireland produced a very strong performance for the year as trading returned to more normal levels following the pandemic. Revenue growth was driven by building materials' price inflation and a significant contribution from acquisitions. Volumes declined in the second half as increased costs of materials and labour alongside subdued demand led construction businesses to scale back activity.

Supply chain pressures eased in line with activity levels, but the rate of inflation remained elevated for core building materials including insulation, plasterboard, cement and plastic products driven by higher raw materials and energy prices. A fall in steel and timber prices, partly reversed prior year increases due to the post pandemic spike in demand internationally. Building materials cost price inflation averaged 14.7 per cent for the year.

Average daily like-for-like revenue growth of 41.9 per cent in the first quarter was very strong even adjusting for weaker trading in the first quarter of the prior year when branches remained open albeit at a time when much of the construction sector was not operating due to pandemic related restrictions. The rate of

average daily like-for-like growth eased in the second quarter to 4.3 per cent against a very strong prior year performance that benefitted from the rapid recovery in activity and pent-up demand following the lifting of restrictions. Overall growth in average daily like-for-like revenue was 19.5 per cent in the first half. Very strong activity in the first half gave way to a slowdown in second half trading with average daily like-for-like growth easing to 2.1 per cent and averaging 10.3 per cent for the year.

Volumes of core building materials recovered from reduced levels caused by the closure of house building sites in the first quarter of the prior year. Demand for hardware products, landscaping materials and paint were lower following exceptional demand from retail customers undertaking housing RMI projects during the pandemic.

The gross margin was down on the prior year due to changes in the mix of revenue including a lower proportion of revenue from RMI transactions with retail customers and an increase in the proportion of revenue delivered to trade customers. There was also a time lag in the recovery of materials price increases due to competitive pressure in the market.



The sharp fall in steel and timber prices reduced margins on inventory, partly reversing the gains made in the prior year when prices were rising sharply.

Housing transaction volumes are estimated to have increased by circa six per cent in 2022 to 63,000 representing almost three per cent of the housing stock in a market that was very illiquid by international standards. New house completions contributed to growth in transactions increasing to an estimated 29,900 units, up from 20,400 in 2021 when output was reduced by Covid-19 restrictions. There was a major increase in apartment completions which rose by 79 per cent to account for half of total completions. Growth in housing scheme units was 42 per cent and the number of one-off house completions increased by 17 per cent, both of which are significant markets for Chadwicks.

The number of housing units on which construction commenced slowed during the year with the decline in apartment construction impacted by the increase in construction costs, planning constraints and securing project finance. The availability of land and construction capacity contributed to a fall in the commencement of housing

schemes and increased costs also weighed on the construction of one-off houses that are typically constructed in non-urban areas.

The Proline Architectural Hardware ("Proline") business acquired in February 2021 outperformed plan and produced an excellent result for its first full year under Chadwicks ownership that was complemented by introducing a range of Proline products in 28 Chadwicks branches.

The Sitetech construction accessories business acquired at the end of February 2022, traded well ahead of expectations, and made an excellent profit contribution in the ten months post acquisition, in addition to providing Chadwicks with a strong presence in a complementary segment of a market where Sitetech is the market leader. Sitetech collaborated with Chadwicks and provided access to complementary products and the expertise and colleague training required to generate incremental revenue.

Chadwicks completed major upgrades to its Bray, Coolock and Kilkenny branches that facilitated the introduction of a number of new product ranges. ECO Centres were opened in 10 branches that supply a range

of energy efficient products including insulation, airtightness, ventilation systems, heat pumps and controls, solar energy and water-saving products. This initiative takes a sustainability first approach to creating better buildings and helps support the grant-aided retrofit programme in Ireland that targets energy upgrades to a quarter of the national housing stock.

Chadwicks new transactional website offers over 10,000 products to trade and retail customers with delivery and collection options from 37 locations nationwide. The new website has increased customer engagement and provided the flexibility and convenience to trade on-line combined with the knowledge and expertise they receive dealing with their local Chadwicks branch.

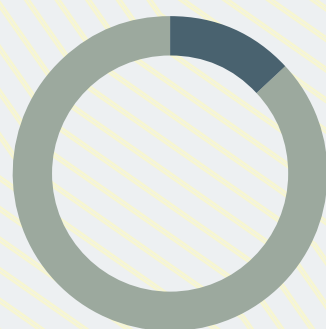
Chadwicks digital strategy has created greater mobility for colleagues so they can operate digitally throughout branches while delivering greater flexibility in how they engage with customers. The rollout of a delivery transport system has created efficiencies from improving transport planning, route optimisation, customer service and communications.

Netherlands distribution

The Netherlands distribution segment trades from 123 branches under the Isero and Polvo brands.

	2022 £'m	2021 £'m	Change*	Constant Currency Change*
Revenue	336.7	290.5	15.9%	16.8%
Adjusted operating profit	37.6	30.5	23.2%	24.3%
Adjusted operating profit margin	11.2%	10.5%	+70bps	—

* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.



Proportion of Group adjusted operating profit

13.1%

Key brands



Isero produced excellent results for the year, in broadly favourable markets, that included a good contribution from acquisitions and benefits realised from implementing performance improvement measures.

The business has steadily grown in recent years to become the clear market leader in the ironmongery, tools and fixings distribution market in the Netherlands. It has acquired 82 branches and opened seven in the period since Grafton acquired Isero in late 2015 and now trades from 123 branches.

Year-on-year revenue trends were not impacted by the pandemic as the business was treated as an essential distributor and remained open throughout 2021. First half volumes were flat and with inflation contributing growth of 7.5 per cent in average daily like-for-like revenue. Second half average daily like-for-like revenue growth of 10.4 per cent included a small increase in volumes.

Revenue increased from key account customers engaged on large commercial construction projects, including apartment building and the maintenance of public sector housing. Isero also improved its market position in the supply of hinges and locks to timber factories where its end-to-end service proposition is a differentiator. Transaction numbers with smaller customers engaged in housing RMI projects were lower. This segment of the market performed strongly last year as households increased spending on home improvement projects during the pandemic. Revenue also increased from value added solutions that use technology to efficiently replenish inventory levels in containers located on the sites of customers engaged on large construction projects and in the vans used by Housing Corporations for maintenance services.

There was a strong advance in operating profit from growth in like-for-like revenue and a higher gross margin that reflected inflation related inventory gains and improved procurement arrangements. These growth components helped deliver an improvement in the operating profit margin of 70 basis points. Payroll costs also increased in a tight labour market.

The number of transactions in existing homes dropped for the second successive year as affordability, that was already stretched by average house prices increasing by almost a third since early 2020, deteriorated further. The new housing market was also under pressure as forward sales declined and the number of building permits issued continued to fall.

Organic revenue growth was complemented by a significant contribution from acquisitions that increased overall constant currency revenue by 16.8 per cent. The five branch Regts B.V. ("Regts") business in Friesland acquired in January 2022 extended Isero's coverage into the Northeast region of the Netherlands and outperformed plan. Good progress was made harmonising its portfolio of products and aligning procurement arrangements.

The two branches in Rotterdam that we relocated last year to higher profile locations and the new branch in Lelystad, a growth city in the centre of the Netherlands, performed well. The new branch that was opened in Zaandam, just north of Amsterdam, also got off to a strong start. The branch in Gouda was relocated and five branches were upgraded

including three of the four Govers branches acquired in April 2021. Further automation measures were implemented in the Waddinxveen distribution centre to improve handling efficiency.

Isero continued to implement solutions to reduce carbon emissions focusing on the installation of LED light fittings in several branches as part of an ongoing upgrade programme and, with the cooperation of landlords, solar panels and heat pumps were installed in six branches. A new circular model was trialled to extend the lifetime of colleague and customer PPE and certain other products through repair and reuse.



Finland distribution

The Finland distribution segment trades through a network of independent partner stores and 12 owned branches.

	2022 £'m	2021 £'m	Change*	Constant Currency Change*
Revenue	143.2	70.8	102.2%	101.7%
Adjusted operating profit	20.3	10.0	104.2%	103.7%
Adjusted operating profit margin	14.2%	14.1%	+10bps	—

* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.



Proportion of Group adjusted operating profit

7.1%

Key brands



IKH, one of Finland's largest workwear and personal protective equipment ("PPE"), tools and spare parts wholesalers, operates in an attractive segment of the technical trades' distribution market in Finland. It was acquired by Grafton on 1 July 2021 and performed in line with expectations in its first full year as part of the Group.

First half revenue was down on the pre-acquisition level in the prior year as milder than normal weather conditions in the early months of the year reduced demand for a number of seasonally sensitive product categories and trading was also affected by the sharp drop in consumer confidence following the invasion of Ukraine by Russia which shares a long land border with Finland. Trading improved in May and June following the slow start to the year.

Average daily like-for-like revenue increased by 5.4 per cent in the second half as a recovery in demand that developed in the third quarter gained further impetus in the final months of the year supported by generally resilient activity.



IKH products are distributed through a network of independently operated IKH partner stores, the strategic cornerstone of the model, third party distributors and owned stores operated from complementary locations. These three routes to market provide a balanced channel exposure and are good touchpoints to support customers operating in the construction, renovation, industrial, agricultural and spares end markets. These channels were strengthened with the appointment of new partners in Joensuu, Finland's 12th largest city, and in the towns of Raahe and Jamsa. The three new partners will enable IKH to increase geographic coverage of the market in the central region of Finland. Exports to Estonia increased and IKH's partner in the country will open a new store in Tallinn in March 2023.

The new IKH store in Hämeenlinna, a city located 100 kilometres north of Helsinki, that opened at the end of 2021 started to build

market share. In November, IKH opened its 12th own store in Rovaniemi, the capital city of Lapland in Northern Finland.

The new housing market has been strong in recent years in response to good demand from consumers and investors. There was a record number of housing starts in 2021 and construction work continued on these projects and house building had a good year with a significant increase in investment. The number of building permits issued for new homes dropped considerably as mortgage rates and construction costs increased and the housing market started to return to more normal levels of activity. Residential RMI

activity was underpinned by good demand for building services renovations and increased energy related projects in apartment buildings and single housing units. The weakening economy, higher costs, lower yields and uncertainty slowed new non-residential construction projects.

IKH participated in the Great Place to Work colleague engagement survey for the first time and exceeded the threshold for recognition as a Great Place to Work in Finland.



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.

	2022 £'m	2021 £'m	Change*	Constant Currency Change*
Revenue	244.0	282.8	(13.7%)	(13.0%)
Operating profit	32.6	50.9	(35.9%)	(35.5%)
Operating profit margin	13.3%	18.0%	(470bps)	—

* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.

Key brands

Woodie's



Proportion of Group
revenue
10.6%



Proportion of Group adjusted
operating profit
11.4%

Revenue in Woodie's DIY, Home and Garden business in Ireland normalised, as expected, following exceptional pandemic related constant currency growth of 19.4 per cent in 2021 when Woodie's was treated as an essential retailer and continued to trade during the early months of the year while the country was in lockdown. The normalisation of trading was concentrated over the first half which saw revenue decline by 22.8 per cent.

Revenue trends were broadly stable in the second half despite weak consumer sentiment as cost-of-living pressures caused households to increase spending on essentials including energy and to cut back on discretionary spending. Consumers also continued to spend more on leisure activities and experiences and less on other areas, including DIY, home and garden, that boomed during the pandemic.

Woodie's had to navigate a unique set of trading conditions in 2022 as exceptional spending in the prior year unwound and real disposable incomes declined as inflation reached its highest level in almost four decades. The business was resilient and as market leader Woodie's was well placed to leverage its competitive advantage to support customers engaged in a broad range of DIY, home and garden projects.

A significant proportion of the revenue gains made in the prior year were maintained and there has been a step change in the performance of Woodie's since 2019. Revenue increased by 18.7 per cent from £205.5 million in 2019 and operating profit by 43.9 per cent from £22.6 million. This is a better gauge of Woodie's performance and of the progress made from a clear and consistent focus on colleagues, customers and products.

Woodie's provides on-line and in-store channels for its customers while differentiating the service and experience of shopping in its stores. On-line was 3.4 per cent of revenue (2021: 2.9 per cent). The Woodie's website is also used as a powerful opportunity to engage with customers and enable them to locate and research products that they purchase in-store. Woodie's has a strong presence on several social media platforms that are becoming the primary channels to communicate with customers and increase brand visibility.

Woodie's was recognised as A Great Place to Work for the seventh consecutive year. It was ranked 11th in Ireland's and 41st in Europe's Best Workplaces benchmarked against the largest international and domestic employers. Putting people first has been central to Woodie's success in recent years and it continued to measure and improve colleague engagement against a range of metrics. Woodie's became the first retailer and the eighth organisation to ever achieve a Gold Investors in Diversity accreditation from the Irish Centre for Diversity

The number of transactions declined by 12.2 per cent and the combined net effect of investment in pricing in certain categories, changes in the average basket value from customers purchasing fewer higher value seasonal products and inflation reduced revenue by 0.8 per cent. Revenue declined across all categories except gardening which performed very strongly.

Gross margin trends that developed in the first half of the year continued through the second half with changes in product mix, increased promotional activity, particularly for seasonal ranges, and higher shipping and freight costs contributing to a decline.

There was upward pressure on energy and property costs, but the overall cost base was tightly controlled and was down on the prior year as some of the additional capacity put in place to support exceptional customer demand in 2021 was withdrawn.

Energy usage declined by 14 per cent following the upgrade of store lighting, the implementation of new digital controls and a colleague education programme on energy efficiency.

Woodie's continued its engagement with communities in Ireland raising over €400,000 for four charities through its annual Heroes campaign that has raised almost €3.0 million over the past eight years.



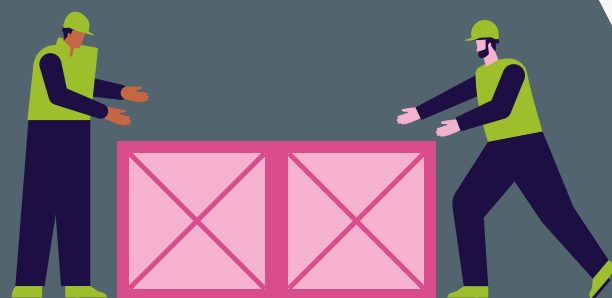
Manufacturing segment

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.

	2022 £'m	2021 £'m	Change*	Constant Currency Change*
Revenue	120.6	99.6	21.1%	21.2%
Operating profit	27.4	24.0	13.9%	13.9%
Operating profit margin	22.7%	24.1%	(140bps)	—

* Change represents the movement between 2022 v 2021 and is based on unrounded numbers.

Key brands



Proportion of Group
revenue
5.2%



Proportion of Group adjusted
operating profit
9.6%



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



The CPI EuroMix business that mainly supplies mortars to national, regional and local house builders and plastering contractors from ten plants in Great Britain performed strongly with revenue growth of 22.3 per cent driven by a surge in the price of raw materials and other input costs. Volumes for the year were very marginally down as low single digit growth in silo mortar, that accounted for 90 per cent of output, was offset by a decline in the sale of bagged mortar products supplied to the residential RMI market.

Silo mortar volumes recovered strongly in the first quarter with double digit growth on the prior year when house building was disrupted by the pandemic. Second quarter silo mortar volumes were marginally lower against a very strong comparator that benefitted from an increase in house building as restrictions were lifted. First half volumes in a few plants were also impacted by supply chain disruption from shortages of cement, sand and limestone and scheduled works to replace or upgrade production equipment.

Overall, second half silo mortar volumes were flat as third quarter growth was offset by a decline in the fourth quarter. House building slowed in the final months of the year as house builders began to scale back activity in response to a drop in weekly sales rates, a rise in cancellations and lower forward sales. Demand for new houses was affected by interest rate rises.

Demand was well down for ready-to-use bagged mortars and concrete supplied to

the housing RMI market compared to the exceptional pandemic related demand in the prior year. Destocking by customers and increased pressure on discretionary spending on the home by end customers as the year progressed also weighed on volumes.

There was a good advance in operating profit on the prior year following the recovery of materials price inflation in the second half and the operating margin was maintained at 20.0 per cent.

CPI EuroMix is at an advanced stage in planning for the implementation later this year of a new ERP system that will support all areas of the business, increase visibility of its daily operations and provide real-time information and better functionality that should allow it to increase support the needs of all of its stakeholders.

The number of locations using lower carbon cement was increased to seven plants from three in 2021 and we continued to engage with a partner on even lower carbon cement alternatives that are in the very early stages of research and development. Solar panels were installed at four locations to reduce energy demand from the national grid. A trial was conducted at one plant on fuelling vehicles with HVO (Hydrotreated Vegetable Oils) instead of fossil fuels. The business is also engaged on an ongoing research project with its vehicle manufacturer concerning electric powered tractor units used to refill silos on customers sites with dry mortar materials. Carbon emissions from mortar delivery vehicles were

offset through the planting and maintenance of 30 hectares of woodland with 80,000 trees in Dumfries, Scotland which is accredited and registered under the Carbon Code.

StairBox, the market leading manufacturer of bespoke staircases primarily for the secondary housing market, reported revenue growth of 18.9 per cent to £31.3 million (2021: £26.3 million). The increase in revenue was sustained by volume growth of 7.4 per cent and raw materials price increases. Despite the decline in activity in the residential RMI market, StairBox experienced record demand from trade customers across Great Britain. Operating profit increased by 9.2 per cent to £9.8 million (2021: £9.0 million), an operating margin of 31.3 per cent (2021: 34.2 per cent).

StairBox continued to develop its state-of-the-art staircase manufacturing technology including a major update to its factory management software that improved the efficiency of the manufacturing and assembly processes. The StairBuilder on-line stairs designer software was updated to include further design features that were well received by customers. These developments helped StairBox to continue to win a very high level of customer trust and confidence in the quality of its bespoke staircases and service.

StairBox successfully relocated its assembly operations to a nearby leased property that provides additional capacity for the overall operation following exceptional growth in volumes in recent years and secures the future of its manufacturing capability in Stoke-on-Trent.

Building on a resilient financial performance

Group revenue from continuing operations increased by 9.1 per cent to £2.30 billion from £2.11 billion in 2021.

Revenue

Group revenue from continuing operations increased by 9.1 per cent to £2.30 billion from £2.11 billion in 2021.

Revenue in the like-for-like business increased by 2.4 per cent (£48.3 million) on the prior year.

The acquisition of IKH in Finland in July 2021 and a number of bolt-on transactions in Ireland, the UK and the Netherlands, contributed revenue of £134.4 million. New Selco and Leyland SDM branches in the UK, one new branch in the Netherlands and two new branches in Finland contributed an additional £17.8 million of revenue in the year.

Currency translation reduced revenue by £7.9 million and the closure of a single branch in Ireland on expiry of a lease reduced revenue by £1.1 million.

2022	£2.30bn
2021	£2.11bn

Adjusted operating profit

Adjusted operating profit from continuing operations of £285.9 million was down marginally from £288.0 million last year. This included a non-recurring pension scheme curtailment gain of £3.7 million.

Adjusted operating profit before property profit and before the pension scheme curtailment gains was £256.8 million, down by 5.3 per cent from last year's record result of £271.2 million. The adjusted operating profit margin before property profit and the pension scheme gain declined by 170 basis points to 11.2 per cent. Including the pension scheme gain, the adjusted operating margin declined by 160 basis points to 11.3 per cent.

2022	11.3%
2021	12.9%





Revenue

£2.30bn

(2021: £2.11bn)

Adjusted operating profit

£285.9m

(2021: £288.0m)

Net cash (pre IFRS 16 leases)

£458.2m

(2021: £588.0m)

“

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.”

Net finance income and expense

The net finance expense declined to £12.6 million (2021: £19.4 million). This charge includes an interest charge of £14.9 million (2021: £14.6 million) on lease liabilities recognised under IFRS 16.

Interest income on cash deposits amounted to £8.7 million (2021: £0.2 million). The Group had cash deposits of £467.0 million at the year-end that were denominated in sterling. Returns on these deposits increased as the year developed to reflect the eight occasions that the Bank of England raised rates from 0.25 per cent at the start of the year to 3.5 per cent at the year end.

Interest payable on bank borrowings denominated in euros and US Private Placement Senior Unsecured Notes fell to £5.6 million (2021: £6.2 million). The decline was due to lower average debt and a lower interest rate payable on part of the bank debt borrowed under the ECB's Targeted Longer-Term Refinancing Operations. This was partly offset by a higher interest rate payable on the remainder of the bank debt following four increases by the European Central Bank in its key interest rate from zero per cent to 2.5 per cent in the second half of the year.

The net finance expense included a foreign exchange translation loss of £0.7 million which compares to a gain of £1.7 million in the prior year.

Taxation

The income tax expense of £43.1 million (2021: £43.0 million) is equivalent to an effective tax rate of 17.1 per cent of profit before tax (2021: 17.2 per cent). This is a blended rate of corporation tax on profits in the four countries where the Group operates.

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.

The tax rate is expected to increase to 20.1 per cent in 2023 and in the medium term, based on expectations of the balance of profitability across the Group and tax rates, is anticipated to increase to a little over 22 per cent.

Cashflow

Cash generated from operations for the year was £278.8 million (2021: £303.2 million). There was an investment of £71.3 million into working capital. The increase in stock was a reflection of both inflation and our trading strategy to increase product availability for customers during the year at a time of rising prices. Similarly, the increase in trade debtors reflects inflation as well as an increasing proportion of trade customers relative to cash customers as activity normalised during 2022.

Interest paid amounted to £21.9 million (2021: £20.5 million) which included IFRS 16 lease interest of £14.9 million (2021: £14.6 million). Taxation paid was £39.5 million (2021: £43.7 million). Cashflow from operations after interest and taxation payments was £217.3 million (2021: £239.0 million).

There was a cash outflow of £46.0 million on completion of the Sitetech acquisition in Ireland, the Woodfloor Warehouse acquisition in Northern Ireland and the Regts acquisition in the Netherlands. The outlay on capital expenditure and computer software was £57.8 million (2021: £44.4 million).

The cash outflow on the dividend payment (£73.9 million) and buyback of shares (£135.0 million) amounted to £208.9 million (2021: £84.9 million).

Capital expenditure and investment in intangible assets

Grafton continued to maintain tight control over capital expenditure which amounted to £55.3 million (2021: £43.6 million). Expenditure of £2.5 million (2021: £0.8 million) was incurred on computer software that is classified as intangible assets.

Financial Review continued

Asset replacement capital expenditure of £33.2 million (2021: £24.6 million) compares to the depreciation charge on property, plant and equipment of £34.2 million (2021: £38.3 million). This related principally to the 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.

Development capital expenditure of £22.1 million (2021: £19.0 million) was incurred on a range of initiatives that provide a platform for future growth including new branches in Selco, Isero and IKH; upgrades to Chadwicks and Isero branches; as well as investment in IT hardware.

The proceeds from the disposal of property, plant and equipment increased to £28.5 million (2021: £22.2 million). The disposal of three freehold properties retained following the sale of the traditional merchanting business in Great Britain generated cash proceeds of £26.2 million and realised a profit of £19.9 million.

Pensions

The IAS 19 defined benefit pension schemes had a net deficit of £10.5 million at the year end, down by £1.0 million on the net deficit of £11.5 million on 31 December 2021.

Changes to financial assumptions reduced scheme liabilities by £98.1 million reflecting the net impact of a gain from the increase in discount rates and a loss from the increase in inflation expectations. Changes in demographic assumptions increased scheme liabilities by £2.9 million and experience variations increased liabilities by £2.4 million. The net impact was a reduction in the liabilities of the schemes by £92.8 million.

The increase in discount rates used to discount scheme liabilities moved in line with increases in corporate bond rates. The rate used to discount UK liabilities increased by 290 basis points to 4.8 per cent and the rate used to discount Irish liabilities increased by 255 basis points to 3.7 per cent. These movements reduced scheme liabilities by £108.0 million.

Inflation rates increased, particularly in relation to the Irish schemes, over the past year and this impacted the value of liabilities as future benefit payments from the pension plans are directly or indirectly linked to future inflation. This was particularly 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 at the date members retire with inflation increasing liabilities only up to that date.

There was a loss on plan assets of £97.8 million due to the fall in the values of liability driven investments, bonds and equities that was almost matched by the reduction in liabilities.

Asset experience losses in the UK scheme were greater than the reduction in liabilities and this was the main contributor to the scheme deficit increasing from £0.7 million to £14.2 million. In Ireland, asset experience losses were materially less than gains from the reduction in liabilities resulting in a significant improvement in the financial position of the schemes. There was also a once-off gain of £3.7 million (before costs) from closing one of the schemes to future accrual. These factors mainly contributed to the schemes in Ireland moving from a deficit of £9.9 million to a surplus of £4.6 million.

There was a scheme deficit of £0.8 million (31 December 2021: £0.8 million) related to the Netherlands business.

Following divestment of the traditional distribution business in Great Britain, 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

Net cash (including IFRS 16 lease obligations) at 31 December 2022 was £8.9 million which compares to £139.0 million at 31 December 2021. The proceeds on the sale of the Traditional Merchanting Business in Great Britain for an enterprise value of £520.0 million were received on 31 December 2021.

The Group's net cash position, before recognising IFRS 16 lease liabilities, was £458.2 million, down from £588.0 million at 31 December 2021.

The Group's policy is to maintain its investment grade credit rating while investing in organic developments and acquisition opportunities. The Group has a progressive dividend policy with an objective of maintaining dividend cover at between two and three times earnings.

2022	£458.2m
2021	£588.0m



Liquidity

Grafton ended 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 £934.6 million at 31 December 2022 (31 December 2021: £1,235.4 million). As shown in the analysis of liquidity on page 46, accessible cash amounted to £707.7 million (31 December 2021: £840.7 million) and there were undrawn revolving bank facilities of £226.9 million (31 December 2021: £394.7 million).

The Group had bilateral loan facilities of £340.7 million at the year end (31 December 2021: £433.7 million) with four relationship banks and debt obligations of £141.9 million (31 December 2021: £134.4 million) from the issue of unsecured senior notes in the US Private Placement market.

In August 2022, the Group completed a refinancing of its bilateral loan facilities that were due to expire in March 2023. These revolving loan facilities for £340.7 million were agreed with four established relationship banks for a term of five years to August 2027. The arrangements include two one-year extension options exercisable at the discretion of Grafton and the four banks. These new facilities provide certainty of finance over a longer period on improved terms and replaced facilities of £380.7 million. This is sustainability linked debt funding and includes an incentive connected to the achievement of carbon emissions, workforce diversity and community support targets that are fully aligned to the Group's sustainability strategy.

A one-year facility for £86.0 million put in place in December 2021 and facilitated by one of the Group's relationship banks under the ECB's Targeted Longer-Term Refinancing Operations was repaid in December 2022. 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 2022 was 5.2 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.

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 £13.2 million (2021: £13.0 million) and the finance (interest) expense by £14.9 million (2021: £14.6 million) in the period. Profit before tax was reduced by £1.7 million (2021: reduced by £1.6 million) and profit after tax reduced by £1.3 million (2021: reduced by £1.4 million) because of IFRS 16.

The right-of-use asset in the balance sheet at 31 December 2022 was £420.1 million (31 December 2021: £421.3 million) and lease liabilities were £449.3 million (31 December 2021: £449.0 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.

Shareholders' equity

The Group's balance sheet strengthened further in the year with shareholders' equity up by £26.0 million to £1.75 billion. Profit after tax increased shareholders' equity by £208.6 million and there was a gain of £30.7 million on translation of euro denominated net assets to sterling. Shareholders' equity was reduced for a remeasurement loss (net of tax) of £2.5 million on pension schemes, for dividends paid of £73.9 million and by £143.0 million for the buyback of shares. Other changes increased equity by £6.0 million.

Return on capital employed

Return on Capital Employed in continuing operations declined by 220 basis points to 17.2 per cent (2021: 19.4 per cent) including leased assets.



Principal risks and uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 70 to 75 of this report.

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 from the External Auditors, including any reporting on internal control.

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

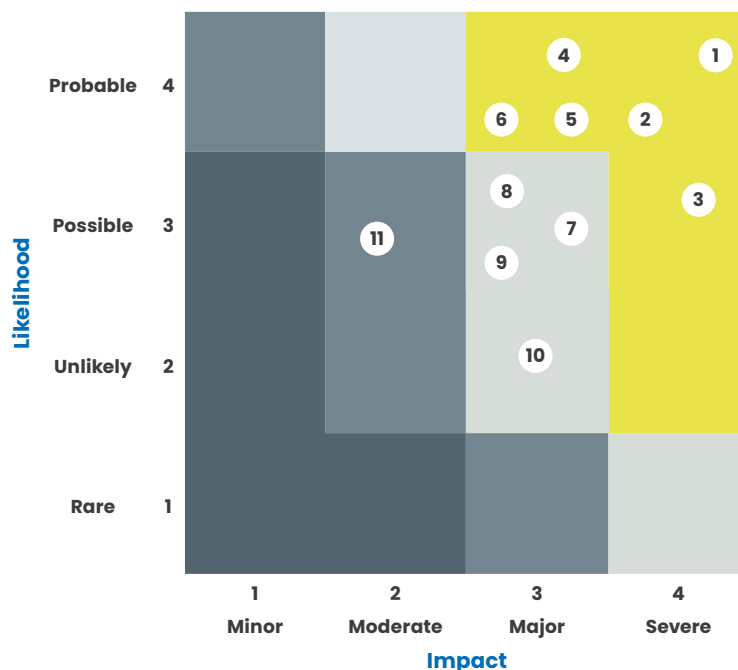
- Establishing and delivering a risk based annual Internal Audit plan;
- Reviewing internal controls and risk management actions as part of the Internal Audit plan and reporting the results to Management and the Board
- Reporting to the Audit and Risk Committee on the results of their audit work, including 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. Competition
7. IT Systems Implementation
8. Health and Safety
9. Sustainability and Climate Change
10. Internal Controls and Fraud
11. Pandemic Risk



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 ('CRR'). 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.

Risk appetite

'Risk appetite' describes the amount of risk we are willing to tolerate, accept or seek. The Group has set out its risk appetite for each risk on the Corporate Risk Register, including key risk indicators and tolerance levels.

We have a higher appetite for risks that present us with a clear opportunity for reward, for example around acquisitions. We actively seek out those risks that provide the greatest opportunities, whilst balancing with appropriate mitigating actions.

We have a low appetite for risks that only have negative consequences, particularly when they can impact our colleagues, values, or business model. For example health and safety and cyber security. We aim to eliminate these risks, as much as possible, with our mitigation efforts.

The Board regularly reviews their risk appetite for the Group's principal risks, and uses this when considering risk mitigation strategies.

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. 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: sustainability and the impact of climate change on business operations; information security and cyber risk; people risk and issues around retention, recruitment and diversity; and third-party 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, their root causes and key risk indicators, 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 70 to 75. 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 2022:

Competition risk has increased in severity reflecting the increase in competitive pressures across the markets Grafton operates in, particularly the UK RMI market. Pandemic risk has been reduced with businesses demonstrating their ability to adapt.

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;
- Review by senior management and the Audit and Risk Committee of Internal Audit Report findings, recommendations and follow up actions; and
- Second line compliance functions which focus on specific key risk areas including branch operations, health and safety, information security and financial reporting controls. These generally report into business unit management with their processes subject to assurance by Group Internal Audit.

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. The last external effectiveness review was conducted in 2021 by a team from Grant Thornton. 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 have been progressed in 2022 including the selection of an audit and risk system, for implementation in 2023, which will improve efficiency and data analysis capability.

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 2025, 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 66 to 75. 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 2025.

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 2025 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 and a cyber security denial of service attack on the business which might restrict trading and the operation 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 funding 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, and it assumes that the Group's existing surplus cash at 31 December 2022 of £0.45 billion is either invested in acquisitive growth and/or returned to shareholders, but the Group would still remain in a 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 £8.9 million at the end of 2022 (net cash position of £458.2 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		
	Cyber Security and Data Protection		

Reverse stress test scenario

Scenario	Link to principal risks	Level of severity tested	Conclusion
Temporary suspension of trading for four months	Pandemic Risk	Inability to trade for four months during 2024 across all regions without any mitigating income.	Operating loss in 2024, with a cash outflow.
Assumed that Group's surplus cash at 31 December 2022 of £0.45 billion is either invested in acquisitive growth and/or returned to shareholders	Cyber Security and Data Protection		

Group would require a waiver from lenders for the interest cover covenant in that year but would return to meeting all covenants in 2025 and 2026. Note that the Group would remain in a net cash position before lease liabilities and could use surplus cash to repay bank facilities to avoid breach of interest cover covenants.

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 69.

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.

Within this risk we also recognize the impact of geopolitical events on those domestic markets. In 2022 the war in Ukraine depressed consumer spending in Finland particularly in the first half of the year, as well as impacting more generally on resource and product inflation.

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.

The strategic actions taken by the Group in 2021 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 Group's businesses 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 were equally well positioned to respond to an increase in the new house build markets.

Branches 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 of changes in business model which may reduce revenue and 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 anti malware 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 to test these controls. The Group has put in place a Security Incident Management Plan and

each business has their own cyber incident response and backup plans which are regularly rehearsed.

Following a review of the Group's cyber security maturity by third party specialists in 2021, a programme of initiatives was commenced in 2022 to further reduce cyber risk. This has been overseen by the Group's Information Security Steering Committee through the monitoring of quarterly assessments by IT teams which have been verified by Group Internal Audit.

During 2023 a second review of the cyber security maturity will be conducted to confirm the progress made and identify any further steps that need to be taken to improve the Group's ability to both prevent and reduce the impact of any attack occurring.

A Group-wide programme to implement 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. This includes ensuring that all new businesses acquired by the Group meet the same group Data Protection standards. The Group continues to evaluate and invest in new technology to maintain and improve its Data Protection management processes and controls.

Strategic links



Excellence
in service



Strong
financial base



Ethics
and integrity



Organic growth
and acquisitions



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, 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.

The Group continues to 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 includes immediate actions to ensure that newly acquired businesses meet the Group's standards in areas such as cyber security, health and safety, and financial reporting, as well as a wider programme of actions to bring acquisitions in line with the Group's governance framework. 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, completed by management and assured by Group Internal Audit, with 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. Over the past few years the Group's businesses, similar to the rest of the sector, have faced challenges in securing the supply of certain products due to global supply chain issues. Whilst these pressures have eased slightly during 2022, the war in Ukraine has impacted supplies of certain products across the sector as well as driving up product costs.

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 the past few years have been effectively managed by business unit procurement teams working closely with key suppliers.

The Group has implemented technology to improve its third-party risk management and compliance procedures. This has enabled a Group-wide process for screening and obtaining information from key suppliers to be implemented in 2022. This covers a range of ethical, financial and quality areas to confirm compliance with Grafton policies and relevant regulatory standards. The technology and processes will be further extended and embedded in 2023.

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 payment 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 by Group Internal Audit.

Colleagues – retention, recruitment, succession, diversity and wellbeing

Risk movement



Strategic links



Risk description

The Group had over 9,000 colleagues at the year end 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. During the year the Group has been focused on effectively managing CEO succession for the Group and in several 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 recognises the continuing high level of risk regarding colleagues as a result of general price inflation, very tight 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 with action plans implemented in those businesses with high colleague turnover. 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 in all businesses 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.

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 distributors of building materials and retailers of varying sizes and faces competition from existing general and specialist distributors including the national builders' merchanting chains in the UK together with retailers, regional distributors 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. During 2022, the rise in general inflation and reduced consumer demand, particularly in the UK RMI market, has increased these competitive pressures and raised this risk.

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 Isero 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. Businesses also monitor customer satisfaction across their branches using metrics such as Net Promoter Score, and take corrective action when necessary.

The Group has established and continues to develop an online sales capability to respond to changing customer requirements. During 2022 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, and marketing teams have also invested in technology to improve their effectiveness. 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.

Strategic links



Excellence in service



Strong financial base



Ethics and integrity



Organic growth and acquisitions



A supportive organisational structure and management

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 currently has programmes ongoing to replace and upgrade legacy systems in Selco and CPI Mortars. In addition during 2023 it will commence a project to implement a new ERP system for its Netherlands business. 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, including third parties where necessary, 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.

For each significant systems project, regular progress reports are made to the Board. In addition, Group Internal Audit perform an initial review of the programme governance and management, and then continue to provide ongoing assurance through attendance at steering committee meetings. Best practices and any lessons learnt from completed projects are shared around the Group.

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 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.

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. The strategy has been rolled out to each business unit who have developed programmes and activities with targets, aligned with the overall Group goals which are monitored and reported on.

During 2022 Grafton appointed a new Group Head of Sustainability to lead and co-ordinate activity across the Group's businesses. They will also extend the engagement with external stakeholders and further collaborate with third parties, including sector groups and suppliers, on sustainability matters.

In addition, during 2022 Group Internal Audit, supported by third party sustainability specialists, conducted a review of Group's sustainability strategy, including benchmarking against peer organisations. The output of this review and its recommendations will assist the new Group Head of Sustainability with their roadmap to further develop the Group's approach to sustainability.

The Group continues to monitor its exposure to climate change risks and take steps to improve its resilience. In 2022, this involved an exercise to formally assess the risks and opportunities of climate change at individual business units as part of the Task Force on Climate-related Financial Disclosures (TCFD) requirements. In addition, the Group undertook an exercise, with the assistance of specialists from Marsh, to model the potential impact of increasing physical threats from climate change on its portfolio of properties. This exercise identified those properties which were at a higher risk of damage and operational interruption as a result of rising temperatures and increased adverse weather events, typically due to flooding. This has allowed the Group to prioritise actions to improve flood defences and mitigation for those 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 2023.

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 2023. Where instances of attempted fraud occur within the Group, lessons learnt are identified and shared across businesses.

Strategic links



Excellence in service



Strong financial base



Ethics and integrity



Organic growth and acquisitions



A supportive organisational structure and management

Pandemic risk

Risk movement



Strategic links



Risk description

The Group is exposed to the impact of Covid-19 or similar viruses in the countries where it operates and also in countries where some of its suppliers are based. It recognises that the risk in this area has reduced during the year as cases of Covid-19 have continued to fall, but has maintained the risk on its register as the virus remains prevalent in certain countries across the world.

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 pandemics 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 three 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. 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.

Building a more sustainable future

Sustainability has remained a central part of the Group Board agenda as well as a key topic of conversation with the Senior Leadership Team.

2022 saw the easing of Covid restrictions across our Group markets and the conflict in Ukraine. The resulting energy crisis, high inflation levels and cost of living crisis are likely to continue to dominate 2023.

Grafton has managed to navigate these changes and challenges because of our strong balance sheet, diverse business portfolio and careful approach to risk management. Against this backdrop we are proud of the commitment that all of our businesses have shown to sustainability and the progress made against the strategy we set out in 2021.

The Group was pleased to announce the recruitment of our new Head of Sustainability who joined in September and will work with all business units to drive progress against our sustainability strategy.

EY have carried out a review of our sustainability strategy and completed a limited assurance engagement on three key targets: carbon, gender diversity and community.

Our assessment of climate change risks has also been an important piece of work that has involved all of our business units.

Whilst rising energy costs are proving a challenge, we will continue to invest in renewable energy generation, building on the work already carried out across a number of our locations.

We also want to work in partnership with our suppliers to support the changes the industry needs to make.

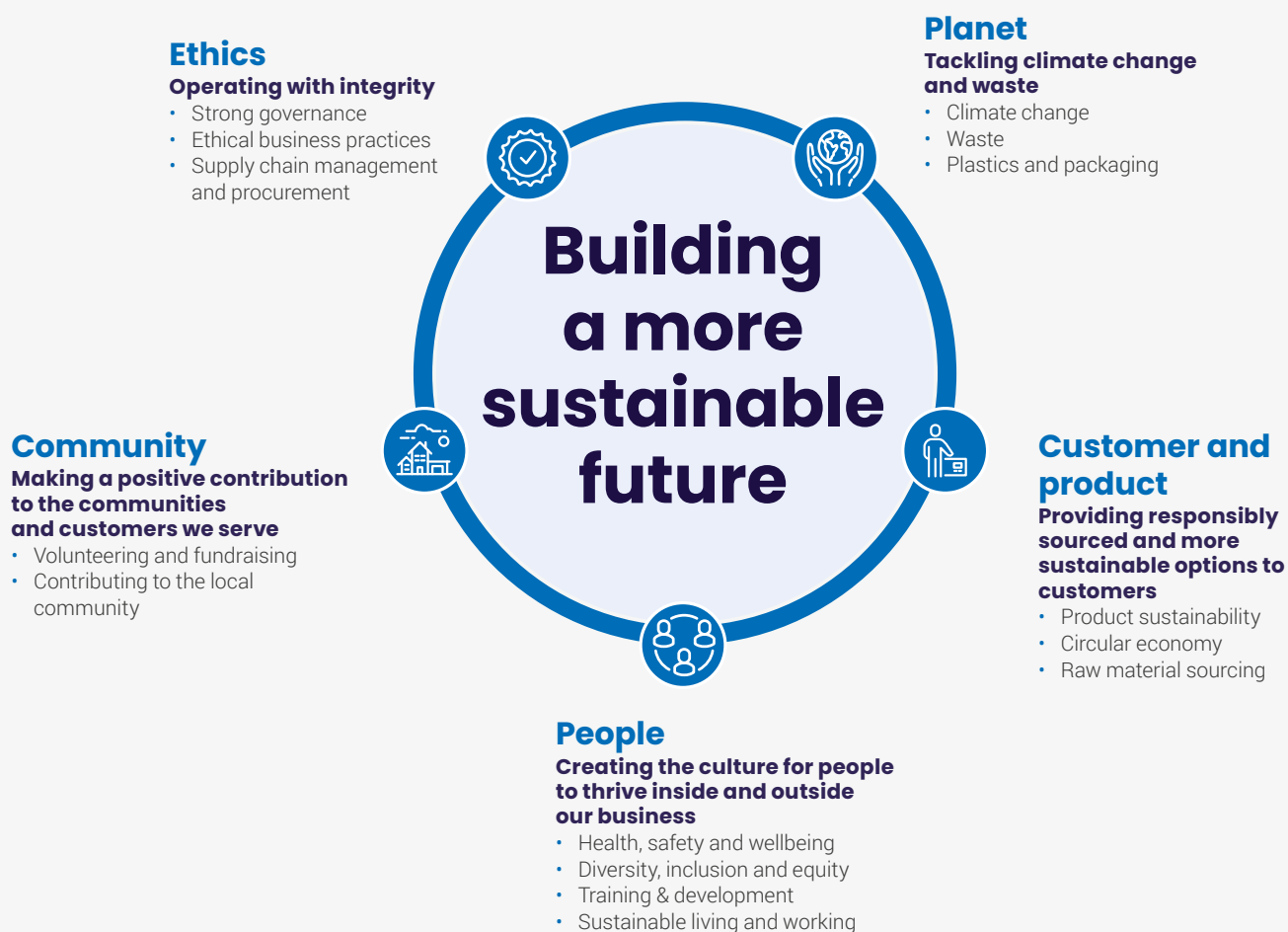
An important priority for the coming year is to complete our Scope 3 baseline and look to set our targets across our value chain which will require us to strengthen our Scope 1 and 2 targets as well as set our Scope 3 targets. In addition to developing our transition plan for achieving those targets, we will also be focusing on improving our data collection and working with our key suppliers to identify collaboration opportunities. In addition to this we will continue our focus on energy management and alternative fuelled vehicle trials.

We have published a standalone sustainability report for 2022 which is available on our website [graftonplc.com](https://www.graftonplc.com) and provides further detail on activity during the year and progress against our sustainability goals.

Our strategy

Our sustainability strategy is based around five priority areas and it addresses the material Environmental, Social and Governance (ESG) issues that are relevant to our business.

Below is a summary of our strategy:



Our strategy aligns with the 8 Sustainable Development Goals that we can have the biggest impact on:



2022 highlights



Community investment

Over £1 million invested in communities including over £250,000 donated to the Red Cross to support the Ukraine Appeal.



Customer engagement on sustainability

Chadwicks have ECO Centres in twelve branches, training colleagues to help customers understand how they can save energy in the home.



Carbon

11 per cent reduction in Scope 1 and 2 CO₂e per £ million of revenue and 3 per cent absolute reduction in CO₂e vs 2021.



Circular business opportunities

Rental, refurbishment and recycling offers available in Chadwicks, Isero, TG Lynes, and IKH.



People Awards

Woodie's recognised as a Great Place to Work and a Best workplace for Women. Selco was 17th in the Best Big Companies awards.



Renewable Energy

Over 660 MWh generated from solar PV on our branches, distribution centres and other premises.



Health and Safety

The Group Lost Time Injury Frequency Rate reduced by 8 per cent from the 2021 levels and the corresponding Group Lost Time Injury Severity Rate reduced by 21 per cent against the same time period.



Forests

Selco and CPI Mortars have invested in forests that will capture around 34,000 tonnes* of carbon over their lifetime.



Energy Management

80 branches in UK and Ireland have remote energy management systems to control gas usage, seven also remotely manage electricity usage.



Climate Change Risk

Physical climate change risk assessments carried out across our property portfolio in partnership with Marsh.

* Includes 5 forests from 2021, 2022 and January 2023.



Planet

Tackling climate change and managing waste

Alignment with SDGs



Why it's important

The climate crisis is one of the most important issues facing society and we are already seeing the impacts of rising carbon emissions around the world, from flooding events, to more regular and severe wildfires, to rising sea levels.

It is estimated that buildings account for 40 per cent of the energy usage across the EU and the construction sector accounts for over 10 per cent of global carbon emissions. As a result, all players in this sector have a responsibility to take action to reduce emissions.

Our goals

2%

Reduction in carbon emissions

Annual 2 per cent reduction per £million revenue using 2021 as the baseline year

2024

Scope 3 emissions

Calculate Scope 3 emissions and set Science Based Targets across our value chain

2025

Reduction in operational waste

15% reduction in total operational waste tonnage per £million of revenue using 2021 as the baseline year

Our progress

Climate change and energy management

In 2022 we implemented a more robust carbon data reporting and management system for our Scope 1 and 2 carbon emissions. Absolute emissions reduced by three per cent from 2021 on a like for like basis. We also achieved an 11 per cent reduction in Scope 1 and 2 CO₂e relative to revenue vs 2021 and we engaged EY to carry out external assurance on this target. The assurance statement can be found in our 2022 Sustainability Report on the Group website.

Emissions per £m revenue (tonnes CO₂e)



Scope 1 GHG emissions (tonnes CO₂e)



Total GHG emissions (tonnes CO₂e)



Scope 2 GHG emissions (tonnes CO₂e)



Waste, plastic and packaging

Across the Group we have achieved a 9 per cent reduction in the total waste tonnage and a 17 per cent reduction relative to revenue. We work with waste management companies to monitor our waste, manage it responsibly and look for opportunities to reduce our waste. Our teams have been looking for opportunities to replace plastic wrap that we use to distribute products with recycled alternatives as well as looking to remove it altogether where possible and safe to do so.

Total recycling rate



Waste diversion from landfill



Total recovery rate



Total waste £m revenue (tonnes)



* 2021 data points have been recalculated following the availability of more accurate data for the year.



Biodiversity

Biodiversity is an important and complex issue. As a Group we can impact biodiversity in our own operations, through our supply chains and in the use of our products.

We have various initiatives in place across the Group that are designed to address biodiversity as well as other environmental issues. Our timber sourcing programme is promoting responsibly sourced timber including FSC and PEFC as well as a commitment to work with our aggregate suppliers to ensure that 100 per cent of extraction sites are returned to sustainable use.

StairBox has been working with local schools to recycle waste timber from their operations into bug hotels to promote biodiversity at a local level, and these spaces have also been introduced in a number of Chadwicks' new or refurbished stores.

Our strategy in action

Solar

We are investing in solar power to secure supply of renewable energy across our branches. Our Chadwicks business has installed panels on 12 of its branches. Selco Barking has completed a renovation project including the installation of 220 solar PV panels.

TG Lynes are utilising almost 70 per cent of the total PV supply. Isero use heatpumps in combination with solar panels and have adapted and added five buildings in this way in 2022.

Alternative Fuelled Vehicles

In 2022 Selco trialled an electric commercial dropside van for the first time at its delivery hub in Birmingham. In addition 28 electrically powered counterbalance forklift trucks were added to Selco's fleet replacing diesel models. StairBox has three electric forklifts in operation. CPI has also invested in a lithium electric forklift.



For more information please see our Sustainability Report

Energy Management

Woodie's have been working with an external energy management adviser since 2020 to better manage energy in its stores. Sub-metering, LED upgrades and remote heating controls combined with live energy usage alerts and regular reports have helped each store focus on the most impactful areas of usage. This system has helped Woodie's Limerick use 33 per cent less electricity when compared to two years ago. During 2022 Selco also completed the roll-out of remote heating controls to all locations to ensure gas usage is monitored and managed effectively.





Customer and product

Providing responsibly sourced and more sustainable options to our customers

Why it's important

As distribution and retail is such a big part of our business, we know that our biggest area of impact is through the supply chains and manufacture of the products that we sell.

We sell to sole traders, small companies, large construction companies and house builders, the public and private sector and to retail customers and DIY enthusiasts. In the current economic climate, value for money is incredibly important but this should not come at the expense of quality, responsible sourcing credentials and traceability.

Alignment with SDGs



Our goals

Product sustainability and circular economy

2025

Pilot circular business opportunities

2030

Promote products with sustainability attributes to customers

Raw material traceability

2025

- Establish a Group natural resources policy
- 100 per cent of building timber products (by value) are responsibly sourced as outlined in the Group Timber Sourcing Policy*
- Working with our suppliers to CPI Mortars to ensure that 100 per cent of extraction sites are restored

* The Grafton Group Timber Policy defines responsible sourcing as products that are FSC or PEFC certified. Building Timber products include but are not limited to our major product categories including: Rough Timber, Planed Timber, Sheet Materials, Decking, Worktops, Mouldings, Cut Boards, Panel Boards, Cladding, Doors, Flooring

Our progress

Product sustainability and circular economy

We have developed a draft structure to identify products across our different business units that have sustainability attributes. These attributes include responsibly sourced raw materials, low impact manufacture, reduction in fossil fuel consumption in use and more.

However, we plan to carry out further consultation internally and externally to determine how to apply these to our portfolio to ensure that we have a robust due diligence process and are confident that we are clear on the scopes and thresholds to apply. Our Scope 3 carbon emissions analysis involves a detailed assessment of the products we offer and this will help us to focus our activity on those categories that are most material to the business.

Our mortar manufacturing business, CPI Mortars, has carried out and published an Environmental Product Declaration (EPD) assessing the environmental impact of mortars produced which is published on its website.

In addition, in 2022 we carried out a review of circular business opportunities across the Group. We hope to analyse this area in more detail and understand if they can be scaled up, replicated across other Group businesses or whether the learnings can be applied to new customer offerings.



Sustainability continued

Raw material traceability

Gaining greater traceability of our priority raw materials is an important focus for our businesses.

CPI Mortars has strong traceability of the sand, cement and additives used to make its mortars. It has long-standing relationships with its UK-based suppliers and works closely with them to ensure the extraction sites have restoration plans in place.

Timber is an important raw material for a number of our businesses. It is a key product category for Selco, MacBlair and Chadwicks and is the essential raw material for StairBox. The Group Timber Sourcing Policy outlines the legal requirements, responsible sourcing guidelines and due diligence guidelines for all our businesses.

Through our supplier due diligence and risk management system businesses can track the FSC and PEFC accreditations of the large timber suppliers they use, and they build on this with due diligence and chain of custody programmes to trace the timber from forest

to sale. The StairBox system incorporates QR codes to trace timber through the steps of production.

Selco has an extensive chain of custody programme in place for FSC and PEFC across their branches which requires an annual auditing programme. It is also a member of Timber Development UK through which it reports annual progress against the UK Timber Regulations.

Chadwicks also have FSC and PEFC programmes in place for its native rough timber and OSB sheets.

Our strategy in action

- Isero have introduced a recycling programme with partner Gaia Circular, whereby workwear and PPE are collected and made into new products or recycled. The sorting process also provides social employment for disadvantaged people in local areas.
- Chadwicks has developed dedicated 'ECO Centres' in twelve of its branches. These help colleagues to demonstrate to customers how they can make their homes more energy efficient. The team has collated a range of products that Chadwicks sell showcasing insulation, windows, membranes and tapes to prevent drafts, energy efficient heating and cooling solutions.
- Chadwicks, TG Lynes and IKH offer rental and hire services for a range of products across their portfolio including plant equipment, power tools and tractor parts.
- To help customers reduce energy consumption, MacBlair published energy saving advice in partnership with the Energy Savings Trust as part of its autumn/winter promotional campaign.



For more information please see our Sustainability Report



People

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

Alignment with SDGs



Why it's important

Our People are central to our success as a business, they ensure we can get the right products and services to our customers at the right price, at the right time and with the right level of support. We want to attract, nurture, and keep great people and that is why the people pillar of our sustainability strategy is so important.

We are committed to offering a place of work where our people feel safe, and their wellbeing is looked after. We work hard to embed a culture that fosters diversity and inclusivity so our people can be themselves at work. We offer training and help our people to grow and develop with us and we support our people through a strong benefits package and help them to live more sustainable lives at work and at home.

Our goals

Diversity, inclusion and equity



- Year on year increase in number of females in our business



- Top 100 in the FTSE 250 for Board Diversity

Training and development



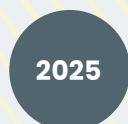
- Reporting on hours of training and development across our businesses

Sustainable living and working



- 100 per cent of colleagues receive at least 1 per cent above the minimum wage

Health and safety



- 25 per cent reduction in total working days lost as a result of an injury at work versus a 2018 baseline

Our progress

Health, safety and wellbeing

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

This belief is central to how we lead and integrate health, safety and wellbeing practices and initiatives 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 at work by challenging anything they feel is contrary to our over-arching belief and raising any concerns. This is achieved through a combination of day-to-day management, focus groups, team meetings, committee meetings and through the Group Risk Committee.

We deeply regret having to report that one of our colleagues was involved in a fatal road traffic accident earlier in 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 continue to use in-vehicle telemetry to monitor driving behaviours and implement targeted driver training programmes. Alongside existing vehicle active safety systems, we are also investigating the use of Artificial Intelligence to both assist drivers and to improve reporting on safe driving behaviours.

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. Each business is subject to regular health and safety audits including branch compliance checks by internal teams in the businesses and reviews by Group Internal Audit.

2022 was a year of consolidation with each business focusing on its strategy for safety, health and wellbeing improvement after the global disruption caused by the Covid pandemic. The activity in each business varied across the distribution, retailing and manufacturing sectors. The key priorities in all businesses were centred around keeping pedestrians safe from moving vehicles, the safe handling and storage of products and ensuring safe customer deliveries.

All Group businesses have a wellness programme in place with initiatives running throughout the year to support colleagues to be healthier and more content both at work and at home. All Group colleagues have access to a confidential professional advice service to provide assistance with any personal issues or 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 post Covid-19 and the changing ways colleagues live and work, flexible working policies and practices have been implemented where appropriate to business needs.

The Group Lost Time Injury Frequency Rate reduced by 8 per cent from the 2021 level and the corresponding Group Lost Time Severity Rate reduced by 21 per cent.

Group lost time – injury frequency rate

Year	Lost time injuries per 100,000 hours worked	% Change
2022	0.90	reduced by 8%
2021	0.98	increased by 2%
2020	0.96	

Group lost days – severity rate

Year	Days Lost per 2,000 hours worked	% Change
2022	0.19	reduced by 21%
2021	0.24	reduced by 25%
2020	0.32	

Our strategy in action

- Selco accelerated the roll out of its Safer Handling programme specifically tailored to providing hands-on training in branches and the dynamic assessment of all product handling operations.
- Chadwicks continued its focus on vehicle movements in branches with safety observations of forklift truck movements contributing to a significant reduction in the number of incidents. Recording the observations and any resulting actions on the Notify Safety Management System helped to focus attention and track all improvements.
- Woodie's introduced pallet cages into its central distribution warehouse to improve load security, reduce handling and slip/trip injuries and to also significantly reduce the use of plastic packaging materials.



For more information please see our Sustainability Report on the Group's website www.graftonplc.com.



Diversity, inclusion and equity

Diversity groups, challenges of recruitment, employer brand

We believe that having a diverse workforce brings not only diversity of thought, but it also drives innovation. Ensuring that Grafton is a truly diverse and inclusive business is a top priority for the leadership. In recent years we have developed a Diversity & Inclusion ('D&I') agenda that promotes diversity in the broadest sense.

Inclusion Networks have been established in the UK and Ireland to provide opportunities for colleagues to participate in our Diversity and Inclusion agenda.

The Group has made significant progress on how it monitors and reports diversity information. We are pleased to report that 90 per cent of our colleagues in the UK and Ireland have completed the voluntary diversity information questionnaire and 77 per cent have answered all the questions.

Our Diversity agenda is built around representing four key areas:

ABLE
disability and mental wellbeing

PRIDE
gender and sexual orientation

BALANCE
gender equality and working families

REACH
ethnicity

Unfortunately the percentage of our female colleagues dropped slightly since 2021 from 30 per cent to 29 per cent. This is primarily because the tight labour markets across all our geographies made it increasingly challenging to select from a wider pool of diverse talent when recruiting new colleagues.

In 2023, our businesses will be working with colleagues to encourage allyship to support others in under-represented groups. We will build on the good work carried out in 2022 in achieving recognition as a diverse employer and a great place to work. We also plan to review our careers websites to encourage more diverse candidates and support more robust applicant tracking.



Group businesses held a range of initiatives in support of Pride in June 2022. Colleagues were joined by guest speaker Mohsin Zaidi, the award-winning author, commentator and lawyer and advocate for LGBTQI+ rights, BAME representation and social mobility for a very interesting online session.

Woodie's is the first retailer and one of only eight organisations in Ireland to be accredited as a Gold Investor in Diversity by the Irish Centre for Diversity in recognition of its embedding of Equality, Diversity and Inclusion across the organisation. The business has recently achieved gender balance and is now also reflective of national demographics on in Ireland ethnicity, age and LGBTQI+ status. The results have also been reflected in the Great Place to Work survey with colleague ratings on D&I performance growing from 74 per cent in 2014 to 93 per cent in 2022.

Gender pay

Monitoring pay rates 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 genders and we work hard to support career development and progression for female colleagues.

In 2022 Woodie's and Chadwicks reported their gender pay statistics and published them on their websites. This is in addition to the established reporting at Selco and Leyland SDM. The Group also reports gender diversity data under the FTSE Women Leaders Review.

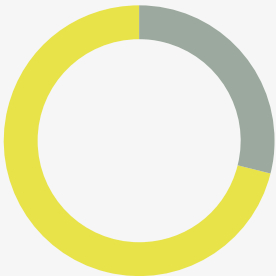
Recruitment

As part of our Diversity and Inclusion strategy, businesses across the Group have been reviewing their recruitment processes and refreshing their employer brands.

Manager refresher training on inclusive recruitment has been a particular focus as well as auditing our recruitment processes and adverts for gender bias.

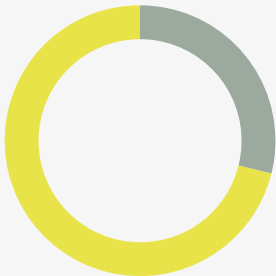
Diversity data

Gender breakdown: Group



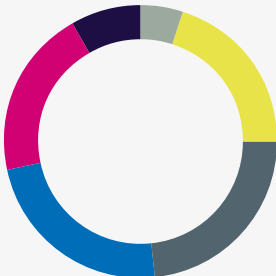
Female 29%
Male 71%

Gender breakdown: Senior Management



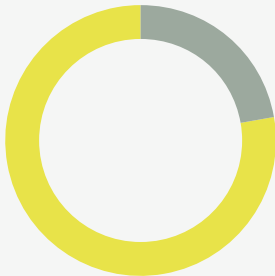
Female 23%
Male 77%

Age Breakdown



Under 21 5%
21-30 20%
31-40 24%
41-50 23%
51-60 20%
Over 60 8%

Work Patterns



Part time 22%
Full time 78%



Community

Making a positive contribution to the communities and customers we serve

Alignment with SDGs



Why it's important

Our colleagues care deeply about supporting community programmes in the communities where we operate, through volunteering, fundraising and donating. We are very proud of the impact that we have had throughout 2022. This ongoing support will be important as many people face continuing cost of living increases in 2023.

Our goals

2025

Community investment and fundraising will be equivalent to at least one per cent of profit.

Our progress

Our businesses contribute to their local communities which is an important part of the way they do business. Over the past year we have worked to formalise the data capture and reporting of these programmes. Our contribution to communities can be broken down into:

Volunteering

In 2022 our colleagues have carried out individual volunteering programmes as well as team volunteering days.

Monetary donations

Our businesses donate to local and national charitable organisations and good causes and engage their colleagues and customers in selecting the organisations that mean the most to them.

Donations of materials and goods

Our businesses also support good causes through the donation of materials including paint for renovation projects or pay for services such as marketing and advertising. These programmes are managed at local branch level and they have a really positive impact.

Colleague and customer fundraising

Our colleagues and customers love to get involved in fundraising. Across our group of businesses our colleagues have cycled, climbed, baked and run raffles all in the name of good causes.

Our businesses support their local communities in a variety of ways:

- The Woodie's Heroes flagship programme which has been running for eight years, raised over £400,000 in 2022 through customer and colleague fundraising.
- Chadwicks provided support to the third TV series of DIY SOS: The Big Build Ireland. As the sole building materials supplier to the show, Chadwicks helped facilitate the refurbishment of eight properties, donating the equivalent of £200,000 in products and thousands of volunteer hours.
- In March 2022 the Group made a donation of £250,000 to support the response of the Red Cross movement to the Ukraine crisis. Donations were made to the national societies across all the countries that the Group operates in to help provide food, water, medicine, warm clothing, and shelter to those whose lives have been torn apart by the conflict.
- Leyland SDM supported the Happy Feet public art project with the Portobello Market event. More than 500 people put their best foot forward to create a giant 20-metre piece of public art in London.



For more information please see our Sustainability Report on the Group's website www.graftonplc.com.



Ethics

Operating with integrity

Alignment with SDGs

5
GENDER
EQUALITY

9
INDUSTRIAL
INNOVATION
AND INFRASTRUCTURE

10
REDUCED
INEQUALITIES

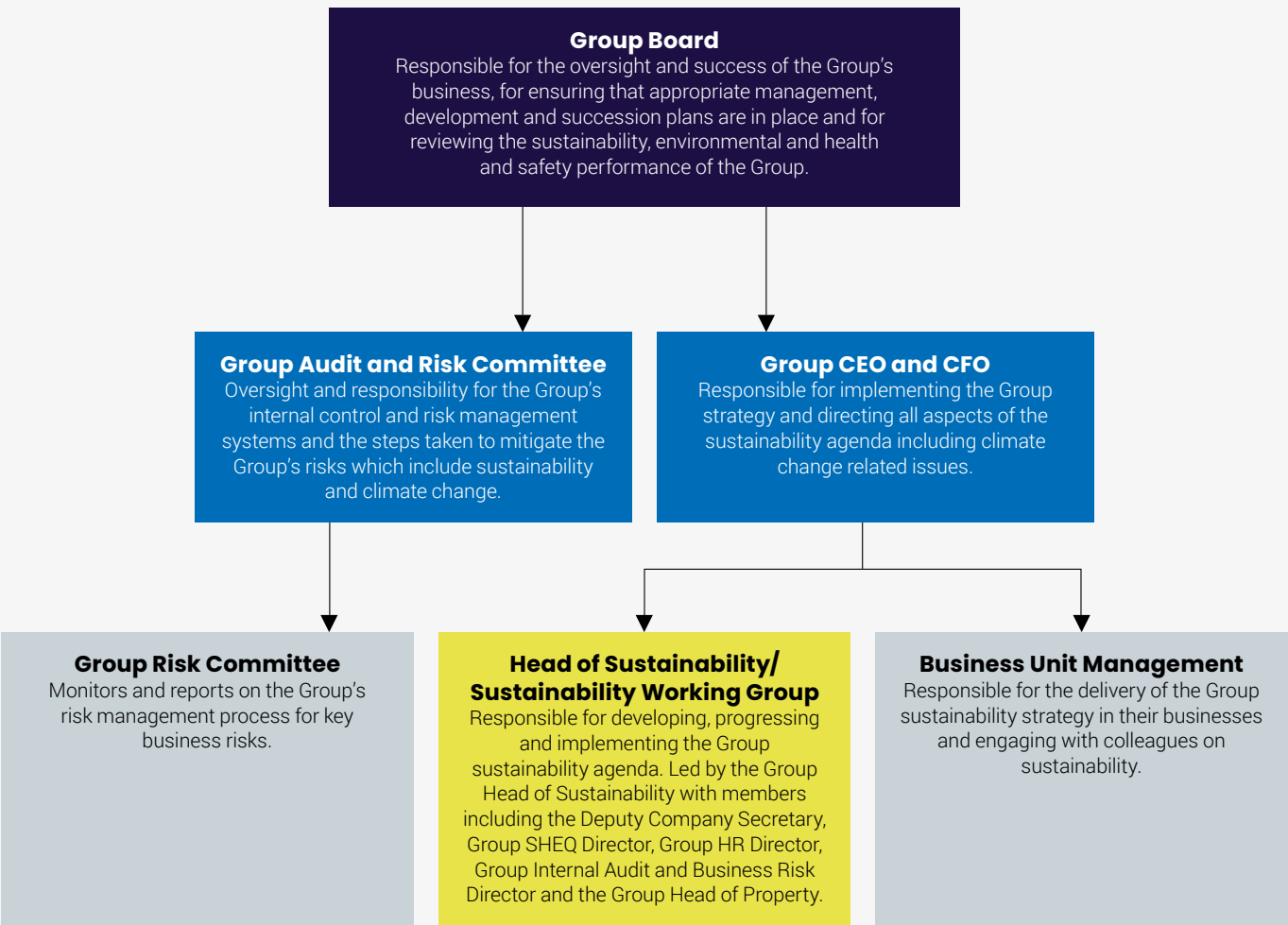
12
RESPONSIBLE
CONSUMPTION
AND PRODUCTION

13
CLIMATE
ACTION

Why it's important

To deliver our business and sustainability goals we need to underpin our strategy with robust governance processes, strong policies and procedures, effective training and awareness, responsible sourcing and responsive risk management.

Strong governance



Ethical business practices

The Group has a Code of Business Conduct and Ethics which reflects our responsibility to uphold high standards of ethics and integrity. 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 is also available to colleagues in each business in the local language.

We continued our focus on policy awareness with the commitment to review and update policy documents at least every two years. We have also developed a number of short awareness videos which accompany the policies and help colleagues understanding of the key requirements.

SpeakUp

Colleagues are encouraged to report any concerns they have to their line manager including anything of a business ethical nature. In addition, the Group has an established whistleblowing process (SpeakUp) which allows colleagues to report concerns confidentially to an independent party with safeguards in place to ensure cases are investigated fully and prevent retaliation to reporters.

Risk management

The Group has an established risk management process, which is closely aligned with its overall strategic development, to ensure effective and timely identification, reporting and management of risk events that could materially impact the achievement of strategic objectives and financial targets.

Read more on risk management on pages 66 to 75

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.

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.

Supply chain management and procurement

In 2022 we rolled out our supply chain management system in partnership with an expert risk management company, sending out questionnaires to all our large suppliers requesting due diligence information covering countries of operation, manufacture,

sustainability policies, procedures and standards. An important piece of work carried out in 2022 has been the mapping of the goods for resale supply chains. The assessment of large suppliers is a key part of the due diligence process. This data is based on reported supplier locations and manufacturing locations.

Human rights and modern slavery

We are committed to conducting our activities in a way that values and respects human rights. Our supply chain management procurement process, described above, is an important part of our human rights and modern slavery programme to promote strong labour standards through our value chain. The Group's Modern Slavery Statement is available on our 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 our businesses or supply chains.



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 climate risks and opportunities since 2014, measuring and tracking. In recent years, implementing reductions across Scope 1 and 2 GHG emissions (CO₂e) has been the main focus. As a next step we have committed to setting Science Based Targets across Scope 1-3 by the end of 2024, this will include setting out our transition plan to achieve those targets.

The Group is evolving its climate change and risk management approaches to align with the recommendations of the 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 was a specific Group Sustainability and Climate Change Risk Register. During 2022 this Group level assessment has been further enhanced by completing focused assessments across all business units, so that each business now has its own Climate Change Risk and Opportunity Register with specific mitigation actions.

During 2022 we completed an exercise to model the potential impact of physical climate

change risks to properties across the Group. Further details are provided below. This did not result in any adjustment to property fair values.

Grafton disclosure against the recommendations of the TCFD progress.

In line with Listing Rule 9.8.6, the table below summarises the consistency of disclosures made last year and in the current year within the TCFD framework and how we will build on these next year:

Recommendations and supporting recommended disclosures	2021	2022	2023
Governance – 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.	✓	✓	✓
Strategy – 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.		P	✓
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.		P	✓
Risk management – Disclose how the organisation identifies, assesses, and manages climate-related risks.			
a) Describe the organisation's processes for identifying and assessing climate-related risks.	P	✓	✓
b) Describe the organisation's processes for managing climate-related risks.	P	✓	✓
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	✓	✓	✓
Metrics and targets – 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.		P	✓
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. *	P	P	P
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. *	P	P	✓

Key:

✓ = Fully complied with TCFD requirements

P = Partial compliance with TCFD requirement (aiming for full compliance in 2023/ future years)

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

We have also considered the TCFD supplementary guidance for the Materials and Buildings sector and the relevance of that to Grafton Group businesses. In line with that we have performed work to assess the risks related to the increasing frequency of and severity of acute weather events (details below). To further comply with this guidance we will be taking steps to quantify the opportunities for products that improve energy efficiency and reduce waste, and to develop the range of relevant metrics we report.

Governance

The governance of climate-related risks and opportunities is integrated into our overall risk management structures, with the Board having ultimate accountability for managing sustainability and climate change risk and response within the Group, as set on page 88. Whilst the Group uses the same overall governance processes to manage climate change risk as it does for financial management, the procedures, controls and reporting for climate and sustainability are still developing and are not currently at the same detailed level or frequency as financial reporting processes.

The Board, including executive management, monitors progress on climate-related goals through discussion and reports presented at Board meetings. At its meeting in June 2022 the Board held an in-depth session on sustainability and climate change and received an update on the progress of actions to meet the targets set in 2021. In the previous year, the Board received training on climate change including 'net-zero', science-based targets and Scope 3 emissions. An update on the progress of sustainability and climate change related activities is also included periodically in Board reports. The Board meeting in January 2023 included a further detailed discussion and update on sustainability and climate changes actions from the Group Head of Sustainability.

The Audit and Risk Committee (ARC), a sub-committee of the Board, is responsible for overseeing and monitoring the Group's risk management systems and the steps taken to mitigate key risks, including sustainability and climate change. At each of the four ARC meetings held every year the members receive an update of significant changes in the risk profile and progress in risk mitigation activities. In addition, the ARC meeting held every January is dedicated to risk management and includes a deep dive review of individual risks.

Climate risks and opportunities are assessed and reviewed by our Group Risk Committee (GRC). The committee is chaired by the CFO with representatives from all relevant Group functions, including the Group Head of Sustainability, and significant businesses. It 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 is led by the Group's new Head of Sustainability, who joined Grafton in September 2022, and includes functional heads with expertise in property, people, environment and ethics. The Working Group is responsible for developing the Group sustainability strategy, including targets and actions, to respond to the identified climate risks and opportunities and align with the relevant UN SDGs.

The Group Sustainability Strategy and climate programme is being implemented by individual business units. The CEOs of those businesses are responsible for implementing and managing their sustainability and climate change programmes which are consistent with the Group's overall strategy. Each business has formed its own sustainability committee or working group to monitor and manage its sustainability actions. The Working Group and the Group Head of Sustainability (since her appointment) had regular meetings to discuss progress and share good practice with the business teams. In addition, a number of cross-business network forums have been established which discuss specific sustainability topics including property, people and transport.

The Group has implemented an online tool which enables businesses to record and monitor their progress against the targets and actions set through the Group sustainability strategy. This tool will record Scope 1 and Scope 2 emissions.

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 strategy within two years of the date of acquisition. The Group's capital expenditure approval process includes a requirement for the climate change and sustainability impact of investments to be documented, and forms part of the investment decision. Annual budget presentations, made by the leadership teams of each business include a section requiring the business

management to set out the progress they've made against their sustainability targets and objectives, and plans for the coming year.

Strategy





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

1. Rapid de-carbonisation – Government led move to a low carbon economy in the next 10 years with global temperature rises limited to at or below 1.5°C (Representative Concentration Pathway) (RCP 1.9-2.6)
2. Moderate de-carbonisation – Business led/ Government supported transition to a lower carbon economy over next 5-15 years. Global temperature rises limited to around 2°C (RCP 3.4-4.5)
3. Limited climate action – Little or no concerted effort to reduce carbon emissions resulting in global temperature rises in excess of 4°C (RCP 6-8.5)

The scenarios stated above are 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. These time horizons have been set having taken into account the Group's typical planning approach (annual budget and five year plan), and non current assets (majority of properties are on a short leasehold (i.e. < 15 years). The assessment which was carried out at Group level in 2021 and for individual businesses in 2022, involves senior management representing relevant functions and operational areas. Having identified and scored risks, using a defined set of criteria, the assessments also identify the actions that need to be taken to mitigate the climate risks and take advantage of opportunities.

Based on these scenarios the most material risks and opportunities to the Group as set out in the Group Sustainability and Climate Change Risk Register are set out in the tables on the following pages, together with the principal current actions to address each risk/opportunity and target measures. Many of the risks and opportunities are linked and therefore have the same or similar actions and measures. The risks and opportunities apply across Grafton's geographies and sectors.

Risks	Climate change scenario	Timeframe	Current controls and mitigating actions	Target Actions and Measures
<p>The potential impact of rising energy on our business operations and supply chain</p> <p>Strategic links</p> 	1 & 2	Short term	<p>Energy efficiency is a priority for all businesses. A number of business units have introduced energy management systems</p> <p>The impact on sustainability of capex proposals is part of the assessment process</p> <p>Examples of energy efficiency investments include LED across the Group's property network</p> <p>Energy suppliers moved to 100 per cent renewable where possible</p> <p>Sites being moved to renewable energy sources (Solar panels, heat pumps), and incorporating these into new build properties where possible</p>	<p>Target to reduce Scope 1&2 Emissions (intensity ratio) by 2 per cent per annum</p> <p>Commitment to set Science Based Targets for Scope 1, 2 and 3 by 2024</p> <p>Active management of energy use with the support of more refined energy management systems</p> <p>Tracking (from 2023) electricity generation of solar installations and the percentage of electricity consumption at branch level.</p>
<p>Increased stakeholder concern due to lack of action on climate change leads to a reduction in capital availability, loss of customers and impacts recruitment and retention of colleagues</p> <p>Strategic links</p> 	1 & 2	Short term	<p>Group Sustainability Strategy established and rolled out to businesses</p> <p>Group Head of Sustainability hired in 2022</p> <p>BUs have established their sustainability teams & programmes</p> <p>Communication of progress and sustainability achievement to colleagues</p> <p>Annual Sustainability Report</p> <p>Annual CDP submission (rated C in 2022)</p>	<p>Engagement with stakeholders around climate change.</p> <p>Clearly communicate progress and strategy.</p> <p>Climate Change Targets form part of Group banking arrangements</p> <p>Element of Executive Director performance bonuses linked to reducing Scope 1 and 2 carbon emissions.</p>
<p>Changes in legislation or regulation resulting in higher operating and compliance costs, e.g., limits in emissions</p> <p>Strategic links</p> 	1 & 2	Medium-Long term	<p>Moving sites to renewable energy sources (Solar panels, heat pumps), and incorporating into new build properties where possible</p> <p>Charging points installed at Group properties</p> <p>Electric cars on the company car lists</p> <p>Trial and expand use of alternative fuelled delivery vehicles and forklift trucks (electric, CNG, HVO)</p> <p>The impact of proposed investments and capex on sustainability forms part of the due diligence and assessment criteria</p>	<p>Target to reduce Scope 1&2 Emissions (intensity ratio) by 2 per cent per annum</p> <p>Commitment to set Science Based Targets for Scope 1, 2 and 3 by 2024</p> <p>Introducing EV chargers into new sites, promoting alternative fuelled cars and testing alternative goods vehicles.</p> <p>Reduction in operational waste by 15% (2025 v 2021)</p> <p>25 per cent reduction in packaging film for deliveries and storage (2025 vs 2021)</p>
<p>Impact of increasing severity and frequency of adverse weather events including flood damage and heat waves on Group properties and operations result in loss of revenue due to closure, higher repair and maintenance costs</p> <p>Strategic links</p> 	2 & 3	Short-Long term	<p>Properties are geographically dispersed</p> <p>Mitigation actions to minimise impact of flooding at high/very high-risk properties prioritised based on climate threat modelling</p> <p>Drainage maintenance programme in place for all businesses</p> <p>Insurance in place to cover immediate repair and loss of business costs for all properties</p> <p>Climate Change risks considered as part of acquisition due diligence</p> <p>Monitoring legislation and implementing data collection requirements</p>	<p>Completion of flood mitigation actions for at-risk properties, including flood emergency response plans</p> <p>All businesses to establish hot weather working protocols</p> <p>Monitoring of temperatures in branches with improvements to ventilation and air conditioning where necessary</p>
<p>Climate change and increasing severity and frequency of adverse weather impacts our supply chain and the availability of products</p> <p>Strategic links</p> 	2 & 3	Medium-Long term	<p>Experience of managing product shortages and allocations</p> <p>Monitor market and increase stock holding / bulk buying where there are concerns about products</p> <p>Sole suppliers in key categories have been identified with alternatives / contingency plans</p>	<p>Ongoing review of suppliers and products.</p> <p>Identification of countries / suppliers which are most likely to be affected by climate change</p>
<p>Changes in legislation or regulation impacting our existing product range. This may result in reduced demand, lower revenue and profit</p> <p>Strategic links</p> 	1 & 2	Medium-Long term	<p>Regular meetings with suppliers to understand product changes</p> <p>The Group and businesses keep themselves informed about changes in legislation and regulation. Lead time on legislative changes mean that phasing out old product and introduction of new product can be carefully managed</p> <p>Vendor Managed Inventory and unsold stock return arrangements with suppliers reduces exposure to risk</p> <p>Active management of cost prices, monitoring any changes and anticipating increases and decreases</p> <p>Group focus on providing customers with more choice and selling more sustainable products</p>	<p>Provide customers with more choice and sell more products with sustainability attributes and clearly communicate benefits in a balanced way</p> <p>Ongoing communication and co-ordination with suppliers, customers and standard-setters regarding product development</p>

Opportunities	Climate change scenario	Timeframe	Current projects and actions	Target actions and measures
<p>The growing market for energy-efficient, sustainable products and services in a low carbon economy</p> <p>Strategic links</p> 	1 & 2	Short-Medium term	<p>Monitoring of new products and new building regulations</p> <p>Engagement with customers to understand needs and wants</p> <p>ECO Centres established in branches (Chadwicks), with training given to colleagues</p> <p>Regular meetings with suppliers to understand product changes and developments</p> <p>Environmental Product Declarations (EPDs) completed by the CPI Mortars business</p>	<p>To develop a clear understanding of the sustainability criteria of the products we sell and increase awareness of and volume of products that have a 'more sustainable' criteria</p> <p>We have commenced a process to assess circular economy opportunities across our business units</p>
<p>Improvements to our operations and buildings with more efficient energy use and through reduction, reuse and recycling of consumables</p> <p>Strategic links</p> 	1 & 2	Short-Medium term	<p>Energy efficiency a priority for all businesses. A number of business units have introduced energy management systems</p> <p>The impact on sustainability forms part of the assessment criteria for capex proposals</p> <p>Examples of energy efficiency investments include upgraded lighting to LED across property network</p> <p>Energy suppliers moved to 100 per cent renewable where possible</p> <p>Moving sites to renewable energy sources (solar panels, heat pumps), and incorporating into new build properties where possible</p>	<p>Target to reduce Scope 1&2 Emissions (intensity ratio) by 2 per cent per annum</p> <p>Commitment to set Science Based Targets for Scope 1, 2 and 3 by 2024</p> <p>Target to reduce operational waste by 15 per cent (by 2025 vs 2021)</p> <p>Target to reduce 25 per cent packaging film for deliveries and storage by 25 per cent (by 2025 vs 2021)</p>
<p>Increased competitive advantage through resilience planning around property, infrastructure and supply chain</p> <p>Strategic links</p> 	2 & 3	Medium-Long term	<p>Detailed physical risk assessment carried out across all Group properties</p> <p>Prioritisation of flood mitigation actions at branches identified as at high or very high risk</p> <p>Hot weather working protocols established for relevant sites</p> <p>Sole suppliers in key categories have been identified with alternatives / contingency plans</p>	<p>Complete flood mitigation actions for at risk branches</p> <p>Monitor summer temperatures in branches and upgrade ventilation and air conditioning as required</p> <p>Using supply chain risk management programme (introduced in 2021), analyse supply chain to identify exposure to geographical regions at risk from climate change</p>
<p>Progress on sustainability activities gives the business a competitive advantage which enables it to win more business and recruit/retain top talent</p> <p>Strategic links</p> 	1 & 2	Short-Medium term	<p>Activity to reduce scope 1 & 2 emissions</p> <p>Commitment from management and colleagues on sustainability strategy</p> <p>Continued engagement with suppliers, customers, colleagues and other stakeholders</p>	<p>Target to reduce Scope 1&2 Emissions (intensity ratio) by 2 per cent per annum</p> <p>Commitment to set Science Based Targets for Scope 1, 2 and 3 by 2024</p> <p>Publish a standalone Sustainability report in 2023 demonstrating commitment to transparency and progress</p>

Strategic links



Excellence in service



Strong financial base



Ethics and integrity



Organic growth and acquisitions



A supportive organisational structure and management

Further details of our sustainability strategy and the wider actions we are taking are outlined in our 2022 Sustainability Report which is available on the Group website.

As part of last year's TCFD disclosure, in relation to risks and opportunities arising from the move to more sustainable products we committed to establishing, by the end of 2022, a product rating system based on sustainability credentials. During the year we have discussed this with our suppliers and other trade organisations and concluded that for any such scheme to be successful it would require co-ordination across the sector. As we continue to work on this our focus instead has been on providing customers with more choice of sustainable products and ensuring we do not make false claims regarding the sustainable credentials of the products we sell.

Impact on strategy & planning

Climate change has impacted on the Group's strategic planning in several ways. The Group's sustainability strategy has focused the business on taking steps to reduce their carbon emissions whilst also growing activity. This has involved projects to improve the energy efficiency of buildings including LED lighting and solar panel installations, and efforts to reduce vehicle emissions including switching company cars to hybrid and electric vehicles and trials of alternative-fuelled commercial vehicles (e.g., CNG, HVO).

The Group's sustainability strategy recognises increasing investor interest and scrutiny of how companies are tackling climate change. The Group will update its materiality assessment for sustainability during 2023 which will include taking account of external stakeholder views.

Sustainability and climate change forms part of the evaluation criteria for business investment, including evaluating climate change threats to the locations of any proposed acquisitions, consideration of leasehold length for any properties, and assessing the impact of capex on the Group's sustainability strategy.

Climate-related issues and potential impacts on business performance and assets are considered as part of the Group's one and five year planning processes and performance monitoring.

The Group is also conscious of the impact of climate change on the product and services it offers. Businesses maintain dialogue with suppliers and customers to ensure their product offerings follow technical developments and changes in market demand. Chadwicks Eco-centres are a good example of how a business has brought together a collection of energy saving building methods and products in branches to help

inform customers of the sustainable options available. There is also training available for our colleagues on these products so that they can advise customers effectively.

CPI Mortars have been working with suppliers and other third parties on the development and trial of lower carbon cement products for use in its mortars. Business management are proactive with suppliers and standard setters in monitoring demand for cement and alternative products, and potential future changes in product standards.

Resilience

The Group has some inherent resilience to the impact of climate change given its geographical and market spread, but has taken steps to improve its resilience to physical climate change risks to its properties. During 2022 an exercise was conducted, with the support of consultants from Marsh, to model the climate change impact on its 424 properties across its four countries. The model used current asset location data overlaid by historical and future climate data under two scenarios: RCP2.6 (i.e. consistent with a rapid de-carbonisation scenario) and RCP 8.5 (consistent with a limited climate action scenario). The exercise identified 44 sites currently at a high or very high risk of flooding which increases to 48 sites under an RCP 2.6 scenario in 2050, and 49 sites under an RCP8.5 scenario. This has enabled us to focus actions on those at-risk properties including establishing flood emergency response plans, building alterations to minimise flood damage and protect stock, as well as existing drainage maintenance schemes.

Work is in progress continuing into 2023 to gain more transparency of the Group's supply chain through its third-party risk management and compliance process to understand better the Group's exposure to suppliers in different parts of the work which may be impacted by climate change.

The Group's strategy recognises the need for a transition to low carbon economy in the countries in which it operates and in establishing its sustainability strategy aims to enhance its resilience to those transitional risks. Further work is planned to quantify the transitional risks and establish metrics to monitor Grafton's exposure to them.

Impact on financial statements

Management have considered the current and potential impact of climate change on the financial statements. Costs associated with projects to improve energy efficiency and reduce carbon emissions have been absorbed within operating expenses and capital expenditure and have not been material during the year. There has been no material impact on the net realisable value of inventory or the carrying value of fixed assets in this year's

financial statements as a result of climate change. This included consideration of the results of the exercise to model the impact of physical risks on the Group's properties which showed a relatively small increase in the potential costs and losses from climate change, principally as a result of flooding, which may be mitigated through implementing flood resilience measures (see risk section below).

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 businesses. Each business maintains their 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 GRC who manage the Corporate Risk Register (CRR) of all material risks to the Group – see Principal Risks on pages 70 to 75. Sustainability and climate change is a specific risk on the CRR, and the impacts of climate change are also considered when addressing other risks, for example macroeconomics and supply chain.

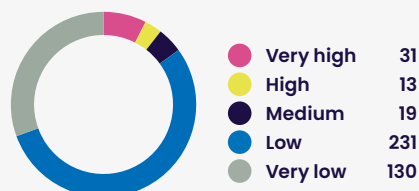
For all our risks, including our climate-related risks, we assess the recurring or one-off impact using both financial measures, including revenue, profit, and cash, and non-financial, including management effort, regulatory compliance and impact on stakeholders. We have set numerical thresholds for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

In 2021 we completed a Group level assessment of climate-change related risk and opportunities using the same impact criteria as we use for our overall risk management process, but with a much longer timescale for likelihood. We would typically assess the likelihood of business risk materialising in the next three years whereas we monitor the likelihood of risks relating to climate change risks over the short, (1-3 years), medium (3-10 years) and long-term (over 10 years).

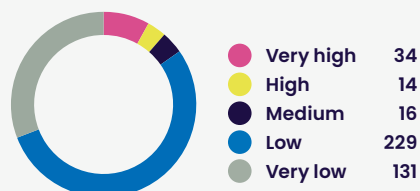
In 2022 the climate change risk assessment was extended to include individual business units. These assessments used a similar approach to the Group assessment, involving BU senior management from a range of relevant functions (e.g. finance, procurement, property, operations), using the same likelihood and impact criteria as the Group assessment but with different numerical impact thresholds to reflect their size and materiality to the Group. Whilst the business unit assessments did not identify any significant new climate

Number of Grafton sites by climate risk rating:

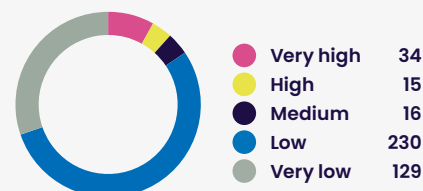
2022



2050 – RCP2.6



2050 – RCP 8.5



Risk level	Description
Very high	Widespread damage/disruption. Significant cost implications
High	Notable damage, with potentially high cost implications
Medium	Possible damage which may have minor cost implications
Low	Superficial damage, minor cost implications
Very low	Low damage with low cost implications

change risks or opportunities to the Group it did help to prioritise certain risks and actions in the individual businesses.

Decisions on how to manage risks (e.g. whether to mitigate, transfer, accept or control), including those related to climate change, are taken by management either at Group or business unit level. Actions to manage climate related risks are overseen by the Group Risk Committee through Group and 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 76 to 95 for examples.

Grafton maintains 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.

As referred to above, an action taken to manage climate risk during 2022 included the exercise to model physical threats to the Group's current properties under two climate change scenarios. This risk was prioritised for modelling as, in previous years, the Group has experienced disruption at a small number of its sites due to flooding, and it was felt that the exercise would directly help to prioritise mitigating action for at risk sites. The results of this work are summarised in the graph above.

The modelling exercise identified that risks to the Group's properties were exclusively from flooding, either from surface water, riverine or coastal inundation, with other threats (soil movement, extreme wind, wild-fire and freeze thaw) having little to no impact. Extreme heat instances, whilst not expected to cause physical damage to properties, was identified as a risk to cause some operational disruption at 250 sites by 2050 under RCP2.6 and 386 sites under RCP8.5. As well as the flood mitigation actions being taken, businesses will be establishing hot weather working protocols for relevant sites.

The financial impact of physical climate change on the Group's properties was also assessed taking into account implications from both property damage and business interruption, which together were used to calculate a reinstatement value for each property. The modelling highlights that for present day, the estimated cost of damage from physical climate risk represents 0.58 per cent of our total property portfolio reinstatement value, with financial impacts projected to remain relatively stable under a RCP2.6 scenario, and rising to around 0.62 per cent under RCP8.5 by 2050. Importantly, many of these financial risks may be mitigated by the introduction of a number of physical climate resilience initiatives at high-risk sites, including developing emergency flood response plans and implementing on-site flood resilience measures.

Metrics and targets

As part of our sustainability strategy, we have defined actions to help us manage climate related risks and achieve our sustainability goals, which align with two of our five focus areas: Customer and Product; and Planet.

These include increasing the awareness of and volume of products that have a 'more sustainable' criteria; reducing operational waste, reducing Scope 1 & 2 carbon emissions, measuring Scope 3 emissions and then setting science-based targets to reduce scope 1, 2 and 3. The project to measure the Group's Scope 3 emissions is in progress. We have committed to complete this and set a science-based target for reduction by the end of 2024. As part of setting this target, the Group will develop a transition plan setting out how the target will be achieved, how progress will be monitored and the estimated financial impact of implementation. This will include developing a broader range of metrics consistent with the TCFD guidance, including more granular metrics and targets for the constituent elements of Scope 1 & 2 emissions to help drive improvement in these areas.

The principal metric currently used by the Group to monitor the progress on actions to address climate change risks is Scope 1 & 2 emissions per £m of revenue. As part of new banking facilities arranged during 2022, the Group tied its margin payments on those facilities to three ESG metrics, such that the Group will receive a discount if those targets are met each year. One of these targets is an annual 2 per cent reduction in the intensity ratio of Scope 1 & 2 emissions up to 2027, from a 2021 baseline. During 2022 the Group achieved an 11 per cent reduction in its intensity ratio. This has been subject to limited assurance by an external party. Absolute emissions reduced by three per cent from 2021 on a like for like basis. See Sustainability section on pages 76 to 95.

Scope 1&2 emissions are calculated in accordance with the GHG protocol as part of our planned SBTi submission.

Corporate Governance



Board Diversity

The composition of the Board has evolved considerably over recent years and the Nomination Committee has taken an active role in improving the gender balance and ethnic diversity of the Board.

For more see pages 116 to 119

Governing our business

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Percentage of women on Board

38%



Board of Directors



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

Non-Executive Chair

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.

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.

Board Length of Service as at 1 March 2023

6.8 years

Committee Membership

Nomination Committee (Chair)



**Eric Born
(CH)**
BA, MBA

Chief Executive Officer

Career

Eric Born joined the Group and the Board as Chief Executive Officer on 28 November 2022.

Mr. Born was previously Chief Executive Officer of Swissport International AG, the leading global aviation services provider, and Chief Executive of Wincanton plc, a leading provider of supply chain solutions. He was formerly President, West & South Europe of Gategroup, the global airline catering provider, and prior to that he held a variety of senior roles in the retail sector in Switzerland and the UK. Mr. Born previously served as Non-Executive Director of Serco Group plc and John Menzies plc.

Current External Appointments

None

Board Length of Service as at 1 March 2023

0.3 years

Committee Membership

Finance Committee (Chair)



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

Chief Financial Officer

Career

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.

Current External Appointments

Non-Executive Director of Crest Nicholson Holdings plc, the leading residential housebuilder operating in the Southern half of England and the Midlands.

Board Length of Service as at 1 March 2023

9.5 years

Committee Membership

Finance Committee



**Paul Hampden Smith
(UK)**
FCA

Senior Independent Director

Career

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 and Chair of Bellway plc. He was also formerly Non-Executive Director of Pendragon plc, Redrow plc, DX Services plc and Clipper Logistics plc.

Current External Appointments

None

Board Length of Service as at 1 March 2023

7.5 years

Committee Membership

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



**Susan Murray
(UK)**

Non-Executive Director

Career

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.

Current External Appointments

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.

Board Length of Service as at 1 March 2023

6.4 years

Committee Membership

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



Vincent Crowley
(IRL)
BA, FCA

Non-Executive Director

Career

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.

Current External Appointments

Chair of Davy Stockbrokers, Ireland's leading provider of wealth management and capital markets services. Non-Executive Director of C&C Group plc; Chair of Altas Investments plc, an Irish company that holds investments in infrastructure and related businesses.

Board Length of Service as at 1 March 2023

6.4 years

Committee Membership

Audit and Risk Committee
Nomination Committee
Remuneration Committee



Dr Rosheen McGuckian
(IRL)
BSc, MA, PhD

Non-Executive Director

Career

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.

Current External Appointments

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

Board Length of Service as at 1 March 2023

3.2 years

Committee Membership

Audit and Risk Committee
Nomination Committee
Remuneration Committee



Avis Darzins
(UK)

Non-Executive Director

Career

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.

Current External Appointments

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.

Board Length of Service as at 1 March 2023

1.1 Years

Committee Membership

Audit and Risk Committee
Nomination Committee
Remuneration Committee



Charles Rinn
(IRL)
MBA, FCCA

Group Financial Controller & Secretary

Committee Membership

Finance Committee

Governing for success

I would like to open this report by highlighting some of the areas of governance which have had the most impact on us as a Board and as a business. We hope it demonstrates to you how the governance structures within Grafton contribute to the long-term sustainable success of the Group and how the Board has carried out its duties throughout the year.



Board composition

We were delighted to welcome Ms. Avis Darzins to the Board in February 2022. Following a search led by the Nomination Committee, we were very pleased to welcome Mr. Eric Born as Chief Executive Officer and to the Board. We are confident in his skills and ability to lead the Group through its next stage of growth and development.

Sustainability

Environmental and climate issues have again been a focus of the Board's agenda in 2022. We are embedding governance in this area and were delighted to appoint Rosie Howells as Group Head of Sustainability in 2022. While there is still much to do on sustainability, we feel well positioned to take on this challenge and we are very supportive of the Group's ambitions in this area. Our 2022 Sustainability Report has been published on the Group's website www.graftonplc.com.

Board evaluation

The Board carried out an internal evaluation during the year, following an external evaluation that was carried out during 2021. The key findings of the evaluation are set out in further detail in the Nomination Committee Report on pages 116 to 119.

AGM

We were delighted to be able to welcome shareholders to our in-person AGM in 2022 following the holding of the 2020 and 2021 AGMs as closed meetings due to Covid-19 restrictions. We would like to thank all our shareholders who voted via proxy or via poll at the AGM and who put forward questions to our AGM in 2022. We view the AGM as a critical point of engagement with our shareholders and we strive to ensure that your voting support remains at high levels.

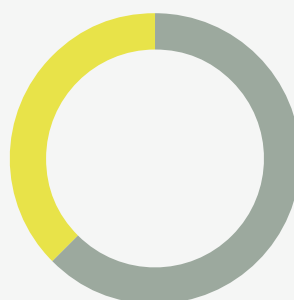
We look forward to welcoming investors to our 2023 AGM.

Michael Roney
Chair

Governance at a glance

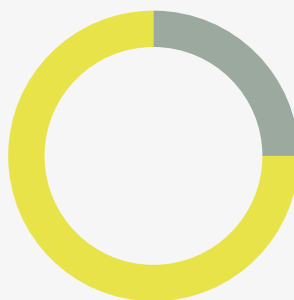
“

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 sufficient to enable the Board and its Committees to operate effectively.”



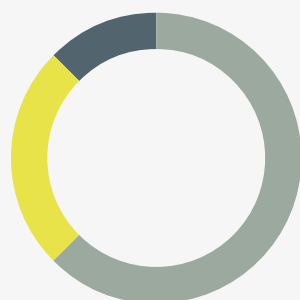
Board gender diversity

Male:	5
Female:	3



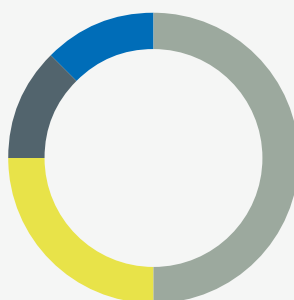
Executive/Non-Executive Directors

Executive:	2
Non-executive:	6



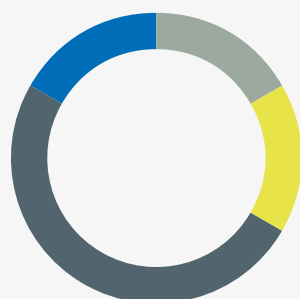
Board Independence

Independent:	5
Non-independent (Executive):	2
Chair:	1



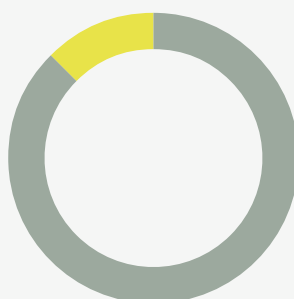
Board nationality

UK:	4
Ireland:	2
US:	1
Swiss:	1



Non-Executive Directors length of service

1-2 years:	1
3-4 years:	1
6-7 years:	3
7-8 years:	1

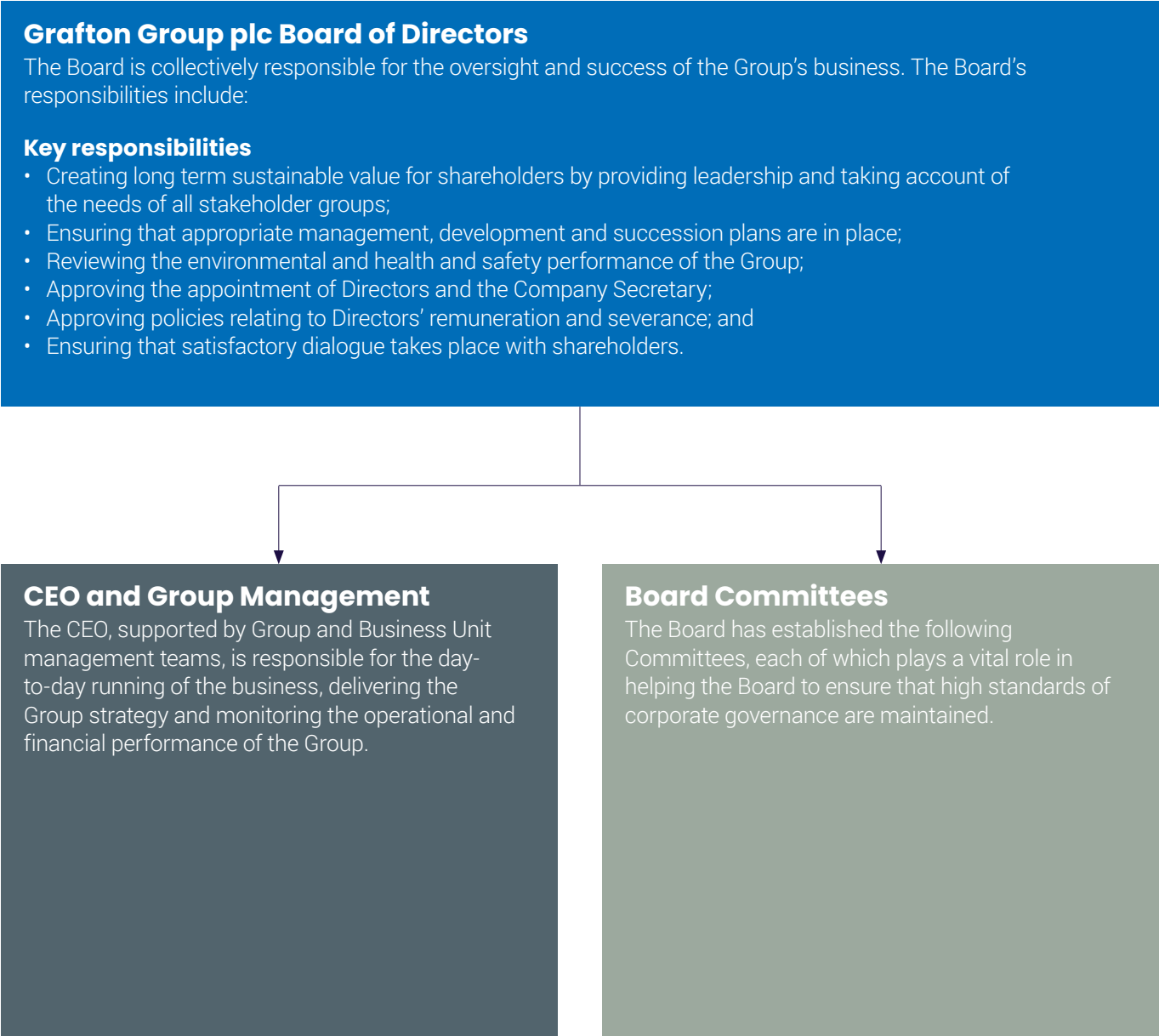


Board ethnicity

White:	7
Other ethnicity:	1

Our governance structure

The Group’s organisational structure is established and overseen by the Board and designed to enable us to operate to the highest standard of corporate governance and facilitate effective decision making.



Audit and Risk Committee

Read more about the work of the Audit and Risk Committee on pages 112 to 115.

Key responsibilities

- Monitoring the integrity of the Group's financial statements and announcements relating to the Group's performance;
- Overseeing and reviewing the effectiveness of the Group's internal control and risk management systems in place and the steps taken to mitigate the Group's risks;
- Monitoring the effectiveness of the external audit process and overseeing the relationship between the Group and the External Auditor; and
- Monitoring and reviewing the scope, resourcing, findings and effectiveness of the Group's Internal Audit function.

Nomination Committee

Read more about the work of the Nomination Committee on pages 116 to 119.

Key responsibilities

- 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;
- Identifying, and making recommendations to the Board candidates for appointment as Directors;
- Considering the re-appointment of Non-Executive Directors at the conclusion of their specified term of office;
- Annual review of succession plans for senior executives across the Group; and
- Identifying and nominating for approval by the Board of candidates for appointment as Directors.

Remuneration Committee

Read more about the work of the Remuneration Committee on pages 120 to 145.

Key responsibilities

- Determining the policy for executive Director remuneration and for setting remuneration for the Chair, executive Directors and senior management;
- Reviewing workforce remuneration and related policies and the alignment of incentives and rewards with culture; and
- Reviewing the ongoing appropriateness and relevance of the remuneration policy.

Finance Committee

Read more about the work of the Finance Committee on page 106.

Key responsibilities

- Considering the financing requirements of the Group, amendments to the terms of existing bank facilities, approval of leases for assets other than property up to a specified level and litigation matters.

Board highlights at a glance

The Board balances its agenda to ensure it covers all performance, operations, strategic and governance matters.

January

Review of risk management framework and risk register

February

2021 FY results and proposed dividend for approval at AGM

Avis Darzins joins the Board



March

Launched 2022 Sharesave for UK colleagues

April

Announced plans to launch share buyback programme subject to shareholder approval

Resumption of in-person AGMs

May

Commencement of first share buyback programme



June

Board Strategy meeting and site visit to IKH in Finland

Update from NEDs on National Colleague Forums

Update on opportunities in circular economy and decarbonisation

The typical board agenda includes:

General matters

Minutes, matters arising and reports from the Chairs of the Board Committees. Governance, legal and regulatory matters.

Performance and operations

Updates on trading, financial performance and operations, along with updates from key group functions such as Health and Safety, HR, Internal Audit and Risk, IR and Sustainability.

Corporate development strategy

Allocation of capital for organic growth and acquisitions. Strategic development of Group. Acquisition and growth opportunities in new and existing markets.

July

Gavin Slark to step down as CEO

August

Half year results

Agreed new structure for operation of Colleague Forum meetings

September

Completion of first share buyback programme

Interim results investor roadshow

November

Launch of second share buyback programme

Eric Born joins the Group and the Board as CEO



December

Board evaluation review



Directors' Report on Corporate Governance

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 meetings

The Board met on eight occasions during 2022, and the attendance of individual directors at each meeting is set out in the table on page 109. The Board also received updates on developments from management between meetings as appropriate. The Board takes the major decisions as set out in the schedule of matters reserved to it for decision, while allowing management sufficient scope to run the business within a tight reporting framework. The Group has arranged insurance cover up to a specified limit in respect of legal actions against directors and officers.

Board committees

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

The Finance Committee is chaired by Mr. Eric Born, 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. Eric Born, 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 8 to 9 and 30 to 35.

Objectives and controls

The Group's strategic objectives are set out on pages 30 to 33 and a summary of performance against the Group's KPIs is at pages 42 to 45. 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 66 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 20 to 21 and further information on engagement with colleagues is set out in our People and Culture report on pages 16 to 19.

Colleague engagement

Colleague engagement feedback was shared amongst Non-Executive Directors who attended meetings of the National Colleague Forums with colleagues from the UK, Ireland and the Netherlands. A colleague committee was established in Finland 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.

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 28 and 29. The Risk Management Report on pages 66 to 75 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. Colleague Forums held during the year 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. The Group also issued Trading Updates in January, April, July and November of 2022.

Live audio conference calls for analysts and investors hosted by the CEO and CFO were held via webcast on 24 February 2022 and 25 August 2022 following the announcement of the Final Results for 2021 and the Interim results for 2022 respectively. Pre-recorded presentations for the Final Results for 2021 and the Interim results for 2022 are available to view or download at <https://graftonplc.com>.

Significant or noteworthy acquisitions are announced to the market. The Group website 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 primarily 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 and he had a number of meetings and calls with major shareholders during the year.

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 2022 shareholders were given the opportunity to attend the AGM either in person or remotely and could raise questions during the meeting or 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 Company Secretary, Deputy Company Secretary and Assistant Company Secretary held a governance roadshow for a number of major shareholders prior to the 2022 AGM.

The Notice of the AGM, which specifies the time, date, place and the business to be transacted, is sent to shareholders at least 21 days before the meeting. The AGM is normally attended by all Directors. All resolutions at the 2023 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.

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

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

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

2023 AGM

The 2023 AGM will be held at the Irish Management Institute (IMI) Sandyford Rd, Dublin, D16 X8C3, Ireland at 10.30am on 4 May 2023.

Directors' Report on Corporate Governance continued

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 experience. It considers investor guidance on this area as part of the annual review of the time commitments of each Director. The Chair and all Non-Executive Directors except one had a 100 per cent attendance record at all Board and Committee Meetings held during the year. One Director was unable to attend one Board Meeting during the year due to illness. 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 appointment of Mr. Vincent Crowley as Chair of Davy Stockbrokers.

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 have been considered in Board discussions and decision-making. While section 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 20 and 21. As set out above, Colleague Forums have been established to provide the opportunity for colleagues' views to be heard by the Board.

Whistleblowing

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

Conflicts of interest

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

Unresolved concerns

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

2. Division of responsibilities

Chair

The responsibilities of the Chair, as set out on page 109, 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"> Leading and managing the business of the Board to provide clear direction and focus for the Group; Demonstrating ethical leadership and promoting the highest standards of integrity and probity; Demonstrating objective judgment and promoting a culture of openness and debate; Setting the agenda and culture in the boardroom; Facilitating constructive Board relations; Ensuring that members of the Board receive a timely flow of accurate, high quality and clear information; and Ensuring that there is timely and appropriate communication to shareholders. 	<ul style="list-style-type: none"> Being accountable to the Board for all authority delegated to executive management; Taking overall responsibility for the management of the business; Proposing and delivering the Group's strategy; Implementing and delivering the annual business plan; Effective leadership, coordination and performance management of the executive team; Ensuring the identification, enhancement and development of the executive leadership talent pool; and Monitoring closely the operating and financial results of the Group against plans and budgets. 	<ul style="list-style-type: none"> Being available to shareholders who have concerns that cannot be addressed through the Chair, the Chief Executive Officer or the Chief Financial Officer; Acting as a sounding board for the Chair; Acting as an intermediary for the other Directors when necessary; Working with the Chair and other Directors and/or shareholders to resolve significant issues; and When called upon, seeking to meet a sufficient range of major shareholders in order to develop a balanced understanding of their views.

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

Number of Meetings	Board		Audit and Risk Committee		Remuneration Committee		Nomination Committee	
	Total	Attended	Total	Attended	Total	Attended	Total	Attended
M. Roney	8	8	–	–	–	–	8	8
E. Born	1	1	–	–	–	–	–	–
G. Slark	8	8	–	–	–	–	–	–
D. Arnold	8	8	–	–	–	–	–	–
P. Hampden Smith	8	8	4	4	6	6	8	8
S. Murray	8	8	4	4	6	6	8	8
V. Crowley	8	8	4	4	6	6	8	8
R. McGuckian	8	8	4	4	6	6	8	8
A. Darzins	6	5	2	2	3	2	2	2

Ms. Avis Darzins was appointed to the Board with effect from 1 February 2022. Mr. Eric Born was appointed to the Board with effect from 28 November 2022.

Directors' Report on Corporate Governance continued

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.

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 116 to 119.

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 2022, following the resignation of Gavin Slark, the Board was made up of eight members comprising the Non-Executive Chair, two Executive Directors and five independent Non-Executive Directors.

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 Chair's Statement on pages 24 to 27 and in the programme of work undertaken by the Nomination Committee in its report on pages 116 to 119.

Board evaluation

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

An internal evaluation was conducted during the year, an external evaluation having been carried out by Trusted Advisors Partnership ('TAP') in 2021. The evaluation involved each Director independently completing a questionnaire that covered a range of issues including the effectiveness of the Board and its Committees, strategy and development, internal controls and risk management, monitoring financial and operating performance and shareholder value creation. The key findings of the evaluation are set out in the Nomination Committee Report on page 118.

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 116 to 119.

Director election/re-election

In accordance with the provisions of the Code, the Board has decided that all Directors should retire at the 2023 Annual General Meeting ('AGM') and offer themselves for election/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 116 to 119.

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 leading to the appointment of Avis Darzins in February 2022. In 2022 the Board engaged Russell Reynolds to assist with the search for a new CEO leading to the appointment of Eric Born in November 2022.

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 152.

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 66 to 75.

Audit and Risk Committee

The Board has established an Audit and Risk Committee which is comprised of five 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 112 to 115. The Terms of Reference of the Committee are available on the Group's website www.graftonplc.com.

A description of the activity of the Committee during the year is available in the Committee Report on pages 112 to 115.

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 113.

Going concern assessment

The Group's net cash position, before recognising lease liabilities, decreased to £458.2 million at 31 December 2022 from £588.0 million at 31 December 2021. Net cash including lease obligations was £8.9 million at 31 December 2022 (2021: £139.0 million). The reduction in net cash largely reflects the Group's share buy-back programmes with total shares purchased of £143.0 million to 31 December 2022, including £7.6 million relating to the May 2022 LTIP vesting.

The Group had liquidity of £934.6 million at 31 December 2022 (31 December 2021: £1,235.4 million) of which £707.7 million (31 December 2021: £840.7 million) was held in accessible cash and £226.9 million (31 December 2021: £394.7 million) in undrawn revolving bank facilities. No refinancing of debt is due until August 2027.

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 70 to 75, 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 five independent Non-Executive Directors. Details of the Committee's key responsibilities and a description of its work during 2022 are contained in the Report of the Remuneration Committee on Directors' Remuneration on pages 133 to 145.

Audit and Risk Committee Report



Paul Hampden Smith
Chair of the Audit and Risk Committee
1 March 2023

Membership	Length of service*
P. Hampden Smith (Chair)	7.5 years
V. Crowley	6.1 years
S. Murray	5.2 years
R. McGuckian	2.8 years
A. Darzins	0.5 years

* Committee service of 1 March 2023.

Dear Shareholder,

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 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.

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 98 and 99 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 109.

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 Chair 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 2022

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

Financial reporting	<p>The Committee reviewed the 2021 Final Results Announcement, the 2021 Annual Report and the 2022 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 2021 Final Results Announcement, the 2021 Annual Report and the 2022 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 reports of PwC following their audit and interim review 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 115.</p> <p>The Committee also reviewed papers on the Viability Statement and Going Concern including assumptions and financial forecasts.</p>
Risk management and internal control	<p>The Board has delegated responsibility to the Committee for monitoring the effectiveness of the Group's system of risk management and internal control, which is set out in further detail in the Risk Management Report on pages 66 to 75. 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 70 to 75 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

Internal audit	<p>The Group Internal Audit and Business Risk Director reports to the Chief Financial Officer and also has direct access to the Chair of the Audit and Risk Committee and its members. 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 2023. An internal review of the effectiveness of the Internal Audit function was carried out during the year and the results of this review were presented to the Committee in February 2023. The findings of the review were very positive and a number of operational and strategic recommendations made will be acted upon.</p>
External auditor	<p>The Committee reviewed the External Auditors' plan for the 2022 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 did not impair the Auditors' judgement or independence.</p>
Non-audit services	<p>The External Auditor is permitted to undertake non-audit services that do not conflict with auditor independence, provided the provision of the services does not impair the Auditors' objectivity or conflict with their role as Auditor and subject to having the required skills and competence to provide the services.</p> <p>The Committee has approved a policy on the provision by the External Auditor of non-audit services. Under this policy the External Auditor will not be engaged for any non-audit services without the approval of the Audit & Risk Committee. The External Auditor is precluded from providing certain services, 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 External Auditors. The Committee approved the provision of non-audit services by the Auditor during the year with associated fees amounting to £19,000 (2021: £Nil), as disclosed in Note 3, and do not believe these services to have compromised the Auditors' independence or judgement.</p>
Whistleblowing and fraud	<p>The Group Anti-Fraud and Theft Policy sets out the Group's approach to all forms of fraud and theft, the responsibilities of Business Unit management in relation to prevention and detection procedures and controls, the appropriate reporting channels and the possible actions which may be taken by the Group in response to suspected fraud or theft. Instances of fraud or theft over a specified threshold are reported to and monitored by the Committee.</p> <p>The Committee periodically considers reports received on matters raised through SpeakUp, the independent Group-wide confidential reporting service which allows colleagues to report, anonymously if they wish, any concerns they may have regarding certain practices or conduct in their businesses including possible instances of fraud and theft. All concerns raised through this channel and the outcomes of investigations are reported to the Committee. The Committee was satisfied that the procedures in place to allow colleagues to raise matters in a confidential matter operated effectively during the year.</p>
Anti-bribery and corruption	<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 2022. 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 154 to 159. The Committee also had an in-depth discussion on these matters with the External Auditor.

Valuation of goodwill	<p>The Committee considered the goodwill impairment analysis provided by management and agreed with the conclusion reached that no impairment charge should be recognised in the year. In arriving at its decision, the Committee considered the impairment review conducted by management which involved comparing the recoverable amount and carrying amount of the CGUs.</p> <p>The review by management involved discounting the forecasted cash flows of each group of CGUs based on the Group's pre-tax weighted average cost of capital adjusted to reflect issues associated with each group of CGUs and carrying out sensitivity analysis on the key assumptions used in the calculations including cash flow forecasts (revenue growth, margin), terminal growth rate and pre-tax discount rate.</p> <p>The Committee noted the 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 higher than the net asset value.</p> <p>The Finland Distribution CGU's recoverable amount has more limited headroom over its carrying amount. This was expected as it is a recent addition to the Group and, in view of the short period since it was acquired in July 2021, there has been limited opportunity to increase the recoverable amount. Therefore, it is more sensitive to possible changes in key assumptions.</p>
Recognition of supplier rebates	<p>Supplier rebates represent a significant source of income in the distribution industry and is an area of risk due to the materiality of rebate arrangements, the use of manual inputs, and the estimation involved in determining the year end receivable amounts. The Committee reviewed the basis used by management for calculating rebate income for the year and rebates receivable at the year end and was satisfied that the accounting treatment adopted was appropriate and that rebates receivable at the year-end were recoverable.</p> <p>In reaching its conclusion, the Committee reviewed information and reports prepared by the Internal Audit function which completed year-end reviews across a sample of significant Business Units with the primary objective of providing independent assurance on the accuracy of rebate receivable balances at year-end.</p> <p>These reviews included re-performing calculations on a sample of rebate income for 2022 with reference to agreements with individual suppliers and reports of purchases made from suppliers. The Committee also considered the value of rebates received after the year end relating to 2022.</p>
Valuation of inventory	<p>The Group carries significant levels of inventory and key judgements are made by management in estimating the level of provisioning required for slow moving inventory. In arriving at its conclusion that the level of inventory provisioning was appropriate, the Committee received half year and full year updates from management on stock ageing and provisioning across the Group.</p> <p>The Committee reviewed the basis for calculating the valuation of rebate attributable to inventory and was satisfied that inventory was appropriately valued and that the Group continued to adopt a prudent approach to inventory provisioning.</p>

As Chair of the Committee, I engaged with the Group CFO, the Group Internal Audit and Business Risk Director and the PwC Group 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
1 March 2023

Nomination Committee Report



Michael J. Roney
Chair of the Nomination Committee
1 March 2023

Membership	Length of service*
M.J. Roney (Chair)	6.8 years
P. Hampden Smith	7.5 years
S. Murray	6.0 years
V. Crowley	6.0 years
R. McGuckian	2.8 years
A. Darzins	0.5 years

* Committee service as of 1 March 2023.

Dear Shareholder,

I am pleased to present the report of the Nomination Committee for the year ended 31 December 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; and
- Annual review of succession plans for senior executives across the Group.

Diversity

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

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.

Activities of the Committee during 2022

Introduction

The primary area of focus by the Committee during 2022 was on the search for a new CEO. The Committee also recommended the appointment of an additional Non-Executive Director. The Committee considered the composition and diversity of the Board and succession planning at Board and senior management level and it continued to seek to balance the need to refresh the Board while maintaining a team of knowledgeable and experienced Non-Executive Directors.

Recruitment of CEO

When Mr. Gavin Slark advised the Board of his intention to step down as CEO, the Committee appointed Russell Reynolds, the international search and recruitment firm, to support the Committee with the search for a new CEO. Russell Reynolds was not engaged by the Company for any other purpose during 2022. A candidate specification and profile were developed to ensure potential candidates would have the required balance of skills, experience, personal qualities and leadership skills considered important to the role. A longlist of potential candidates was drawn up from a range of backgrounds and considered by the Nomination Committee.

Selected candidates were shortlisted for interview by a sub-committee of the Nomination Committee comprising myself as Chair of the Board and Nomination Committee, Mr. Paul Hampden Smith, Senior Independent Director and Mrs. Susan Murray, Chair of the Remuneration Committee. Finalist candidates were interviewed by the Nomination Committee which comprises all Non-Executive Directors and the Chair of the Board. In addition to vetting candidates against the role specification, psychometric assessments were conducted, and candidates were also vetted based on their interest in the role and their strategic vision for the Group. Extensive candidate due diligence was also conducted as part of the process. At the conclusion of the process, the Committee recommended Mr. Eric Born to the Board for appointment as CEO.

We are delighted to have appointed Mr. Born to this position. He is an experienced business leader with a track record of growth, delivering performance and managing stakeholders. He appreciates the heritage, culture and values of Grafton and shares the Board's ambitions to continue the successful development of the Group over the coming years for the benefit of all stakeholders.

A detailed induction plan was created for Mr. Born who joined the Group as CEO on 28 November 2022. In the weeks that followed he met with the management teams across our businesses and with colleagues when he visited branches, stores and manufacturing facilities in the four countries where we operate. He also met with the external auditor, brokers and advisors to the Company. Mr. Born received financial briefings on the Group and read relevant Board and Board Committee Papers.

Appointment of Non-Executive Director

As noted in last year's report, during 2021 the Committee considered the structure, size, diversity and composition of the Board and its Committees. It also considered the balance of skills, experience and expertise of Non-Executive Directors 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 we were delighted to appoint Ms. Avis Darzins as Non-Executive Director with effect from 1 February 2022.

The Committee 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 personal 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 Non-Executive Directors on the Board at 31 December 2022 was as follows:

Length of service	Number of Non-Executive Directors
0-1 years	1
2-3 years	1
6-7 years	3
7-8 years	1

The Committee reviewed the time required to fulfil Board Chair, Senior Independent Director, Committee Chair and Non-Executive Director roles 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 and the appointment of Mr. Eric Born as CEO and a Director with effect from 28 November 2022 as already noted. Ms. Darzins was appointed to the Audit and Risk, Remuneration and Nomination Committees with effect from 24 August 2022.

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 2023 AGM having considered the performance, ability and continued contribution to the Board of each director.

Nomination Committee Report continued

Board effectiveness and evaluation

Assessing the effectiveness and commitment of individual Directors was based on meetings between each of the Non-Executive Directors and the Chair.

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 2022 evaluation was carried out internally using a questionnaire which was completed by each of the Directors.

The key findings of the internal evaluation were that:

- The Board is confident that it is working to a clear and commonly understood purpose and collective vision;
- The Board was satisfied that good progress has been made on sustainability while noting that continued focus was required in this area;
- The performance of each of the Audit and Risk, Remuneration and Nomination Committees were rated highly and are working well with effective Chairs; and
- The Board operates cohesively and combines being supportive of management with constructive challenge.

The Board will use the feedback and observations from the internal review 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 Group, 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. The review during 2022 was against the backdrop of Mr. Gavin Slark advising the Board that he was stepping down from the role at the end of the year and the Board initiating a search process for his successor.

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 an appropriate balance of gender and ethnicity on the Board. On the recommendation of the Committee, the Board 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. A number of internal candidates were appointed to fill senior roles in Group businesses following the conduct of searches by independent recruitment firms that included external candidates.

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 Group 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. This process led to the appointment of Ms. Avis Darzins as a Non-Executive Director.

The Committee has a long-standing commitment to prioritise diversity and supports the recommendations of both the FTSE Women Leaders Review on gender diversity and the Parker Review on ethnic diversity. 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 longlists of candidates with a broad range of skills, experience and backgrounds. The Committee 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.

The Company Secretary assisted the Chair with the preparation of a comprehensive induction programme that provided a good overview of the Group and involved site visits and meetings with management in the Group's businesses.

Equality, Diversity and Inclusion

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.

I am pleased to confirm that three of our eight directors are female (38%) and the Board is mindful of the target set out by the FTSE Women Leaders Review of having a minimum of 40% of Board positions held by women by 2025. I am also pleased to confirm that the Board's objective to have at least one Director from an ethnically diverse background as defined by the Parker Review is currently met. 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 seeks where possible to prioritise the appointment of females to leadership positions and is committed to increasing representation of females in senior leadership positions across the Group. Grafton 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 future growth and development. 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. The nine-year term of Mr. Paul Hampden Smith, Senior Independent Director and Chair of the Audit and Risk Committee ends in 2024 and the Committee will initiate a search for his successor over the coming months.

Michael J. Roney
Chair of the Nomination Committee
1 March 2023

Remuneration Report



Susan Murray
Chair of the Remuneration Committee
1 March 2023

Membership	Length of service*
S. Murray (Chair)	6.1 years
P. Hampden Smith	7.2 years
V. Crowley	2.8 years
R. McGuckian	2.8 years
A. Darzins	0.5 years

* Committee membership as of 1 March 2023.

Dear Shareholder,

I am pleased to present my report as Chair of the Remuneration Committee for the year ended 31 December 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.

The Committee was appreciative of the high level of shareholder approval for the 2021 Annual Report on Remuneration which was supported by 89.45 per cent of shares lodged by proxy ahead of the 2022 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 2022. In line with regulatory requirements, a renewed policy will be put to shareholders at the forthcoming AGM of the Company and further details of changes proposed to the current policy are set on the following pages along with details of how the new policy will be implemented in 2023.

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.

Performance for 2022

Our first half performance saw a significant normalisation of activity levels following exceptional pandemic related spikes in trading in the first half of 2021. Adjusted operating profit for the year of £285.9 million (2021: £288.0 million) demonstrated the benefit of the Group's balanced spread of operations across geographic markets and sectors.

Grafton ended the year in a very strong financial position with net cash, before IFRS 16 leases of £458.2 million. The Group returned £208.9 million to shareholders through share buybacks and dividends.

Remuneration for 2022

Base Salary

The Committee approved a salary increase of 3.1 per cent with effect from 1 January 2022 for the former 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 and the increases awarded reflected the typical level of salary increase for the wider workforce based on salary reviews completed in 2022.

Annual bonus scheme

The annual bonus for 2022 was based on two financial performance targets being operating profit (70 per cent) and return on capital employed (30 per cent). No award was payable to the former Chief Executive Officer as noted below. The maximum bonus opportunity for the Chief Financial Officer was 125 per cent of basic salary and the amount payable was 48.5 per cent of basic salary. The Committee considered that this outcome was appropriate in the context of the performance of the Group for the year. The appointment of the new Chief Executive Officer took effect on 28 November 2022 and he did not participate in the annual bonus scheme for 2022.

Vesting of LTIP awards made in 2020

The LTIP Awards that were planned to be made in April 2020 were deferred until September of that year due to the Covid-19 pandemic. As disclosed in the 2019 Annual Report on Remuneration, it was intended that in line with normal practice 50 per cent of the 2020 LTIP award would be based on TSR performance versus the FTSE 250 excluding investment trusts and 50 per cent on the adjusted EPS performance over the three-year period to 31 December 2022.

In view of the difficulty setting appropriate, stretching and fair EPS targets for 2022 due to the uncertainty in the Group's markets caused by the Covid 19 pandemic, the Committee determined following consultation with major shareholders that it was not appropriate for the 2020 LTIP award to Executive Directors to be based on EPS performance and agreed that 100 per cent of the award would be based on TSR performance versus the FTSE 250 excluding investment trusts. The Committee believed that basing 100 per cent of the award on TSR was a clear and transparent approach to ensure that the vesting outcome was fully aligned with the shareholder experience.

25 per cent of the 2020 LTIP award will vest for median performance with 100 per cent vesting for upper quintile performance. The TSR performance measured over the three-year period from 1 January 2020 to 31 December 2022 will result in the vesting in September 2023 of 47.8 per cent of the award granted to the Chief Financial Officer. The award made to the former Chief Executive Officer lapsed on giving notice to the Company that he was stepping down from the role.

The Committee agreed that the vesting outcome was reflective of the underlying financial performance of the business and was appropriate in the context of the experience of shareholders and other stakeholders.

Overview of remuneration for 2022

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 2022. Vesting of the LTIP award reflected the share price performance of Grafton relative to the FTSE 250 excluding investment trusts. No discretion has been exercised in relation to incentive outcomes.

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

Termination arrangements with former Chief Executive Officer

Mr. Gavin Slark the former Chief Executive Officer advised the Board on 1 July 2022 that he was stepping down from his role on 31 December 2022.

Mr. Slark was paid salary, benefits and a pension allowance for the duration of his notice period. He has no entitlement to a bonus for 2022 as he will not be employed by the Company on the payment date which is at the end of March 2023. All outstanding awards under the LTIP lapsed on Mr. Slark giving notice to the Company that he was stepping down from his role in accordance with the rules of the scheme.

The two-year holding period for 24,666 shares that vested under the LTIP expires on 6 May 2023 and for 68,495 shares expires on 3 May 2024.

Remuneration Report continued

Remuneration package for new Chief Executive Officer

The base salary of Mr. Eric Born, our new Chief Executive Officer, has been set at £740,000 per annum. Pension is aligned with the rate available to the wider workforce which was 3.1 per cent for the period from 28 November 2022, the date of appointment, to 31 December 2022 and 9.0 per cent from 1 January 2023 as explained in the section below on Pension. The maximum annual bonus is 150 per cent of base salary and the maximum LTIP award is 200 per cent of base salary which are in line with incentive opportunities for the former CEO. No buy-out of an in-flight award was required. Mr. Born received an LTIP award over 37,251 shares on 29 November 2022. This award is subject to the same performance conditions that applied to the award granted to the former Chief Executive Officer in April 2022. The Committee determined that it was appropriate to award Mr. Born a reduced LTIP award of 50 per cent of base salary on joining (based on the same share price used to determine the awards in April) to ensure that he was incentivised to drive the delivery of long-term performance.

Mr. Born is a very experienced CEO with a proven track record of creating shareholder value in publicly listed and private equity owned national and international businesses of scale. This appointment followed an extensive international search and the Board is very confident that he has the skills and experience to lead the growth and development of Grafton over the coming years. We believe that Mr. Born has the capacity to make a material difference to the business in the interest of shareholders and other stakeholders.

His base salary is higher than the base salary for the former CEO whose appointment to the role dated back to 2011 and salaries moved upwards during the intervening period while increases to his base salary were very modest between 2011 and 2022 and had arguably fallen behind market norms for the period. Mr. Slark's salary increased by 13.5% from £554,840 in 2011 to £629,756 in 2022. The Committee believes that the salary agreed with Mr. Born was appropriate to enable Grafton to recruit and retain an individual of his experience, talent and quality. This appointment was made against the backdrop of a competitive marketplace that has a finite pool of high calibre individuals operating at CEO level with experience of running large international businesses. The increase in the base salary was essential to successfully concluding the search process leading to the appointment of a very highly regarded candidate who had alternative opportunities. The Grafton Remuneration Committee has a track record of acting in a conservative and prudent way in arriving at decisions on the remuneration arrangements of Executive Directors and I believe that the Committee operated to the same high standard on this occasion. The Committee carefully considered and negotiated the total remuneration package with Mr. Born including the salary level and is comfortable that this outcome is appropriate compared to other companies of similar size and complexity.

Proposed remuneration policy changes in 2023

The current Remuneration Policy was approved at the 2020 AGM and, although not required under Company Law in Ireland, will be subject to a non-binding shareholder resolution at the 2023 AGM which is consistent with regulations in the UK. The new policy will apply for a three-year period and provide a framework for setting the remuneration of executive and non-executive directors and the Group's senior management.

We have undertaken a thorough review of our current approach to Directors' remuneration to ensure that pay continues to support strategy and the delivery of long-term sustainable returns for our shareholders.

Having considered in detail the approach to our current Policy, the Committee is satisfied that the current structure of the Policy remains appropriate for Grafton. We believe that the combination of the annual bonus and a performance based long term incentive plan ("LTIP") continues to effectively support the delivery of the Group's strategy, whilst appropriately rewarding executive directors and aligning pay with our culture and the interests of shareholders and other stakeholders.

We comply with best practice features across the current remuneration framework. We operate deferral on our annual bonus; and the LTIP has a three-year performance period and a two-year holding period following vesting. The current Policy also includes in-employment and post-employment minimum shareholding guidelines. As previously outlined, pension levels of incumbent directors were aligned with the wider workforce as of 31 December 2022. During the year we concluded a benchmarking review to ensure that our pension offering for the wider workforce in the UK was fair and competitive with the sector and the marketplace. This resulted in an increase in the contribution rate available to UK colleagues in line with current market trends and to align contribution rates available with those offered by other companies in our sector. The rate of pension contribution available to the majority of the workforce from 1 January 2023 was 9.0% of base salary and the rate of contribution for Executive Directors has been aligned to that rate.

We do not propose any substantial changes to the Policy but do propose to simplify and strengthen the structure of our annual bonus deferral provisions.

At present, executive directors are required to apply 30 per cent of any annual bonus earned to purchase shares in Grafton until the minimum shareholding guideline of 200 per cent of base salary is met. In addition, should the bonus earned in any year have exceeded 120 per cent of base salary for the former CEO or 100 per cent for the CFO, then any amount earned above these levels was required to be deferred into shares for three years.

Under the new Policy we propose to simplify and strengthen the current approach by requiring an executive director to apply 30 per cent of any annual bonus earned after statutory deductions for the purchase of shares in the Group. These shares would be required to be held for two years.

Implementation of policy in 2023

A further change that I wish to highlight is the introduction of Environment, Social and Governance (ESG) measures to the annual bonus. Given the strong progress Grafton has made on implementing its sustainability strategy and the continued evolution of market practice, it is proposed that Gender Diversity and Carbon Reduction targets are added to the annual bonus performance measures. The gender diversity target will be based on increasing the number of female colleagues as a proportion of the Group's workforce by one per cent compared to the outcome for 2022. Grafton has been managing its Scope 1 and 2 GHG emissions annually since 2014 and the carbon emissions target will be based on a reduction of 2.5 per cent in emissions per £ million of revenue at constant prices in 2023 against the outcome for 2022. Both of these targets are incorporated in the Group's sustainability linked debt funding facilities that were refinanced in August 2022. These new targets will carry a weighting of five per cent each.

The weighting of the Operating Profit and ROCE targets will be reduced by five per cent each to 65 per cent and 25 per cent respectively.

Progression of our ESG priorities is an integral part of our long-term strategy and the inclusion of ESG metrics within our reward structures will support our sustainability strategy. These ESG performance measures are aligned with the sustainability strategy and are specific and measurable.

Salary

The Committee approved a salary increase of 4.4 per cent with effect from 1 January 2023 for the Chief Financial Officer which reflects the average level of salary increase for the wider workforce implemented during 2022. The salary of the Chief Executive Officer is not due for review until 1 January 2024.

Bonus opportunity

For 2023 the maximum annual bonus for the CEO will be 150 per cent of salary and 125 per cent of base salary for the CFO.

As noted above, Gender Diversity and Carbon Reduction targets are new performance measures in the 2023 bonus scheme. These new targets carry a weighting of five per cent each. These targets are material to the business, proportionate, appropriately stretching and linked to the Group's strategy. The weighting of the Operating Profit and ROCE targets will be reduced by five per cent each to 65 per cent and 25 per cent respectively.

Pension

As outlined above, during the year we concluded a benchmarking review to ensure that our pension offering for the wider workforce in the UK was fair and competitive within the sector and the marketplace. This resulted in an increase in the contribution rate available to UK colleagues in line with current market trends and to align contribution rates available with those offered by other companies in our sector. The rate of pension contribution available to the majority of the workforce from 1 January 2023 is 9.0 per cent of base salary and the rate of contribution for Executive Directors will be aligned to that rate.

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 2022. 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 2025 Adjusted EPS target for the 2023 LTIP award, the Committee considered the challenging macro economic environment, the position of the Group in the current construction cycle, a lower level of operating profit budgeted for 2023 and Brokers' forecasts for 2023, 2024 and 2025. The Committee has set a target range for 2025 Adjusted EPS of 89.7p to 101.6p. This gives a threshold target of 89.7p and a maximum target of 101.6p. The Committee believes that this range is appropriately stretching compared against the Adjusted EPS performance for 2022 of 81.2p which, in line with prior years, excludes property profit, the non-recurring pension credit and is also adjusted for a forecast increase in the rate of corporation tax to 22.4 per cent in 2025. As noted in the Financial Review on page 63, this increased rate of corporation tax is based on expectations of the balance of profitability across the Group and related tax rates in each of the countries where we operate. The target Adjusted EPS range for 2025 is equivalent to annual compound growth of 3.4 per cent to 7.8 per cent applied to the revised 2022 base year Adjusted EPS of 81.2p.

For the purpose of the LTIP award, the Adjusted EPS for 2025 will be calculated based on the number of shares in issue at the end of 2022 such that management will not benefit from any share buybacks during the period.

The Committee also 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.

Remuneration Report continued

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 with colleagues from the UK, Ireland and the Netherlands. These forums, made up of colleagues from each of our businesses, provide the opportunity for our people to engage with Non-Executive Directors and to have their views heard at management and Board level. A Colleague Committee was established during the year in Finland.

Colleague support

Grafton was very aware of the pressures on the household budgets of colleagues as a consequence of cost of living increases and put a range of additional support packages in place across the Group. Supporting colleagues and doing as much as possible at a very challenging time was a top priority in unprecedented circumstances. Colleague support across the Group included Selco providing 96 per cent of its 3,000 colleagues with a cost of living support payment of £750 each spread over five months from November 2022 to March 2023 at a total cost of £2.5 million. These measures and the very high national rankings received by the Group's businesses in Great Place to Work and Best Companies colleague engagement surveys demonstrate our commitment to be leading employers in the four countries where we operate.

Shareholder engagement

The Committee is committed to ongoing dialogue with shareholders and institutional investor bodies on remuneration matters and it welcomes feedback as it helps to inform its decisions. The Committee takes an active interest in voting on Annual General Meeting resolutions and is pleased with the high level of support received historically for its Annual Reports on Remuneration and for the three-yearly renewal of the Remuneration Policy.

The Committee has actively engaged with major shareholders and institutional investor bodies concerning the proposed changes to the Remuneration Policy. I believe that the proposed policy is 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

1 March 2023

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), the Companies (Miscellaneous Reporting) Regulations 2018 (the 2018 regulations), the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (the 2019 regulations) 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.

This policy will take effect from the 2023 AGM and is intended to apply until the 2026 AGM and cover the financial years 2023, 2024 and 2025.

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 support the delivery of the strategy and encourage enhanced sustainable long term performance;
- Ensure that the overall package for each director is linked to the short and longer term strategic objectives of the Group as well as being aligned with the Company purpose and values; 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 through high levels of executive share ownership both during and post employment.

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 track record of the individuals concerned and remuneration practices elsewhere in the Group.

Summary of decision-making process and changes to policy

The previous Policy is considered to be fit for purpose and therefore no material changes are proposed. However, the Policy has been updated to reflect recent developments in best practice. In determining the new Remuneration Policy, the Committee followed a robust process which included discussions on the content of the Policy at Remuneration Committee meetings during the year and liaising as necessary with other board committees. The Committee considered the input from management and its independent advisers, as well as considering best practice, shareholder guidance from major shareholders and any potential conflict of interest issues. The main change from the previous policy was on bonus deferral as set out below and on the following pages.

- At present, executive directors are required to apply 30 per cent of any annual bonus earned to purchase shares in Grafton until the minimum shareholding guideline of 200 per cent of base salary is met. In addition, should the bonus earned in any year exceed 120 per cent of base salary for the CEO or 100 per cent for the CFO, then any amount earned above these levels was required to be deferred into shares for three years. Under the new Policy we have simplified and strengthened the current approach by requiring an executive director to apply 30 per cent of any annual bonus earned after statutory deductions for the purchase of shares in the Group. These shares would be required to be held for two years.
- Other relatively minor changes have been made to the wording of the Policy to support its operation and to increase clarity.

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. We also consulted with our largest shareholders and a number of the shareholder advisor bodies prior to finalising proposed changes to the current Remuneration Policy. Feedback received during meetings with major shareholders was also considered as part of the review. Given the limited changes being put forward and the strengthening of existing remuneration elements, shareholders who responded were supportive of the changes.

When any significant changes are proposed to the Remuneration Policy in the future, the Remuneration Committee Chair will look to consult with major shareholders in advance and aim to offer a meeting to discuss proposed changes. The Remuneration Committee will actively engage with shareholders and give serious consideration to their views including any feedback received prior to and during the Annual General Meeting.

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 and in the Chair's Annual Statement.

How the views of employees are taken into account

The Remuneration Committee is provided with an overview of workforce remuneration each year and this was taken into consideration in deciding the pay of Executive Directors and Senior Management.

Remuneration Policy Report continued

Although the Committee does not directly consult with employees on Directors' remuneration, the Committee does take into consideration the pay and employment conditions of all employees when setting the policy for Directors' remuneration. Salary increases are normally in-line with the general increase for the broader employee population and from the end of 2022, pension contributions for Executive Directors were aligned to the level available for the majority of the workforce. The Committee is also mindful of any changes to the pay and benefit conditions for employees more generally when considering the policy for Directors' pay. When determining incentive outcomes for Directors, including if discretion should be applied, the committee will also consider workforce pay and broader incentive outcomes.

Finally, 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 an opportunity for our people to engage with Non-Executive Directors and for their views, including any on remuneration, to be heard at management and Board level.

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 clearly set out the terms under which they can be operated including appropriate limits in terms of quantum, measures used and discretions which could be applied if appropriate. The outcomes of variable elements are dependent on the achievement of performance measures that are disclosed each year in the Remuneration Report.

The Policy updates the previous Policy with minimal structural changes and is therefore already embedded into the business and well understood by participants and shareholders alike.

Additionally, when consulting with major shareholders on executive remuneration, the Committee aims for full transparency surrounding its proposals and the rationale for making any changes.

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. Where changes have been made, this aims to bring simplification to the current arrangements and make the overall approach as clear as possible. For example, we are simplifying our approach to deferral in the annual bonus scheme. We also explain our approach to pay clearly and simply within the Annual Report each year.

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 and its holding period, deferral under the annual bonus and in and post-employment shareholding guidelines;
- Ensuring there is sufficient flexibility to adjust bonus payments and LTIP awards through malus and clawback provisions; and
- Providing the Committee with discretion to override formulaic outcomes that may not accurately reflect the underlying performance of the Group or the shareholder experience.

Predictability

Shareholders are given full information on the potential values which could be earned under the bonus and LTIP plans through Annual Reports on Directors Remuneration and by immediately publishing details of new LTIP awards on the RNS. The graphical illustrations provided in the Policy shows performance and pay outcomes for a number of remuneration scenarios for 2023. Performance is also reviewed during the year by the Committee to ensure that it has an understanding of the possible outcomes based on current information.

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. Bonus payouts and the vesting of long-term incentive awards depend on challenging targets being met and the Committee also has discretion to override formulaic outcomes that may not accurately reflect the underlying performance of the Group or the shareholder experience.

Alignment to culture

The Group's culture encourages high performance and sustainable growth while recognising that Grafton operates in sectors that are cyclical and the committee regularly reviews bonus and incentive schemes to ensure consistency with the Group's purpose, values and strategy.

Long-term sustainable success is important to the Board and the strengthening of deferral arrangements, the long-term nature to our plans and shareholding requirements ensure remuneration arrangements are tied to this aim. Similarly, implementing our ESG strategy is a priority and its inclusion within reward structures will further support implementation.

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
Base salary			
To recruit, retain and reward executives of a suitable calibre for the roles and duties required	<p>Salaries of Executive Directors are normally reviewed annually in January and any changes are normally made effective from 1 January (but may in exceptional circumstances be reviewed and increased at other times).</p> <p>When conducting this review and the level of increase, the Committee considers a range of factors including:</p> <ul style="list-style-type: none"> • The performance of the Group and the individual; • Market conditions; • The prevailing market rates for similar positions in UK and Irish companies of broadly comparable size and a number of industry specific peers; • The responsibilities and experience of each Executive Director; and • The level of salary increases implemented across the Group. 	<p>There is no set maximum, however any increases are normally in-line with the general increase for the broader employee population.</p> <p>Individual adjustments in excess of this may be made at the discretion of the Committee for example:</p> <ul style="list-style-type: none"> • To recognise an increase in the scale, scope or responsibility of a role; • A significant change in the size and/or scope of the business; • Development of an individual within the role; and • Where there has been a significant change in market practice. 	Not applicable
Benefits			
Provide market competitive benefits	<p>Benefits may include company car, mobile telephone, life assurance, private medical cover and permanent health insurance.</p> <p>The Committee may introduce other benefits if it is considered appropriate to do so. These would normally be 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>Where an Executive Director is required to relocate to perform their role, appropriate one-off or ongoing expatriate benefits may be provided (e.g. housing, schooling etc).</p>	The value of other benefits is based on the cost to the company and is not pre-determined.	Not applicable
Pension			
Provide market competitive benefits	A company contribution to a money purchase pension scheme or provision of a cash allowance in lieu of pension or a combination of both.	Pension contributions for Executive Directors will be aligned to the level available for the majority of the wider workforce (which is currently 9.0 per cent of base salary).	Not applicable

Remuneration Policy Report continued

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
Annual bonus			
To encourage and reward delivery of the Group's annual financial and strategic objectives	<p>Bonus payments are determined by the Committee based on performance against the targets.</p> <p>Performance measures and targets are reviewed annually. The bonus is payable in cash.</p> <p>An Executive Director is required to apply 30 per cent of their annual bonus earned after statutory deductions for the purchase of shares in the Group which normally must be held for a two year period.</p> <p>Clawback applies as set out in the notes to the policy table below.</p>	<p>The maximum award under the annual bonus plan is 150 per cent of basic salary with the maximum award typically at this level for the CEO and at 125 per cent of salary for the CFO.</p> <p>The Committee may, in its discretion, adjust annual bonus payments, if it considers that the outcome does not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period, or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as it considers relevant.</p>	<p>The majority of the bonus will be based on the achievement of appropriate financial measures but may also include an element for non-financial measures including personal performance, ESG and strategic measures.</p> <p>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>
Long Term Incentives ('LTIP')			
To encourage and reward delivery of the Group's strategic objectives; to provide alignment with shareholders through the use of shares and to assist with retention	<p>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 normally over three financial years and the Executive Director remaining employed in the Group.</p> <p>There is normally 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 in the notes to the table.</p>	<p>The maximum value of awards which may be granted in respect of any financial year is 200 per cent of salary.</p> <p>Awards for the CEO are normally at this level and at 175 per cent of salary for the CFO.</p> <p>The Committee may, in its discretion, adjust the LTIP vesting outcome, if it considers that the outcome does not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period, or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as the Committee considers relevant.</p>	<p>LTIP awards vest subject to the achievement of challenging performance targets normally 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 different financial and non-financial 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>Normally, 25 per cent of a metric will vest if the lower target in the range is achieved. Where the outcome 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>The vesting of shares is also subject to the Committee being satisfied that the overall financial results have been satisfactory in the circumstances over the performance period.</p>
All-employee share plans			
To encourage share ownership and align the interests of employees with shareholders	<p>Executive Directors are entitled to participate in employee share schemes in operation during the period of the policy on the same basis as other colleagues.</p> <p>The Group currently operates the 2021 Approved SAYE Plan for UK colleagues.</p>	<p>The limits are in line with the limits for other employees which are set by the UK tax authorities. Currently this limit is £500 per month for the SAYE scheme.</p>	Not applicable

Element, purpose and link to strategy	Operation	Maximum opportunity/limit	Performance targets/comments
Share ownership guidelines			
To increase the alignment of interests between Executive Directors and shareholders	<p>Executive Directors are expected to build and maintain a holding of Company shares equal to at least 200 per cent of base salary. Executive Directors are expected to retain half of any shares that vest under the LTIP after taking into account any shares sold to pay tax and other statutory obligations, until a shareholding of at least 200 per cent of base salary is reached.</p> <p>LTIP awards made that are subject to the two year holding period will be deemed to be part of an executive directors' shareholding.</p> <p>The two-year holding period will continue to apply after a Director has stepped down from the Board.</p> <p>Executive Directors will normally be expected to maintain a minimum shareholding of 200 per cent of salary (or actual shareholding if lower) for the two-years after stepping down from the Board. The Committee retains discretion to waive this guideline in exceptional circumstances if it is not considered to be appropriate.</p>	Not applicable	Not applicable
Chair and Non-Executive Director fees			
To attract and retain a high-calibre Chair and Non-Executive Directors by offering a market competitive fee level	<p>The Chair's fee is set based on a recommendation from the Remuneration Committee. The Chair is currently paid a single inclusive fee for the role.</p> <p>The Board (but excluding the Non-Executive Directors) sets the level of remuneration of all Non-Executive Directors within an aggregate limit approved from time to time by shareholders.</p> <p>The policy is to pay Non-Executive Directors a basic fee for membership of the Board and additional fees for serving as Chair of Audit & Risk and Remuneration Committees to recognise the additional responsibilities and time commitment of these roles.</p> <p>Additional fees may be paid to reflect additional Board or Committee responsibilities or time commitments as appropriate.</p> <p>The level of fees paid to the Chair of the Board and all Non-Executive Directors recognises the time commitment and responsibilities of the role.</p> <p>The Chair and 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>The Chair and Non-Executive Directors do not participate in any pension or incentive plans.</p> <p>Additional benefits may be introduced if considered appropriate.</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 for six years from the date of payment 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 vesting) 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;
- 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 within 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

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above, where the terms of the payment were agreed (i) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, "payments" include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" no later than at the time the award is granted.

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 and the pension is aligned with that offered to the majority of the wider workforce.

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 it 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 normally 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 provision of one-off or ongoing expatriate benefits (e.g. housing, schooling etc.) to facilitate recruitment and ensure that 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 normally 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 or other contractual terms (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 would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate.

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 service to the date of cessation of employment. Such bonus would normally be subject to the same performance conditions as the normal bonus and payable at the normal time;

Remuneration Policy Report continued

- The Committee also retains the discretion to meet any reasonable legal fees or outplacement costs or cost of a similar nature if deemed necessary; and
- Following service of notice to terminate employment, the Company may place the executive on garden leave. During this time, the executive will continue to receive salary and benefits (or a sum equivalent to) until the termination of employment.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct.

If the Group terminates employment in lieu of notice in other circumstances, compensation payable is as provided for in employment contracts which is as follows:

- Eric Born – basic salary together with pension and benefits due for any unexpired period.
- David Arnold – basic salary together with benefits and bonus which would have been payable during the notice period or any unexpired balance thereof. Any bonus payable is subject to performance conditions. Payments may be made in monthly instalments.

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

The treatment of unvested awards previously granted under the LTIP upon termination will be determined in accordance with the plan rules.

As a general rule, 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 normally vest on the normal vesting date subject to the satisfaction of performance conditions and, unless the Committee determines, otherwise 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, unless the Committee determines otherwise, pro-rated to the date of cessation of employment.

Non-Executive Directors

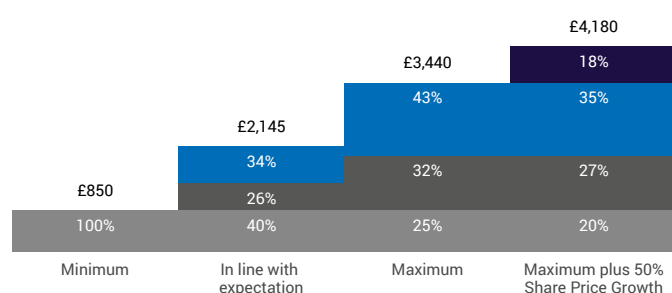
All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice or otherwise in accordance with the Group's Articles of Association and subject to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

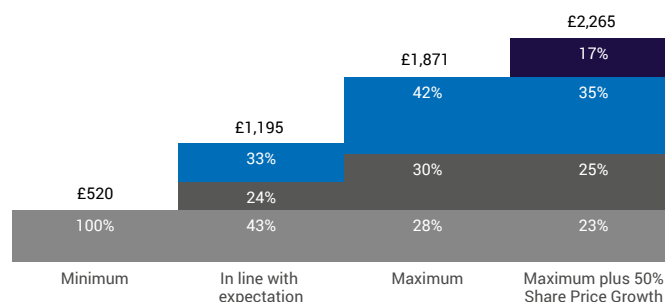
Remuneration scenarios for Executive Directors

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 2023 for Executive Directors vary under four performance scenarios – Minimum, In line with Expectation, Maximum and Maximum plus 50 per cent share price growth.

Chief Executive Officer (£'000)



Chief Financial Officer (£'000)



■ Fixed ■ Annual Bonus ■ Long Term Share Awards ■ Share Price Growth

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

Assumptions

Minimum = fixed pay only (2023 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.

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, Dr. Rosheen McGuckian and Ms. Avis Darzins 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 2022 by invitation and participated in discussions. During the year the Committee consulted with the former and current CEOs who were 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 who attended meetings of the Committee, Ms. Paula Harvey, Group HR Director who is also Secretary of the Committee and Ms. Rebecca McAleavey, Assistant Company Secretary. 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 £72,550. Fees were charged on a time and material basis. Deloitte were appointed by the Committee following a competitive tender process.

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 the Remuneration Policy for 2022 and on other remuneration matters including the new Remuneration Policy, ESG performance measures, termination arrangements with the former Chief Executive Officer and the remuneration package of the new Chief Executive Officer.

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.

Annual Report on Remuneration continued

Activity during the year

January 2022

- Considered a draft of the 2021 Report of the Remuneration Committee on Directors' Remuneration;
- Shareholder consultation on annual bonus scheme opportunity;
- Annual review of performance of Committee and outcome of Committee Effectiveness Review.

February 2022

- Considered and approved the Report of the Remuneration Committee on Directors' Remuneration;
- Determined annual bonus payments for 2021;
- Determined the extent of vesting of the LTIP awards made in 2019;
- Considered feedback from shareholder consultation on 2022 annual bonus scheme opportunity;
- Agreed the quantum of 2022 LTIP awards to be granted to Executive Directors and the Company Secretary;
- Agreed the performance conditions for the 2022 LTIP awards including the EPS range;
- Considered and agreed the TSR comparator Group for the 2022 LTIP award;
- Reviewed the CEO Pay Ratio with the wider workforce.

April 2022

- Approved vesting of LTIP awards granted in 2019;
- 2022 SAYE grant of awards;
- Update on shareholder voting and feedback on AGM resolution on Annual Report on Remuneration.

August 2022

- Termination arrangements for former Chief Executive Officer;
- Good leaver status for LTIP awards to below Board level executives.

October 2022

- Considered an update from Deloitte on latest executive remuneration trends and corporate governance developments;
- Considered shareholder and proxy advisor feedback received on the 2021 Report of the Remuneration Committee on Directors' Remuneration;
- Draft contract of employment for new CEO;
- Remuneration policy review and consideration of ESG measures;
- Considered whether any remuneration benchmarking was required and if remuneration policy remains appropriate;
- Reviewed share allocation and dilution limits;
- Reviewed the Committee Terms of Reference.

November 2022

- Considered level of potential Bonus Awards for 2022;
 - Considered level of potential vesting of 2019 LTIP Awards in 2022;
 - Considered an update on pay across the Group's workforce;
 - Determine 2023 salary increases for Chief Financial Officer and Company Secretary;
 - 2023 Bonus Scheme structure, measures and financial targets;
 - Approved issue of LTIP award to new Chief Executive Officer;
 - Initial consideration of 2023 LTIP Awards;
 - Reviewed Executive Directors' shareholdings against Policy;
 - Review of pension contributions available to the majority of the workforce;
 - Shareholder consultation on proposed changes to Remuneration Policy.
-

Single total remuneration figure of Directors' remuneration

The following table sets out the total remuneration for Directors for the year ending 31 December 2022 and the prior year.

	Salary/Fees (a)		Bonus (b)		Pension (c)		Other benefits (d)		Long term incentive plan (e)		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Executive Directors												
G. Slark (i)	630	611	–	733	128	128	32	32	–	1,372	790	2,876
E. Born (ii)	70	–	–	–	2	–	4	–	–	–	76	–
D. Arnold	431	418	209	418	86	84	29	28	352	822	1,107	1,770
	1,131	1,029	209	1,151	216	212	65	60	352	2,194	1,973	4,646
Non-Executive Directors												
M. J. Roney	239	231	–	–	–	–	–	–	–	–	239	231
P. Hampden Smith	72	61	–	–	–	–	–	–	–	–	72	61
S. Murray	72	61	–	–	–	–	–	–	–	–	72	61
V. Crowley	62	61	–	–	–	–	–	–	–	–	62	61
R. McGuckian	62	61	–	–	–	–	–	–	–	–	62	61
A. Darzins (iii)	57	–	–	–	–	–	–	–	–	–	57	–
	564	475	–	–	–	–	–	–	–	–	564	475
Total Remuneration	1,695	1,504	209	1,151	216	212	65	60	352	2,194	2,537	5,121

The following table sets out the total remuneration for Executive Directors split between fixed and variable pay for the year ending 31 December 2022 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	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Executive Directors						
G. Slark	790	771	–	2,105	790	2,876
E. Born	76	–	–	–	76	–
D. Arnold	546	530	561	1,240	1,107	1,770
	1,412	1,301	561	3,345	1,973	4,646

(i) Mr. G. Slark stepped down from the Board on 31 December 2022

(ii) Mr. E. Born was appointed Chief Executive Officer and joined the Board on 28 November 2022

(iii) Ms. A. Darzins was appointed to the board on 1 February 2022

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 £379,000 (2021: £1,248,000).

Notes to the Directors' remuneration table:

- This is the amount of salaries and fees earned in respect of the financial year. Non-Executive Directors' fees are payable in Euros. 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 3.1 per cent to €72,603 would apply with effect from 1 January 2022. The sterling equivalent amounts to £61,913 on the basis of the average exchange rate for the year of 85.28 pence. It was further agreed that with effect from 1 January 2022 additional fees of €11,594 (sterling equivalent of £9,887) would be paid to each of the Chairs of the Audit and Risk Committee and the Remuneration Committee.
- This is the amount of bonus earned in respect of the financial year. The amount payable in respect of 2022 will be paid at the end of March 2023. Mr. G. Slark's right to a bonus was forfeited on leaving the Group on 31 December 2022. Mr Born joined the Group on 28 November 2022 and did not participate in the bonus scheme.
- This is the amount of contribution payable in respect of the financial year by way of a company contribution to a pension scheme or a taxable payment in lieu of pension made through the payroll.
- Benefits comprise permanent health and medical insurance and the provision of a company car.
- For the year ended 31 December 2022, this is the value of LTIP awards that will vest in September 2023. The vesting of these awards was subject to a TSR performance condition over the period from 1 January 2020 to 31 December 2022. The value of the awards that will vest is based on the average share price of £7.47 for the three months to 31 December 2022. This represents a decrease of £0.0975 or 1.3 per cent from the share price of £7.3725 at the date of grant. No discretion was applied as a result of this decrease. For the year ended 31 December 2021, this is the value of LTIP awards that vested in May 2022 which has been updated from that disclosed last year to reflect the share price of £9.705 on the date of vesting. The amounts disclosed in the 2021 report were £1,772,000 in respect of G. Slark and £1,062,000 in respect of D. Arnold.

Annual Report on Remuneration continued

Fixed pay in 2022

Salary and fees

Having taken account of both external market developments and internal Group considerations, the Committee agreed in December 2021 that the basic salary of the Chief Executive Officer and the Chief Financial Officer would increase by 3.1 per cent from 1 January 2022 in line with the wider workforce

	Salary/Fees		
	2022 £'000	2021 £'000	Change
G. Slark	630	611	3.1%
D. Arnold	431	418	3.1%

Non-Executive Directors' fees were increased by 3.1 per cent with effect from 1 January 2022 to £61,913 per annum (based on an exchange rate of Stg85.28 pence to 1 Euro) (constant currency (€72,603)). It was further agreed that with effect from 1 January 2022 additional fees of €11,594 (sterling equivalent of £9,887) would be paid to each of the Chairs of the Audit and Risk Committee and the Remuneration Committee. The fee paid to Mr. Roney, Non- Executive Chair, was increased by 3.1 per cent to £238,553 with effect from 1 January 2022.

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 2022 Taxable Benefits £'000	Total 2021 Taxable Benefits £'000
G. Slark	9	23	32	32
E. Born	1	3	4	—
D. Arnold	6	23	29	28

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 cash allowance paid through the payroll in lieu of pension benefit.

	2022 Base Salary	% of salary	2022 Pension Contribution	2021 Pension Contribution
G. Slark	630	20.3%	128	128
E. Born	70	3.1%	2	—
D. Arnold	431	20.0%	86	84

Mr. Slark's pension benefit comprised a payment made to a defined contribution scheme and a taxable cash 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 have been aligned to the level available for the majority of the wider workforce at that time which was 9.0 per cent.

Pay for performance

Annual bonus

The maximum bonus opportunity for Mr. Slark and Mr. Arnold was 150 per cent and 125 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	105%	45%	150%
D. Arnold	87.5%	37.5%	125%

Financial targets were set at the beginning of the year by reference to the Group's budget for 2022. The actual targets and performance against those targets are set out in the table below for 2022:

	Threshold (0% Payable)	Budget (50% Payable)	Stretch (100% Payable)	Actual	% of Maximum Payable
Operating profit (£'000)*	232,237	251,067	269,897	249,805	46.65
Return on capital employed**	19.1%	20.7%	22.2%	19.7%	20.48

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

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

The award for each financial measure was based on a sliding scale from 92.5 per cent to 107.5 per cent of the Group's budget for 2022. No bonus was payable if performance was below a minimum threshold of 92.5 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 107.5 per cent of budget.

The Committee considered the extent to which these targets were achieved and agreed a payment of 48.5 per cent of salary for Mr. Arnold out of a maximum bonus opportunity of 125 per cent of salary. Mr. G. Slark's right to a bonus was forfeited on leaving the Group on 31 December 2022. Mr. Born was not entitled to a bonus for 2022. 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 2022

The performance conditions for LTIP awards made to Executive Directors in September 2020 were based on relative TSR versus a comparator group consisting of the constituents of the London Stock Exchange's FTSE 250 Index excluding investment trusts.

In view of the difficulty setting appropriate, stretching and fair EPS targets for 2022 due to the uncertainty in the Group's markets caused by the Covid 19 pandemic, the Committee determined following consultation with major shareholders that it was not appropriate for the 2020 LTIP award to Executive Directors to be based on EPS performance and agreed that the award would be 100 per cent based on TSR performance versus the FTSE 250 excluding investment trusts. The Committee believed that basing 100 per cent of the award on TSR was a clear and transparent approach to ensure that the vesting outcome was fully aligned with the shareholder experience. Additionally, The Committee consulted with major shareholders in advance of agreeing this change and was pleased with the level of support received. The Committee agreed that the vesting outcome was reflective of the underlying financial performance of the business and was appropriate in the context of the experience of shareholders and other stakeholders.

The relevant targets and results for the year were as follows:

100% TSR relative to a peer group		
	Performance ranking required	% of element vesting
Below threshold	Below median	0%
Threshold	Median	25%
Between threshold and stretch	Median-80th percentile	25%-100%
Stretch or above	Above 80th percentile	100%
Actual achieved	Median-80th percentile	47.8%

The TSR performance measured over the three-year period from 1 January 2020 to 31 December 2022 will result in the vesting in September 2023 of 47.8 per cent of the award granted to the Chief Financial Officer. The award made to the former Chief Executive Officer lapsed on giving notice to the Company that he was stepping down from the role.

The following is a summary of the awards that will vest under the scheme in 2023:

Director	Total number of shares granted	Percentage of award vesting (%)	Number of shares vesting	Value of shares vesting (£) ¹
G. Slark	164,714	0%	—	—
D. Arnold	98,709	47.8%	47,182	352,450

1 As these awards do not vest until after 10 September 2023 a deemed share price is used to calculate the value of shares vesting. This is taken as the three-month average to 31 December 2022 being £7.47.

Annual Report on Remuneration continued

LTIP awards granted during the year ended 31 December 2022

The following awards were made during the year ended 31 December 2022:

	Date of grant	Number of nil cost units	% Of base salary	Share price at grant date	Value of award at grant date
E. Born	29 November 2022	37,251	50*	£9.9325*	£369,996
G. Slark	1 April 2022	126,807	200	£9.9325	£1,259,511
D. Arnold	1 April 2022	75,992	175	£9.9325	£754,791

The award granted to the former Chief Executive Officer lapsed on him giving notice to the Company that he was stepping down from the role.

* The Committee determined that it was appropriate to award Mr. Born a reduced LTIP award of 50 per cent of base salary on joining (based on the same share price used to determine the awards in April) to ensure that he was incentivised to drive the delivery of long-term performance.

The 2022 awards to Mr. Born 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 101.7p	0%
Threshold	Median	25%	101.7p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	101.7-116.4p	25%-100%
Stretch or above	Above 80th percentile	100%	Above 116.4p	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.

The former Chief Executive Officer was a Non-Executive Director of Galliford Try Holdings plc during the year and was permitted to retain his fee for the role which amounted to £44,600 in 2022. 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 £61,800 in 2022.

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 2023

Salaries

The Remuneration Policy for 2023 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 4.4 per cent with effect from 1 January 2023 for the Chief Financial Officer which reflects the typical level of salary increase for the wider workforce. The salary of the Chief Executive Officer is not due for review until 1 January 2024.

The following salaries will apply from 1 January 2023:

	2023 Base salary	2022 Base salary	% Increase
E. Born	£740,000	£740,000	—
D. Arnold	£450,288	£431,310	4.4%

Chair and Non-Executive Directors' fees

A benchmark review of fees payable to Non-Executive Directors and the Chair was undertaken during 2021 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 reflected 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 2022 see page 135. Fees payable to Non-Executive Directors and the Chair for 2023 will remain in line with 2022.

Pension and benefits

Mr. Born and Mr. Arnold will receive taxable pension contributions/ cash allowance in lieu of pension of 9.0 per cent of salary with effect from 1 January 2023 which have been aligned to the level available for the majority of the wider workforce.

Annual bonus

As set out in the 2021 Committee Report, the maximum annual bonus opportunity is 150 per cent of salary for the Chief Executive Officer and 125 per cent for the Chief Financial Officer.

Given the strong progress Grafton has made implementing its sustainability strategy and the continued evolution of market practice, Gender Diversity and Carbon Reduction targets are added under the new policy to the annual bonus performance measures. These new targets will carry a weighting of five per cent each. The gender diversity target will be based on increasing the number of female colleagues as a proportion of the Group's workforce by one per cent compared to the outcome for 2022. Grafton has been managing its Scope 1 and 2 GHG emissions annually since 2014 and the carbon emissions target will be based on a reduction of 2.5 per cent in emissions per £ million of revenue at constant prices in 2023 against the outcome for 2022. The weighting of the Operating Profit and ROCE targets are reduced by five per cent each to 65 per cent and 25 per cent respectively.

65 per cent of the annual bonus is based on Operating profit, 25 per cent on Return on capital employed and five per cent each for gender diversity and carbon emissions targets. The measures and weightings for 2023 are as follows:

CEO bonus based on	% of salary 2023	% of salary 2022
Operating profit	97.50%	105.00%
Return on capital employed	37.50%	45.00%
Gender Diversity	7.50%	—
Carbon Emissions	7.50%	—
	150.00%	150.00%
CFO bonus based on	% of salary 2023	% of salary 2022
Operating profit	81.25%	87.50%
Return on capital employed	31.25%	37.50%
Gender Diversity	6.25%	—
Carbon Emissions	6.25%	—
	125.00%	125.00%

The operating profit and return on capital employed targets are commercially sensitive and will be disclosed in the 2023 Annual Report.

Under the new Policy we propose to simplify and strengthen the current approach by requiring an Executive Director to apply 30 per cent of any annual bonus earned after statutory deductions for the purchase of shares in the Group. These shares would be required to be held for two years.

Clawback provisions operate as set out in the Remuneration Policy on page 130.

Annual Report on Remuneration continued

Long term incentives

Awards to be made in 2023 will be at the same level as 2022 being 200 per cent of salary for the CEO and 175 per cent of salary for the CFO. Vesting of the 2023 award will be based on relative TSR (50 per cent) and on EPS (50 per cent) performance conditions in line with the prior 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 89.7p	0%
Threshold	Median	25%	89.7p	25%
Between threshold and stretch	Median-80th percentile	25%-100%	89.7p-101.6p	25%-100%
Above 80th percentile	Above 80th percentile	100%	101.6p	100%

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

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

When setting the 2025 Adjusted EPS target for the 2023 LTIP award, the Committee considered the challenging macro economic environment, the position of the Group in the current construction cycle, a lower level of operating profit budgeted for 2023 and Brokers' forecasts for 2023, 2024 and 2025. The Committee has set a target range for 2025 Adjusted EPS of 89.7p to 101.6p. This gives a threshold target of 89.7p and a maximum target of 101.6p. The Committee believes that this range is appropriately stretching compared against the Adjusted EPS performance for 2022 of 81.2p which, in line with prior years, excludes property profit, the non-recurring pension credit and is also adjusted for a forecast increase in the rate of corporation tax to 22.4 per cent in 2025. As noted in the Financial Review on page 63, this increased rate of corporation tax is based on expectations of the balance of profitability across the Group and related tax rates in each of the countries where we operate. The target Adjusted EPS range for 2025 is equivalent to annual compound growth of 3.4 per cent to 7.8 per cent applied to the revised 2022 base year Adjusted EPS of 81.2p.

For the purpose of the LTIP award, the Adjusted EPS for 2025 will be calculated based on the number of shares in issue at the end of 2022 such that management will not benefit from any share buybacks during the period.

The Committee also 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.

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 2022 financial year compared with the prior year.

	2022 £'000	2021 £'000	Percentage change
Dividends payable	73,585*	73,050	0.7%
Employee remuneration costs**	337,204	317,056	6.4%

* Based on shares in issue as at 24 February 2023

** From continuing operations

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. Change is calculated using unrounded pay figures in local currency. Mr. Eric Born and Ms. Avis Darzins were appointed to the Board during the year.

	Salaries or fees (% change)		Benefits (% change)		Bonus (% change)	
	2021 to 2022	2020 to 2021*	2021 to 2022	2020 to 2021	2021 to 2022**	2020 to 2021***
E. Born	n/a	n/a	n/a	n/a	n/a	n/a
G. Slark	3.1%	5.1%	0.1%	(23.3%)	(100%)	100.0%
D. Arnold	3.1%	5.1%	3.2%	(32.4%)	(50%)	100.0%
M. Roney	3.1%	5.3%	–	–	–	–
P. Hampden Smith****	19.6%	5.3%	–	–	–	–
S. Murray****	19.6%	5.3%	–	–	–	–
V. Crowley	3.1%	5.3%	–	–	–	–
R. McGuckian	3.1%	5.3%	–	–	–	–
A. Darzins	n/a	n/a	–	–	–	–
Average employee						
Salary, Benefits and Bonus (£)*****	4.0%	10.4%				

* 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.

** Mr. G. Slark's right to a bonus was forfeited on leaving the Group on 31 December 2022.

*** The CEO and CFO requested that the annual bonus plan be suspended for 2020 and therefore no bonus was payable.

**** 2022 includes additional fees of €11,594 for the Chairs of the Audit and Risk Committee and the Remuneration Committee.

***** Based on average number of persons employed during the year, from continuing operations. The increase in constant currency was 4.5 per cent.

Annual Report on Remuneration continued

CEO pay ratio to the workforce

The table below shows the ratio of the CEO's total remuneration for 2022 and the lower, median and upper quartile full-time equivalent remuneration of the Group's UK employees. The pay ratios for 2021, 2020 and 2019 are also shown for comparison. Grafton 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 2022. The total number of UK colleagues included in the 2022 pay ratio analysis was 4,248. The analysis included colleagues employed as of 31 December 2022.

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	138:1*	120:1*	90:1*
2022	Option A	35:1	31:1	26:1

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
2022	Option A	£22,402	£21,031	£25,389	£23,381	£30,855	£28,148

The pro-rated single figure for both CEO's of £790,792 includes all remuneration (salary, pension and benefits). No bonus or LTIP was applicable for 2022 as Gavin Slark stepped down from the Board on 31 December 2022 and Eric Born joined the Group on 28 November 2022.

Details of colleague bonus payments in respect of 2022 is based on bonuses paid in 2022. 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 2022.

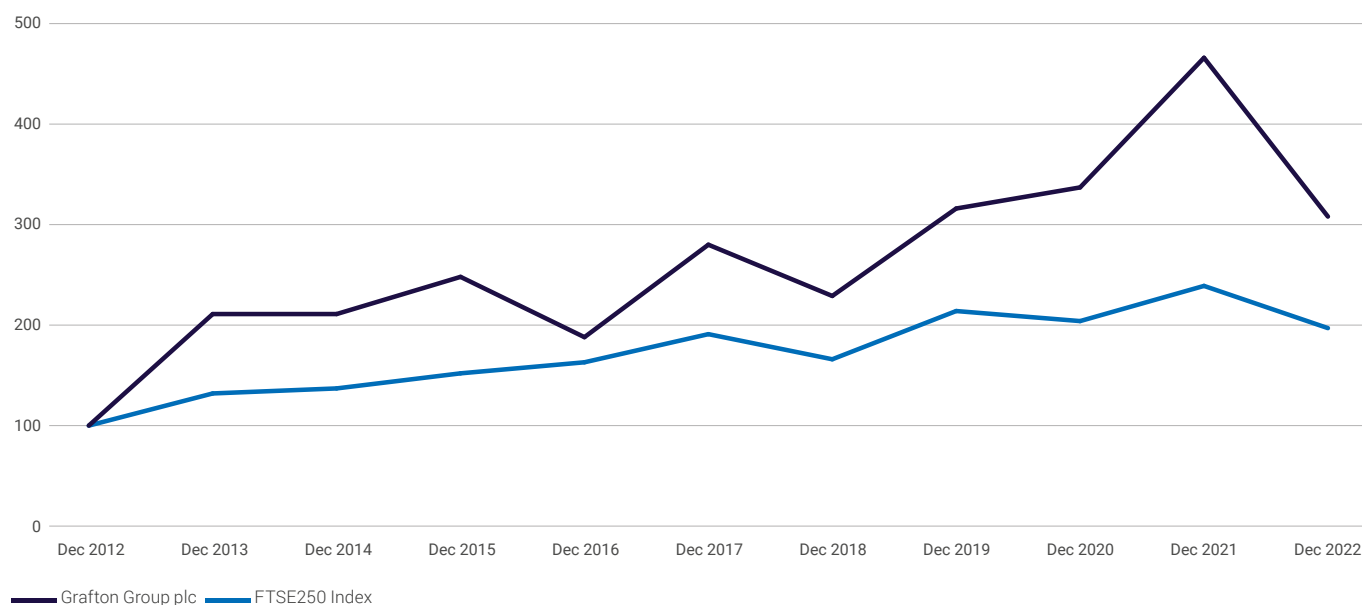
The Committee considers the median pay ratio consistent with the Group's wider policies on employee pay, reward and progression. For example, the Committee reviewed workforce remuneration including base pay, benefits and incentives which was taken into consideration when deciding the pay of Executive Directors and Senior Management. Changes in total remuneration for the CEO are largely as a result of the volatile nature of their variable pay.

* The pay ratio reported for 2021 has been re-calculated to reflect the value of the CEO LTIP award that vested in May 2022. As outlined above, when we reported the 2021 ratio, full details of colleague bonuses in respect of 2021 were not available and therefore colleague bonus pay data was based on bonuses paid in 2021, some of which relate to performance in respect of 2020. The ratio for 2021 has also been updated to be based on colleague bonuses paid in respect of 2021 such that it is on a like for like basis to the CEO's single figure calculation.

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 2012 to 31 December 2022.



Source: Thomson Reuters

This graph shows the value, by 31 December 2022, of £100 invested in Grafton Group plc on 31 December 2012, 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.

The table below shows the total remuneration figure for the position of CEO over the ten years to 2022.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
CEO single total figure of remuneration (£'000)	1,524	3,080	2,255	1,692	1,689	2,211	1,852	1,322	2,876	791*
Annual bonus payout relative to maximum	49%	98%	53%	60%	100%	93%	19%	0%	100%	n/a
LTIP vesting	45%	100%	87%	50%	26%	72%	95%	30%	100%	n/a

* This is the pro-rated single figure of remuneration for the role of CEO. No bonus or LTIP was applicable in 2022.

Annual Report on Remuneration continued

Statement of shareholder voting

The 2021 Annual Report on Remuneration received the following votes from shareholders at the 2022 AGM:

	Total number of votes	% of votes cast
For	133,268,042	89.45
Against	15,725,702	10.55
Total	148,993,744	100

The number of votes withheld for the Annual Report on Remuneration was 1,975.

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 2022 Grafton Units*	31 December 2021 Grafton Units	Unvested LTIP awards**	Unvested SAYE options***
E. Born	–	–	37,251	–
G. Slark	214,308	295,813	–	–
D. Arnold	190,430	149,383	235,684	2,691
M. J. Roney	45,826	33,824	–	–
P. Hampden Smith	32,990	32,990	–	–
V. Crowley	8,000	8,000	–	–
S. Murray	1,500	1,500	–	–
R. McGuckian	3,455	1,332	–	–
A. Darzins	2,406	–	–	–
Secretary				
C. Rinn	486,598	460,307	73,807	–

* At 31 December 2022 a Grafton Unit consists of one Ordinary Share of €0.05 in Grafton Group plc.

** Vesting of these awards is subject to performance conditions and includes awards granted in 2020, 2021 and 2022.

*** Option to buy shares at the agreed price within six months of the end of the three year period 1 December 2023 (1,557 units) and 1 June 2025 (1,134 units).

The closing price of a Grafton Unit on 31 December 2022 was 788.6p (31 December 2021: 1,233.0p) and the price range during the year was between 630.6p and 1255.0p (2021: 859.50p and 1412.0p). There have been no changes in the interests of the Directors and Secretary between 31 December 2022 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. Born took up the position of CEO on 28 November 2022 was not required to hold any shares at the year-end. Mr. Slark held shares at the year-end valued at 2.7 times his salary. Mr. Arnold held shares at the year-end valued at 3.5 times his salary. This is based on the closing price of a Grafton Unit on 31 December 2022 of 788.6p.

2019 LTIP awards over 141,336 Grafton Units vested in May 2022 in favour of Mr. Slark who instructed the Company to immediately sell 72,841 of these Grafton Units to meet tax liabilities and brokers commission and he retained the remainder being 68,495 Grafton Units. 2019 LTIP awards over 84,699 Grafton Units vested in May 2022 in favour of Mr. Arnold who instructed the Company to immediately sell 43,652 of these Grafton Units to meet tax liabilities and brokers commission and he retained the remainder being 41,047 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**
			01-Jan-22	Granted	Lapsed	Shares Received	31-Dec-22				
E. Born	29 Nov 2022	£8.059	–	37,251	–	–	37,251	18,625	18,626	1 Jan 2022- 31 Dec 24	29 Nov 2025
			–	37,251	–	–	37,251	18,625	18,626		
G. Slark	12 April 2019	£8.48	141,336	–	–	(141,336)*	–	–	–	1 Jan 2019- 31 Dec 2021	12 April 2022
	10 Sept 2020	£7.37	164,714	–	(164,714)	–	–	–	–	1 Jan 2020- 31 Dec 2022	10 Sept 2023
	17 May 2021	£12.005	101,761	–	(101,761)	–	–	–	–	1 Jan 2021- 31 Dec 2023	17 May 2024
	1 April 2022	£9.9325	–	126,807	(126,807)	–	–	–	–	1 Jan 2022- 31 Dec 2024	1 April 2025
			407,811	126,807	(393,282)	(141,336)	–	–	–		
D. Arnold	12 April 2019	£8.48	84,699	–	–	(84,699)*	–	–	–	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
	1 April 2022	£9.9325	–	75,992	–	–	75,992	37,996	37,996	1 Jan 2022- 31 Dec 2024	1 April 2025
			244,391	75,992	–	(84,699)	235,684	68,488	167,196		
C. Rinn	12 April 2019	£8.48	26,291	–	–	(26,291)*	–	–	–	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
	1 April 2022	£9.9325	–	22,462	–	–	22,462	11,231	11,231	1 Jan 2022- 31 Dec 2024	1 April 2025
			77,636	22,462	–	(26,291)	73,807	20,687	53,120		

* The market price at the date of vesting was £9.705.

** 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

1 March 2023

Report of the Directors

The Directors present their report to the shareholders together with the audited financial statements for the year ended 31 December 2022.

Group results

Group revenue from continuing operations increased by 9.1 per cent to £2.30 billion from £2.11 billion in 2021. Statutory operating profit was £264.3 million (2021: £269.2 million). Adjusted operating profit from continuing operations of £285.9 million was down marginally from £288.0 million last year. This included a non-recurring pension scheme curtailment gain of £3.7 million.

The net finance expense declined to £12.6 million (2021: £19.4 million). This charge includes an interest charge of £14.9 million (2021: £14.6 million) on lease liabilities recognised under IFRS 16.

The income tax expense of £43.1 million (2021: £43.0 million) is equivalent to an effective tax rate of 17.1 per cent of profit before tax (2021: 17.2 per cent).

Basic earnings per share from continuing operations was 89.3 pence (2021: 86.4 pence). Adjusted earnings per share from continuing operations was 96.6 pence (2021: 93.0 pence).

The Group and Company financial statements for the year ended 31 December 2022 are set out in detail on pages 160 to 228.

Dividends

A final dividend for 2021 of 22.0p per ordinary share in Grafton Group plc was paid on 5 May 2022 to shareholders on the register of members at the close of business on 8 April 2022.

An interim dividend for 2022 of 9.25p per ordinary share in Grafton Group plc was paid on 7 October 2022 to shareholders on the register of members at the close of business on 9 September 2022.

A final dividend for 2022 of 23.75p per ordinary share in Grafton Group plc is proposed for approval by shareholders at the AGM on 4 May 2023 and, if approved, will be paid on 11 May 2023 to shareholders on the register of members at the close of business on 14 April 2023. The ex-dividend date is 13 April 2023.

Review of the business

Shareholders are referred to the Chair'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 2022, the outlook for 2023 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 70 to 75 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 2022 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 2023 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 6.00pm 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 Irish Management Institute (IMI) Sandyford Rd, Dublin, D16 X8C3, Ireland at 10.30am on Thursday 4 May 2023. The Notice of Meeting for the 2023 AGM will be made available on the Group's website, 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 2022 together with the reports of the Directors and the Auditors.

Final dividend

Shareholders are being asked to declare a final dividend of 23.75p per Ordinary Share for the year ended 31 December 2022 payable on 11 May 2023 to the holders of Ordinary Shares on the register of members at close of business on 14 April 2023.

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

The Board is proposing to submit the Chair's Annual Statement, and the Annual Report on Remuneration of the Remuneration Committee, as set out on pages 120 to 124 and 133 to 145, to a non-binding advisory vote.

2023 Remuneration Policy

In line with best practice, the Board is proposing to submit a new Remuneration Policy which is set out on pages 125 to 132 to a non-binding advisory vote. It is the Company's intention that this policy will apply until the 2026 AGM unless the Remuneration Committee seeks approval from shareholders to adopt a new policy at an earlier date.

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 one third 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 representing five per cent of the nominal value of the issued ordinary share capital of the Company as at the date of the Notice of Annual General Meeting.

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 2022 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.

Report of the Directors continued

Authority to re-issue treasury shares

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

The authorities which will be sought at the forthcoming AGM to allot relevant securities, dis-apply pre-emption rights, purchase the Company's Units and re-issue treasury shares will, if granted, expire on the earlier of the date of the Annual General Meeting in 2024 or 15 months after the passing of these resolutions.

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 2022 and 24 February 2023:

Name	31 December 2022		24 February 2023	
	Holding	%	Holding	%
Mr. Michael Chadwick*	21,926,409	9.81	21,926,409	9.93
Investec Asset Management Limited	19,046,178	8.53	19,046,178	8.62
Blackrock, Inc.	18,335,460	8.21	18,335,460	8.30
abdrn plc	11,244,122	5.03	11,221,384	5.08
Dimensional Fund Advisors LP	9,513,966	4.26	9,513,966	4.31
Aviva plc	7,202,072	3.22	6,579,852	2.98
Norges Bank	7,138,076	3.20	7,138,076	3.23
GLG Partners LP	7,133,509	3.19	10,549,332	4.78
JPMorgan Asset Management Holdings Inc.	6,869,964	3.08	6,869,964	3.11
Allianz Global Investors Gmbh	6,630,885	2.97	6,630,885	3.00

* 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 24 February 2023 or at 31 December 2022 of any interest of 3 per cent or more in its ordinary share capital.

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

Accounting records

The Directors are responsible for ensuring that adequate accounting records are maintained by the Company as required by Sections 281-285 of the Companies Act, 2014. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records throughout the Group including the appointment of personnel with appropriate qualifications, experience and expertise. The books and accounting records of the Company are maintained at Heron House, Corrig Road, Sandyford Business Park, Dublin 18, Ireland.

Takeover regulations 2006

The capital structure of the Company is detailed in Note 18 to the Group Financial Statements. Details of employee share schemes are set out in Note 31. In the event of a change of control, the vesting/conversion/ exercise of share entitlements/options may be accelerated. The Group's borrowing facilities may require repayment in the event of a change of control. The Company's Articles of Association provide that the business of the Company shall be managed by the Directors, who may exercise all such powers of the Company subject to the Companies Act and the Articles of Association. Details of the powers of the Directors in relation to the issuing or buying back by the Company of its shares are set out above. The Company's Memorandum and Articles of Association, which are available on the Company's website, www.graftonplc.com, are deemed to be incorporated in this part of the Report of the Directors.

Corporate governance regulations

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 100 to 111 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 70 to 75 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	79 and 80
Social & Employee Matters	Sustainability	83 to 86
	Our People and Culture	16 to 19
	Stakeholder Engagement	20 and 21
	Note 11 to the Group Financial Statements	182
	Note 6 to the Group Financial Statements	179 to 180
Diversity	Sustainability	85 and 86
	Nomination Committee Report	116 to 119
Human Rights	Sustainability	89
Anti-bribery & Corruption	Sustainability	89
	Audit and Risk Committee Report	114
Business Model	Business Model	28 and 29
Non-Financial KPIs	Key Performance Indicators	44 and 45
	Sustainability	76 to 95
Principal Risks	Risk Management	70 to 75
Financial Instruments	Note 21 to the Group Financial Statements	197 to 203

Subsidiaries

The Group's principal operating subsidiary undertakings are set out on page 227.

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 2022 that would require adjustment to or disclosure in this report, save as disclosed in Note 34 on page 218.

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.

Eric Born
Director
1 March 2023

David Arnold
Director
1 March 2023

Financial Statements



Strong financial result

Grafton had a successful year and is reporting a strong financial result ahead of market expectations. Despite macro-economic challenges in its markets, the Group continued to perform well with operating profit close to last year's record result against a less favourable market backdrop.

For more see pages 152 to 228

Financial statements

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Dividend per share growth

8.2%

Adjusted return on capital employed

17.2%

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 for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") 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 shall 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 of 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 whether the Group financial statements have been prepared in accordance 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 that are sufficient to:

- correctly record and explain the transaction of the Group and Company;
- enable, at any time, the assets, liabilities, and financial position and profit or loss of the Group and Company to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the provisions of the Companies Act 2014 and enable those financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website (www.graftonplc.com). Legislation in the 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 98 and 99 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 Irish law), as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities, and financial position of the Group and Company at 31 December 2022 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 70 to 75; and
- the Annual Report and Accounts 2022, 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

Eric Born
Director

David Arnold
Director

1 March 2023

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 2022 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 2022 (the "Annual Report"), which comprise:

- the Group Balance Sheet as at 31 December 2022;
- the Company Balance Sheet as at 31 December 2022;
- 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

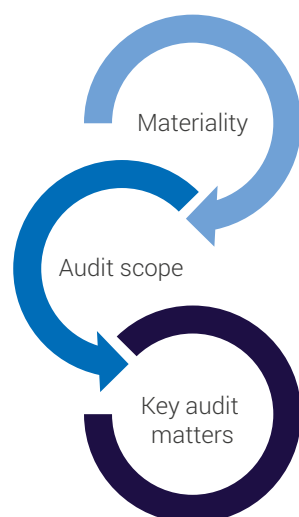
We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe 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



Overall materiality

- £10.5 million (2021: £9.8 million) – Group financial statements
- Equates to c. 5% of profit before tax and property profit (2021: c. 4% of profit before tax)
- €8.1 million (2021: €7.1 million) – Company financial statements
- Equates to c. 0.4% of total assets (2021: c. 0.3% of total assets).

Performance materiality

- £7.9 million (2021: £7.3 million) – Group financial statements.
- €6.1 million (2021: €5.3 million) – Company financial statements.

Audit scope

- We conducted an audit of the complete financial information of 11 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 85% of the Group's profit before tax 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	How our audit addressed the key audit matter
<p>Valuation of goodwill</p> <p>Refer to note 1, Summary of significant accounting policies, note 12, Goodwill and note 32, Accounting Estimates and Judgements.</p> <p>As at 31 December 2022 Goodwill amounted to £635.8 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.</p> <p>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 Board approved budget for 2023 and management forecasts for the following years from 2024 to 2027 with long-term growth rates being used to estimate cash flows beyond that period.</p> <p>As set out in note 12 to the financial statements, impairment testing of goodwill involves a number of areas of judgement and estimates, in particular the revenue growth rate and operating margin assumptions in the years 2023 to 2027, 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.</p> <p>As set out in note 12, management determined there to be no impairments during the year.</p> <p>We determined valuation of goodwill to be a key audit matter due to the significance of this asset, which accounts for 21% of total assets of the Group at 31 December 2022, and as the Directors' assessment of the recoverable amount of goodwill involves complex and subjective judgements.</p>	<p>We agreed the underlying cash flow forecast models for each of the groups of CGUs to the Board approved budget and management forecasts and checked the mathematical accuracy of the models.</p> <p>We considered the reliability of management's forecasting process by considering how actual results compared to forecasts historically.</p> <p>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 2023 to 2027.</p> <p>We compared the revenue growth rates to external economic forecasts and considered them to be within reasonable ranges. We assessed the appropriateness of forecast operating margins through comparison to actual historic margins achieved and considering current market conditions.</p> <p>We assessed the appropriateness of the Group's forecast long term growth rates used to calculate terminal values by comparing them to independent sources.</p> <p>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.</p> <p>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.</p> <p>Based on the results of these procedures we are satisfied that no impairment charge was required.</p> <p>We assessed the appropriateness of the related disclosures within the financial statements.</p>

Key audit matter***Completeness and accuracy of rebate income and valuation of rebate receivables***

Refer to note 1, Summary of Significant Accounting Policies, note 17a, Trade and Other Receivables and note 32, Accounting Estimates and Judgements.

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. 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 2022 involves both the use of estimates and manual inputs and is material to the performance and financial position of the Group.

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. For a sample of suppliers, we independently obtained external confirmation of rebate income and rebates due at 31 December 2022. Where responses were not received, we performed alternative procedures including obtaining rebate agreements and re-computing rebate income and rebate receivables. We considered the actual results of the collection of rebates during the year, including those relating to the prior year, and after the year end, comparing the amount collected to the related estimated rebates receivable balance.

We concluded that the amounts recognised were reasonable. We assessed the appropriateness of the related disclosures within the financial statements.

Valuation of inventory

Refer to note 1, Summary of significant accounting policies, note 16, Inventories and note 32, Accounting Estimates and Judgements.

Inventory, net of provisions at 31 December 2022 amounted to £399.6 million. The inventory provision at 31 December 2022 was £47.2 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 involved in estimating the inventory provisions across multiple product lines and locations.

We tested the accuracy of inventory ageing reports where they supported the calculation of inventory provisions by selecting a sample of inventory items on hand and testing the aged classification by reference to purchase documentation.

We recomputed provisions recorded to assess whether they were in line with Group policy. We assessed the appropriateness of Group policy by reference to past experience and the nature, ageing and level of inventory held at year end. We also obtained an understanding from management of plans to liquidate slower moving inventory and we considered the appropriateness of provisions made.

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.

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 2 reporting components as significant, which in our view required an audit of their complete financial information due to their size and financial significance to the Group. A further 9 reporting components had an audit of their complete financial information based on our risk assessment, the materiality of the reporting component or statutory audit requirements. The Group audit team performed analytical procedures at a Group level to assess the risks of material misstatement within the remaining 4 components.

Independent auditors' report to the members of Grafton Group plc continued

The components subject to an audit of their full financial information and Group functions accounted for in excess of 90% of the Group's revenue, in excess of 85% of the Group's profit before tax and in excess of 90% of the Group's 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 7 components, 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 components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group audit team attended all 11 of the component audit closing meetings with local management by video conference or in person. 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.

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. Management considers that the impact of climate change does not give rise to a material financial statement impact. 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:

	Group financial statements	Company financial statements
Overall materiality	£10.5 million (2021: £9.8 million).	€8.1 million (2021: €7.1 million).
How we determined it	Equates to c. 5% of profit before tax and property profit (2021: c. 4% of profit before tax)	Equates to c. 0.4% (2021: c. 0.3%) of total assets.
Rationale for benchmark applied	We have applied this benchmark as profit before tax is a key accounting benchmark, which is also a key performance indicator for the Group. Given the property profit is not related to the ongoing trading activities we have excluded this in determining the benchmark.	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 use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £7.9 million (Group audit) and €6.1 million (Company audit).

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £525,000 (Group audit) (2021: £487,500) and €405,000 (Company audit) (2021: €355,000) 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 forecast 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.

Reporting on other information

The other information comprises all of the information in the Annual Report and Accounts 2022 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) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

- 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 2022 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.
- 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).

Independent auditors' report to the members of Grafton Group plc continued

Corporate Governance Statement

The Listing Rules and ISAs (Ireland) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code (the "Code") specified for our review. Our additional responsibilities with respect to the Corporate Governance Statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they 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 of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibility Statement, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2014 and relevant tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements

(including the risk of override of controls) and determined that the principal risks were related to inappropriate journals that adjust revenue and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Enquiring of senior management (Group and operating entities), directors, members of the Audit and Risk Committee and Internal Audit of their assessment of the potential fraud risk and their assessment of controls and any incidences of fraud during the year;
- Evaluating the Group's programme and controls designed to address fraud risk;
- Considering remuneration incentive schemes and performance targets for directors and senior management in our assessment of fraud risk;
- Using analytical procedures to identify any unusual or unexpected relationships;
- Assessing whether the judgements made in making key accounting estimates are indicative of a potential bias;
- Identifying journal entries to test based on risk criteria including manual journals posted to adjust revenue, for all components subject to an audit of their full financial information, and tested the identified entries;
- Considered the results of reporting from component teams relating to compliance with applicable laws and regulations and procedures performed to address assessed fraud risk;
- Incorporating unpredictability into our audit procedures; and
- Maintaining an appropriate level of professional scepticism throughout the audit process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

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

This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2014 opinions on other matters

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

Other exception reporting

Directors' remuneration and transactions

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

Prior financial year Non Financial Statement

We are required to report if the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 in respect of the prior financial year. We have nothing to report arising from this responsibility.

Siobhán Collier

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
1 March 2023

Group Income Statement

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	2	2,301,482	2,109,909
Operating costs	3	(2,062,597)	(1,857,487)
Property profits	4	25,381	16,740
Operating profit		264,266	269,162
Finance expense	7	(21,273)	(21,269)
Finance income	7	8,690	1,904
Profit before tax		251,683	249,797
Income tax charge	9	(43,065)	(42,952)
Profit after tax for the financial year from continuing operations		208,618	206,845
Profit after tax from discontinued operations	27	–	134,422
Profit after tax for the financial year		208,618	341,267
Profit attributable to:			
Owners of the Parent		208,618	341,267
Profit attributable to:			
Continuing operations		208,618	206,845
Discontinued operations		–	134,422
Earnings per ordinary share (continuing operations) – basic	11	89.34p	86.44p
Earnings per ordinary share (continuing operations) – diluted	11	89.18p	86.27p
Earnings per ordinary share (discontinued operations) – basic	11	–	56.17p
Earnings per ordinary share (discontinued operations) – diluted	11	–	56.06p
Earnings per ordinary share (total) – basic	11	89.34p	142.61p
Earnings per ordinary share (total) – diluted	11	89.18p	142.33p

On behalf of the Board

Eric Born
Director
1 March 2023

David Arnold
Director

Group Statement of Comprehensive Income

For the year ended 31 December 2022

Financial Statements

	Notes	2022 £'000	2021 £'000
Profit after tax for the financial year		208,618	341,267
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
– on foreign currency net investments		30,741	(25,168)
Fair value movement on cash flow hedges:			
– Effective portion of changes in fair value of cash flow hedges		(29)	57
		30,712	(25,111)
Items that will not be reclassified to the income statement			
Remeasurement (loss)/gain on Group defined benefit pension schemes	30	(5,040)	14,886
Deferred tax on Group defined benefit pension schemes	25	2,558	(3,212)
		(2,482)	11,674
Total other comprehensive income/(expense)		28,230	(13,437)
Total comprehensive income for the financial year		236,848	327,830
Total comprehensive income attributable to:			
Owners of the Parent		236,848	327,830
Total comprehensive income for the financial year		236,848	327,830

On behalf of the Board

Eric Born
Director
1 March 2023

David Arnold
Director

Group Balance Sheet

As at 31 December 2022

	Notes	2022 £'000	2021 £'000
ASSETS			
Non-current assets			
Goodwill	12	635,751	599,810
Intangible assets	15	153,712	144,327
Property, plant and equipment	13(a)	354,402	319,295
Right – of – use asset	13(b)	420,115	421,254
Investment properties	13(d)	26,084	26,527
Deferred tax assets	25	8,063	8,793
Lease receivable	17(b)	453	881
Retirement benefit assets	30	4,584	3,596
Other financial assets	14	129	126
Total non-current assets		1,603,293	1,524,609
Current assets			
Properties held for sale	13(c)	4,364	6,125
Inventories	16	399,565	344,172
Trade and other receivables	17(a)	267,694	233,486
Finance lease receivable	17(b)	196	212
Cash and cash equivalents	20	711,721	844,663
Total current assets		1,383,540	1,428,658
Total assets		2,986,833	2,953,267
EQUITY			
Equity share capital	18	7,870	8,570
Share premium account	18	221,975	219,447
Capital redemption reserve	19	1,389	643
Revaluation reserve	19	12,375	12,519
Shares to be issued reserve	19	8,647	11,837
Cash flow hedge reserve	19	(37)	(8)
Foreign currency translation reserve	19	87,492	56,751
Retained earnings		1,411,053	1,413,737
Treasury shares held	18	(5,185)	(3,897)
Total equity attributable to owners of the Parent		1,745,579	1,719,599
LIABILITIES			
Non-current liabilities			
Interest – bearing loans and borrowings	20	253,502	172,601
Lease liabilities	20	389,198	396,070
Provisions	23	15,189	14,862
Retirement benefit obligations	30	15,068	15,067
Deferred tax liabilities	25	61,011	56,402
Total non-current liabilities		733,968	655,002
Current liabilities			
Interest – bearing loans and borrowings	20	–	84,030
Lease liabilities	20	60,105	52,924
Derivative financial instruments	22	29	8
Trade and other payables	24	420,653	419,111
Current income tax liabilities		20,595	15,956
Provisions	23	5,904	6,637
Total current liabilities		507,286	578,666
Total liabilities		1,241,254	1,233,668
Total equity and liabilities		2,986,833	2,953,267

On behalf of the Board

Eric Born
Director
1 March 2023

David Arnold
Director

Group Cash Flow Statement

For the year ended 31 December 2022

Financial Statements

	Notes	2022 £'000	2021 £'000
Profit before taxation from continuing operations		251,683	249,797
Profit before taxation from discontinued operations	27	–	143,846
Profit before taxation (including discontinued operations)		251,683	393,643
Finance income	7	(8,690)	(1,904)
Finance expense (continuing and discontinued)	7	21,273	22,512
Operating profit (including discontinued operations)		264,266	414,251
Depreciation	13(a)(b)	94,313	97,894
Amortisation of intangible assets	15	20,295	17,184
Share – based payments charge	31	4,719	5,601
Movement in provisions	23	(1,316)	(1,950)
(Profit)/loss on sale of property, plant and equipment		(248)	522
Property profit – continuing operations		(20,383)	(6,890)
Property profit – discontinued operations		–	(396)
Fair value gains recognised as property profits	13(d)	(4,998)	(9,850)
Asset impairment and fair value losses	13	–	248
Profit on sale of Group businesses	27	–	(125,116)
Gain on derecognition of leases		(475)	(500)
Contribution to pension schemes in excess of IAS 19 charge	30	(6,150)	(23,650)
Increase in working capital	26	(71,273)	(64,129)
Cash generated from operations		278,750	303,219
Interest paid		(21,879)	(20,464)
Income taxes paid	9	(39,529)	(43,722)
Cash flows from operating activities		217,342	239,033
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment		845	2,611
Proceeds from sale of properties held for sale		4,238	18,881
Proceeds from sale of investment properties		23,463	756
Proceeds from sale of Group businesses (net)	27	–	498,530
Interest received		8,690	193
		37,236	520,971
Outflows			
Acquisition of subsidiary undertakings and businesses (net of cash acquired)	27	(45,978)	(123,309)
Deferred acquisition consideration paid	26	(4,000)	–
Investment in intangible assets – computer software	15	(2,522)	(827)
Purchase of property, plant and equipment	13(a)	(55,318)	(43,616)
		(107,818)	(167,752)
Cash flows from investing activities		(70,582)	353,219
Financing activities			
Inflows			
Proceeds from the issue of share capital		2,574	2,974
Proceeds from borrowings		141,722	96,897
		144,296	99,871
Outflows			
Repayment of borrowings		(158,909)	(152,004)
Dividends paid	10	(73,868)	(84,921)
Treasury shares purchased	18	(142,981)	–
Payment of lease liabilities		(58,078)	(56,043)
		(433,836)	(292,968)
Cash flows from financing activities		(289,540)	(193,097)
Net (decrease)/increase in cash and cash equivalents		(142,780)	399,155
Cash and cash equivalents at 1 January		844,663	456,028
Effect of exchange rate fluctuations on cash held		9,838	(10,520)
Cash and cash equivalents at 31 December		711,721	844,663
Cash and cash equivalents are broken down as follows:			
Cash at bank and short – term deposits		711,721	844,663

Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Year to 31 December 2022			
At 1 January 2022	8,570	219,447	643
Profit after tax for the financial year	–	–	–
Total other comprehensive income			
Remeasurement (loss) on pensions (net of tax)	–	–	–
Movement in cash flow hedge reserve (net of tax)	–	–	–
Currency translation effect on foreign currency net investments	–	–	–
Total other comprehensive income	–	–	–
Total comprehensive income	–	–	–
Transactions with owners of the Parent recognised directly in equity			
Dividends paid (Note 10)	–	–	–
Issue of Grafton Units	46	2,528	–
Purchase of treasury shares (Note 18)	–	–	–
Cancellation of treasury shares	(746)	–	746
Share – based payments charge	–	–	–
Tax on share – based payments	–	–	–
Transfer from shares to be issued reserve	–	–	–
Transfer from revaluation reserve	–	–	–
	(700)	2,528	746
At 31 December 2022	7,870	221,975	1,389

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Year to 31 December 2021			
At 1 January 2021	8,569	216,496	621
Profit after tax for the financial year	–	–	–
Total other comprehensive income			
Remeasurement loss on pensions (net of tax)	–	–	–
Movement in cash flow hedge reserve (net of tax)	–	–	–
Currency translation effect on foreign currency net investments	–	–	–
Total other comprehensive income	–	–	–
Total comprehensive income	–	–	–
Transactions with owners of the Parent recognised directly in equity			
Dividends paid (Note 10)	–	–	–
Issue of Grafton Units	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	–	–	–
	1	2,951	22
At 31 December 2021	8,570	219,447	643

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
12,519	11,837	(8)	56,751	1,413,737	(3,897)	1,719,599
-	-	-	-	208,618	-	208,618
-	-	-	-	(2,482)	-	(2,482)
-	-	(29)	-	-	-	(29)
-	-	-	30,741	-	-	30,741
-	-	(29)	30,741	(2,482)	-	28,230
-	-	(29)	30,741	206,136	-	236,848
-	-	-	-	(73,868)	-	(73,868)
-	-	-	-	-	-	2,574
-	-	-	-	-	(142,981)	(142,981)
-	-	-	-	(141,693)	141,693	-
-	4,719	-	-	-	-	4,719
-	(1,312)	-	-	-	-	(1,312)
-	(6,597)	-	-	6,597	-	-
(144)	-	-	-	144	-	-
(144)	(3,190)	-	-	(208,820)	(1,288)	(210,868)
12,375	8,647	(37)	87,492	1,411,053	(5,185)	1,745,579

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

Notes to the Group Financial Statements

1. Summary of Significant Accounting Policies

General Information

Grafton Group plc ('Grafton' or 'the Group') is a public limited company incorporated in the Republic of Ireland. The registered number is 8149 and registered office address is Heron House, Corrig Road, Sandyford Business Park, Dublin, D18 Y2X6. The Group is an international distributor of building materials to trade customers who are primarily engaged in residential repair, maintenance and improvement projects and house building.

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 2022.

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 2022, and have been applied in preparing these financial statements. The following Standards and Interpretations are effective for the Group and parent company in 2022 but do not have a material effect on the results or financial position of the Group or parent company:

- IAS 16 (Amendments) Property, Plant & Equipment (Effective 1 January 2022)
- IAS 37 (Amendments) Provisions, Contingent Liabilities & Contingent Assets (Effective 1 January 2022)
- IFRS 9 (Amendments) Financial Instruments (Effective 1 January 2022)
- IFRS 3 (Amendments) Business Combinations (Effective 1 January 2022)

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 2023, and have not been applied in preparing these financial statements. The following Standards and Interpretations are not yet effective for the Group and parent company and are not expected to have a material effect on the results or financial position of the Group or parent company:

- IAS 1 (Amendments) Presentation of Financial Statements (Effective 1 January 2023)
- IAS 8 (Amendments) Accounting Policies, Changes in Accounting Estimates & Errors (Effective 1 January 2023)
- IAS 12 (Amendments) Income Taxes (Effective 1 January 2023)
- IFRS 16 (Amendments) Leases (Effective 1 January 2023)
- IFRS 17 Insurance Contracts (Effective 1 January 2023)

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 valuation of inventory, accounting for defined benefit pension schemes, goodwill impairment, rebate income and IFRS 16 "leases".

In preparing the financial statements, the Directors have also considered the current and potential impact of climate change. Costs associated with projects to improve energy efficiency and reduce carbon emissions have been absorbed within operating expenses and capital expenditure and have not been material during the year. There has been no material impact on the net realisable value of inventory or the carrying value of fixed assets in this year's financial statements as a result 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.

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.

1. Summary of Significant Accounting Policies continued

Basis of consolidation continued

Revenue Recognition

Revenue comprises the fair value of consideration receivable for goods and services supplied to external customers in the ordinary course of the Group's activities and excludes inter-company revenue and value added tax.

In general, revenue is recognised to the extent that the Group has satisfied its performance obligations to the buyer and the buyer has obtained control of the goods or services being transferred. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products. Service revenue comprises tool hire revenue and is recognised over the period of hire.

Revenues are recorded based on the price specified in the sales invoices/contracts net of actual and estimated returns, rebates and any discounts granted and in accordance with the terms of sale. Accumulated experience is used to estimate returns, rebates and discounts using the expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker, being the Board, who is responsible for allocating resources and assessing performance.

Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in sterling. Items included in the financial statements of each of the Group's entities are measured using its functional currency, being the currency of the primary economic environment in which the entity operates which is primarily euro and sterling. The functional currency of the parent company is euro.

Transactions and Balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the relevant functional currency at the rate of exchange ruling at the balance sheet date. All currency translation differences on monetary assets and liabilities are taken to the income statement except for the effective portion designated as a hedge of a net investment in a foreign operation which is recognised in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to sterling at the foreign exchange rates ruling at the balance sheet date. Results and cash flows of subsidiaries which do not have sterling as their functional currency are translated into sterling at average exchange rates for the year and the related balance sheets are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange movements arising on translation of the net investment in a foreign operation, including those arising on long term intra-Group loans deemed to be quasi equity in nature, are recognised directly in other comprehensive income, in the currency translation reserve. The portion of exchange gains or losses on foreign currency borrowings or derivatives used to provide a hedge against a net investment in a foreign operation that is designated as a hedge of those investments is recognised directly in other comprehensive income to the extent that they are determined to be effective. The ineffective portion is recognised immediately in the income statement.

Movements since 1 January 2004, the date of transition to IFRS, are recognised in the currency translation reserve and are reclassified to the income statement on disposal of the related business.

Share Capital and Share Premium

The company's share capital and share premium has been translated from euro into sterling at historic rates of exchange at the dates of transactions.

Exceptional Items and Non-recurring Items

The Group has adopted a policy in relation to its income statement which seeks to highlight significant items within the Group's results. Such items may include significant restructuring and onerous lease provisions, profit or loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Group in assessing the particular items which, by virtue of their scale and nature, should be disclosed in the income statement or related notes. Where exceptional items are not significant for separate presentation, they are disclosed as non-recurring items.

Property profit is disclosed as a separate line item on the face of the Income Statement. Property profit arises when the proceeds, less costs to sell, exceed the carrying value of the disposed property.

Rebate Arrangements

Rebate arrangements are a common component of supplier agreements in the merchanting industry. As part of its on-going business activities, Grafton Group plc has entered into such arrangements with a significant number of its suppliers.

Supplier rebates received and receivable in respect of goods which have been sold to the Group's customers are deducted from cost of sales in the income statement. Where goods on which rebate has been earned remain in inventory at the year-end, an appropriate rebate deduction is made from the gross balance sheet carrying value of that inventory. The rebate deduction is only released to the income statement when the goods are ultimately sold. At the year-end the balance sheet includes a balance representing unpaid amounts receivable from suppliers.

Notes to the Group Financial Statements continued

1. Summary of Significant Accounting Policies continued

Finance Expense

Finance expense comprises interest payable on borrowings calculated using the effective interest rate method, net foreign exchange losses on monetary items and gains and losses on hedging instruments that are recognised in the income statement. The net finance cost of pension scheme obligations is recognised as a finance expense in the income statement. The interest expense component of lease payments is recognised in the income statement using the effective interest rate method. Where appropriate the fair value adjustment to hedged items that are the subject of a fair value hedge is included as a finance expense or finance income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement as incurred using the effective interest rate method.

Finance Income

Finance income comprises interest income on cash and cash equivalents, dividend income, gains on the disposal of financial assets, and gains on hedging instruments that are recognised in profit or loss. The net expected return on defined benefit pension scheme plan assets is recognised as finance income in the income statement. Interest income is recognised in the income statement as it accrues using the effective interest rate method.

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.

1. Summary of Significant Accounting Policies *continued*

Intangible Assets (other than Goodwill and Computer Software)

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.

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

Notes to the Group Financial Statements continued

1. Summary of Significant Accounting Policies continued

Leases continued

Lease Term

The lease term is the non-cancellable period for which the Group has the right to use an underlying asset together with:

- Periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. This assessment involves the exercise of judgement by the Group.

Initial Measurement of Lease Liability

The lease liability is initially measured at the present value of the lease payments that are payable for the lease term, discounted using the incremental borrowing rate.

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.

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 316 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.

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

	2022 £'000	2021 £'000
Revenue		
UK distribution	838,644	821,923
Ireland distribution	618,297	544,289
Netherlands distribution	336,703	290,540
Finland distribution	143,197	70,810
Total distribution – continuing	1,936,841	1,727,562
Retailing	244,021	282,756
Manufacturing	133,805	112,436
Less: inter-segment revenue – manufacturing	(13,185)	(12,845)
Total revenue from continuing operations	2,301,482	2,109,909
Segmental operating profit before non-recurring items, intangible amortisation arising on acquisitions and other acquisition related items		
UK distribution	81,826	102,523
Ireland distribution	70,474	66,792
Netherlands distribution	37,641	30,544
Finland distribution	20,321	9,952
Total distribution – continuing	210,262	209,811
Retailing	32,575	50,858
Manufacturing	27,403	24,049
	270,240	284,718
Reconciliation to consolidated operating profit		
Central activities	(13,453)	(13,479)
	256,787	271,239
Property profits	25,381	16,740
Operating profit before non-recurring items, intangible amortisation arising on acquisitions and other acquisition related items	282,168	287,979
Non-recurring items*	3,690	–
Operating profit before intangible amortisation arising on acquisitions and other acquisition related items	285,858	287,979
Acquisition related items	(2,306)	(4,129)
Amortisation of intangible assets arising on acquisitions	(19,286)	(14,688)
Operating profit	264,266	269,162
Finance expense	(21,273)	(21,269)
Finance income	8,690	1,904
Profit before tax	251,683	249,797
Income tax expense	(43,065)	(42,952)
Profit after tax for the financial year from continuing operations	208,618	206,845
Profit after tax from discontinued operations	–	134,422
Profit after tax for the financial year	208,618	341,267

* A non-recurring curtailment gain of £3.7 million arose on closure to future accrual of a defined benefit pension scheme in Ireland (Note 30).

The amount of revenue, from continuing operations, by geographic area is as follows:

	2022 £'000	2021 £'000
Revenue*		
United Kingdom	951,557	914,971
Ireland**	870,025	833,588
Netherlands	336,703	290,540
Finland	143,197	70,810
Total revenue – continuing operations	2,301,482	2,109,909

* Service revenue from continuing operations, which is recognised over time, amounted to £9.4 million for the period (2021: £8.7 million)

** Grafton Group plc is domiciled in the Republic of Ireland and the revenues from external customers in Ireland were £870.0m (2021: £833.6m)

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

	2022 £'000	2021 £'000
Segment assets		
Distribution	1,952,691	1,782,973
Retailing	198,295	210,400
Manufacturing	111,350	102,716
	2,262,336	2,096,089
Unallocated assets		
Deferred tax assets	8,063	8,793
Retirement benefit assets	4,584	3,596
Other financial assets	129	126
Cash and cash equivalents	711,721	844,663
Total assets	2,986,833	2,953,267
	2022 £'000	2021 £'000
Segment liabilities		
Distribution	667,579	658,122
Retailing	189,925	201,147
Manufacturing	33,545	30,335
	891,049	889,604
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	253,502	256,631
Retirement benefit obligations	15,068	15,067
Deferred tax liabilities	61,011	56,402
Current income tax liabilities	20,595	15,956
Derivative financial instruments (current)	29	8
Total liabilities	1,241,254	1,233,668

Other segment information (includes discontinued operations in 2021)

	Year Ended 31 December							
	Distribution		Retailing		Manufacturing		Group	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Capital expenditure	46,107	34,357	3,085	5,440	6,126	3,819	55,318	43,616
Investment in intangible assets	1,451	243	369	–	702	584	2,522	827
Intangible assets acquired	20,594	79,094	–	–	–	–	20,594	79,094
Depreciation on property, plant & equipment	26,575	31,520	4,147	3,579	3,449	3,171	34,171	38,270
Depreciation on right-of use asset	43,125	43,174	15,790	15,621	1,227	829	60,142	59,624
Amortisation of intangible assets	18,107	15,000	130	122	2,058	2,062	20,295	17,184

Additional geographic analysis (includes discontinued operations in 2021)

The following is a geographic analysis of the information presented above.

	Finland		Ireland		Netherlands		UK		Group	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Capital expenditure	2,336	1,268	16,138	12,075	4,386	3,529	32,458	26,744	55,318	43,616
Investment in intangible assets	772	–	369	–	376	75	1,005	752	2,522	827
Intangible assets acquired	–	74,354	12,586	4,740	6,219	–	1,789	–	20,594	79,094
Segment non-current assets	142,787	128,591	462,143	440,020	226,141	207,553	759,642	736,142	1,590,713	1,512,306
Properties held for sale									4,364	6,125
Inventories									399,565	344,172
Trade and other receivables									267,694	233,486
Total segment assets									2,262,336	2,096,089
Segment liabilities	39,728	32,034	378,718	377,483	86,948	78,834	385,655	401,253	891,049	889,604

Notes to the Group Financial Statements continued

3. Operating Costs and Income

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

	2022 Total £'000	2021 Continuing £'000	2021 Total £'000
(Increase) in inventories (Note 26)	(34,664)	(74,856)	(81,014)
Purchases and consumables	1,467,492	1,353,858	1,745,756
Staff costs before non-recurring items (Note 6)	337,204	317,056	373,552
Auditor's remuneration – Group and subsidiaries	1,250	1,020	1,040
Auditor's remuneration – Audit services provided by other firms	97	186	186
Depreciation (Note 13a)	34,171	30,289	38,270
Depreciation on right-of-use assets (Note 13b)	60,142	54,552	59,624
Lease rentals and other hire charges (Note 13b)	1,847	1,374	1,464
Amortisation of intangible assets (Note 15)	20,295	15,536	17,184
(Profit)/loss on disposal of property, plant and equipment	(248)	337	522
Acquisition related costs	2,306	4,129	4,129
Selling, distribution and administrative expenses	172,705	154,006	190,647
	2,062,597	1,857,487	2,351,360

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

	2022 £'000	2021 £'000
Audit services		
– Group Auditor – PwC Ireland	738	662
– Other network firm – PwC	470	355
	1,208	1,017
Other assurance services		
– Group Auditor – PwC Ireland	13	13
– Other network firm – PwC	10	10
	23	23
Auditor's remuneration – Group and subsidiaries	1,231	1,040
Other non-audit services		
– Group Auditor – PwC Ireland	19	–
– Other network firm – PwC	–	–
	19	–
Tax advisory services		
– Group Auditor – PwC Ireland	–	–
– Other network firm – PwC	–	–
	–	–
Total (including expenses)		
– Group Auditor – PwC Ireland	770	675
– Other network firm – PwC	480	365
	1,250	1,040

4. Property Profits, Exceptional Items and Non-Recurring Items

The property profit of £25.4 million (2021: £16.7 million) relates to profit on property disposals of £20.4 million (2021: £6.8 million) and fair value gains of £5.0 million (2021: £9.9 million). In 2022, the Group disposed of six UK properties and one Irish property (2021: one UK property, one Irish property and six properties in Belgium). The fair value gain of £5.0 million in 2022 relates to three investment properties in the UK and three investment properties in Ireland. The fair value gain of £9.9 million recognised in 2021 related to four properties which were transferred to investment properties during the year. These were properties which were retained by the Group following the disposal of the Traditional Merchanting business in Great Britain in 2021. Property profits are detailed further in Note 13.

In 2022, a non-recurring curtailment gain of £3.7 million arose on closure to future accrual of a defined benefit pension scheme in Ireland (Note 30).

There were no other exceptional items recognised in 2022. Other than the disposal costs of the discontinued operations which are detailed in Note 27, there were no other exceptional costs recognised in 2021.

5. Directors' Remuneration, Pension Entitlements and Interests

	2022 £'000	2021 £'000
Emoluments	2,185	2,927
Benefits under Long Term Incentive Plan ("LTIP")*	352	2,194
Total emoluments	2,537	5,121
Emoluments above include the following:		
Pension payments/contributions**	216	212
	216	212

* For the year ended 31 December 2022, this is the value of LTIP awards that will vest in September 2023. The vesting of these awards was subject to performance conditions over the period from 1 January 2020 to 31 December 2022. The value of the awards is based on the average share price of £7.47 for the three months to 31 December 2022. For the year ended 31 December 2021, this is the value of LTIP awards that vested in May 2022. The value of this award has been updated from that disclosed last year to reflect the share price of £9.71 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 2022 (2021: two).

Further unaudited 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 133 to 145.

6. Employment

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

	2022 Total	2021 Continuing	2021 Total
Distribution	7,071	6,819	10,236
Retailing	1,415	1,544	1,544
Manufacturing	318	332	332
Holding company	22	22	22
	8,826	8,717	12,134

The aggregate remuneration costs of employees were:

	2022 Total £'000	2021 Continuing* £'000	2021 Total £'000
Wages and salaries	290,958	271,683	321,337
Social welfare costs	34,316	29,383	33,836
Share based payments charge	4,719	4,387	5,601
Defined benefit pension (Note 30)	(1,737)	2,932	2,932
Defined contribution pension and related costs	8,948	8,671	9,846
Staff costs charged to operating profit	337,204	317,056	373,552
Net finance cost on pension scheme obligations (Note 30)	108	383	383
Charged to income statement	337,312	317,439	373,935
Remeasurement loss/(gain) on pension schemes (Note 30)	5,040	(14,886)	(14,886)
Total employee benefit cost	342,352	302,553	359,049

* 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 2022 were £Nil (2021: £Nil).

Key Management

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

	2022	2021
Number of individuals*	10	8
	2022 £'000	2021 £'000
Short term employee benefits	2,377	3,276
Share-based payment charge	541	1,395
Retirement benefits expense	275	272
Charged to operating profit	3,193	4,943

* Includes Avis Darzins who joined on 1 February 2022, Eric Born who joined on 28 November 2022 and Gavin Slark who left on 31 December 2022

7. Finance Expense and Finance Income

	2022 £'000	2021 £'000
Finance expense:		
Interest on bank loans, US senior notes and overdrafts	5,591*	6,249*
Interest on lease liabilities	14,919*	14,637*
Net finance cost on pension scheme obligations	108	383
Foreign exchange loss	655	—
	21,273	21,269
Finance income:		
Interest income on bank deposits	(8,690)*	(193)*
Foreign exchange gain	—	(1,711)
	(8,690)	(1,904)
Net finance expense recognised in income statement	12,583	19,365

* Net bank and US senior note interest income of £3.1 million (2021: £6.1 million expense). Including interest on lease liabilities, this amounts to £11.8 million expense (2021: £20.7 million expense).

Amounts relating to items not at fair value through income statement

– Total finance expense on financial liabilities	21,273	21,269
– Total finance income on financial assets	(8,690)	(1,904)

Recognised directly in other comprehensive income

Currency translation effects on foreign currency net investments	30,741	(25,168)
Effective portion of changes in fair value of cash flow hedges	(29)	57
	30,712	(25,111)

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 2022 was Stg85.28 pence (2021: Stg85.96 pence). The sterling/euro exchange rate at 31 December 2022 was Stg88.69 pence (2021: Stg84.03 pence).

9. Income Tax

(a) Income tax recognised in income statement

	2022 £'000	2021 £'000
Current tax expense		
Irish corporation tax	14,001	15,324
UK and other corporation tax	28,318	23,190
	42,319	38,514
Deferred tax expense		
Irish deferred tax relating to the origination and reversal of temporary differences	(55)	731
Deferred tax expense resulting from change in tax rates	367	3,493
UK and other deferred tax expense relating to the origination and reversal of temporary differences	434	214
	746	4,438
Total income tax expense in income statement	43,065	42,952

Taxation

The income tax expense of £43.1 million (2021: £43.0 million) was equivalent to an effective tax rate of 17.1 per cent on profit from continuing operations (2021: 17.2 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.

Taxation paid in 2022 was £39.5 million (2021: £43.7 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

	2022 £'000	2021 £'000
Profit before tax	251,683	249,797
Profit before tax multiplied by the Irish standard rate of tax of 12.5% (2021: 12.5%)	31,460	31,225
Effects of:		
Expenses not deductible for tax purposes	1,159	1,522
Differences in effective tax rates on overseas earnings	10,887	9,149
Effect of change in tax rates	367	3,493
Items not previously recognised for deferred tax	(3,203)	(629)
Other differences	2,395	(1,808)
Total income tax expense in income statement	43,065	42,952

(c) Deferred Tax Recognised Directly in Equity/Other Comprehensive Income

	2022 £'000	2021 £'000
Actuarial movement on pension schemes (Note 30)	(2,558)	3,212
Employee share schemes	1,312	(1,092)
	(1,246)	2,120

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.

Notes to the Group Financial Statements continued

10. Dividends

	2022 £'000	2021 £'000
Group		
Final dividend for 2021 of 22.0p per Grafton Unit – paid 5 May 2022	52,732	–
Interim dividend for 2022 of 9.25p per Grafton Unit – paid 7 October 2022	21,136	–
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
	73,868	84,921

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 with the final dividend for 2021 of 22.0p per share paid on 5 May 2022 in the amount of £52.7 million.

An interim dividend for 2022 of 9.25p per share was paid on 7 October 2022 in the amount of £21.1 million.

A final dividend for 2022 of 23.75p per share will be paid to all holders of Grafton Units on the Company's Register of Members at the close of business on 14 April 2023 (the 'Record Date'). The Ex-dividend date is 13 April 2023. The cash consideration will be paid on 11 May 2023. A liability in respect of the final dividend has not been recognised at 31 December 2022, 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.

	2022 £'000	2021 £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial year from continuing operations	208,618	206,845
Profit after tax for the financial year from discontinued operations	–	134,422
Numerator for basic and diluted earnings per share	208,618	341,267
Profit after tax for the financial year from continuing operations	208,618	206,845
Amortisation of intangible assets arising on acquisitions	19,286	14,688
Tax relating to amortisation of intangible assets arising on acquisitions	(4,329)	(3,151)
Acquisition related items	2,306	4,129
Tax on acquisition related items	(235)	(74)
Numerator for adjusted earnings per share	225,646	222,437
Denominator for basic and adjusted earnings per share:		
	Number of Grafton Units	Number of Grafton Units
Weighted average number of Grafton Units in issue	233,517,016	239,294,286
Dilutive effect of options and awards	423,503	478,708
Denominator for diluted earnings per share	233,940,519	239,772,994
Earnings per share (pence) – from continuing operations		
– Basic	89.34	86.44
– Diluted	89.18	86.27
Adjusted earnings per share (pence) – from continuing operations*		
– Basic	96.63	92.95
– Diluted	96.45	92.77
Earnings per share (pence) – from discontinued operations		
– Basic	–	56.17
– Diluted	–	56.06
Earnings per share (pence) – from total operations		
– Basic	89.34	142.61
– Diluted	89.18	142.33

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

The weighted average potential employee share entitlements over 616,223 Grafton Units (2021: 1,169,931) which are currently anti-dilutive are not included in the above calculation for diluted earnings per share and adjusted diluted earnings per share.

12. Goodwill

Cost	2022 £'000	2021 £'000
At 1 January	599,810	704,064
Arising on acquisitions (Note 27)	18,965	40,725
Disposal of Group businesses (Note 27)	—	(126,291)
Translation adjustment	16,976	(18,688)
At 31 December	635,751	599,810

Goodwill Acquired

Goodwill acquired during the year in the amount of £19.0 million (2021: £40.7 million) was allocated to the Ireland, Netherlands and UK 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 long-term 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 (2021: £Nil). Total accumulated impairment losses at 31 December 2022 amounted to £Nil (2021: £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 (2021: seven), of which goodwill has been allocated to five, have been identified and these are analysed between the three reportable segments as follows:

	Cash Generating Units		Goodwill	
	2022 Number	2021 Number	2022 £'000	2021 £'000
Distribution	4	4	607,296	571,355
Retailing	1	1	—	—
Manufacturing*	2	2	28,455	28,455
	7	7	635,751	599,810

* Goodwill is allocated to one Manufacturing CGU.

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 (2021: £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 2023 and management forecasts for each of the following years from 2024 to 2027 inclusive. The terminal value was calculated using a long term growth rate in respect of the years after 2027. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects or each of the businesses within the CGUs. The assumptions used are also referenced against external industry data, where available.

The key assumptions used in the value-in-use calculations are the revenue growth rate, the operating margin, the discount rate and the long term growth rate. The pre-tax discount rates used were based on the Group's estimated weighted average cost of capital, adjusted to reflect risks associated with each CGU.

The pre-tax discount rates range from 11.7 per cent to 13.2 per cent (2021: 9.3 per cent to 10.2 per cent). In determining the terminal value of the value-in-use, it was assumed that cash flows after the first five years will increase at a long term growth rate of two per cent (2021: 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, Netherlands and Finland 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		Finland Distribution	
	2022	2021	2022	2021	2022	2021	2022	2021
Goodwill (£'000)	285,385	275,769	167,503	155,938	118,054	105,206	36,354	34,442
Recoverable amount basis	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use
Revenue growth rate average	3.9%	4.1%	4.5%	4.2%	3.8%	3.8%	2.9%	3.9%
Long-term growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Discount rate (pre-tax)	13.2%	10.2%	11.7%	9.3%	12.1%	10.1%	12.2%	9.8%

The remaining goodwill balance of £28.5 million (2021: £28.5 million) is allocated to the UK manufacturing CGU and the goodwill amount of this CGU is not significant.

Sensitivity Analysis

The value-in-use calculations are sensitive to changes in the key assumptions of the revenue growth rate, the discount rate and the long-term growth rate. While management believes that the value-in-use assumptions are prudent, a sensitivity analysis was performed based on reasonable changes in each of the three key assumptions in each CGU. No reasonably possible change in any of the key assumptions would cause the carrying amount to exceed the recoverable amount in the three significant Distribution CGUs.

The Finland Distribution CGU's recoverable amount has more limited headroom over its carrying amount. This was expected as it is a recent addition to the Group and, in view of the short period since it was acquired in July 2021, there has been limited opportunity to increase the recoverable amount. Therefore, it is more sensitive to possible changes in key assumptions. A 75bps increase in the discount rate would eliminate the headroom that Finland Distribution CGU's recoverable amount has over its carrying amount. Similarly, decreases in either the revenue growth rate or long-term growth rate of 85bps and 105bps respectively would eliminate the current headroom.

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties

13. (a) Property, Plant and Equipment

	Freehold land and buildings £'000	Leasehold improvements/ buildings £'000	Plant and Machinery £'000	Motor Vehicles £'000	Total £'000
Year ended 31 December 2022					
Opening net book amount	146,362	62,306	85,799	24,828	319,295
Additions	1,083	11,128	37,567	5,540	55,318
Arising on acquisitions (Note 27)	3,140	579	534	406	4,659
Disposals	–	(43)	(457)	(97)	(597)
Depreciation charge (Note 3)	(2,587)	(7,372)	(18,523)	(5,689)	(34,171)
Reclassification from investment properties	423	–	–	–	423
Exchange adjustment	6,127	353	2,706	289	9,475
Closing net book amount	154,548	66,951	107,626	25,277	354,402
At 31 December 2022					
Cost	202,570	125,719	298,804	52,218	679,311
Accumulated depreciation & impairment loss	(48,022)	(58,768)	(191,178)	(26,941)	(324,909)
Net book amount	154,548	66,951	107,626	25,277	354,402
Year ended 31 December 2021					
Opening net book amount	268,375	73,580	99,129	52,455	493,539
Additions	1,428	6,617	29,100	6,471	43,616
Arising on acquisitions	11,244	–	5,912	880	18,036
Disposal of Group businesses	(115,532)	(10,598)	(24,884)	(26,501)	(177,515)
Disposals	(2,054)	(99)	(900)	(80)	(3,133)
Depreciation charge	(3,420)	(6,740)	(19,995)	(8,115)	(38,270)
Impairment charge	–	(20)	(146)	–	(166)
Reclassification to properties held for sale	(324)	–	–	–	(324)
Reclassification from investment properties	(5,900)	–	–	–	(5,900)
Exchange adjustment	(7,455)	(434)	(2,417)	(282)	(10,588)
Closing net book amount	146,362	62,306	85,799	24,828	319,295
At 31 December 2021					
Cost	189,626	113,265	259,281	48,253	610,425
Accumulated depreciation & impairment loss	(43,264)	(50,959)	(173,482)	(23,425)	(291,130)
Net book amount	146,362	62,306	85,799	24,828	319,295

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 cost or deemed cost. Previous 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.

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

	Property & Land Leases £'000	Vehicles £'000	Other Assets £'000	Total £'000
Year ended 31 December 2022				
Opening balance at 1 January 2022	411,055	9,409	790	421,254
Additions*	27,209	4,744	18	31,971
Arising on acquisitions (Note 27)	2,745	–	–	2,745
Depreciation charge (Note 3)	(55,600)	(4,480)	(62)	(60,142)
Disposals	(1,975)	(334)	–	(2,309)
Remeasurements*	16,111	115	(548)	15,678
Translation adjustment	10,529	379	10	10,918
Closing net book amount	410,074	9,833	208	420,115
Year ended 31 December 2021				
Recognised at 1 January 2021	492,139	13,681	102	505,922
Additions	15,004	6,808	818	22,630
Arising on acquisitions	24,192	–	–	24,192
Depreciation charge	(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

* Right-of-use asset additions relate to new lease contracts entered into during the year and mainly arise due to leases entered into for new store locations, a new warehouse and new lease contracts agreed for existing stores. Right-of-use asset remeasurements have mainly arisen due to the finalisation of rent reviews and the reassessment of extension options available to the Group on a number of property leases that will not be exercised.

The carrying value of assets, which the Group sublease as operating leases and generate income from, amounted to £17.6 million (2021: £14.5 million).

Cashflow exposures relating to extension options and termination options, which are not reflected in the measurement of lease liabilities are £Nil (2021: Nil).

The average lease term is 7.6 years (2021: 8.3 years). The average remaining lease term at 31 December 2022 is 3.6 years (2021: 4.0 years).

The amounts recognised in the income statement include:

	2022 Total £'000	2021 Continuing £'000	2021 Total £'000
Depreciation expense on right-of-use assets (Note 3)	60,142	54,552	59,624
Interest expense on lease liabilities (Note 7)	14,919	14,637	15,880
Expense relating to short term leases (Note 3)	1,355	1,167	1,257
Expense relating to leases of low-value assets (Note 3)	200	38	38
Expense relating to variable lease payments not included in the measurements of lease liability (Note 3)	292	169	169
Income from subleasing right-of-use assets – operating leases	1,006	883	883

The total cash outflow for leases amounted to £73.0 million (2021: £70.7 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 year one, £0.5 millions for years two and three, £0.3 million for year four and £0.2 million for year five onwards with total income from subleasing right-of-use assets amounting to £2.5 million (2021: £3.3 million).

13. Property, Plant and Equipment, Right-of-Use Asset, Properties Held for Sale and Investment Properties continued

13. (c) Properties Held for Sale

	Carrying Amount £'000
At 1 January 2021	18,058
Transfers from property, plant and equipment	324
Transfers from investment properties	546
Disposals	(11,915)
Translation adjustment	(888)
At 31 December 2021	6,125
Transfers to property, plant & equipment	(423)
Disposals	(1,549)
Translation adjustment	211
At 31 December 2022	4,364

During the year, five UK held for sale properties were sold. An element of one Irish property was transferred to property, plant and equipment from properties held for sale. The total number of properties held for sale at 31 December 2022 was three (2021: eight), of which two (2021: seven) are located in the UK and one (2021: one) in Ireland. These properties are shown in the balance sheet at the lower of their carrying amount and fair value less any disposal costs. One property is included at a fair value of £3.6 million (2021: four properties at £4.8 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

	Fair Value £'000
At 1 January 2021	12,328
Fair value gains	9,850
Fair value losses	(82)
Transfers from property, plant & equipment	5,900
Transfers to properties held for sale	(546)
Disposals	(436)
Translation adjustment	(487)
At 31 December 2021	26,527
Fair value gains	4,998
Disposals	(5,769)
Translation adjustment	328
At 31 December 2022	26,084

During the year, the Group disposed of one UK and one Irish investment property. The total number of investment properties at 31 December 2022 was 13 (2021: 15) of which six (2021: seven) are located in the UK and seven (2021: eight) in Ireland. These properties are being held with a view to enhancing their value.

Investment properties of £26.1 million, which are separately classified in non-current assets, are carried at fair value in the financial statements. The valuation techniques used included a review of the market value of comparable transactions that were recently completed or on the market and the services of independent registered property appraisers. 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. (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 171, 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 £0.8 million (2021: £1.4 million) and properties held at a fair value of £3.6 million (2021: £4.8 million). Investment properties are held at a fair value of £26.1 million (2021: £26.5 million).

In general, valuations have been undertaken having regard to comparable market transactions between informed market participants.

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

Due to very limited transactions for properties of a similar nature in the UK and Ireland, the valuations of a number of properties were completed using other methods. These valuations 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 together with the valuation of comparable properties listed in the marketplace.

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 2022

	Independent valuations £'000	Comparable market transactions £'000	Offers from third parties £'000	Total 2022 £'000
Properties Held for Sale				
Distribution segment	–	3,602	–	3,602
	Independent valuations £'000	Comparable market transactions £'000	Other methods £'000	Total 2022 £'000
Investment Properties				
Distribution segment	14,862	7,680	–	22,542
Manufacturing segment	–	2,336	1,206	3,542
Total	14,862	10,016	1,206	26,084

At 31 December 2021

	Independent valuations £'000	Comparable market transactions £'000	Offers from third parties £'000	Total 2021 £'000
Properties Held for Sale				
Distribution segment	–	4,757	–	4,757
	Independent valuations £'000	Comparable market transactions £'000	Other methods £'000	Total 2021 £'000
Investment Properties				
Distribution segment	15,750	7,421	–	23,171
Manufacturing segment	–	2,213	1,143	3,356
Total	15,750	9,634	1,143	26,527

The following table shows a reconciliation from the opening balance to the closing 2022 balance for level 3 fair values:

	Properties held for sale 2022 £'000	Investment properties 2022 £'000
Balance at beginning of year	6,125	26,527
Transfers to property, plant and equipment	(423)	–
Disposals	(1,549)	(5,769)
Fair value gains and losses*	–	4,998
Foreign exchange movement	211	328
Balance at end of year	4,364	26,084
Recorded at fair value	3,602	26,084
Recorded at cost	762	–
Total	4,364	26,084

* During 2022, a fair value gain of £5.0 million was recognised on six properties. Three of these were properties which were retained by the Group following the agreement to divest the traditional merchanting business in Great Britain. These three properties have a fair value of £14.9 million. The value of these properties were uplifted by £4.2 million in 2022. An additional fair value gain of £0.8 million was also recognised on three Irish investment properties.

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)
Balance at end of year	6,125	26,527
Recorded at fair value	4,757	26,527
Recorded at cost	1,368	–
Total	6,125	26,527

* 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. A net fair value loss of £0.1 million was also recognised on two Irish investment properties.

Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring the fair value of properties held for sale and investment properties and the significant unobservable inputs used. Where market transactions are present, the comparable market transaction method is used for land and buildings held for sale or capital appreciation.

Properties Held for Sale

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Comparable market transactions – price per square metre: The value is based on comparable market transactions after discussion with independent agents and/or with reference to other information sources.	UK Urban <ul style="list-style-type: none"> Comparable development land prices of £3.8m per acre. Ireland – Urban (major cities) <ul style="list-style-type: none"> Comparable industrial or development land prices of £267,000 per acre. 	The estimated fair value would increase/ (decrease) if: <ul style="list-style-type: none"> Comparable market prices per square metre were higher/(lower).

Notes to the Group Financial Statements continued

13. Property, Plant and Equipment, 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 technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Comparable market transactions – price per square metre: The value is based on comparable market transactions after discussion with independent registered property appraisers and/or with reference to other information sources.	Ireland – Urban <ul style="list-style-type: none"> Comparable office market prices of £239 per square metre (2021: £226 – £1,283 per square metre). Comparable warehouse market prices of £222 – £1,098 per square metre (2021: £210 – £837 per square metre). Comparable agricultural land market prices of £11,973 per acre (2021: £11,334 per acre). Comparable industrial land price of £88,690-£339,000 per acre (2021: £84,080 per acre). Ireland – Regional <ul style="list-style-type: none"> Comparable warehouse market prices of £323 – £529 per square metre (2021: £150 – £315 per square metre). UK – Regional (excluding major cities) <ul style="list-style-type: none"> Comparable warehouse market price of £350 per square metre (2021: £350 per square metre). Comparable residential market prices of dilapidated residential in the region of £50,000 (2021: £50,000). Comparable industrial or development land between £150,000 – £587,000 per acre. UK – Urban <ul style="list-style-type: none"> Comparable market prices for development sites of £1.5 million – £7.4 million per acre (2021: £0.6 million – 4.5 million). 	The estimated fair value would increase/ (decrease) if: <ul style="list-style-type: none"> Comparable market prices per square metre were higher/(lower).
Independent valuations: The value is based on the opinion of independent registered property appraisers	UK <ul style="list-style-type: none"> Three (2021: four) properties were valued by independent property appraisers in December 2022. The total value was £14.9 million (2021: £15.8 million). 	

14. Other Financial Assets

	Other Investments £'000
At 1 January 2021	128
Translation adjustment	(2)
At 31 December 2021	126
Translation adjustment	3
At 31 December 2022	129

Other investments represent sundry equity investments at cost less provision for impairment.

15. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships & Technology £'000	Total £'000
Cost				
At 1 January 2021	45,621	13,834	95,934	155,389
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)
At 1 January 2022	7,567	35,606	142,209	185,382
Additions	2,522	–	–	2,522
Acquisitions (Note 27)	–	2,889	17,705	20,594
Translation adjustment	258	1,570	6,676	8,504
At 31 December 2022	10,347	40,065	166,590	217,002
Amortisation				
At 1 January 2021	12,675	2,677	24,132	39,484
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 1 January 2022	3,566	5,191	32,298	41,055
Charge for the year	1,009	3,562	15,724	20,295
Translation adjustment	107	284	1,549	1,940
At 31 December 2022	4,682	9,037	49,571	63,290
Net book amount				
At 31 December 2022	5,665	31,028	117,019	153,712
At 31 December 2021	4,001	30,415	109,911	144,327

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 8.1 years (2021: 6.9 years).

The amortisation expense of £20.3 million (2021: £17.2 million) has been charged in operating costs in the income statement. Amortisation on acquired intangibles amounted to £19.3 million (2021: £14.7 million).

16. Inventories

	2022 £'000	2021 £'000
Raw materials	6,805	4,716
Finished goods	2,862	1,524
Goods purchased for resale	389,898	337,932
	399,565	344,172

The inventory provision at 31 December 2022 was £47.2 million (2021: £41.9 million).

Movement in Impairment Provision

	2022 £'000	2021 £'000
At 1 January	41,943	47,856
Utilised/released during year	(2,349)	(2,922)
Acquired during the year	1,536	3,820
Disposed during the year	–	(12,967)
Additional provision	4,392	7,431
Translation adjustment	1,635	(1,275)
At 31 December	47,157	41,943

Notes to the Group Financial Statements continued

17. Trade and Other Receivables and Finance Lease Receivables

17. (a) Trade and Other Receivables

	2022 £'000	2021 £'000
Amounts falling due within one year:		
Trade receivables	179,481	153,155
Other receivables	88,213	80,331
	267,694	233,486

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 £68.1 million (2021: £64.8 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	
	2022 £'000	2021 £'000
United Kingdom	91,128	87,970
Ireland	102,982	88,049
Netherlands	51,759	40,051
Finland	21,825	17,416
	267,694	233,486

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 2022 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
Not Past Due	229,077	(2,183)	226,894	1.0%
Past Due				
0-30 days	36,716	(4,137)	32,579	11.3%
30-60 days	8,024	(2,059)	5,965	25.7%
+60 days	5,295	(3,039)	2,256	57.4%
	50,035	(9,235)	40,800	18.5%
	279,112	(11,418)	267,694	4.1%

The ageing of trade and other receivables at 31 December 2021 was:

	Gross Value £'000	Impairment £'000	Carrying Amount £'000	Weighted Average Loss Rate %
Not Past Due	195,253	(1,415)	193,838	0.7%
Past Due				
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%
	48,223	(8,575)	39,648	17.8%
	243,476	(9,990)	233,486	4.1%

Movement in Impairment Provision

	2022 £'000	2021 £'000
At 1 January	9,990	12,511
Written-off during the year	(910)	(2,178)
Additional provision	1,875	4,033
Acquired during the year	71	–
Disposed during the year	–	(4,039)
Translation adjustment	392	(337)
At 31 December	11,418	9,990

17. Trade and Other Receivables and Finance Lease Receivables continued**17. (b) Finance Lease Receivables**

Finance lease receivables are presented in the balance sheet as follows:

	2022 £'000	2021 £'000
Lease receivables:		
Lease receivables – falling due within one year	196	212
Lease receivables – falling due after more than one year	453	881
	649	1,093

The maturity profile of the Group's finance lease receivables can be summarised as follows:

	2022 £'000	2021 £'000
Lease receivables:		
Due within one year	196	212
Between one and two years	190	192
Between two and three years	150	168
Between three and four years	113	134
Between four and five years	–	128
After five years	–	259
	649	1,093

The average remaining lease term is 3.1 years (2021: 4.0 years). The finance income on the finance lease receivable recognised during the year amounted to £0.1 million (2021: £0.1 million).

18. Share Capital and Share Premium
Group and Company

	2022 €'000	2021 €'000
Authorised:		
Equity shares		
306 million ordinary shares of 5c each (2021: 306 million)	15,300	15,300
	15,300	15,300

Year Ended 31 December 2022

	Issue Price	Number of Shares	2022 Nominal Value £'000
Issued and fully paid:			
Ordinary shares – nominal value of €0.05			
At 1 January		240,071,630	8,570
Issued under UK SAYE scheme*		414,711	14
2011 Long Term Incentive Plan			
April 2019 LTIP Award	Nil	796,902	32
Share Buyback			
Share Buyback – Programme 1		(12,282,711)	(525)
Share Buyback – Programme 2		(4,302,597)	(189)
Share Buyback – LTIP Awards		(796,902)	(32)
At 31 December		223,901,033	7,870
Total nominal share capital issued			7,870

* Refer to Note 31 which outlines the issue price of the 2020, 2019 and the 2018 SAYE Schemes.

Notes to the Group Financial Statements continued

18. Share Capital and Share Premium continued

Group and Company continued

Year Ended 31 December 2021

	Issue Price	Number of Shares	2022 Nominal Value £'000
Issued and fully paid:			
Ordinary shares – nominal value of €0.05			
At 1 January		239,535,567	8,547
Issued under UK SAYE scheme*		453,388	19
2011 Long Term Incentive Plan			
April 2018 LTIP Award	Nil	82,675	4
At 31 December		240,071,630	8,570
'A' ordinary shares			
At 1 January		4,072,104,639	22
'A' ordinary shares issued in year		2,353,684	–
Cancellation of 'A' ordinary shares		(4,074,458,323)	(22)
At 31 December		–	–
Total nominal share capital issued			8,570

* Refer to Note 31 which outlines the issue price of the 2020, 2019, 2018 and the 2017 SAYE Schemes.

Share Premium

Group	2022 £'000	2021 £'000
At 1 January	219,447	216,496
Premium on issue of shares under UK SAYE scheme	2,528	2,951
At 31 December	221,975	219,447

Grafton Units Issued and Cancelled During 2022

The number of Grafton Units issued during the year under the Group's Executive Share Schemes and the UK SAYE scheme was 1,211,613 (2021: 536,063). Costs relating to the issues were £Nil (2021: £Nil). The number of Grafton units cancelled during the year was 17,382,210 (2021: Nil). The total consideration received, excluding the share buybacks, amounted to £2,574,000 (2021: £2,974,000).

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 6.00pm on 7 March 2021. From that date and as at 31 December 2021 and 31 December 2022, a Grafton Unit comprised one ordinary share of Euro five cent in Grafton Group plc.

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 of Euro five cent in Grafton Group plc.

Treasury Shares

The Group holds 500,000 (2021: 500,000) Grafton Units at a cost of £3,897,000 (2021: £3,897,000) as treasury shares. At 31 December 2022, the Group also held 115,109 shares purchased but not cancelled as part of the share buyback programme at a cost of £0.9 million as noted below (2021: £Nil).

Share Buyback Programme

On 28 April 2022, the Group announced its intention to introduce a share buyback programme. On 9 May 2022, the Group entered into non-discretionary arrangements with Goodbody Stockbrokers UC (acting as agent) and Numis Securities Limited (acting as principal) to conduct the programme and to buy back ordinary shares (the "Shares") on the Group's behalf for a maximum aggregate consideration of up to £100 million and to make trading decisions under the programme independently of the Group in accordance with certain pre-set parameters (the "Buyback"). The Buyback commenced on 9 May 2022 and ended on 12 September 2022. At 31 December 2022, the Group had purchased 12,282,711 shares under this programme in aggregate for cancellation at a total cost of £100.3 million, including transaction costs. All shares were cancelled at 31 December 2022.

18. Share Capital and Share Premium continued

Treasury Shares continued

Share Buyback Programme continued

Following completion of the first share buyback programme the Group announced on 10 November 2022 its intention to commence a second share buyback programme and to buy back ordinary shares (the "Shares") on the Group's behalf for a maximum aggregate consideration of up to £100 million and to make trading decisions under the programme independently of the Group in accordance with certain pre-set parameters (the "Buyback"). The Buyback commenced on 10 November 2022 and will end no later than 30 April 2023. At 31 December 2022, the Group had purchased 4,417,706 shares in aggregate for cancellation at a total cost of £35.1 million, including transaction costs. However, due to timing, only 4,302,597 were cancelled at 31 December 2022 and 115,109 shares purchased for £0.9 million were cancelled in early January 2023. Details of shares bought back since 31 December 2022 are included in Note 34.

In addition to the above, on 3 May 2022 and 4 May 2022, the Group purchased and cancelled 796,902 Grafton Units which was effected to offset the dilutive effect of issuing new shares to satisfy share award obligations under the Company's Long Term Incentive Plan. The total consideration was £7.6 million, including transaction costs.

The movement in treasury shares as a result of the buybacks is noted below:

	Purchase of Shares £'000	Transaction Costs £'000	Total Purchase of Shares* £'000	Cancellation of Shares £'000	Total Movement £'000
Buyback Programme 1	100,000	284	100,284	(100,000)	284
Buyback Programme 2	35,046	72	35,118	(34,130)	988
	135,046	356	135,402	(134,130)	1,272
LTIP Awards	7,563	16	7,579	(7,563)	16
	142,609	372	142,981	(141,693)	1,288

* Including transaction costs

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

	2022 £'000	2021 £'000
Non-current liabilities		
Euro bank loans	112,108	38,699
US senior notes	141,394	133,902
Total interest-bearing loans and borrowings	253,502	172,601
Lease liabilities	389,198	396,070
	642,700	568,671
Current liabilities		
Euro bank loans	–	84,030
Lease liabilities	60,105	52,924
	60,105	136,954

The increase in non-current interest bearing loans and borrowings largely reflects a movement from current liability following a bank refinancing on 4 August 2022 and a foreign exchange movement on translation of the Group's euro denominated bank loans/US senior notes into sterling at the year end.

Notes to the Group Financial Statements continued

20. Interest-Bearing Loans and Borrowings continued

Maturity of financial liabilities

The maturity profile of the Group's interest-bearing financial liabilities (bank debt, loan notes and lease liabilities) can be summarised as follows:

	Bank loans 2022 £'000	US senior notes 2022 £'000	Lease liabilities 2022 £'000	Total 2022 £'000	Bank loans 2021 £'000	US senior notes 2021 £'000	Lease liabilities 2021 £'000	Total 2021 £'000
Due within one year	–	–	60,105	60,105	84,030	–	52,924	136,954
Between one and two years	–	–	58,688	58,688	38,699	–	53,024	91,723
Between two and three years	–	–	57,609	57,609	–	–	52,492	52,492
Between three and four years	–	–	53,375	53,375	–	–	51,131	51,131
Between four and five years	112,108	–	47,812	159,920	–	–	47,436	47,436
After five years	–	141,394	171,714	313,108	–	133,902	191,987	325,889
	112,108	141,394	449,303	702,805	122,729	133,902	448,994	705,625
Derivatives				29				8
Gross debt				702,834				705,633
Cash and short term deposits				(711,721)				(844,663)
Net (cash)				(8,887)				(139,303)

Net cash, excluding the impact of leases, amounted to £458.2 million (2021: £588.0 million).

The following table indicates the effective interest rates at 31 December 2022 in respect of interest bearing financial assets and financial liabilities and the periods during which they re-price.

	Effective Interest Rate	Total £'000	6 months or less £'000	6 to 12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Euro deposits	0.00%	3,099	3,099	–	–	–	–
Sterling deposits	3.27%	467,030	467,030	–	–	–	–
Cash at bank	0.00% – 3.50%	241,592	241,592	–	–	–	–
Total cash and cash equivalents		711,721	711,721	–	–	–	–
Floating rate debt:							
Euro loans	3.02%	(112,108)	(112,108)	–	–	–	–
Total floating rate debt		(112,108)	(112,108)	–	–	–	–
Fixed rate debt:							
Lease liabilities	3.33%	(449,303)	(30,053)	(30,052)	(58,688)	(158,796)	(171,714)
US senior notes	2.49%	(141,394)	–	–	–	–	(141,394)
Total fixed rate debt		(590,697)	(30,053)	(30,052)	(58,688)	(158,796)	(313,108)
Derivatives		(29)	(29)	–	–	–	–
Total net cash/(debt)		8,887	569,531	(30,052)	(58,688)	(158,796)	(313,108)

Borrowing Facilities and US Senior Notes

At 31 December 2022, the Group had bilateral loan facilities of £340.7 million (2021: £433.7 million which mature in March 2023) with four relationship banks which all mature in August 2027.

In August 2022, the Group completed a refinancing of its loan facilities that were due to expire in March 2023. Bilateral revolving loan facilities for £340.7 million were agreed with four established relationship banks for a term of five years to August 2027. The arrangements include two one-year extension options exercisable at the discretion of Grafton and the banks. This is sustainability linked debt funding and includes an incentive connected to the achievement of carbon emissions, workforce diversity and community support targets that are fully aligned to the Group's sustainability strategy. These new facilities replace existing facilities of £380.7 million.

A one-year term facility for £86.0 million that was put in place in 2021, facilitated by one of the Group's four relationship banks under the ECB's Targeted Longer-Term Refinancing Operations, was used to temporarily replace drawings on existing facilities on more attractive terms and was repaid in December 2022.

The Group had an undrawn committed borrowing facility at 31 December 2022 of £226.9 million (2021: £394.7 million) in respect of which all conditions precedent were met. The Group had liquidity of £934.6 million at 31 December 2022 (2021: £1,235.4 million) of which £707.7 million (2021: £840.7 million) was held in accessible cash and £226.9 million (2021: £394.7 million) in undrawn revolving bank facilities.

20. Interest-Bearing Loans and Borrowings continued

In September 2018, the Group raised €160 million (31 December 2022: £141.9 million before costs; 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.

The average maturity of committed bank facilities and unsecured senior notes at 31 December 2022 was 5.2 years (2021: 2.5 years).

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 in 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	—	—	—	—
Floating rate debt:							
Euro loans	(0.34%)	(122,729)	(122,729)	—	—	—	—
Total floating rate debt		(122,729)	(122,729)	—	—	—	—
Fixed rate debt:							
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 Debt		139,030	695,464	(26,462)	(53,024)	(151,059)	(325,889)

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 2022

	Fair value through OCI £'000	Amortised cost £'000	Total carrying value £'000	Fair value £'000
Other financial assets*	129	—	129	—
Trade and other receivables*	—	267,694	267,694	—
Lease receivables*	—	649	649	—
Cash and cash equivalents*	—	711,721	711,721	—
	129	980,064	980,193	—
Foreign currency forwards	(29)	—	(29)	(29)
Euro bank loans	—	(112,108)	(112,108)	(113,815)
US senior notes	—	(141,394)	(141,394)	(126,605)
Lease liabilities	—	(449,303)	(449,303)	—
Trade and other payables*	—	(420,653)	(420,653)	—
	(29)	(1,123,458)	(1,123,487)	(240,449)

Notes to the Group Financial Statements continued

21. Financial Instruments and Financial Risk continued

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	—
	126	1,079,242	1,079,368	—
Foreign currency forwards	(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)	—
Trade and other payables*	—	(419,111)	(419,111)	—
	(8)	(1,124,736)	(1,124,744)	(257,473)

* The Group has not disclosed the fair values of financial instruments such as short term receivables and payables because their carrying value closely approximates fair value.

Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of financial instruments carried at fair value, by valuation method. The different levels in the fair value hierarchy have been defined as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Trade and Other Receivables/Trade and Other Payables

- For receivables and payables with a remaining life of less than six months or demand balances, fair value is the amount that is payable contractually less an impairment provision where appropriate.

Cash and Cash Equivalents, Including Short Term Bank Deposits

- For short term bank deposits and cash and cash equivalents, all of which have a remaining maturity of less than three months, the carrying amount is a reasonable approximation of fair value. At 31 December 2022, £4.0 million of cash (2021: £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.

21. Financial Instruments and Financial Risk continued

The following table shows the fair values of financial assets and liabilities including their level in the fair value hierarchy, 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. Deferred consideration is classified as Level 3.

	2022 Total £'000	2022 Level 2 £'000
Liabilities measured and recognised at fair value		
Designated as hedging instruments		
Other derivative instruments	(29)	(29)
Liabilities not measured at fair value		
Liabilities at amortised cost		
US senior notes	(126,605)	(126,605)
	2021 Total £'000	2021 Level 2 £'000
Liabilities measured and recognised at fair value		
Designated as hedging instruments		
Other derivative instruments	(8)	(8)
Liabilities not measured at fair value		
Liabilities at amortised cost		
US senior notes	(134,448)	(134,448)

Level 2 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Financial assets and liabilities measured at fair value			
Foreign currency forwards	The fair value of foreign currency forwards is calculated as the present value of the estimated future cashflows based on observable yield curves, spot and forward currency rates	Not applicable	Not applicable
Financial assets and liabilities not held at fair value			
Other financial liabilities*	Discounted cash flows	Not applicable	Not applicable

* Other financial liabilities include Euro bank loans and US senior notes.

Level 3 Fair Values

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Financial assets and liabilities measured at fair value			
Deferred consideration	The fair value of deferred consideration is calculated assuming a probability of payout, which will be based on achievement of EBITDA targets, and discounted to present value using market derived discount rates. The fair value assumes achievement of targets but is sensitive to change in the assessed probability of achieving targets.	Not applicable	Not applicable

Notes to the Group Financial Statements continued

21. Financial Instruments and Financial Risk continued

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.

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 2022.

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 2022 and 31 December 2021 was:

	2022 £'000	2021 £'000
Trade and other receivables	267,694	233,486
Cash and cash equivalents	711,721	844,663
	979,415	1,078,149

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	
	2022 £'000	2021 £'000
United Kingdom	588,348	747,536
Republic of Ireland	94,241	55,825
Netherlands	10,065	17,949
Finland	14,017	17,538
France	5,050	5,815
	711,721	844,663

21. Financial Instruments and Financial Risk continued

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.

	2022 £'000	2021 £'000
Gross amounts of cash and cash equivalents	711,866	857,197
Amounts set off in the balance sheet*	(145)	(12,534)
Net amounts of cash and cash equivalents in the balance sheet	711,721	844,663

* 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 forward foreign currency contracts as appropriate for settling liabilities arising from the purchase of goods for resale in non-functional currencies. The majority of transactions entered into by Group entities are denominated in functional currencies and no significant level of hedging is required.

A proportion of the Group's net worth is denominated in euro. This is reflected in profit after tax reserves retained in euro denominated trading and finance companies which gives rise to translation differences on conversion to sterling. Borrowings made in a non-functional currency are swapped into a functional currency.

Sensitivity Analysis

A ten per cent strengthening of the sterling exchange rate against the euro exchange rate at the balance sheet date would have decreased equity and profit after tax by the amount shown below. This assumes that all variables, in particular the results and financial position of each euro functional currency entity and interest rates, remained constant. A ten per cent weakening of the sterling exchange rate against the euro exchange rate would have an equal and opposite effect on the amounts shown below on the basis that all variables remain constant.

	Equity £'000	Profit after tax £'000
31 December 2022		
10% strengthening of sterling currency against the euro	(66,235)	(9,424)
31 December 2021		
10% strengthening of sterling currency against the euro	(52,944)	(16,053)

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 2022 (2021: £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 2022: £141.9 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 Group is also exposed to interest rate risk on its deposits.

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 (2021: £0.6 million) on the basis of the Group's gross debt of £702.8 million at 31 December 2022. £112.1 million of the gross debt is exposed to variable rates with the interest rate on the US senior notes of £141.4 million and the implicit interest rate on lease liabilities of £449.3 million is fixed. An increase of 50 basis points, on the same basis, would have an equal and opposite effect.

Notes to the Group Financial Statements continued

21. Financial Instruments and Financial Risk continued

Capital Management

The capital structure of the Group comprises share capital, reserves and net debt.

The overall approach is to optimise shareholder value by leveraging the balance sheet to an appropriate level having regard to economic and trading conditions in the Group's markets, the level of internal cash generation, credit conditions generally and interest rates payable.

The Group's capital structure is kept under ongoing review and the debt component is actively managed with a view to maintaining diversified sources of funding, significant undrawn facilities and cash deposits.

The Directors monitor the Company's share price and may from time to time exercise their powers to make market purchases of the Company's own shares, at price levels which they consider to be in the best interests of the shareholders generally, after taking account of the Company's overall financial position.

The principal bank covenants are a net debt to equity ratio limit of 85 per cent, EBITDA interest cover of 3 times, which excludes interest on lease liabilities, and a minimum shareholders' equity of £1.0 billion at 31 December 2022.

The US notes 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 £1.2 billion at 31 December 2022.

At 31 December 2022 the net (cash)/debt to equity ratio was negative 0.5 per cent (2021: negative 8 per cent) as the Group was in a net cash position of £8.9 million (2021: £139.0 million) and shareholders' equity was £1.75 billion. EBITDA, from continuing operations, for the year was £381.2 million (2021: £373.4 million) and underlying EBITDA interest cover for 2022 was 32.2 times (2021: 18.0 times). On a pre-IFRS 16 basis, the Group had net cash of £458.2 million and EBITDA for the year was £307.8 million and underlying EBITDA interest cover for 2022 was negative 99.3 times as the Group had net interest income.

Funding and Liquidity

The Group has cash resources at its disposal through the holding of deposits and cash balances of £711.7 million at the year end (2021: £844.7 million) which together with undrawn bank facilities of £226.9 million (2021: £394.7 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 2022

	Carrying Amount £'000	Contractual Cash Flow* £'000	Within 1 Year £'000	Between 1 and 2 Years £'000	Between 2 and 5 Years £'000	Greater Than 5 Years £'000
Non-Derivative Financial Liabilities						
Bank loans	112,108	129,796	3,480	3,490	122,826	–
US senior notes	141,394	165,611	3,526	3,526	10,579	147,980
Lease liabilities	449,303	520,654	73,104	69,947	181,688	195,915
Trade and other payables	420,653	420,653	420,653	–	–	–
Derivative Financial Instruments						
Other derivatives	29	29	29	–	–	–
	1,123,487	1,236,743	500,792	76,963	315,093	343,895

* Includes interest based on the rates in place at 31 December 2022.

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
Non-Derivative Financial Liabilities						
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	–	–	–
Derivative Financial Instruments						
Other derivatives	8	8	8	–	–	–
	1,124,744	1,238,370	577,490	107,631	188,057	365,192

* Includes interest based on the rates in place at 31 December 2021.

21. Financial Instruments and Financial Risk continued

The following table indicates the periods in which cash flows associated with derivatives that are cash flow hedges are expected to occur.

31 December 2022	Carrying Amount £'000	Expected Cash Flow £'000	6 Months or Less £'000	6 to 12 Months £'000	1 to 2 Years £'000	2 to 3 Years £'000	3 to 4 Years £'000	4 to 5 Years £'000
Other derivatives	(29)	(29)	(29)	–	–	–	–	–
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
Other derivatives	(8)	(8)	(8)	–	–	–	–	–

22. Derivatives

	2022 £'000	2021 £'000
Included in current liabilities and current assets:		
Fair value of other derivatives	(29)	(8)

The movement in derivatives at 31 December 2022 is due to the movement in their fair values.

Nature of Derivative Instruments as at 31 December 2022

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding £'000	Notional receivable amount of contracts outstanding £'000	Fair value asset £'000	Fair value liability £'000
Foreign Currency Forwards*	December 2022 – January 2023	Forward purchase of foreign currency liabilities	925	925	–	(29)

* The fair value of foreign currency forwards (derivative financial instruments) are shown as current liabilities of £29,000 in the balance sheet.

Nature of Derivative Instruments as at 31 December 2021

	Hedge Period	Nature of hedging instrument	Notional payable amount of contracts outstanding £'000	Notional receivable amount of contracts outstanding £'000	Fair value asset £'000	Fair value liability £'000
Foreign Currency Forwards*	December 2021 – January 2022	Forward purchase of foreign currency liabilities	646	646	–	(8)

* The fair value of foreign currency forwards (derivative financial instruments) are shown as current liabilities of £8,000 in the balance sheet.

Notes to the Group Financial Statements continued

23. Provisions

	2022 £'000	2021 £'000
Non-current liabilities		
Insurance provision	8,910	8,790
Dilapidations provision	4,709	4,396
Other provisions	1,570	1,676
	15,189	14,862
Current liabilities		
Insurance provision	2,972	3,760
Dilapidations provision	–	–
Disposal provisions	1,394	1,321
Other provisions	1,538	1,556
	5,904	6,637

	Insurance		Dilapidations	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	12,550	14,261	4,396	9,279
Charge in year	2,960	4,227	264	554
Utilised	–	–	(65)	(159)
Released	(2,798)	(2,740)	–	(65)
Paid during the year	(1,475)	(2,284)	–	–
Disposed during the year (Note 27)	–	–	–	(5,075)
Foreign exchange	645	(914)	114	(138)
At 31 December	11,882	12,550	4,709	4,396
Non-current	8,910	8,790	4,709	4,396
Current	2,972	3,760	–	–

	Disposal Provisions		Other Provisions		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	1,321	2,370	3,232	4,166	21,499	30,076
Charge in year	–	–	–	–	3,224	4,781
Utilised	–	(915)	(115)	(280)	(180)	(1,354)
Released	–	–	(87)	(288)	(2,885)	(3,093)
Paid during the year	–	–	–	–	(1,475)	(2,284)
Disposed during the year (Note 27)	–	–	–	(264)	–	(5,339)
Foreign exchange	73	(134)	78	(102)	910	(1,288)
At 31 December	1,394	1,321	3,108	3,232	21,093	21,499
Non-current	–	–	1,570	1,676	15,189	14,862
Current	1,394	1,321	1,538	1,556	5,904	6,637

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 2023 is expected to be at a similar level to 2022. Based on historical experience, it is the Directors best estimate that the balance of claims which are provided for at 31 December 2022 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

	2022 £'000	2021 £'000
Trade payables	266,204	270,862
Accruals	110,412	114,146
Social welfare	2,226	1,218
Employee income tax	6,319	4,550
Value added tax	35,492	28,335
	420,653	419,111

25. Deferred Taxation

Recognised Deferred Tax Assets and Liabilities

	Assets 2022 £'000	Liabilities 2022 £'000	Net (assets)/ liabilities 2022 £'000	Assets 2021 £'000	Liabilities 2021 £'000	Net (assets)/ liabilities 2021 £'000
Property, plant and equipment	(413)	27,281	26,868	(119)	23,362	23,243
Employee share schemes	(909)	–	(909)	(2,309)	–	(2,309)
Other items	(3,540)	1,147	(2,393)	(4,729)	1,106	(3,623)
Intangibles	–	32,583	32,583	–	31,934	31,934
Pension	(3,201)	–	(3,201)	(1,636)	–	(1,636)
(Assets)/Liabilities	(8,063)	61,011	52,948	(8,793)	56,402	47,609

The movement in the deferred tax asset reflects an increase in the deferred tax asset on the pension scheme deficit and an increase in the deferred tax asset in respect of property, plant and equipment offset by a decrease in the deferred tax asset on employee share schemes and other items.

At 31 December 2022, there were unrecognised deferred tax assets in relation to capital losses of £0.7 million (31 December 2021: £3.1 million), trading losses of £1.1 million (31 December 2021: £1.1 million) and deductible temporary differences of £6.9 million (31 December 2021: £8.5 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 – 2022

	Balance 1 Jan 22 £'000	Recognised in profit or loss £'000	Recognised in equity/other comprehensive income £'000	Foreign exchange retranslation £'000	Arising on acquisitions £'000	Balance 31 Dec 22 £'000
Property, plant and equipment	23,243	2,783	–	852	(10)	26,868
Employee share schemes	(2,309)	88	1,312	–	–	(909)
Other items	(3,623)	1,235	–	(5)	–	(2,393)
Intangibles	31,934	(4,329)	–	1,376	3,602	32,583
Pension	(1,636)	969	(2,558)	24	–	(3,201)
	47,609	746	(1,246)	2,247	3,592	52,948

Notes to the Group Financial Statements continued

25. Deferred Taxation continued

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)
	41,013	4,438	4,146	2,120	(1,945)	(16,962)	14,799	47,609

26. Movement in Working Capital

	Inventory £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2021	321,558	336,944	(545,949)	112,553
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
At 1 January 2022	344,172	233,486	(419,111)	158,547
Translation adjustment	13,168	8,709	(14,548)	7,329
Acquisitions (Note 27)	7,561	8,788	(5,695)	10,654
Deferred acquisition consideration (Note 27)	–	–	(5,197)	(5,197)
Deferred acquisition consideration paid	–	–	4,000	4,000
Movement in 2022	34,664	16,711	19,898	71,273
At 31 December 2022	399,565	267,694	(420,653)	246,606
Working Capital Movement in 2021				
Discontinued operations	6,158	63,763	(62,427)	7,494
Continuing operations	74,856	34,698	(52,919)	56,635
At 31 December 2021	81,014	98,461	(115,346)	64,129

27. Acquisition & Disposals of Subsidiary Undertakings and Businesses

Acquisition of Subsidiary Undertakings and Businesses

On 11 January 2022, the Group acquired the entire share capital of Regts B.V. ("Regts"). Regts is a distributor of tools, ironmongery and fixings in the Netherlands with a strong market position in the province of Friesland where it trades from five branches. The acquisition is incorporated in the Netherlands Distribution segment.

On 14 February 2022 the entire share capital of Woodfloor Warehouse Limited (Woodfloor) was acquired. Woodfloor is a leading in-store and online timber flooring distributor trading from two branches in Northern Ireland and from one branch in the UK. The acquisition is incorporated in the UK Distribution segment.

On 28 February 2022, the Group completed the acquisition of the entire share capital of Sitetech Building Products Limited ("Sitetech"), a distributor of specialist construction accessories in Ireland where the business trades from two locations in Dublin and Cork. The acquisition is incorporated in the Irish Distribution segment.

None of these acquisitions were individually material for separate disclosure under IFRS3.

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 2022 are set out below:

	Total £'000
Property, plant and equipment (Note 13a)	4,659
Right-of-use asset (Note 13b)	2,745
Intangible assets – customer relationships (Note 15)	17,705
Intangible assets – trade names (Note 15)	2,889
Inventories (Note 26)	7,561
Trade and other receivables (Note 26)	8,788
Trade and other payables (Note 26)	(5,695)
Lease liability	(2,745)
Corporation tax liability	(105)
Deferred tax liability (Note 25)	(3,592)
Cash acquired	5,879
Net assets acquired	38,089
Goodwill (Note 12)	18,965
Consideration	57,054
Satisfied by:	
Cash paid	51,857
Deferred consideration (Note 26)	5,197
	57,054
Net cash outflow – arising on acquisitions	
Cash consideration	51,857
Less: cash and cash equivalents acquired	(5,879)
	45,978

Acquisitions would have contributed revenue of £59.4 million (unaudited) and operating profit of £9.5 million (unaudited) in the year ended 31 December 2022 on the assumption that they had been acquired on 1 January. Acquisitions completed in 2022 contributed revenues of £53.6 million and operating profit of £8.4 million for the period from the date of acquisition until the year end.

In 2022, the Group incurred acquisition related costs of £2.3 million (2021: £4.1 million). These have been included in operating costs in the Group Income Statement. The fair value of identifiable net assets acquired in 2022 was £38.1 million.

	Fair Value £'000	Consideration £'000	Goodwill £'000
Total acquisitions	38,089	57,054	18,965

There were no adjustments processed during the year to the fair value of business combinations completed during the year ended 31 December 2021.

Deferred consideration is payable within 3 years from the date of acquisition and is not contingent. In addition to this deferred consideration, the Group has an agreement for two of the acquisitions to make further payments to certain 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 had a market value of circa £25 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 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 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)
Net assets disposed	477,192
Cash consideration received and settlement of intercompany balances	(602,308)
Net profit on disposal of Group businesses, before disposal costs	(125,116)

	Total £'000
Reconciliation of cash consideration receivable from 30 June 2021 to cash received at 31 December 2021	
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
	602,308

	Total £'000
Net cash inflow on disposal of Group businesses	
Cash consideration received and settlement of intercompany balances	602,308
Cash disposed with Group businesses	(103,778)
	498,530

	Total £'000
Amounts recognised in the period within discontinued operations	
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
	134,422

* 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 before taxation from discontinued operations****Cash flows from discontinued operations**

	2021 £'000
Net cash flow from operating activities	36,592
Net cash flow from investing activities	(3,346)
Net cash flow from financing activities	(4,794)
Net cash flow from discontinued operations	28,452

Profit before taxation from discontinued operations

	2021 £'000
Results from discontinued operations	30,675
Profit on disposal of Group businesses, net of disposal costs	113,171
Profit before taxation from discontinued operations	143,846

Results of Discontinued Operations

	2021 £'000
Revenue	522,895
Operating costs	(493,873)
Operating profit before property profits	29,022
Property profits	396
Operating profit pre-exceptional items	29,418
Exceptional items*	2,500
Operating profit	31,918
Net finance costs	(1,243)
Profit before tax	30,675
Income tax	(9,424)
Profit after tax for the financial period	21,251

* Exceptional items at 31 December 2021 relates to an IAS 19 past service credit booked in 2020 (Note 30).

The trading results for 2021 is set out below.

Trading Results**For the year ended 31 December 2021**

	2021 Continuing £'000	2021 Discontinued £'000	2021 Total £'000
Revenue	2,109,909	522,895	2,632,804
Operating costs	(1,857,487)	(493,873)	(2,351,360)
Operating profit before property profits	252,422	29,022	281,444
Property profits	16,740	396	17,136
Operating profit before exceptional items	269,162	29,418	298,580
Exceptional items	–	2,500	2,500
Operating profit	269,162	31,918	301,080
Finance expense	(21,269)	(1,243)	(22,512)
Finance income	1,904	–	1,904
Profit before tax	249,797	30,675	280,472
Income tax expense	(42,952)	(9,424)	(52,376)
Profit after tax for the financial period	206,845	21,251	228,096

Notes to the Group Financial Statements continued

28. Reconciliation of Net Cash Flow to Movement in Net Cash

	2022 £'000	2021 £'000
Net (decrease)/increase in cash and cash equivalents	(142,780)	399,155
Net movement in derivative financial instruments	(21)	57
Lease liabilities disposed with Group businesses	–	67,100
Bank loans and loan notes acquired with subsidiaries*	–	(55,647)
Lease liabilities acquired with subsidiaries	(2,745)	(24,192)
Movement in debt and lease financing	30,981	84,863
Change in net (debt)/cash resulting from cash flows	(114,565)	471,336
Translation adjustment	(15,578)	22,695
Movement in net debt in the year	(130,143)	494,031
Net cash/(debt) at 1 January	139,030	(355,001)
Net cash at 31 December	8,887	139,030

* Repaid at completion.

Analysis of Net Debt – 2022

	Balance 1 Jan 22 £'000	Cashflow £'000	Acquisition (Note 27) £'000	Non-cash movements £'000	Translation adjustment £'000	Balance 31 Dec 22 £'000
Cash and cash equivalents	844,663	(148,659)	5,879	–	9,838	711,721
Interest bearing loans and borrowings:						
Non-current liabilities	(172,601)	(68,763)	–	–	(12,138)	(253,502)
Current liabilities	(84,030)	85,950	–	–	(1,920)	–
Total interest-bearing loans and borrowings	(256,631)	17,187	–	–	(14,058)	(253,502)
Lease liabilities	(448,994)	72,997	(2,745)	(59,203)	(11,358)	(449,303)
Derivatives – current	(8)	(21)	–	–	–	(29)
Net cash/(debt)	139,030	(58,496)	3,134	(59,203)	(15,578)	8,887

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
Interest bearing loans and borrowings:							
Non-current liabilities	(274,030)	140,087	(55,647)	–	–	16,989	(172,601)
Current liabilities	–	(84,980)	–	–	–	950	(84,030)
Total interest-bearing loans and borrowings	(274,030)	55,107	(55,647)	–	–	17,939	(256,631)
Lease liabilities	(536,934)	72,165	(24,192)	67,100	(42,409)	15,276	(448,994)
Derivatives – current	(65)	57	–	–	–	–	(8)
Net cash/(debt)	(355,001)	617,866	(67,443)	(36,678)	(42,409)	22,695	139,030

29. Capital Expenditure Commitments

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

	2022 £'000	2021 £'000
Contracted for	16,933	8,625
Not contracted for	53,017	76,742
	69,950	85,367

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

	2022 £'000	2021 £'000
UK	34,344	54,265
Ireland	23,465	20,547
Netherlands	9,181	7,249
Finland	2,960	3,306
	69,950	85,367

Amounts relating to intangibles included above	8,851	2,788
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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. In November 2022, an Irish scheme was closed to future accrual of DB benefits.

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. In the case of schemes still open to accrual, it also depends on a member’s final pensionable salary and in the case of schemes closed to accrual, it depends on 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.

Financial Assumptions

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

	At 31 Dec 2022 Irish schemes	At 31 Dec 2022 UK schemes	At 31 Dec 2021 Irish schemes	At 31 Dec 2021 UK schemes
Valuation method	Projected Unit	Projected Unit	Projected Unit	Projected Unit
Rate of increase in salaries*	3.80%	N/A	3.30%	N/A
Rate of increase of pensions in payment	–	3.10%	–	3.10%
Rate of revaluation of non-retired member benefits up to retirement*	2.45%-2.50%	2.60%	2.00%	2.70%
Discount rate	3.70%	4.80%	1.15%	1.90%
Inflation rate increase	2.60%	2.60%/3.20%**	2.10%	2.70%/3.30%**

* Following the closure to accrual of the UK scheme and one of the Irish schemes, benefits in those schemes are no longer linked to final salary. Instead, accrued benefits up to the date of closure revalue in line with inflation, subject to certain caps. The assumption for the rate of increase in salaries shown at 31 December 2022 for the Irish Schemes only applies to the schemes that were still open to accrual at that date.

** The inflation assumption shown for the UK is based on both the Consumer Price Index (CPI) and the Retail Price Index (RPI).

Notes to the Group Financial Statements continued

30. Pension Commitments continued

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2022 and 2021 year end IAS 19 disclosures are as follows:

2022 Mortality (years)		Ireland	UK	2021 Mortality (years)		Ireland	UK
Future Pensioner aged 65:	Male	23.3	21.5	Future Pensioner aged 65:	Male	23.0	21.4
	Female	25.9	24.1		Female	25.2	24.1
Current Pensioner aged 65:	Male	22.6	20.9	Current Pensioner aged 65	Male	21.8	20.9
	Female	25.0	23.4		Female	24.2	23.3

Scheme Assets

The assets in these schemes are analysed below:

	%	2022 £'000	%	2021 £'000
UK equities	1	2,174	1	3,656
Overseas (non-UK) equities	18	34,614	21	60,574
Government bonds	27	51,619	23	65,218
Corporate bonds	18	33,763	18	50,563
Property	1	2,536	1	4,959
Diversified growth funds	23	45,104	23	64,337
Liability driven investment ("LDI")	11	20,381	12	33,349
Cash	1	2,107	1	1,049
	100	192,298	100	283,705
Actuarial value of liabilities		(202,782)		(295,176)
Deficit in the schemes		(10,484)		(11,471)

Represented by:

Retirement benefit assets	4,584	3,596
Retirement benefit obligations	(15,068)	(15,067)
	(10,484)	(11,471)

The net pension scheme deficit of £10,484,000 is shown in the Group balance sheet at 31 December 2022 as (i) retirement benefit obligations (non-current Liabilities) of £15,068,000 of which £14,236,000 relates to a UK scheme and £832,000 relates to a Euro scheme and (ii) retirement benefit assets (non-current assets) of £4,584,000 relating to the other Euro schemes.

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 retirement benefit assets have been recognised in accordance with IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' as it has been determined that the Group has an unconditional right to a refund of the surplus assets if the schemes are run off until the last member has left the scheme.

The actual return on plan assets is set out below:

	2022 £'000	2021 £'000
Actual return on plan assets	(93,329)	13,753

Plan assets are comprised as follows:

	2022 Quoted* £'000	2022 Unquoted £'000	2022 Total £'000	2021 Quoted £'000	2021 Unquoted £'000	2021 Total £'000
Equity – UK	2,174	–	2,174	3,656	–	3,656
Equity – Other	34,614	–	34,614	60,574	–	60,574
Bonds – Government	51,619	–	51,619	65,218	–	65,218
Bonds – Corporate	33,763	–	33,763	50,563	–	50,563
Property	2,536	–	2,536	4,959	–	4,959
Cash	2,107	–	2,107	1,049	–	1,049
Diversified growth funds	45,104	–	45,104	64,337	–	64,337
LDI	20,381	–	20,381	33,349	–	33,349
Total	192,298	–	192,298	283,705	–	283,705

* Assets are holdings in unitised funds where the underlying assets are liquid/quoted investments.

30. Pension Commitments *continued*

Sensitivity of Pension Liability to Judgements/Assumptions

Assumption	Change in Assumptions	Impact on Scheme Liabilities
Discount rate	Increase by 0.25%	Reduce by 3.4%
Rate of salary growth	Increase by 0.25%	Increase by 0.1%
Rate of inflation*	Increase by 0.25%	Increase by 1.5%
Life expectancy	Increase by 1 year	Increase by 3.1%

* 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)	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
At 1 January	283,705	263,604	(295,176)	(314,188)	(11,471)	(50,584)
Interest income on plan assets	4,519	2,836	–	–	4,519	2,836
Contributions by employer	4,413	24,082	–	–	4,413	24,082
Contributions by members	458	469	(458)	(469)	–	–
Benefit payments	(8,812)	(9,128)	8,812	9,128	–	–
Current service cost	–	–	(1,962)	(2,359)	(1,962)	(2,359)
Past service credit – discontinued (Note 27)	–	–	–	2,500	–	2,500
Curtailment gain – non-recurring	–	–	3,690	–	3,690	–
Other long term credit/(expense)	–	–	9	(191)	9	(191)
Interest cost on scheme liabilities	–	–	(4,627)	(3,219)	(4,627)	(3,219)
Administration costs	–	(382)	–	–	–	(382)
Remeasurements						
Actuarial (loss) / gain arising from						
– experience variations	–	–	(2,369)	1,131	(2,369)	1,131
– financial assumptions	–	–	98,087	1,992	98,087	1,992
– demographic assumptions	–	–	(2,910)	846	(2,910)	846
Return on plan assets excluding interest income	(97,848)	10,917	–	–	(97,848)	10,917
Translation adjustment	5,863	(8,693)	(5,878)	9,653	(15)	960
At 31 December	192,298	283,705	(202,782)	(295,176)	(10,484)	(11,471)
Related deferred tax asset (net)					3,201	1,636
Net pension liability					(7,283)	(9,835)

(Credit)/Expense Recognised in Income Statement

	2022 £'000	2021 £'000
Current service cost	1,962	2,359
Curtailment gain – non-recurring	(3,690)	–
Other long term benefit (credit)/expense	(9)	191
Administration costs	–	382
Total operating (credit)/charge	(1,737)	2,932
Net finance costs on pension scheme obligations	108	383
Total (credit)/expense recognised in income statement	(1,629)	3,315

A non-recurring curtailment gain of £3.7 million arose on closure to future accrual of a defined benefit pension scheme in Ireland.

Notes to the Group Financial Statements continued

30. Pension Commitments continued (Credit) Recognised in Exceptional Items in 2021 – discontinued

	2021 £'000
Past service (credit)/cost	(2,500)
Administration costs (non-recurring)	–
Total (credit) recognised in exceptional items in 2021	(2,500)

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

	2022 £'000	2021 £'000
Remeasurement (loss)/gain on pensions	(5,040)	14,886
Deferred tax on pensions	2,558	(3,212)
	(2,482)	11,674

Actuarial Valuations – Funding Requirements

Where a scheme is open to future accrual, 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). All Irish DB schemes are in funding proposals, agreed in 2013, to address the Funding Standard deficits that existed at that time by the end of 2023. The funding proposals were agreed between the Group and the trustees of each scheme.

An Irish defined benefit pension scheme was closed to future accrual on 30 November 2022 when alternative arrangements were put in place for 350 colleagues. As at 31 December 2022, two Irish DB schemes remained open to accrual.

The portion of contributions due for 2023, which relate to deficit funding in the Irish Schemes, is £2.6 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. Valuations as at 1 January 2022 were completed and all funding proposals were certified as on-track. The next triennial valuations for the Irish schemes are due on 1st January 2025.

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.

The contributions expected to be paid to the Group's defined benefit schemes in 2023 total approximately £4.4 million.

Average Duration and Scheme Composition

	Ireland		UK	
	2022	2021	2022	2021
Average duration of defined benefit obligation (years)	16.00	19.00	14.00	18.00

Allocation of Total Defined Benefit Obligation by Participant

	2022	2021
Active plan participants	5%	24%
Deferred plan participants	53%	40%
Retirees	42%	36%
	100%	100%

31. Share Based Payments

The Group's employee share schemes are equity settled share based payments as defined in IFRS 2 Share Based Payments. The total share based payments expense for the year charged to the income statement was £4,719,000 (2021: £5,601,000), analysed as follows:

	2022 £'000	2021 £'000
LTIP	4,312	4,715
UK SAYE Scheme	407	886
	4,719	5,601

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 133 to 145. Awards over 706,305 Grafton Units were granted under the plan on 1 April 2022 (2021: 683,694 on 17 May 2021). Additional awards over 37,251 Grafton Units were granted on 29 November 2022 to Eric Born on his appointment as CEO.

A summary of the awards granted on 1 April 2022 and 29 November 2022 is set out below:

Grant date	LTIP 2022 29 Nov 2022	LTIP 2022 1 April 2022	LTIP 2021 17 May 2021
Share price at date of award	£8.06	£9.93	£12.01
Exercise price	N/A	N/A	N/A
Number of employees	1	178	244
Number of share awards	37,251	706,305	683,694
Vesting period	3 years	3 years	3 years
Expected volatility	33.1%	48.0%	50.0%
Award life	3 years	3 years	3 years
Expected life	3 years	3 years	3 years
Risk free rate	3.19%	1.43%	0.12%
Expected dividends expressed as dividend yield	4.02%	2.32%	2.31%
Valuation model – EPS	Black Scholes/ Monte-Carlo	Black Scholes/ Monte-Carlo	Black Scholes/ Monte-Carlo
Valuation model – TSR	Black Scholes/ Monte-Carlo	Black Scholes/ Monte-Carlo	Black Scholes/ Monte-Carlo
Fair value of share award – EPS component	£7.14	£9.26	£11.20
Fair value of share award – TSR component	£2.11	£4.65	£8.32

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.

A reconciliation of all share awards granted under the LTIP is as follows:

	2022 Number	2021 Number
Outstanding at 1 January	2,139,304	1,632,706
Granted in year	743,556	683,694
Forfeited#	(562,602)	(39,073)
Expired unvested	(68,457)	(55,348)
Exercised	(796,902)	(82,675)
Outstanding at 31 December	1,454,899	2,139,304

Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme. Share awards totalling 393,282 were forfeited by Gavin Slark on his resignation as CEO.

At 31 December 2022 and 31 December 2021 none of the LTIPs were exercisable as the conditions for exercise were not fulfilled before the year-end.

Notes to the Group Financial Statements continued

31. Share Based Payments continued

UK SAYE Scheme

Options over 727,248 (2021: 1,169,931) Grafton Units were outstanding at 31 December 2022, pursuant to the 2022 and the existing 2020 and 2019 three year saving contracts under the Grafton Group (UK) plc 2011 Approved SAYE Plan and the Grafton Group plc 2021 SAYE Plan at a price of £7.93, £5.78 and £6.33 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being June 2025 for the 2022 SAYE scheme, December 2023 for the 2020 SAYE scheme and December 2022 for the 2019 SAYE scheme.

The number of Grafton Units issued during the year under the 2017 SAYE scheme was Nil (2021: 210,181) and the total consideration received amounted to £Nil (2021: £1,394,000). Options forfeited in the year were Nil (2021: 51,503).

The number of Grafton Units issued during the year under the 2018 SAYE Scheme was 81,667 (2021: 242,068) and the total consideration received amounted to £541,000 (2021: £1,573,000). Options forfeited in the year were 14,597 (2021: 28,887).

The number of Grafton Units issued during the year under the 2019 SAYE Scheme was 164,887 (2021: 1,139) and the total consideration received amounted to £1,019,000 (2021: £7,000). Options forfeited in the year were 51,441 (2021: 46,182).

The number of Grafton Units issued during the year under the 2020 SAYE Scheme was 168,157 (2021: Nil) and the total consideration received amounted to £968,000 (2021: £Nil). Options forfeited in the year were 286,128 (2021: 93,656).

The number of Grafton Units issued during the year under the 2022 SAYE Scheme was Nil and the total consideration received amounted to £Nil. Options forfeited in the year were 41,047.

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

	Number	2021 Option price £
Outstanding at 1 January	261,684	6.77
Granted	–	–
Forfeited	(51,503)	6.77
Exercised	(210,181)	6.77
Outstanding at 31 December	–	

A reconciliation of options granted under the 2018 SAYE is as follows:

	Number	2022 Option price £	Number	2021 Option price £
Outstanding at 1 January	96,264	6.58	367,219	6.58
Granted	–	–	–	–
Forfeited	(14,597)	6.58	(28,887)	6.58
Exercised	(81,667)	6.58	(242,068)	6.58
Outstanding at 31 December	–		96,264	

A reconciliation of options granted under the 2019 SAYE is as follows:

	Number	2022 Option price £	Number	2021 Option price £
Outstanding at 1 January	252,869	6.33	300,190	6.33
Granted	–	–	–	–
Forfeited	(51,441)	6.33	(46,182)	6.33
Exercised	(164,887)	6.33	(1,139)	6.33
Outstanding at 31 December	36,541		252,869	

A reconciliation of options granted under the 2020 SAYE is as follows:

	Number	2022 Option price £	Number	2021 Option price £
Outstanding at 1 January	820,798	5.78	914,454	5.78
Granted	–	–	–	–
Forfeited	(286,128)	5.78	(93,656)	5.78
Exercised	(168,157)	5.78	–	5.78
Outstanding at 31 December	366,513		820,798	

There were no SAYE grants in 2021.

31. Share Based Payments continued

UK SAYE Scheme continued

A reconciliation of options granted under the 2022 SAYE, which was under the Grafton Group plc 2021 SAYE Plan, is as follows:

	Number	2022 Option price £
Outstanding at 1 January	–	7.93
Granted	365,241	–
Forfeited	(41,047)	7.93
Exercised	–	7.93
Outstanding at 31 December	324,194	

The weighted average share price for the period was £8.76 (2021: £11.68).

At 31 December 2022 none of the 2022 or the 2020 UK SAYE shares were exercisable other than as permitted under the applicable Plan rules. The weighted average remaining life is 1.8 years (2021: 1.2 years).

32. Accounting Estimates and Judgements

In the opinion of the Directors, the following significant judgement was exercised in the preparation of the financial statements:

Recognition of Surplus on Defined Benefit Pension Schemes

Where a surplus on a defined benefit scheme arises, the rights of the trustees to prevent the group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The ROI defined benefit scheme is in surplus under IAS 19 valuation methodology as at 31 December 2022. The directors are satisfied that these amounts meet the requirements of recoverability on the basis that paragraph 11 (b) of IFRIC 14 applies, enabling a refund of the surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £4.6 million has been recognised.

In the opinion of the Directors, the key sources of estimation uncertainty were as follows:

Goodwill

The Group has capitalised goodwill of £635.8 million at 31 December 2022 (2021: £599.8 million) as detailed in Note 12. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Group uses value-in-use calculations to determine the recoverable amount of cash generating units containing goodwill. Value-in-use is calculated as the present value of future cash flows. In calculating value-in-use, management estimation is required in forecasting cash flows of the segments and in selecting an appropriate discount rate and the nominal growth rate in perpetuity. 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 was 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 £202.8 million at 31 December 2022 (2021: £295.2 million). Plan assets at 31 December 2022 amounted to £192.3 million (2021: £283.7 million) giving a net scheme deficit of £10.5 million (2021: £11.5 million). The size of the obligation is sensitive to actuarial assumptions. The key assumptions are the discount rate, the rate of inflation, life expectancy, pension benefits and rate of salary increases. The sensitivities of the principal assumptions used to measure defined benefit pension scheme obligations are set out in Note 30.

Rebate Income

Rebate arrangements with suppliers are a common feature of trading in the distribution industry and the Group has agreements with individual suppliers related to purchases of goods for resale.

Rebates are accounted for as a deduction from the cost of goods for resale and are recognised in the financial statements based on the amount that has been earned in respect of each individual supplier up to the balance sheet date. Rebates receivable are determined using established methodologies and are only recognised in the income statement where there is an agreement in place with an individual supplier, any related performance conditions have been met and the goods have been sold to a third-party customer.

Rebates receivable from individual suppliers are typically calculated by applying an agreed percentage to the purchase price shown on the supplier invoice for products purchased for resale. A small proportion of rebates receivable are based on volumes purchased with certain supplier agreements providing for a stepped increase in rebates if purchases reach predetermined targets within a specified time period.

The majority of rebate arrangements cover a calendar year which coincides with the financial year of the Group and this reduces the requirement to estimate rebates receivable at the year-end. Where estimation is used in the calculation of rebates receivable it is done on a consistent and prudent basis, based upon management's knowledge and experience of the suppliers and historic collection trends.

Notes to the Group Financial Statements continued

32. Accounting Estimates and Judgements continued

Rebate Income continued

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 2022 amounting to £47.2 million (2021: £41.9 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.

Valuation of investment property

The fair values derived are based on current estimated market values for the properties, being the amount that would be received from a sale of the assets in an orderly transaction between market participants. The valuation of the Group's investment property portfolio is inherently subjective as it requires among other factors, the estimation of the expected rental income in to the future, an assessment of a property's ability to remain attractive to existing and prospective tenants in a changing market and a judgement to be reached on the attractiveness of a building, its location and the surrounding environment. Further detail on the determination of fair value of investment properties is set out in note 13.

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 2022 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 120 to 145 provides detailed disclosure ('unaudited') for 2022 and 2021 of salaries, fees, performance-related pay, pension allowance, other benefits and entitlements to awards granted under the Group's 2011 LTIP scheme.

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 Company bought back, for cancellation, 2,966,284 shares at a cost of £27.5 million between 1 January 2023 and 28 February 2023.

There have been no other material events subsequent to 31 December 2022 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 160 to 218 on 1 March 2023.

Company Balance Sheet

As at 31 December 2022

Financial Statements

	Notes	2022 €'000	2021 €'000
Fixed assets			
Intangible assets	4(a)	169	243
Tangible assets	4(a)	31	57
Right-of-use asset	4(b)	1,743	420
Financial assets	5	1,048,006	937,067
Total fixed assets		1,049,949	937,787
Current assets			
Debtors (including €2.0m (2021:€Nil) due after more than one year)	6	977,308	1,229,886
Cash at bank and in hand		10,286	5,992
Total current assets		987,594	1,235,878
Creditors: amounts falling due within one year	7	(949,427)	(882,323)
Net current assets		38,167	353,555
Total assets less current liabilities		1,088,116	1,291,342
Creditors: amounts falling due after one year	7	(1,519)	(225)
Net assets		1,086,597	1,291,117
Capital and reserves			
Called-up share capital	10	11,195	12,003
Share premium account	10	313,786	310,820
Capital redemption reserve		1,848	978
Shares to be issued reserve		10,797	12,869
Profit and loss account		756,175	960,193
Treasury shares held		(7,204)	(5,746)
Shareholders' equity		1,086,597	1,291,117

There was a profit after tax of €40.6 million (2021: profit of €100.2 million) attributable to the parent undertaking for the financial year.

On behalf of the Board.

Eric Born
Director
1 March 2023

David Arnold
Director

Company Statement of Changes in Equity

	Equity share capital €'000	Share premium account €'000	Capital redemption reserve €'000	Shares to be issued reserve €'000	Profit and loss account €'000	Treasury shares €'000	Total equity €'000
Year to 31 December 2022							
At 1 January 2022	12,003	310,820	978	12,869	960,193	(5,746)	1,291,117
Profit after tax for the financial year	–	–	–	–	40,576	–	40,576
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	40,576	–	40,576
Transactions with owners of the Company recognised directly in equity							
Dividends paid	–	–	–	–	(86,338)	–	(86,338)
Issue of Grafton Units	62	2,966	–	–	–	–	3,028
Purchase of treasury shares	–	–	–	–	–	(167,324)	(167,324)
Cancellation of treasury shares	(870)	–	870	–	(165,866)	165,866	–
Share based payments charge	–	–	–	5,538	–	–	5,538
Transfer from shares to be issued reserve	–	–	–	(7,610)	7,610	–	–
	(808)	2,966	870	(2,072)	(244,594)	(1,458)	(245,096)
At 31 December 2022	11,195	313,786	1,848	10,797	756,175	(7,204)	1,086,597
Year to 31 December 2021							
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
Total other comprehensive income							
Remeasurement loss on pensions (net of tax)	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	100,170	–	100,170
Transactions with owners of the Company recognised directly in equity							
Dividends paid	–	–	–	–	(64,231)	–	(64,231)
Issue of Grafton Units	26	3,482	–	–	–	–	3,508
Cancellation of 'A' Shares	(40)	–	40	–	–	–	–
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)
At 31 December 2021	12,003	310,820	978	12,869	960,193	(5,746)	1,291,117

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 FRS 101, 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 173 of the Consolidated Financial Statements.

IFRS 16 Leases

The accounting policy applicable to IFRS 16 leases is addressed in detail on pages 169 to 171 of the Consolidated Financial Statements.

Treasury Shares

Own equity instruments (i.e. Ordinary Shares) acquired by the Company are deducted from equity and presented on the face of the Company Balance Sheet. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's Ordinary Shares.

Notes to the Company Financial Statements continued

2. Accounting Policies continued

Other significant accounting policies continued

Dividends

Dividends on Ordinary Shares are recognised as a liability in the Company's Financial Statements in the period in which they are 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:

	2022 €'000	2021 €'000
Statutory audit (refer to Note 3 of Group Financial Statements)	81	75
Depreciation (Note 4a)	32	87
Depreciation on right-of-use assets (Note 4b)	188	210
Intangible asset amortisation (Note 4a)	74	61
Directors' remuneration	3,005	4,856

The interest expense on lease liabilities in the year was €6,000 (2021: €10,000).

The Directors' remuneration is set out in detail in the Report of the Remuneration Committee on Directors' Remuneration on pages 120 to 145.

The average number of persons employed by the Company during the year was 22 (2021: 22).

	2022 €'000	2021 €'000
The aggregate remuneration costs of employees were:		
Wages and salaries	4,606	5,694
Social welfare costs	285	247
Share-based payments charge	1,384	1,807
Defined contribution and pension related costs	567	384
Charged to operating profit	6,842	8,132
Net finance cost on pension scheme obligations	—	—
Charged to income statement	6,842	8,132
Actuarial loss on pension scheme	—	—
Total employee benefit cost	6,842	8,132

4. Tangible, Intangible and Right-of-Use Assets

4. (a) Tangible and Intangible Assets

	Plant and Equipment 2022 €'000	Intangible Assets 2022 €'000
Company Cost		
At 1 January	3,222	550
Additions	6	–
At 31 December	3,228	550
Depreciation		
At 1 January	3,165	307
Charge for year	32	74
At 31 December	3,197	381
Net book amount		
At 31 December	31	169
At 1 January	57	243

4. (b) Right-of-Use Asset

	Right-of-Use Asset* €'000
Year ended 31 December 2022	
Opening balance at 1 January 2022	420
Additions	1,549
Depreciation charge	(188)
Disposals	–
Remeasurements	(38)
Closing net book amount	1,743
Year ended 31 December 2021	
Opening balance at 1 January 2021	433
Additions	197
Depreciation charge	(210)
Disposals	–
Remeasurements	–
Closing net book amount	420

* The lease term remaining as at 31 December 2022 is 3.0 years (2021: 3.2 years).

Notes to the Company Financial Statements continued

5. Financial Assets

	Other Investments €'000	Investments in subsidiary undertakings €'000	Total €'000
At 1 January 2021			
Additions	–	400,000	400,000
Capital contribution – share-based payments	–	4,706	4,706
At 31 December 2021	14	937,053	937,067
Additions*	–	107,496	107,496
Disposals	–	(607)	(607)
Capital contribution – share-based payments	–	4,050	4,050
At 31 December 2022	14	1,047,992	1,048,006

Other investments represent sundry equity investments at cost less provision for impairment.

* Additions in the year relate to investments in a number of the Group's subsidiary holding companies.

6. Debtors

	2022 €'000	2021 €'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	973,559	1,227,758
Deferred tax	17	43
Other receivables	1,728	2,085
	975,304	1,229,886

	2022 €'000	2021 €'000
Amounts falling due after one year:		
Other receivables	2,004	–

7. Creditors

	2022 €'000	2021 €'000
Amounts falling due within one year:		
Accruals	7,175	7,139
Lease liability*	230	200
Amounts owed to subsidiary undertakings	942,022	874,984
	949,427	882,323

	2022 €'000	2021 €'000
Amounts falling due after one year:		
Lease liability*	1,519	225

* The Company's incremental borrowing rate applied to the lease liability as at 31 December 2022 was 4.9% (2021: 2.4%).

The maturity analysis of the lease liability is as follows:

	2022 €'000	2021 €'000
Year 1	230	200
Year 2	44	187
Year 3	172	32
Year 4	176	6
Year 5	125	–
Onwards	1,002	–

8. Deferred Taxation

Recognised Deferred Tax (Assets) and Liabilities

	Assets 2022 €'000	Liabilities 2022 €'000	Net (assets)/ liabilities 2022 €'000	Assets 2021 €'000	Liabilities 2021 €'000	Net (assets)/ liabilities 2021 €'000
Other items	(17)	–	(17)	(43)	–	(43)

	Balance 1 Jan 22 €'000	Recognised in income €'000	Recognised in other comprehensive income €'000	Foreign exchange retranslation €'000	Arising on acquisitions €'000	Balance 31 Dec 22 €'000
Other items	(43)	26	–	–	–	(17)

	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)

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 2022 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 2022 Company scheme	At 31 Dec 2021 Company scheme
Valuation Method	Projected Unit	Projected Unit
Rate of increase of pensions in payment	–	–
Discount rate	3.70%	1.15%
Inflation rate increase	2.60%	2.10%

The Company's obligations to the scheme at the end of 2022 and 2021 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)	
	2022 €'000	2021 €'000	2022 €'000	2021 €'000	2022 €'000	2021 €'000
At 1 January	1,221	1,327	(1,221)	(1,327)	–	–
Interest income on plan assets	14	9	–	–	14	9
Benefit payments	(76)	(76)	76	76	–	–
Interest cost on scheme liabilities	–	–	(14)	(9)	(14)	(9)
Remeasurement gains/(losses)	(220)	(39)	220	39	–	–
At 31 December	939	1,221	(939)	(1,221)	–	–
Related deferred tax asset (net)	–	–	–	–	–	–
Net pension liability	–	–	–	–	–	–

No contributions are expected to be paid to the Company's defined benefit scheme in 2023 (2022: €Nil).

Notes to the Company Financial Statements continued

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	2022 Nominal Value €'000	2021 Nominal Value €'000
Issued and fully paid:				
Ordinary shares				
At 1 January		240,071,630	12,003	11,977
Issued under UK SAYE scheme*		414,711	21	22
2011 Long Term Incentive Plan				
April 2019 LTIP Awards	Nil	796,902	41	4
Share Buyback				
Share Buyback – Programme 1		(12,282,711)	(614)	–
Share Buyback – Programme 2		(4,302,597)	(215)	–
Share Buyback – LTIP Awards		(796,902)	(41)	–
At 31 December		223,901,033	11,195	12,003
'A' ordinary shares				
At 1 January		–	–	40
'A' ordinary shares issued in year		–	–	–
Cancellation of 'A' ordinary shares		–	–	(40)
At 31 December		–	–	–
Total nominal share capital issued			11,195	12,003

* Refer to Note 31 to the Group Financial Statements which outlines the issue price of the SAYE Schemes.

Share Premium

Company	2022 €'000	2021 €'000
At 1 January	310,820	307,338
Premium on issue of shares under UK SAYE scheme	2,966	3,482
At 31 December	313,786	310,820

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 €8.5 million (2021: €8.4 million) for the year ended 31 December 2022;
- Loans were granted to and by the Company to its subsidiaries; and
- Dividend income in the year of €54.4 million (2021: €80.5 million) was received from Group subsidiary companies.

Post-Employment Benefit Plans

Pension commitments to existing and former employees under defined benefit pension scheme arrangements are disclosed in Note 9 to the Company Financial Statements.

13. Principal Operating Subsidiaries

The principal operating subsidiaries operating in Ireland are:

Name of Company	Nature of Business	Registered Office
Chadwicks Group Limited	Building materials distribution	c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Business Park, Dublin 18.
Woodie's DIY Limited	DIY, home and garden retailing	c/o Grafton Group plc, Heron House, Corrig Road, Sandyford Business Park, Dublin 18.

The Company owns 100 per cent of the share capital of its principal operating subsidiary undertakings operating in Ireland.

The principal operating subsidiaries operating in the United Kingdom are:

Name of Company	Nature of Business	Registered Office
Macnaughton Blair Limited	Building materials distribution	10 Falcon Road, Belfast, BT12 6RD, Northern Ireland
Selco Trade Centres Limited	Building materials distribution	First Floor, Boundary House, 2 Wythall Green Way, Wythall, Birmingham, B47 6LW
LSDM Limited	Building materials distribution	Ground Floor, Boundary House 2 Wythall Green Way, Wythall, Birmingham, United Kingdom, B47 6LW
CPI Mortars Limited	Mortar manufacturing	Oak Green House, 250-256 High Street, Dorking, Surrey, RH4 1QT

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the UK.

The principal operating subsidiaries in the Netherlands are:

Name of Company	Nature of Business	Registered Office
Isero B.V.	Ironmongery, tools and fixings distribution	Dirk Verheulweg 3, 2742 JR, Waddinxveen, The Netherlands
Gunters en Meuser B.V.	Ironmongery, tools and fixings distribution	Egelantiersgracht 2-6, 1015 RL Amsterdam, the Netherlands
Polvo B.V.	Ironmongery, tools and fixings distribution	Tradeboulevard 5 a, 4761RL Zevenbergen, the Netherlands
GKL Ventilatie Techniek B.V.	Ironmongery, tools and fixings distribution	Touwbaan 1 H, 2352CZ Leiderdorp

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in the Netherlands.

The principal operating subsidiaries in Finland are:

Name of Company	Nature of Business	Registered Office
Isojoen Konehalli Oy	Technical trades distribution	Keskustie 26, 61850 Kauhajoki, Finland
Jokapaikka Oy	Technical trades distribution	Keskustie 26, 61850 Kauhajoki, Finland

The Company owns 100 per cent of the share capital of its principal subsidiary undertakings operating in Finland.

Notes to the Company Financial Statements continued

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 2022 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 2022:

Athina Limited, Atlantic Home and Garden Centre Limited, Beralit Developments 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, Eddie's Hardware Limited, F&T Buckley (Holdings) Unlimited Company, F & T Buckley Unlimited Company, Garvey Builders Providers Unlimited Company, 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, Haylen Investments Limited, Heiton Buckley Limited, Heiton Group plc, Heiton McCowen Limited, House of Woods Unlimited Company, Jarkin Properties Limited, Jarsen Distribution Limited, Lacombe Properties Limited, Leo Wright Holdings Limited, Market Hardware Unlimited Company, MB Doorplan Limited, MFP Plastics Limited, MFP Sales Limited, Morgan McMahon & Co. Unlimited Company, Paddy Power (Kilbarry) Unlimited Company, Panelling Centre Limited, Plumblund Limited, Powlett Properties Limited, Resadale Properties Limited, Sam Hire Holdings Unlimited Company, Stettler Properties Limited, Telford Group Limited, Telfords (Portlaoise) Limited, Tiska Limited, Titanium Limited, Topez Limited, W&S Timber Components Unlimited Company, 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., GKL Ventilatie Techniek B.V. and Regts 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 €288.3 million at the balance sheet date. The guarantee is over bank debt of €128.3 million and US senior notes of €160.0 million. The Company has also guaranteed certain property lease obligations of subsidiary undertakings.

16. Approval of Financial Statements

The Board of Directors approved the Company Financial Statements in respect of the year ended 31 December 2022 on 1 March 2023.

Supplementary Information



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Supplementary Financial Information

Not covered by Independent Auditors' Report

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 2021 are available in the 2021 Annual Report.

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, impairment charges related to intangible assets recognised on acquisition of businesses 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.

Note: The traditional merchanting business in Great Britain is classified as discontinued operations for the year ended 31 December 2021. In the computation of APMs below for 2021, 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.

APM	Description
Adjusted Operating Profit/EBITA	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items, net finance expense and income tax expense.
Adjusted Operating Profit/EBITA Before Property Profit	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items, net finance expense and income tax expense.
Adjusted Operating Profit/EBITA Margin Before Property Profit	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
Adjusted Profit Before Tax	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items and income tax expense.
Adjusted Profit After Tax	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items and exceptional items but after deducting the income tax expense.
Capital Turn	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
Constant Currency	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
Dividend Cover	Group earnings per share divided by the total dividend per share for the Group.
EBITDA	Earnings before exceptional items, 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.
EBITDA Interest Cover	EBITDA divided by net bank/loan note interest.
Free Cash Conversion	Free cash flow as a percentage of adjusted operating profit.
Free Cash Flow	Cash generated from operations less replacement capital expenditure (net of disposal proceeds), less interest paid (net) and income taxes paid.
Gearing	The Group net (cash)/debt divided by the total equity attributable to owners of the Parent times 100, expressed as a percentage.
Like-for-like Revenue	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
Operating Profit/EBIT Margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Return On Capital Employed	Adjusted operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.
Adjusted Earnings Per Share	A measure of underlying profitability of the Group. Adjusted profit after tax is divided by the weighted average number of Grafton Units in issue, excluding treasury shares.

Adjusted Operating Profit/EBITA Before Property Profit

	2022 £'m	2021 £'m
Revenue	2,301.5	2,109.9
Operating profit	264.3	269.2
Property (profit)	(25.4)	(16.7)
Other acquisition related items	2.3	4.1
Amortisation of intangible assets arising on acquisitions	19.3	14.7
Adjusted operating profit/EBITA before property profit	260.5	271.2
Adjusted operating profit/EBITA margin before property profit	11.3%	12.9%

Operating Profit/EBIT Margin

	2022 £'m	2021 £'m
Revenue	2,301.5	2,109.9
Operating profit	264.3	269.2
Operating profit/EBIT margin	11.5%	12.8%

Adjusted Operating Profit/EBITA & Margin

	2022 £'m	2021 £'m
Operating profit	264.3	269.2
Other acquisition related items	2.3	4.1
Amortisation of intangible assets arising on acquisitions	19.3	14.7
Adjusted operating profit/EBITA	285.9	288.0
Adjusted operating profit/EBITA margin	12.4%	13.6%

Adjusted Profit Before Tax

	2022 £'m	2021 £'m
Profit before tax	251.7	249.8
Other acquisition related items	2.3	4.1
Amortisation of intangible assets arising on acquisitions	19.3	14.7
Adjusted profit before tax	273.3	268.6

Adjusted Profit After Tax

	2022 £'m	2021 £'m
Profit after tax for the financial year	208.6	206.8
Other acquisition related items	2.3	4.1
Tax on other acquisition related items	(0.2)	(0.1)
Amortisation of intangible assets arising on acquisitions	19.3	14.7
Tax on amortisation of intangible assets arising on acquisitions	(4.3)	(3.2)
Adjusted profit after tax	225.6	222.4

Supplementary Financial Information continued

Not covered by Independent Auditors' Report

Reconciliation of Profit to EBITDA – continuing operations

	2022 £'m	2021 £'m
Profit after tax for the financial year	208.6	206.8
Other acquisition related items	2.3	4.1
Net finance expense	12.6	19.4
Income tax expense	43.1	43.0
Depreciation	94.3	84.8
Intangible asset amortisation	20.3	15.3
EBITDA	381.2	373.4

Net (Cash)/Debt to EBITDA

	2022 £'m	2021 £'m
EBITDA	381.2	373.4
Net (cash)	(8.9)	(139.0)
Net (cash)/debt to EBITDA – times	(0.02)	(0.37)

EBITDA Interest Cover

	2022 £'m	2021 £'m
EBITDA	381.2	373.4
Net bank/loan note interest including interest on lease liabilities	11.8	20.7
EBITDA interest cover – times	32.2	18.0

EBITDA Interest Cover (excluding interest on lease liabilities)

	2022 £'m	2021 £'m
EBITDA	381.2	373.4
Net bank/loan note interest excluding interest on lease liabilities	(3.1)	6.1
EBITDA interest cover – times	N/A	61.7

Free Cash Flow

	2022 £'m	2021 £'m
Cash generated from operations	278.8	303.2
Replacement capital expenditure	(33.2)	(24.6)
Proceeds on sale of property, plant and equipment	0.8	2.6
Proceeds on sale of properties held for sale/investment properties	27.7	19.6
Interest received	8.7	0.2
Interest paid	(21.9)	(20.5)
Income taxes paid	(39.5)	(43.7)
Free cash flow	221.4	237.0

Gearing

	2022 £'m	2021 £'m
Total equity attributable to owners of the Parent	1,745.6	1,719.6
Group net (cash)	(8.9)	(139.0)
Gearing	N/A	N/A

Return on Capital Employed – continuing operations

	2022 £'m	2021 £'m
Operating profit	264.3	269.2
Other acquisition related items	2.3	4.1
Amortisation of intangible assets arising on acquisitions	19.3	14.4
Adjusted operating profit	285.9	287.7
Total equity – current period end (from continuing operations)	1,745.6	1,719.6
Net (cash) – current period end	(8.9)	(139.0)
Capital employed – current period end	1,735.3	1,580.6
Total equity – prior period end (from continuing operations)	1,719.6	1,467.0
Adjustment re disposal of Group businesses	–	115.4
Net debt – prior period end	(139.0)	355.0
Adjustment re disposal of Group businesses	–	(545.0)
Capital employed – prior period end	1,580.6	1,392.4
Average capital employed	1,658.6	1,486.5
Return on capital employed	17.2%	19.4%

Capital Turn

	2022 £'m	2021 £'m
Revenue	2,301.5	2,109.9
Average capital employed	1,658.6	1,486.5
Capital turn – times	1.4	1.4

Dividend Cover

	2022 £'m	2021 £'m
Group adjusted EPS – basic (pence)	96.63	92.95
Group dividend (pence)	33.0	30.50
Group dividend cover – times	2.9	3.0

Free Cash Conversion

	2022 £'m	2021 £'m
Free cash flow	221.4	237.0
Adjusted operating profit	285.9	288.0
Free cash conversion	77%	82%

Liquidity

	2022 £'m	2021 £'m
Cash and cash equivalents	711.7	844.7
Less: cash held against letter of credit	(4.0)	(4.0)
Accessible cash	707.7	840.7
Undrawn revolving bank facilities	226.9	394.7
Liquidity	934.6	1,235.4

Net cash – Before IFRS 16 leases

	2022 £'m	2021 £'m
Net cash – after IFRS 16 Leases	8.9	139.0
IFRS 16 Lease Liability	449.3	449.0
Net cash – before IFRS 16 Leases	458.2	588.0

Supplementary Financial Information continued

Not covered by Independent Auditors' Report

Like for like revenue

	2022 £'m	2021 £'m
2021/2020 revenue (restated)	2,109.9	1,679.2
Organic growth	47.2	337.8
Organic growth – new branches	17.8	9.0
Total organic growth	65.0	346.8
Acquisitions	1,344	120.9
Foreign exchange	(7.8)	(37.0)
2022/2021 revenue	2,301.5	2,109.9
Like-for-like movement (organic growth, excluding new branches, as % prior year revenue)	2.2%	20.1%

The Impact of IFRS 16 “leases” on APM's Reconciliation of Profit to EBITDA – pre-IFRS 16 (continuing)

	2022 £'m	2021 £'m
Profit after tax for the financial year	208.6	206.8
Loss after tax for the financial year (IFRS 16)	1.3	1.4
Profit after tax for the financial year (pre-IFRS 16)	209.9	208.2
Other acquisition related items	2.3	4.1
Net finance (credit)/expense	(2.3)	4.7
Income tax expense	43.4	43.2
Depreciation	34.2	30.3
Intangible asset amortisation	20.3	15.3
EBITDA	307.8	305.8

EBITDA Interest Cover – pre-IFRS 16

	2022 £'m	2021 £'m
EBITDA	307.8	305.8
Net bank/loan note interest excluding interest on lease liabilities	(3.1)	6.1
EBITDA interest cover – times	(99.3)	50.5

	2022 £'m	2021 £'m	2020 £'m	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m
Group Income Statements								
Revenue	2,301.5	2,109.9	2,509.1	2,672.3	2,952.7	2,715.8	2,507.3	2,212.0
Operating profit	260.5	271.2	190.7	197.9	189.6	160.9	137.1	120.6
Operating margin %	11.3%	12.9%	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	(21.6)	(18.8)	(8.9)	(7.0)	(5.1)	(2.8)	(2.2)	(0.5)
Property profit	25.4	16.7	2.6	6.9	4.9	2.7	4.9	6.7
Finance (expense)/ income (net)	(12.6)	(19.4)	(26.9)	(25.1)	(6.1)	(6.4)	(5.9)	(7.9)
Profit before taxation	251.7	249.8	132.7	172.6	181.3	154.5	114.2	120.3
Taxation	(43.1)	(43.0)	(25.2)	(28.7)	(30.9)	(26.6)	(21.1)	(23.8)
Profit after taxation	208.6	206.8	107.5	143.9	150.4	127.8	93.1	96.5
Group Balance Sheets								
Capital employed								
Goodwill and intangibles	789.5	744.1	820.0	761.1	726.0	646.1	610.8	554.2
Property, plant and equipment/ROU Asset	774.5	740.6	999.5	1,023.2	521.6	504.4	461.7	430.1
Financial assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net current assets**	224.7	142.3	100.3	173.6	161.7	136.3	141.5	149.6
Other net non-current liabilities	(52.1)	(46.5)	(97.9)	(61.5)	(59.8)	(49.4)	(52.6)	(31.3)
	1,736.7	1,580.6	1,822.0	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7
Financed as follows:								
Shareholders' equity	1,745.6	1,719.6	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	(8.9)	(139.0)	355.0	533.8	53.1	62.9	96.3	113.6
	1,736.7	1,580.6	1,822.0	1,896.5	1,349.6	1,237.5	1,161.5	1,102.7
Other Information								
Net (cash)/debt pre-IFRS 16	(458.2)	(588.0)	(181.9)	(7.8)	53.1	62.9	96.3	113.6
Acquisitions & investments	46.0	123.3	47.5	92.6	73.8	40.4	11.9	98.6
Purchase of fixed assets/investment in intangible assets	57.8	43.6	35.2	52.4	73.6	81.4	60.4	51.6
	103.8	166.9	82.7	145.0	147.4	121.8	72.3	150.2
Depreciation and intangible amortisation	114.6	115.1	121.4	114.8	49.0	43.5	38.1	33.1
Financial Highlights								
Adjusted EPS*** (pence)	96.6	93.0	56.7	62.8	66.0	54.9	47.7	41.2
Dividend/share purchase per share (pence)	33.0	30.5	14.5	19.0	18.0	15.5	13.8	12.5
Cash flow per share (pence)****	138.4	134.5	96.0	108.8	83.9	72.4	64.0	54.9
Net assets per share (pence)	781.4	717.8	613.7	573.0	545.3	495.0	449.5	419.0
Underlying EBITDA interest cover (times)	32.2	18.0	11.9	12.1	48.0	48.4	37.9	27.3
Dividend/share purchase cover	2.9	3.0	3.9	3.3	3.7	3.5	3.5	3.3
Net debt to shareholders' funds	(1%)	(8%)	24%	39%	4%	5%	9%	12%
ROCE	17.2%	19.4%	10.4%	10.8%	15.0%	13.6%	12.5%	12.2%

* The summary financial information is stated under IFRS. 2019-2022 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 & 2022. 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).

Corporate Information

Corporate & Registered Office	Heron House Corrig Road Sandyford Business Park D18 Y2X6 Phone: +353 (0)1 216 0600 Email: email@griftonplc.com www.griftonplc.com
Registrars	Link Asset Services Link Registrars Limited PO Box 7117, Dublin 2, Ireland Phone: +353 (0)1 553 0050 Email: enquiries@linkgroup.ie www.linkassetservices.com
Solicitors	Arthur Cox, Dublin A&L Goodbody, Dublin Squire Patton Boggs, London Allen & Overy, Amsterdam
Bankers	Bank of Ireland HSBC Bank plc ABN AMRO Bank N.V. Barclays Bank plc
Stockbrokers	Goodbody, Dublin Numis Securities Limited, London
Auditors	PricewaterhouseCoopers
Company Registration Number	8149

Financial Calendar 2022

Final Results for 2022	2 March 2023
Annual General Meeting 2023	4 May 2023
Half-Year Results for 2023	31 August 2023
Final Dividend for 2022	
Record date	14 April 2023
Payment date	11 May 2023

Annual General Meeting 2023

The Annual General Meeting of the Company will be held at the Irish Management Institute (IMI), Sandyford Rd, Dublin, D16 X8C3, Ireland at 10.30am on Thursday 4 May 2023.

Shareholders will also be provided with a facility to raise questions and to view the business of the meeting via webcast. Details of this facility will be outlined in the meeting Circular and will also be available on the Group's website www.griftonplc.com.

AGM	Annual General Meeting
APM	Alternative Performance Measure
BAME	Black, Asian and Minority Ethnic
BES 6001	Framework Standard for Responsible Sourcing
BRR	Business Risk Register
bps	Basis Points
CA14	Companies Act 2014
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CO₂e	Carbon Dioxide Equivalent
CPC	Construction Products Certification
CPI	Consumer Price Index
CRR	Corporate Risk Register
CSR	Corporate Social Responsibility
DB Schemes	Defined Benefit Schemes
EBITA	Profit before amortisation of intangible assets arising on acquisitions, acquisition related items, exceptional items, net finance expense and income tax expense
EBITDA	Earnings before exceptional items, acquisition related items, net finance expense, income tax expense, depreciation and intangible assets amortisation
EGM	Extraordinary General Meeting
EMS	Environmental Management Services
EPS	Earnings per Share
ERP	Enterprise Resource Planning
FRS	Financial Reporting Standard
FSC	Forest Stewardship Council
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
GAAP	Generally Accepted Accounting Principles
GDPR	EU General Data Protection Regulation
GHG	Greenhouse Gas
Grafton	Grafton Group plc
GRC	Group Risk Committee
HVO	Hydrogenated Vegetable Oil
IAS	International Accounting Standards
IAASA	Irish Auditing and Accounting Supervisory Authority
IBNR	Incurring But Not Reported
IFRIC	International Financial Reporting Interpretations Committee

Glossary of Terms continued

IFRS	International Financial Reporting Standards
IGBC	Irish Green Building Council
IOSH	Institution of Occupational Safety and Health
IPCC	International Panel on Climate Change
IR	Investor Relations
ISAs (Ireland)	International Standards on Auditing (Ireland)
KPI	Key Performance Indicators
LDI	Liability Driven Investment
LGBTQI+	Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, Intersex and more
LSDM Limited	Leyland SDM Limited
LTIFR	Lost Time Injury Frequency Rate
LTIP	Long Term Incentive Plan
OCI	Other Comprehensive Income
PEFC	Programme for the Endorsement of Forest Certification
PPE	Property, Plant & Equipment
QQI	Quality and Qualifications Ireland
RCP	Representative Concentration Pathway
Record Date	The date on which holders of Grafton Units must be on the Company's Register of Members at the close of business to be eligible to receive a dividend payment
RMI	Repair, Maintenance and Improvement
RNS	Regulatory News Services
ROCE	Return on Capital Employed
ROUA	Right Of Use Asset
RPI	Retail Price Index
SAYE	Save As You Earn
SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SHEQ	Safety, Health, Environment and Quality
SKU	Stock-Keeping Unit
TCFD	Task Force on Climate-related Financial Disclosures
The Code	2018 UK Corporate Governance Code
The Company	Grafton Group plc
The Group	Grafton Group plc and its subsidiaries
TSR	Total Shareholder Return
Unit/Grafton Unit	A Grafton Unit, comprising one ordinary share of 5 cents each in Grafton Group plc
VIU	Value-In-Use
WEEE	Waste Electrical and Electronic Equipment



Grafton Group plc

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