Final Results
For the Year Ended 31 December 2022

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Grafton Group plc
Final Results for Year Ended 31 December 2022
Strong Trading Performance from Diversified Earnings Base

Grafton Group plc ("Grafton"), the international building materials distributor and DIY retailer is pleased to announce its final results for the year ended 31 December 2022.

Continuing Operations[1]	**2022**	2021[2]	Change
Revenue	**£2,301m**	£2,110m	+9.1%
Adjusted[3] operating profit	**£285.9m**	£288.0m	(0.7%)
Adjusted operating profit before property profit[3]	**£260.5m**	£271.2m	(4.0%)
Adjusted operating profit margin before property profit	**11.3%**	12.9%	(160bps)
Adjusted profit before tax[3]	**£273.3m**	£268.6m	+1.7%
Adjusted earnings per share[3]	**96.6p**	93.0p	+3.9%
Dividend	**33.0p**	30.5p	+8.2%
Adjusted return on capital employed (ROCE) [3]	**17.2%**	19.4%	(220bps)
Net cash (before IFRS 16 leases)	**£458.2m**	£588.0m	(£129.8m)
Net cash – (including IFRS 16 leases)	**£8.9m**	£139.0m	(£130.1m)

Statutory Results – Continuing Operations	**2022**	2021	Change
Operating profit	**£264.3m**	£269.2m	(1.8%)
Profit before tax	**£251.7m**	£249.8m	+0.8%
Basic earnings per share	**89.3p**	86.4p	+3.4%

[1] Supplementary financial information in relation to Alternative Performance Measures (APMs) is set out on pages 42 to 47.
[2] The 2021 results do not include the traditional merchanting business in Great Britain that was divested in 2021 and classified as discontinued operations.
[3] The term "Adjusted" means before exceptional items, amortisation of intangible assets arising on acquisitions and acquisition related items in both years.

Operational Highlights

- Excellent performance in distribution businesses in Ireland and the Netherlands
- Volumes and profitability lower in Selco against a strong comparative period and softer backdrop
- Good profit contribution from Africa.
- Revenue and profitability normalised in Woodie's DIY, Home and Garden retail business
- UK Manufacturing businesses performed well
- Further progress made against sustainability targets
- Diversified revenue base with over half generated in Ireland, the Netherlands and Africa.

Financial Highlights

- 11.3% operating profit margin before property profit
- Adjusted return on capital employed of 17.2%
- Slight decline in adjusted operating profit (before property profit) to £260.5 million as expected
- Double digit/high single digit operating profit margin in all businesses (before property profit)
- High cash conversion with cashflow of £278.8 million from operations
- £208.9 million returned to shareholders during year through share buybacks and dividends
- Net cash at 31 December 2022 of £458.2 million (before IFRS 16 lease liabilities)
- Annual dividend per share growth of 8.2%

Eric Born, Chief Executive Officer Commented:

"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.

"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, Africa and the Netherlands.

"Importantly, with a very strong balance sheet, Grafton is well positioned to invest in future growth opportunities and we look forward with confidence."

Presentation and Webcast Details

A highlights video and a copy of the results presentation document are available at 7:00am today via the home page of the Company's website www.graftongroupuk.com

A presentation for analysts and investors will be hosted by Eric Born and David Arnold at 10:15am today. A live webcast of the presentation including Q&A will be available via the Company's website at www.graftongroupuk.com

Analysts will be invited to raise questions during the presentation. Should investors wish to submit a question in advance, they can do so before 9.00am today by sending an email to info@graftongroupuk.com A recording of the webcast will be available on the Company's website later.

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Cautionary Statement

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

Final Results for the Year Ended 31 December 2022

Group Results – Trading Summary, Cashflow, Dividend and Outlook

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.

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.

Africa
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").

Dividend

The Board is recommending a final dividend for 2022 of 23.75p per ordinary share in line with its progressive dividend policy. 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.

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.

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, as a consequence, 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.

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.

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 CO_2e per £ million of revenue. This was equivalent to a 3 per cent reduction in absolute emissions.
- Achieved 17 per cent reduction in operational waste relative to revenue vs 2021 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, Africa 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 Africa, 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.

2023 has commenced in line with our expectations. In general, volumes are slightly lower than the same period last year and price inflation is moderating.

Average daily like-for-like Group revenue increased by 0.7 per cent in the period from 1 January 2023 to 19 February 2023. Average daily like-for-like revenue declined by 1.6 per cent in the UK Distribution business and by 0.1 per cent in the Ireland distribution business. There was growth of 0.4 per cent in the Netherlands and 6.3 per cent in Africa. Retailing grew average daily like-for-like revenue by 2.4 per cent and Manufacturing by 12.6 per cent.

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.

Operating Review – Continuing Operations

The Distribution businesses in the UK, Ireland, the Netherlands and Africa contributed 84.2 per cent of Group revenue (2021: 81.9 per cent), Retailing 10.6 per cent (2021: 13.4 cent) and Manufacturing 5.2 per cent (2021: 4.7 per cent).

The UK businesses contributed 41.4 per cent (2021: 43.4 per cent) of Group revenue, Ireland 37.8 per cent (2021: 39.5 per cent), the Netherlands 14.6 per cent (2021: 13.8 per cent) and Africa 6.2 per cent (2021: 3.3%).

Distribution Segment

(84.2% of Group Revenue, 2021: 81.9%)

	2022	2021**	
	£'m	£'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.*

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 Finnish Distribution 6.2 per cent (2021: 3.3 per cent).

UK Distribution

(36.5% of Group Revenue, 2021: 39.0%)

	2022	2021**	
	£'m	£'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.*

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 ("Selco")

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 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.

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.

Irish Distribution

(26.9% of Group Revenue, 2021: 25.8%)

	2022	**2021**		**Constant Currency**
	£'m	**£'m**	**Change***	**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*

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

(14.6% of Group Revenue, 2021: 13.8%)

	2022	**2021**		**Constant**
	£'m	**£'m**	**Change***	**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*

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.

Africa Distribution

(6.2% of Group Revenue, 2021: 3.3%)

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

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

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 Africa. 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 Africa. 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 Africa. 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 Africa.

Retail Segment

(10.6% of Group Revenue, 2021: 13.4%)

	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*

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

(5.2% of Group Revenue, 2021: 4.7%)

	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*

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 increased functionality that should allow it to better 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.

Financial Review

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 Africa 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 Africa 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.

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.

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.

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/Debt

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.

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 Africa.

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 the 2022 Annual Report and Accounts. These risks refer to Macro Economic Conditions in the UK, Ireland, the Netherlands and Africa; Cyber Security and Data Protection; Acquisition and Integration of New Businesses; Supply Chain; Colleagues; Competition in Distribution, Retailing and Manufacturing Markets; Information Technology Systems and Infrastructure; Health and Safety; Sustainability and Climate Change; Internal Controls and Fraud and Pandemic Risk.

Grafton Group UK

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		**(2,062,597)**	(1,857,487)
Property profits	**3**	**25,381**	16,740
Operating profit		**264,266**	269,162
Finance expense	**4**	**(21,273)**	(21,269)
Finance income	**4**	**8,690**	1,904
Profit before tax		**251,683**	249,797
Income tax expense	**17**	**(43,065)**	(42,952)
Profit after tax for the financial year from continuing operations		**208,618**	206,845
Profit after tax from discontinued operations	**14**	**-**	134,422
Profit after tax for the financial year		**208,618**	341,267
Profit attributable to:			
Owners of the Company		**208,618**	341,267
Profit attributable to:			
Continuing operations		**208,618**	206,845
Discontinued operations		**-**	134,422
Earnings per ordinary share (continuing operations) - basic	**5**	**89.3p**	86.4p
Earnings per ordinary share (continuing operations) - diluted	**5**	**89.2p**	86.3p
Earnings per ordinary share (discontinued operations) - basic	**5**	-	56.2p
Earnings per ordinary share (discontinued operations) - diluted	**5**	-	56.1p
Earnings per ordinary share (total) - basic	**5**	**89.3p**	142.6p
Earnings per ordinary share (total) - diluted	**5**	**89.2p**	142.3p

Grafton Group UK

Group Statement of Comprehensive Income
For the year ended 31 December 2022

	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	**13**	**(5,040)**	14,886
Deferred tax on Group defined benefit pension schemes		**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 Company		**236,848**	327,830
Total comprehensive income for the financial year		**236,848**	327,830

Grafton Group UK - Group Balance Sheet as at 31 December 2022

	Notes	31 Dec 2022	31 Dec 2021
ASSETS		**£'000**	£'000
Non-current assets			
Goodwill	**15**	**635,751**	599,810
Intangible assets	**16**	**153,712**	144,327
Property, plant and equipment	**9**	**354,402**	319,295
Right-of-use asset	**8**	**420,115**	421,254
Investment properties	**9**	**26,084**	26,527
Deferred tax assets	**17**	**8,063**	8,793
Lease receivable		**453**	881
Retirement benefit assets	**13**	**4,584**	3,596
Other financial assets		**129**	126
Total non-current assets		**1,603,293**	1,524,609
Current assets			
Properties held for sale	**9**	**4,364**	6,125
Inventories	**10**	**399,565**	344,172
Trade and other receivables	**10**	**267,694**	233,486
Lease receivable		**196**	212
Cash and cash equivalents	**11**	**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		**7,870**	8,570
Share premium account		**221,975**	219,447
Capital redemption reserve		**1,389**	643
Revaluation reserve		**12,375**	12,519
Shares to be issued reserve		**8,647**	11,837
Cash flow hedge reserve		**(37)**	(8)
Foreign currency translation reserve		**87,492**	56,751
Retained earnings		**1,411,053**	1,413,737
Treasury shares held		**(5,185)**	(3,897)
Equity attributable to owners of the Parent		**1,745,579**	1,719,599
Total equity		**1,745,579**	1,719,599
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	**11**	**253,502**	172,601
Lease liabilities	**11**	**389,198**	396,070
Provisions		**15,189**	14,862
Retirement benefit obligations	**13**	**15,068**	15,067
Deferred tax liabilities	**17**	**61,011**	56,402
Total non-current liabilities		**733,968**	655,002
Current liabilities			
Interest-bearing loans and borrowings	**11**	**-**	84,030
Lease liabilities	**11**	**60,105**	52,924
Trade and other payables	**10**	**420,653**	419,111
Current income tax liabilities		**20,595**	15,956
Derivative financial instruments	**11**	**29**	8
Provisions		**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

Grafton Group UK - Group Cash Flow Statement

For the year ended 31 December 2022	Notes	31 Dec 2022 £’000	31 Dec 2021 £’000
Profit before taxation from continuing operations		**251,683**	249,797
Profit before taxation from discontinued operations	14	**-**	143,846
Profit before taxation		**251,683**	393,643
Finance income		**(8,690)**	(1,904)
Finance expense	4,14	**21,273**	22,512
Operating profit		**264,266**	414,251
Depreciation	8,9	**94,313**	97,894
Amortisation of intangible assets	16	**20,295**	17,184
Share-based payments charge		**4,719**	5,601
Movement in provisions		**(1,316)**	(1,950)
(Profit)/loss on sale of property, plant and equipment	9	**(248)**	522
Property profits – continuing operations	9	**(20,383)**	(6,890)
Property profits – discontinued operations	9	**-**	(396)
Fair value gains recognised as property profits	9	**(4,998)**	(9,850)
Asset impairment and fair value losses	9	**-**	248
Profit on disposal of Group businesses	14	**-**	(125,116)
Gain on derecognition of leases		**(475)**	(500)
Contributions to pension schemes in excess of IAS 19 charge		**(6,150)**	(23,650)
Increase in working capital	10	**(71,273)**	(64,129)
Cash generated from operations		**278,750**	303,219
Interest paid		**(21,879)**	(20,464)
Income taxes paid		**(39,529)**	(43,722)
Cash flows from operating activities		**217,342**	239,033
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	9	**845**	2,611
Proceeds from sale of properties held for sale	9	**4,238**	18,881
Proceeds from sale of investment properties	9	**23,463**	756
Proceeds from sale of Group businesses (net of cash disposed)	14	**-**	498,530
Interest received		**8,690**	193
		37,236	520,971
Outflows			
Acquisition of subsidiary undertakings (net of cash acquired)	14	**(45,978)**	(123,309)
Deferred acquisition consideration paid	10	**(4,000)**	-
Investment in intangible asset – computer software	16	**(2,522)**	(827)
Purchase of property, plant and equipment	9	**(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	6	**(73,868)**	(84,921)
Treasury shares purchased	20	**(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 the end of the year		**711,721**	844,663
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**711,721**	844,663

Grafton Group UK
Group Statement of Changes in Equity

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total equity £'000
Year to 31 December 2022										
At 1 January 2022	8,570	219,447	643	12,519	11,837	(8)	56,751	1,413,737	(3,897)	1,719,599
Profit after tax for the financial year	-	-	-	-	-	-	-	208,618	-	208,618
Total other comprehensive income										
Remeasurement (loss) on pensions (net of tax)	-	-	-	-	-	-	-	(2,482)	-	(2,482)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(29)	-	-	-	(29)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	30,741	-	-	30,741
Total other comprehensive expense	-	-	-	-	-	(29)	30,741	(2,482)	-	28,230
Total comprehensive income	-	-	-	-	-	(29)	30,741	206,136	-	236,848
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(73,868)	-	(73,868)
Issue of Grafton Units	46	2,528	-	-	-	-	-	-	-	2,574
Purchase of treasury shares (Note 20)	-	-	-	-	-	-	-	-	(142,981)	(142,981)
Cancellation of treasury shares	(746)	-	746	-	-	-	-	(141,693)	141,693	-
Share based payments charge	-	-	-	-	4,719	-	-	-	-	4,719
Tax on share based payments	-	-	-	-	(1,312)	-	-	-	-	(1,312)
Transfer from shares to be issued reserve	-	-	-	-	(6,597)	-	-	6,597	-	-
Transfer from revaluation reserve	-	-	-	(144)	-	-	-	144	-	-
	(700)	2,528	746	(144)	(3,190)	-	-	(208,820)	(1,288)	(210,868)
At 31 December 2022	7,870	221,975	1,389	12,375	8,647	(37)	87,492	1,411,053	(5,185)	1,745,579

	Equity share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Shares to be issued reserve £'000	Cash flow hedge reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Treasury shares £'000	Total equity £'000
Year to 31 December 2021										
At 1 January 2021	8,569	216,496	621	12,733	6,714	(65)	81,919	1,143,933	(3,897)	1,467,023
Profit after tax for the financial year	-	-	-	-	-	-	-	341,267	-	341,267
Total other comprehensive income										
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	11,674	-	11,674
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	57	-	-	-	57
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(25,168)	-	-	(25,168)
Total other comprehensive expense	-	-	-	-	-	57	(25,168)	11,674	-	(13,437)
Total comprehensive income	-	-	-	-	-	57	(25,168)	352,941	-	327,830
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	(84,921)	-	(84,921)
Issue of Grafton Units	23	2,951	-	-	-	-	-	-	-	2,974
Cancellation of A Shares	(22)	-	22	-	-	-	-	-	-	-
Share based payments charge	-	-	-	-	5,601	-	-	-	-	5,601
Tax on share based payments	-	-	-	-	1,092	-	-	-	-	1,092
Transfer from shares to be issued reserve	-	-	-	-	(1,570)	-	-	1,570	-	-
Transfer from revaluation reserve	-	-	-	(214)	-	-	-	214	-	-
	1	2,951	22	(214)	5,123	-	-	(83,137)	-	(75,254)
At 31 December 2021	8,570	219,447	643	12,519	11,837	(8)	56,751	1,413,737	(3,897)	1,719,599

Grafton Group UK
Notes to Final Results for the year ended 31 December 2022

1. General Information

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

The Group has leading regional or national market positions in the distribution markets in the UK, Ireland, the Netherlands and Africa. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in Great Britain where it also operates a staircase manufacturing business.

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

Basis of Preparation, Accounting Policies and Estimates

(a) Basis of Preparation and Accounting Policies

The financial information presented in this Final Results Announcement has been extracted from the audited Annual Report and Accounts of Grafton Group plc for the financial year ended 31 December 2022. The financial information set out in this document does not constitute full statutory financial statements for the financial years ended 31 December 2022 or 2021 but it is derived from same. The Final Results Announcement was approved by the Board of Directors. The Annual Report and Accounts has been approved by the Board of Directors and reported on by the auditors. The auditors' report was unqualified. The Annual Report and Accounts for the year ended 31 December 2022 is available on the Group's website and will be filed with the Irish Registrar of Companies in due course.

The consolidated financial information of the Group has been prepared in accordance with the Transparency Rules of the Financial Conduct Authority ('FCA') and in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU'); and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. They do not include all the information and disclosures necessary for a complete set of financial statements prepared in accordance with IFRS.

The financial information in this report has been prepared in accordance with the Group's accounting policies. Full details of the accounting policies adopted by the Group are contained in the consolidated financial statements included in the Group's Annual Report and Accounts for the year ended 31 December 2022 which is available on the Group's website; www.graftongroupuk.com

The accounting policies and methods of computation and presentation adopted in the preparation of the Group financial information are consistent with those described and applied in the Annual Report and Accounts for the year ended 31 December 2022. The financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature. Certain tables in the financial information may not add precisely due to rounding.

Going Concern

The Group's net cash position, before recognising lease liabilities, was £458.2 million at 31 December 2022 (31 December 2021: £588.0 million). The Group had liquidity of £934.6 million at 31 December 2022 (£1,235.4 million at 31 December 2021) 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. No refinancing of debt is due until August 2027, the Group does not have a leverage (net debt/EBITDA) covenant in its financing arrangements and its assets are unsecured.

1. General Information (continued)

Basis of Preparation, Accounting Policies and Estimates (continued)

Going Concern (continued)

Having made appropriate enquiries and regard to the above information, the Directors have a reasonable expectation that Grafton Group plc, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the Annual Report. Having reassessed the principal risks, as detailed on page 19, and based on expected cashflows, the strong liquidity position of the Group, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its financial information.

The consolidated financial information is presented in sterling. Items included in the financial information 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.

Climate Change

In preparing the financial information, the Directors have considered the impact of climate change. These considerations did not have a material impact on the financial reporting judgements and estimates in the current year, specifically in the impairment and going concern analysis. The Group's analysis of the impact of climate change continues to evolve with Grafton committed to reducing its carbon impact.

The financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature.

(b) Critical accounting estimate and judgements

The preparation of the Group consolidated financial statements requires management to make certain estimations, assumptions and judgements that affect the reported profits, assets and liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Such changes are recognised in the period in which the estimate is revised. In particular, information about significant areas of estimation and judgement that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the respective notes to the consolidated financial statements.

New Standards and Interpretations

Certain new and revised accounting standards and interpretations have been issued. The Group intends to adopt the relevant new and revised standards when they become effective and the Group's assessment of the impact of these standards and interpretations is set out below:

The following Standards and Interpretations are effective for the Group in 2022 but do not have a material effect on the results or financial position of the Group:

- 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)*

The following Standards and Interpretations are not yet effective for the Group and are not expected to have a material effect on the results or financial position of the Group:

- 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)*

2. Segmental Analysis

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

	2022 £'000	2021 £'000
Revenue		
UK distribution	**838,644**	821,923
Ireland distribution	**618,297**	544,289
Netherlands distribution	**336,703**	290,540
Africa distribution	**143,197**	70,810
Total distribution - continuing Retailing	**1,936,841**	1,727,562
Manufacturing	**244,021**	282,756
Less: inter-segment revenue - manufacturing	**133,805**	112,436
Total revenue from continuing operations	**(13,185)**	(12,845)
	2,301,482	2,109,909
Segmental operating profit before exceptional 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
Africa distribution	**20,321**	9,952
Total distribution – continuing Retailing	**210,262**	209,811
Manufacturing	**32,575**	50,858
	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 13).*

2. Segmental Analysis (continued)

The amount of revenue by geographic area is as follows:

	2022	2021
	£'000	£'000
Revenue*		
United Kingdom	**951,557**	914,971
Ireland	**870,025**	833,588
Netherlands	**336,703**	290,540
Africa	**143,197**	70,810
Total revenue – continuing operations	**2,301,482**	2,109,909

**Service revenue, which is recognised over time, amounted to £9.4 million for the year (2021: £8.7 million)*

	31 Dec 2022	31 Dec 2021
	£'000	£'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

	31 Dec 2022	31 Dec 2021
	£'000	£'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

3. Operating Profit & 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.

Non-Recurring Items

A non-recurring curtailment gain of £3.7 million arose on closure to future accrual of a defined benefit pension scheme in Ireland (Note 13).

4. Finance Expense and Finance Income

	2022		2021	
	£'000		£'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	**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)*

5. Earnings per Share

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

	Year ended 31 Dec 2022 £'000	Year Ended 31 Dec 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
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
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 total operations		
- Basic	**89.3**	142.6
- Diluted	**89.2**	142.3
Earnings per share (pence) – from continuing operations		
- Basic	**89.3**	86.4
- Diluted	**89.2**	86.3
Earnings per share (pence) – from discontinued operations		
- Basic	**-**	56.2
- Diluted	**-**	56.1
Adjusted earnings per share (pence) – from continuing operations		
- Basic	**96.6**	93.0
- Diluted	**96.5**	92.8

6. Dividends

The payment in 2022 of a second interim dividend for 2021 of 22.00 pence amounted to £52.7 million (2021: second interim dividend for 2019 of £29.9 million and final dividend for 2020 of £34.7 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 dividend 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.

7. Exchange Rates

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

The average sterling/euro rate of exchange for the year ended 31 December was Stg85.28p (2021: Stg85.96p). The sterling/euro exchange rate at 31 December 2022 was Stg88.69p (2021: Stg84.03p).

8. Right-Of-Use Asset

	Right-of-use asset
	£'000
Recognised at 1 January 2022	**421,254**
Additions*	**31,971**
Disposals	**(2,309)**
Depreciation	**(60,142)**
Remeasurements*	**15,678**
Arising on acquisition (Note 14)	**2,745**
Currency translation adjustment	**10,918**
As at 31 December 2022	**420,115**

**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.*

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

	Property, plant and equipment	**Properties held for sale**	**Investment properties**
Net Book Value	**£'000**	**£'000**	**£'000**
As at 1 January 2022	**319,295**	**6,125**	**26,527**
Additions	**55,318**	**-**	**-**
Depreciation	**(34,171)**	**-**	**-**
Disposals	**(597)**	**(1,549)**	**(5,769)**
Fair value gains	**-**	**-**	**4,998**
Transfer to property, plant and equipment	**423**	**(423)**	**-**
Arising on acquisition (Note 14)	**4,659**	**-**	**-**
Currency translation adjustment	**9,475**	**211**	**328**
As at 31 December 2022	**354,402**	**4,364**	**26,084**

10. Movement in Working Capital

Current	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2022	344,172	233,486	(419,111)	158,547
Currency translation adjustment	13,168	8,709	(14,548)	7,329
Deferred acquisition consideration (Note 14)	-	-	(5,197)	(5,197)
Deferred acquisition consideration paid	-	-	4,000	4,000
Arising on acquisition (Note 14)	7,561	8,788	(5,695)	10,654
Working capital movement in 2022	34,664	16,711	19,898	71,273
At 31 December 2022	399,565	267,694	(420,653)	246,606

11. Interest-Bearing Loans, Borrowings and Net (Cash)/Debt

	31 Dec 2022 £'000	31 Dec 2021 £'000
Interest-bearing loans and borrowings		
Bank loans (current)	-	84,030
Bank loans (non-current)	112,108	38,699
US senior notes	141,394	133,902
Total interest-bearing loans and borrowings	253,502	256,631
Leases		
Included in non-current liabilities	389,198	396,070
Included in current liabilities	60,105	52,924
Total leases	449,303	448,994
Derivatives		
Included in current liabilities	29	8
Total derivatives	29	8
Cash and cash equivalents	(711,721)	(844,663)
Net (cash)	(8,887)	(139,030)
Net (cash) before leases	(458,190)	(588,024)

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. These new facilities replace existing 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.

11. Interest-Bearing Loans, Borrowings and Net Debt (continued)

The following table shows the fair value of financial assets and liabilities, all of which are within level 2 of the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 Dec 2022	31 Dec 2021
	£'000	£'000
Liabilities measured and recognised at fair value		
Designated as hedging instruments		
Other derivatives	**29**	8
Fair value measurement of liabilities carried at amortised cost		
US senior notes	**126,605**	134,448

The fair value of financial assets and liabilities recognised at amortised cost
It is considered that the carrying amounts of other financial assets and liabilities including trade payables, trade receivables and bank loans, which are recognised at amortised cost in the financial information approximate to fair value. The fixed rate US senior notes denominated in euro are disclosed above at fair value and reflect the differential between the fixed interest rates on these notes and market rates at 31 December 2022.

Financial assets and liabilities carried at fair value
All the Group's financial assets and liabilities which are carried at fair value are classified as Level 2 in the fair value hierarchy and deferred consideration is classified as Level 3. There have been no transfers between levels in the current period. Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The fair values of other derivatives are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate. 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.

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

	31 Dec 2022	31 Dec 2021
	£'000	£'000
Net (decrease)/increase in cash and cash equivalents	**(142,780)**	399,155
Net movement in derivative financial instruments	**(21)**	57
Bank loans and loan notes acquired with subsidiaries	**-**	(55,647)
Lease liabilities acquired (Note 14)	**(2,745)**	(24,192)
Lease liabilities disposed (Note 14)	**-**	67,100
Movement in debt and lease financing	**30,981**	84,86
Change in net (debt)/cash resulting from cash flows	**(114,565)**	471,336
Currency translation adjustment	**(15,578)**	22,69
Movement in net (debt)/cash in the year	**(130,143)**	494,031
Net cash/(debt) at 1 January	**139,030**	(355,001
Net cash at end of the year	**8,887**	139,03

13. Retirement Benefits

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

	Irish Schemes		UK Schemes	
	At 31 Dec 2022	At 31 Dec 2021	**At 31 Dec 2022**	At 31 Dec 2021
Rate of increase in salaries*	**3.80%**	3.30%	**N/A**	N/A
Rate of increase of pensions in payment	**-**	-	**3.10%**	3.10%
Discount rate	**3.70%**	1.15%	**4.80%**	1.90%
Inflation	**2.60%**	2.10%	**2.60%/3.20%** **	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)

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

	Assets		Liabilities		Net asset/(deficit)	
	Year to 31 Dec 2022	Year to 31 Dec 2021	**Year to 31 Dec 2022**	Year to 31 Dec 2021	**Year to 31 Dec 2022**	Year to 31 Dec 2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'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	-	-	-	2,500	-	2,500
Curtailment gain – non-recurring	**-**	-	**3,690**	-	**3,690**	-
Other long-term benefit 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)/gains 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)

At 31 December 2022, a non-recurring curtailment gain of £3.7 million arose on closure to future accrual of a defined benefit pension scheme in Ireland.

The net pension scheme deficit of £10.5 million (31 December 2021: deficit of £11.5 million) is shown in the Group balance sheet as (i) retirement benefit obligations (non-current liabilities) of £15.1 million (31 December 2021: £15.1 million) and (ii) retirement benefit assets (non-current assets) of £4.6 million (31 December 2021: £3.6 million.

13. Retirement Benefits (continued)

At 31 December 2022, the retirement benefit asset of £4.6 million relates to three schemes in Ireland. The surplus has 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 retirement benefit obligation of £15.1 million relates to one scheme in the UK (£14.3 million) and one scheme in the Netherlands (£0.8 million).

At 31 December 2021, £3.6 million of the retirement benefit asset relates to one scheme in Ireland. The £15.1m retirement benefit obligation relates to one scheme in the UK (£0.7 million) and schemes in Ireland and the Netherlands (£14.4 million).

14. Acquisitions and Discontinued Operations

Acquisitions

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, 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 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.

The fair value of assets and liabilities acquired in 2022 are set out below:

	Total £'000
Property, plant and equipment	**4,659**
Right-of-use asset	**2,745**
Intangible assets – trade names	**2,889**
Intangible assets – customer relationships	**17,705**
Inventories	**7,561**
Trade and other receivables	**8,788**
Trade and other payables	**(5,695)**
Lease liability	**(2,745)**
Corporation tax liability	**(105)**
Deferred tax liability	**(3,592)**
Cash acquired	**5,879**
Net assets acquired	**38,089**
Goodwill	**18,965**
Consideration	**57,054**
Satisfied by:	
Cash paid	**51,857**
Deferred consideration (Note 10)	**5,197**
	57,054
Net cash outflow – arising on acquisitions	
Cash consideration	**51,857**
Less: cash and cash equivalents acquired	**(5,879)**
	45,978

Goodwill on these acquisitions reflects the anticipated cashflows to be realised as part of the enlarged Group. There were no adjustments made to provisional fair values in the year relating to the IKH and Proline acquisitions completed in the prior year.

14. Acquisitions and Discontinued Operations (continued)

Acquisitions contributed revenue of £53.6 million and operating profit of £8.4 million for the period from the date of acquisition to 31 December 2022. If all three acquisitions had occurred on 1 January 2022, they would have contributed revenue of £59.4 million (unaudited) and operating profit of £9.5 million (unaudited) in the year. The Group incurred acquisition related costs of £2.3 million in 2022 (2021: £4.1 million) which are included in operating costs in the Group Income Statement.

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.

Discontinued Operations – Traditional Merchanting Business in the UK – 31 December 2021

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.

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. IFRS 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 in respect of intercompany balances which were due to Grafton Group at 30 June 2021.

The carrying value of assets and liabilities disposed at 31 December 2021 were as follows:

	Total £'000
Goodwill	126,291
Intangible assets	29,827
Property, plant and equipment	177,515
Right-of-use assets	60,613
Finance lease receivable	1,931
Deferred tax asset	1,729
Inventory	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)
Income tax liability	(6,161
Net assets of disposed business	477,192
Cash consideration received and settlement of intercompany balances	(602,308
Net profit on disposal of Group businesses, before disposal costs	(125,116

Net cash inflow on disposals

	£'000
Cash consideration received	602,308
Cash disposed with Group businesses	(103,778)
Proceeds from disposal – net of cash disposed	498,530

14. Acquisitions and Discontinued Operations (continued)

Amounts recognised in the year to 31 December 2021 within discontinued operations

	£'000
Gross profit on disposal	125,116
Disposal costs*	(11,945)
Profit on disposal, net of disposal costs	113,171
Result for the period from discontinued operations	21,251
Total amount recognised in discontinued operations	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.

Profit before taxation from discontinued operations

	£'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

Cash flows from discontinued operations

	31 December 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	28,45

Results from discontinued operations

	31 December 2021 £'000
Revenue	522,895
Operating costs	(493,873
Operating profit before property profits	29,022
Property profits	39
Operating profit pre-exceptional items	29,418
Exceptional items*	2,50
Operating profit	31,918
Net finance costs	(1,243
Profit before tax	30,675
Income tax	(9,424
Profit after tax for the financial year	21,25

* Exceptional items for 31 December 2021 relates to an IAS 19 past service credit against other costs originally booked in 2020.

14. Acquisitions and Discontinued Operations (continued)

The trading results for the year ended December 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 year	206,845	21,251	228,096

15. Goodwill

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 impairment review conducted by the Group, as required by IFRS, concluded that the carrying amount of all Cash Generating Units ("CGU's) exceeded their recoverable amount and that there was no impairment (2021: £Nil).

	Goodwill £'000
Net Book Value	
As at 1 January 2022	**599,810**
Arising on acquisition (Note 14)	**18,965**
Currency translation adjustment	**16,976**
As at 31 December 2022	**635,751**

16. Intangible Assets

	Computer Software £'000	**Trade Names £'000**	**Customer Relationships & Technology £'000**	**Total £'000**
Net Book Value				
As at 1 January 2022	**4,001**	**30,415**	**109,911**	**144,327**
Additions	**2,522**	**-**	**-**	**2,522**
Amortisation	**(1,009)**	**(3,562)**	**(15,724)**	**(20,295)**
Arising on acquisition (Note 14)	**-**	**2,889**	**17,705**	**20,594**
Currency translation adjustment	**151**	**1,286**	**5,127**	**6,564**
As at 31 December 2022	**5,665**	**31,028**	**117,019**	**153,712**

The amortisation expense of £20.3 million (2021: £17.2 million) has been charged in 'operating costs' in the income statement. Amortisation of intangible assets arising on acquisitions amounted to £19.3 million (2021: £14.7 million).

17. 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 on profit from continuing operations (2021: 17.2 per cent). This is a blended rate of corporation tax on profits in the four jurisdictions 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 that apply in the UK, Ireland, the Netherlands and Africa.

The liability shown for current taxation includes a liability for 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.

Accounting estimates and judgements

Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Group is party to transactions for which the ultimate tax determination may be uncertain. As the Group is subject to taxation in a number of jurisdictions, an open dialogue is maintained with Revenue Authorities with a view to the timely agreement of tax returns. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice.

If the final determination of these matters is different from the amounts that were initially recorded such differences could materially impact the income tax and deferred tax liabilities and assets in the period in which the determination was made.

Deferred tax

At 31 December 2022, the deferred tax asset was £8.1 million (2021: £8.8 million) and the deferred tax liability was £61.0 million (2021: £56.4 million). There were unrecognised deferred tax assets in relation to capital losses of £0.7 million (2021: £3.1 million), trading losses of £1.1 million (2021: £1.1 million) and deductible temporary differences of £6.9 million (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 historic losses and the Directors believe that it is not probable there will be sufficient taxable profits in the entities against which they can be utilised. Separately, the Directors believe that it is not probable the deductible temporary differences will be utilised.

18. Related Party Transactions

There were no changes in related parties from those described in the 2021 Annual Report, other than those arising through acquisitions and the appointment and resignation of directors. There has been no change in transactions with related parties that materially affect the financial position or the performance of the Group during the year to 31 December 2022.

19. Grafton Group UK Long Term Incentive Plan (LTIP)

LTIP awards were made over 706,305 Grafton Units on 1 April 2022. The fair value of the awards of £6.0 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. On 29 November 2022, LTIP awards were made over 37,251 Grafton Units to Eric Born on his appointment as CEO. The fair value of the awards of £0.2 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. The 2022 Annual Report and Accounts discloses details of the LTIP scheme.

20. Share Buyback and Treasury Shares

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 in aggregate for cancellation at a total cost of £100.3 million, including transaction costs. All shares were cancelled by 31 December 2022.

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 through the second buyback programme, including transaction costs. However, due to timing, only 4,302,597 were cancelled at 31 December 2022 and the remaining 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 22 below.

In addition to the above, on 3 May 2022 and 4 May 2022, the Group purchased and cancelled 796,902 Grafton Units 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.

	Purchase of Treasury Shares £'000	**Transaction Costs £'000**	**Purchase of Treasury Shares * £'000**	**Cancellation of Treasury 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**
Total	135,046	356	**135,402**	**(134,130)**	**1,272**
LTIP Awards	7,563	16	**7,579**	**(7,563)**	**16**
As at 31 December 2022	142,609	372	**142,981**	**(141,693)**	**1,288**

* Including transaction costs.

21. Issue of Shares

During the year 796,902 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2019 grants (2021: 82,675 Grafton Units). A further 414,711 Grafton Units were issued under the Group's Savings Related Share Option Scheme (SAYE) to eligible UK employees (2021: 453,388 Grafton Units).

22. 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.

23. Board Approval

This announcement was approved by the Board of Grafton Group plc on 1 March 2023**.**

Supplementary Financial Information Alternative Performance Measures

Certain financial information set out in this consolidated financial information is not defined under 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, subject to restatement for discontinued operations and acquisition related items.

The term "Adjusted" means before exceptional items and acquisition related items. These items do not relate to the underlying operating performance of the business and therefore to enhance comparability between reporting periods and businesses, management do not take these items into account when assessing the underlying profitability of the Group.

Acquisition related items comprise deferred consideration payments relating to the retention of former owners of businesses acquired, transaction costs and expenses, professional fees, adjustments to previously estimated earn outs and customer relationships asset 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 acquisition related items, exceptional items, net finance expense and income tax expense.
Operating profit margin	Profit before net finance expense and income tax expense as a percentage of revenue.
Adjusted operating profit/EBITA before property profit	Profit before profit on the disposal of Group properties, 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 acquisition related items, exceptional items and income tax expense.
Adjusted profit after tax	Profit before 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/(cash) 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.

EBITDA	Profit before exceptional items, net finance expense, income tax expense, depreciation and acquisition related items.
EBITDA Interest Cover	EBITDA divided by net bank/loan note interest.
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	Changes in 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.
Return on Capital Employed	Operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt/(cash) at each period end) times 100, expressed as a percentage.
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 and Margin

	2022 £'m	2021 £'m
Revenue - continuing	**2,301.5**	2,109.9
Operating profit	**264.3**	269.2
Property profit/loss	**(25.4)**	(16.7)
Amortisation of intangible assets arising on acquisitions	**19.3**	14.7
Other acquisition related items	**2.3**	4.
Adjusted operating profit/EBITA before property profit	**260.5**	271.
Adjusted operating profit/EBITA margin before property profit	**11.3%**	12.9

Operating Profit Margin

	2022 £'m	2021 £'m
Revenue - continuing	**2,301.5**	2,109.9
Operating profit	**264.3**	269.2
Operating profit/EBITA margin	**11.5%**	12.8

Adjusted Operating Profit/EBITA and Margin

	2022 £'m	2021 £'m
Revenue - continuing	**2,301.5**	2,109.9

Operating profit	**264.3**	269.2
Amortisation of intangible assets arising on acquisitions	**19.3**	14.7
Other acquisition related items	**2.3**	4.1
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
Amortisation of intangible assets arising on acquisitions	**19.3**	14.7
Other acquisition related items	**2.3**	4.1
Adjusted profit before tax	**273.3**	268.6

Adjusted Profit after Tax

	2022 £'m	2021 £'m
Profit after tax	**208.6**	206.8
Amortisation of intangible assets arising on acquisitions	**19.3**	14.7
Related tax on amortisation of intangible assets arising on acquisitions	**(4.3)**	(3.2)
Other acquisition related items	**2.3**	4.1
Tax on other acquisition related items	**(0.2)**	(0.1
Adjusted profit after tax	**225.6**	222.

Reconciliation of Profit to EBITDA – Continuing Operations

	2022 £'m	2021 £'m
Profit after tax	**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.
EBITDA – continuing operations	**381.2**	373.

EBITDA Interest Cover (including interest on lease liabilities)

	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	**(123.0)**	61.7

Dividend Cover

	2022	2021
Group adjusted EPS – basic (pence)	**96.6**	93.0
Group dividend (pence)	**33.0**	30.5
Dividend cover - times	**2.9**	3.0

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 - continuing	**19.3**	14.4
Adjusted operating profit	**285.9**	287.7
Total equity – current period end	**1,745.6**	1,719.6
Net (cash) current period end	**(8.9)**	(139.0)
Capital employed – current period end	**1,736.7**	1,580.6
Total equity – prior period end	**1,719.6**	1,467.0
Disposal of Group businesses adjustment	**-**	115.4
Net (cash)/debt – prior period end	**(139.0)**	355.0
Disposal of Group businesses adjustment	**-**	(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

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

** At 31 December 2022, cash of £4.0 million (2021: £4.0 million) was reserved to cover the risk of an event of default by the Group on a letter of credit. This* *arrangement can be replaced at any time.*

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

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	**134.4**	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 % of 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	**208.6**	206.8
Loss after tax (IFRS 16)	**1.3**	1.4
Profit after tax (pre-IFRS 16)	**209.9**	208.2
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 (excluding interest on lease liabilities)

	2022 £'m	2021 £'m
EBITDA	**307.8**	305.8
Net bank/loan note interest excluding interest on lease liabilities	**(3.1)**	6.
EBITDA interest cover – times	**(99.3)**	50.5