Grafton Merchanting GB Limited

Directors' report and
financial statements

Year ended 31 December 2014

Registered number: 4725313

Grafton Merchanting GB Limited

Directors and other information

Directors	M Kelly K Tinsley D Arnold G Slark B Van Der Waag
Secretary	Grafton Group Secretarial Services Limited
Company Number	04725313
Registered Office	PO Box 1586 Gemini One John Smith Drive Oxford Business Park South Oxford OX4 9JF United Kingdom
Auditor	KPMG Chartered Accountants 1 Stokes Place St Stephen's Green Dublin 2 Ireland
Solicitors	Lyons Davidson Victoria House 51 Bristol Street Bristol BS1 6AD Squire Patton Boggs 7 Devonshire Square London EC2M 4YH
Bankers	Lloyds TSB Bank plc PO Box 72 Bailey Drive Gillingham Business Park Gillingham Kent ME8 0LS

Grafton Merchanting GB Limited

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Grafton Merchanting GB Limited

Strategic report

Introduction

This strategic report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them to assess how the directors have performed their duty to promote the success of Grafton Merchanting GB Limited ("the Company").

Principal activity

The principal activity of the company is the supply of building and plumbing materials.

Business review

Grafton Merchanting GB Limited ("GMGB") is a member of Grafton Group plc, a company incorporated in the Republic of Ireland. GMGB is the UK's third largest builders' merchanting business and is one of the top five plumber's merchants businesses.

The builder's merchanting business trades from a network of 177 branches mainly under the 'Buildbase' brand. The network of branches is concentrated in the South East, West Country, Midlands, East Anglia and Scotland.

The plumber's merchanting division, trading from 217 branches primarily under the Plumbase brand, has a strong presence in England and Scotland.

Operations review

The company performed strongly in 2014 with operating profit increasing by 4.3% and profit before tax by 36.3%.

Recovery in the wider economy along with increased activity in the housing market was a factor in an overall increase in sales of 6.3% to £1,046.5 million *(2013: £984.1 million).*

UK geographical coverage was improved by the acquisition during the year by Grafton Group (UK) plc of Beaumont Forest Products Limited, Direct Builders Merchants Limited and Crescent Building Supplies Limited. These acquisitions added 10 branches to the GMGB network during 2014.

Outlook

The pace of UK growth moderately eased in the fourth quarter but the economy remained firmly on the path of what is expected to be a sustained recovery. Record levels of employment, falling oil prices and low inflation should translate into growth in consumer spending. Growth in housing RMI is expected to be supported by good underlying demand following a long period of under investment and the improvement in the wider economy and secondary housing market. The rate of growth in activity in the new housing market slowed since the middle of last year but the market is forecast to remain strong as it approaches a sustainable level of output. Continued weakness in the Eurozone could weigh on the strength of the recovery.

Grafton Merchanting GB Limited

Strategic report *(continued)*

Health and Safety

Health & Safety Management and Improvement Activity
Implementation of our strategy continued apace in 2014, with significant improvement activity developing our safety management framework and capability. Key areas of activity included:

- ***Senior management leadership***
  Our senior teams continue to demonstrate their commitment, involvement and leadership through active monitoring of performance and promoting effective safety management as a priority within the business.

- ***Specialist resource***
  Our specialist HSE team was strengthened significantly during the year, working closely with our management teams to promote ownership and good practice. These working relationships will remain a key area of focus in 2015.

- ***Safety management systems and procedures***
  The quality, clarity and standard of our safety management systems and procedures improved through the introduction of our health & safety manual, with the effective implementation of these enhanced standards being measured through our internal audit programme.

- ***Colleague competence and development***
  New E-Learning programmes were introduced to provide safety-critical information to colleagues in an easily-assimilated format and this medium will be used more extensively through 2015.
  Our manager HSE training courses were further developed and assimilated into broader management training programmes, thus improving the safety management capability of our management teams.

- ***Communication and delivery of safety messages***
  A central pillar of our work through 2014 has been the development of effective routes of communication, allowing us to deliver and share key safety information and messages in a clear, coordinated and structured way.

- ***Internal HSE auditing***
  The quality and frequency of our internal auditing programmes was improved, providing us with higher-quality information on which to base improvement action.

  Average audit scores improved steadily throughout the year with a significant increase in the number of audits scoring highly. This picture reflects the increasing degree of safety management activity and the increasing degree to which our standards and systems are being implemented at operational level.

Accidents and incidents

Accident and incident performance was mixed, though it is likely that the business has seen in increase in reported incidents partly as a result of the increasing level of focus and activity:

- The total number of RIDDOR-reportable incidents reduced by 6% against 2013, with the incidence rate (taking account of increases in headcount) reduced by 11.8%
- The Lost Time Accident Frequency Rate rose by 8.3% against 2013
- The Lost Time Ratio remained flat against 2013 performance.

Performance over the last 4 months in 2014 showed more encouraging trends as the impact of our effort and activity began to be felt.

Strategic report *(continued)*

Enforcement activity

Positive outcomes were achieved from all of the total of 27 visits made by regulatory authorities and enforcement officers, with no formal actions being taken against the company.

The inquest into the 2013 death of a valued colleague was heard in October 2014, with a verdict of "accidental death" being recorded. The Health & Safety Executive closed its file on the case, with no enforcement action being taken.

Environmental management performance

At the time of publication, carbon footprint data was not available for 2014, however, energy reduction efforts continued with the establishment of an energy efficiency working group, responsible for identifying strategies for reducing our overall electrical energy usage. A year-long energy awareness campaign is currently being formulated for launch in Q1 2015.

Work continued with our principal waste contractors to improve our ability to segregate non-hazardous waste streams. The average recycling rate for 2014 was 78% and recycling figures reached our 80% target in the final quarter.

Our hazardous waste management regime was also strengthened, with improved collection facilities installed across the majority of our locations giving us a greater degree of control over these waste streams.

In 2014 we began work to develop a more robust, coordinated and long-term strategy for the management of our wider environmental impacts and responsibilities. Whilst we are still in the early stages of its development, the strategy will cover work in 3 core areas:

- ***Legal reporting and compliance*** – ensuring that we meet our obligations under requirements and schemes such as Carbon Reduction Commitment (CRC) and Energy Saving Opportunity Scheme (ESOS)
- ***Pollution prevention, waste and water*** – focussing on our direct operational impacts
- ***Products and services*** – examining issues such as the sustainability and traceability of our materials; the impact of our products in use; and the overall impact of our offering.

Projections and plans for 2015

Much success was achieved in 2014 with significant improvement in our HSE management capability. Current strategy and programmes of work will continue and will build on the positive progress made so far.

As our workplaces, systems and procedures improve, greater emphasis will be placed on individual contribution by all colleagues, with behavioural safety improvement programmes being introduced.

Grafton Merchanting GB Limited

Strategic report *(continued)*

Key performance indicators

The Directors believe that the following indicators will provide stakeholders with sufficient information to assess how effectively the Company is performing.

For the year to 31 December 2014

	2014	2013
	£'000	£'000
Turnover	**1,046,475**	984,054
Operating profit	**29,629**	28,538
Operating margin	**2.8%**	2.9%
Liquidity ratio	**1.71**	1.68

Future developments

The Company is performing in line with budget and expectations. The directors expect the general level of activity to remain consistent in the forthcoming year.

Principal risks and uncertainties

The companies businesses are dependent on IT systems and supporting infrastructure to trade. The failure of key systems could have a serious impact on the business and result in the loss of revenue and reduced profitability. The rate and scale of IT change is increasing as the company undertakes a programme to replace a number of heritage systems. These changes have the potential to disrupt operations.

There will be continued pressure on disposable incomes. Concerns also remain over employment prospects. It is likely that tight credit conditions will remain. The Group is exposed to the risk of default by customers who purchase products on credit. One of the key features of customer service in merchanting is the provision of short-term credit to customers with the company carrying the associated credit risk.

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

Demand in the UK builders market is sensitive to economic conditions generally including consumer confidence, interest rates, employment trends, inflation, demographic factors and housing market conditions.

Contraction in economic growth in the UK could result in lower demand in the company's markets resulting in lower volumes and a material change in the financial performance of the company.

The company also faces strong ongoing competition in its business.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The Company adopts a prudent approach to liquidity management and to mitigate against cash flow and liquidity risk continuously monitors forecasted and actual cash flows and maintains sufficient cash reserves to meet its obligations. The Company's main exposure to credit risk is its provision of short-term credit to customers with the company carrying the associated credit risk.

Grafton Merchanting GB Limited

Strategic report *(continued)*

Employees

It is the policy of the company that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. Should any employee become disabled, every practical effort is made to provide continued employment, having regard to their aptitude and ability.

The directors are committed to maintaining and developing communication and consultation procedures with employees.

The directors consider that the various share option schemes will be a key factor in attracting, retaining and motivating senior employees across the company. The company grants share options to senior employees, on a discretionary basis, in order to reward their long term commitment to the company.

By order of the board

B. Van Der Waag
Director

12 October 2015

Grafton Merchanting GB Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Strategic Report

The principal activities of the Company, a business review, key performance indicators, likely future developments, the principal risks and uncertainties and financial risk management objectives and policies of the Company have not been included in this report as they are disclosed in the strategic report.

Dividends

Equity dividends of £34,000 were paid during the year *(2013: £25 million).* No non-equity dividends were paid during the year *(2013: £nil).*

Directors

The directors who held office during the year were as follows:

K Tinsley
M Kelly
D Arnold
S Thompstone (resigned 31 December 2014)
G Slark

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company is not significantly different to the book values of these assets.

Creditors

The company's policy is to abide by the agreed terms of payment. The number of creditor days outstanding at the year end was 53 days *(2013: 67 days).*

Political and charitable contributions

The company made no political contributions during the period *(2013: £Nil).* Donations to UK charities amounted to £Nil *(2013: £Nil).*

Subsequent events

There were no events post year end which require disclosure in the financial statements.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Grafton Merchanting GB Limited

Directors' report *(continued)*

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, KPMG, the Irish partnership and member of the KPMG network of independent member firms, will be deemed to be reappointed.

By order of the board

B. Van Der Waag
Director
12 October 2015

PO Box 1586
Gemini One
John Smith Drive
Oxford Business Park South
Oxford
OX4 9JF

Grafton Merchanting GB Limited

Statement of directors' responsibilities in respect of the strategic report, directors' report and the financial statements

The Directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law.

On behalf of the board

B. Van Der Waag
Director

12 October 2015

Independent auditor's report to the members of Grafton Merchanting GB Limited

We have audited the financial statements of Grafton Merchanting GB Limited for the year ended 31 December 2014 which comprise the profit and loss account, the balance sheet and related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2 Our conclusions on other matters on which we are required to report by the Companies Act 2006 are set out below

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

3 We have nothing to report in respect of matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit:

We have nothing to report in respect of the above responsibilities.

KPMG

Independent auditor's report to the members of Grafton Merchanting GB Limited
(continued)

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Tom McEvoy

Tom McEvoy (Senior Statutory Auditor) 12 October 2015
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

Grafton Merchanting GB Limited

Profit and loss account
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Turnover from continuing operations	2	**1,046,475**	984,054
Cost of sales		**(766,226)**	(717,829)
Gross profit		**280,249**	266,225
Distribution costs		**(40,343)**	(37,887)
Administrative expenses		**(210,277)**	(197,005)
Impairment of fixed assets		**-**	(2,795)
Operating profit from continuing operations	2	**29,629**	28,538
Interest payable and similar charges	7	**(5,780)**	(10,772)
Interest receivable and similar income	8	**560**	237
Profit on ordinary activities before taxation	3	**24,409**	18,003
Taxation on profit on ordinary activities	9	**(9,555)**	(4,994)
Profit for the financial year	20	**14,854**	13,009

The Company had no recognised gains or losses in the current and preceding financial years other than the results reported above.

There is no difference between the Company's results as reported and on an historical cost basis. Accordingly no note of historical cost profit and loss has been prepared.

Grafton Merchanting GB Limited

Balance sheet
at 31 December 2014

	Note	**2014**	**2014**	2013	2013
		£'000	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	*10*		**37,984**		36,542
Tangible assets	*11*		**216,386**		208,909
Investments	*12*		**104,925**		104,925
			359,295		350,376
Current assets					
Stocks	*13*	**111,686**		111,026	
Debtors (including £131.7m (*2013: £131.7m*) falling due in more than one year)	*14*	**384,493**		406,956	
Cash at bank and in hand		**60,168**		36,724	
		556,347		554,706	
Creditors: amounts falling due within one year	*15*	**(324,883)**		(330,452)	
Net current assets			**231,464**		224,254
Total assets less current liabilities			**590,759**		574,630
Creditors: amounts falling due after more than one year	*16*		**(448,528)**		(448,915)
Provisions for liabilities	*17*		**(3,138)**		(2,923)
Net assets			**139,093**		122,792
Capital and reserves					
Called up share capital	*19*		**110,000**		110,000
Capital reserve	*20*		**2,000**		2,000
Capital contribution reserve	*20*		**2,708**		1,227
Profit and loss account	*20*		**24,385**		9,565
Equity shareholders' funds	*21*		**139,093**		122,792

These financial statements were approved and authorised for issue by the board of directors on 12 October 2015 and were signed on its behalf by:

B. Van Der Waag
Director

Grafton Merchanting GB Limited

Notes

forming part of the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Going concern

Whilst the company does not currently draw on any of the group funding facilities, as noted in note 24, the Company acts as guarantor in respect of group borrowing facilities. The directors of the Company have discussed with Group management the funding position of the Group and consider it unlikely the guarantees given by the company will be invoked. Accordingly, the directors' are of the opinion that it remains appropriate for the company to prepare the financial statements on a going concern basis.

Group accounts

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Goodwill

Purchased goodwill in respect of acquisitions before 1 January 1998 was written off to reserves in the period of acquisition. Goodwill arising on acquisitions since 1 January 1998, being the excess of the cost of acquisition over the fair value of the net assets acquired, is included within fixed assets and amortised over its useful economic life which the directors consider to be 20 years.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50-100 years
Leasehold land and buildings	-	Lease term or up to 100 years
Plant and machinery	-	3-20 years
Fixtures and fittings	-	10 years
Plant hire equipment	-	2-8 years
Motor vehicles	-	3-8 years

Freehold land is not depreciated by the company

1 **Accounting policies** *(continued)*

Investments

Investments are stated at cost less any provisions for impairment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Gains or losses on translation are included in the profit and loss account for the year.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is capitalised in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life, or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value, and net of rebates, after deduction of provisions for slow moving or obsolete stock.

Turnover

Turnover is derived from the provision of goods and services to customers during the year. Turnover is derived from the one principal activity of the company, and wholly from within the UK.

Turnover represents the fair value of goods, excluding value added tax, delivered to or collected by third party customers in the year. Goods are deemed to have been delivered to customers when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits.

Supplier rebates

Rebates received from suppliers are recognised as they become receivable and are reflected within cost of sales.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard (FRS) 19 *'Deferred Tax'*.

Cash flow statement

Under FRS 1 *'Cash Flow Statements'* the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the cash flows of the company in its own published consolidated cash flow statement.

1 Accounting policies *(continued)*

Related party transactions

As the company is consolidated within Grafton Group plc the company has taken advantage of the exemption contained in FRS 8 *'Related Party Disclosures'* and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Grafton Group plc within which this company is included, can be obtained from Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland.

Acquisitions

Acquisitions are reported in accordance with FRS 7 *'Fair Values in Acquisition Accounting'*. The fair value of the assets and liabilities acquired are reported at their fair value at the date of acquisition. The difference between the sum of these fair values and the cost of acquisition is recognised as positive goodwill or negative goodwill.

Dividends payable

If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements.

Financial instruments

FRS 25 *'Financial Instruments: Presentation'* requires financial instruments to be presented in accordance with their substance. Preference shares are presented as a liability when in substance those shares are equivalent to a liability. Dividends arising on the preference shares are shown as finance charges in the profit and loss account.

Equity-settled share-based payment transactions

The Grafton Group share schemes allow employees to acquire shares in Grafton Group plc. They are all equity settled. The fair value of share entitlements granted is recognised as an employee expense in the profit and loss account with a corresponding increase in a capital contribution reserve. The fair value is determined by an external value using a binomial model. Share entitlements granted by the Group are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for the share entitlements shown in the profit and loss account is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods on a straight line basis over the vesting period. The cumulative charge to the profit and loss account is only reversed where entitlements do not vest because all non-market performance conditions have not been met or where an employee in receipt of share entitlements leaves the company before the end of the vesting period.

Grafton Merchanting GB Limited

Notes *(continued)*

1 **Accounting policies** *(continued)*

Retirement benefits

On 18 December 2006, the company's defined benefit pension scheme (The G A Day Pension Scheme) merged with that of Grafton Group (UK) plc and Jackson Building Centres Limited, both fellow subsidiaries of Grafton Group plc. Following that date, it is not possible to identify the company's share of the underlying assets and liabilities on a consistent and reasonable basis. As a result, the company has taken advantage of the multi employer exemption available under FRS 17 *'Retirement Benefits'* and from 19 December 2006 accounts for the scheme as if it were a defined contribution pension scheme.

Full details of the valuation of this scheme are disclosed in note 23.

The Company also operates a defined contribution pension scheme. The assets of the defined contribution pension scheme are held separately from those of the Company in independently administered funds. Amounts charged in respect of contributions to defined contribution schemes equate to the contributions payable in the period.

Intangible assets (Computer software)

Computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:

1. an asset can be separately identified;
2. it is probable that the asset created will generate future economic benefits;
3. the development cost of the asset can be measured reliably;
4. it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
5. the cost of the asset can be measured reliably.

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met. Computer software is amortised over its expected useful life, which ranges from 4 to 8 years, by charging equal instalments to the income statement from the date the assets are ready for use.

Grafton Merchanting GB Limited

Notes *(continued)*

2 Analysis of continuing operations

	Existing operations	Transfer of trade*	2014 Total continuing operations	2013 Total continuing operations
	£'000	**£'000**	**£'000**	£'000
Turnover	**1,038,634**	**7,841**	**1,046,475**	984,054
Operating profit	**28,936**	**693**	**29,629**	28,538

*From 1 November 2014, the trade of Direct Builders Merchants Limited was hived up into Grafton Merchanting GB Limited.

3 Profit on ordinary activities before taxation

	2014	2013
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration:		
Audit of these financial statements	**409**	313
Depreciation and other amounts written off tangible fixed assets:		
Owned	**15,575**	13,991
Profit on disposal of fixed assets	**(1,894)**	-
Goodwill amortisation	**4,315**	4,300
Operating leases for land and buildings	**14,944**	14,301

Grafton Merchanting GB Limited

Notes *(continued)*

4 Remuneration of directors

	2014	2013
Directors' emoluments:		
As directors	**876**	1,017
Contributions to defined contribution scheme	**2**	84
	878	1,101

The contributions to the defined contribution scheme relate to one director *(2013: four)*.
The remuneration of the highest paid director in 2014 was £617,675 *(2013: £516,509)*.
The number of directors who exercised share options was one *(2013: one)*.
The number of directors that were granted shares under a long term incentive scheme in respect of services supplied was four *(2013: three)*.
The payments in respect of excess retirement benefits of directors, loss of office benefit or amounts paid to third parties in respect of directors' services was nil *(2013: £117,898)*.

5 Staff numbers and costs

The average number of persons employed by the company (including directors), analysed by category, was as follows:

	2014	2013
Administration and sales	**3,759**	3,392
Distribution of building materials	**673**	657
	4,432	4,049

	2014 £'000	2013 £'000
Wages and salaries	**130,111**	107,808
Social security costs	**11,882**	9,734
Share based payments	**1,481**	3
Other pension costs	**2,620**	4,280
	146,094	121,825

There were no prepaid pension contributions at the end of the current or previous year. At 31 December 2014, a pension liability of £564,544 *(2013: £437,373)* has been included within accruals.

6 Share-based payments

Long Term Incentive Plan (LTIP)

A Long Term Incentive Plan (LTIP) was introduced in 2011. Awards over 869,027 Grafton Units were granted under the plan on 16 April 2014 *(2013:986,542)*.

A summary of the award granted on 16 April 2014 is set out below:

	Grafton Group LTIP	Grafton Group LTIP
Grant Date	**16 April 2014**	16 April 2013
Share price at date of award (2013 quoted in Euro)	**£6.20**	€4.96
Exercise price	**N/A**	N/A
Number of employees	**188**	149
Number of share awards	**869,027**	986,542
Vesting period	**3 years**	3 years
Expected volatility	**36.2%**	35.5%
Award life	**3 years**	3 years
Expected life	**3 years**	3 years
Risk free rate	**1.12%**	0.22%
Expected dividends expressed as dividend yield	**2.13%**	2.37%
Possibility of ceasing employment before vesting	**0%**	0%
Valuation model	**Binomial model**	Binominal model
Fair value of share award – Earnings per share ("EPS") component	**£5.82**	€4.62
Fair value of share award – Total shareholder return ("TSR") component	**£3.23**	€3.20

This expected volatility is based on historic volatility over the last 3 years. The expected life is equal to the vesting period. The risk free rate of return is the yield on bonds from the European Central Bank of a term consistent with the life of the award at the grant date.

A reconciliation of all share awards granted under the LTIP is as follows:

	2014 Number	2013 Number
Outstanding at 1 January	**3,325,842**	2,339,300
Granted	**869,027**	986,542
Expired	**(1,021,182)**	-
Exercised	**(137,818)**	-
Outstanding at 31 December	**3,035,869**	3,325,842

Share Schemes

Up to April 2009 key executives could acquire shares in the Group so as to provide an incentive to perform strongly over an extended period and to align their interests with those of shareholders. Under the terms of the 1999 Grafton Group Share Scheme, two types of share were available subject to the conditions set out below:

6 Share-based payments *(continued)*

(i) Basic shares which cannot be converted before the expiration of five years, unless the Remuneration Committee agrees to a shorter period which shall not be less than three years, and may be converted any time after that to the end of their contractual life provided the Group's earnings per share has grown at not less than the rate of growth in the Consumer Price Index plus 5 per cent compounded during that period. Basic shares granted after 8 May 2008 cannot be converted before the expiration of three years.

(ii) Second tier shares which cannot be converted before the expiration of five years and at any time thereafter up to the end of their contractual life, only if over a period of at least five years the growth in the Group's earnings per share would place it in the top 25 per cent of the companies listed on the Irish Stock Exchange Index over the same period and provided that such shares shall be acquired only if the Group's earnings per share growth over the relevant period is greater, by not less than 10 per cent on an annualised basis, than the increase in the Consumer Price Index over that period.

The share scheme has a ten year life for the award of entitlements and this period expired in 2009. The percentage of share capital which may be issued under the scheme and individual grant limits comply with Institutional Guidelines.

The number of Grafton Units issued during the year under the Group's Executive Share Schemes was nil *(2013: 426,300)* and the total consideration received amounted to nil *(2013: £1,944,000)*. Costs relating to the issues were nil *(2013: £25,000)*. Entitlements outstanding at 31 December 2014 amounted to £5,082,501 *(2013: 7,099,301)*. Grafton Units may be acquired, in accordance with the terms of the schemes, at prices ranging between €1.66 and €11.50 during the period to 2019.

A reconciliation of share entitlements under the Grafton Group Share Option Scheme and the 1999 Grafton Group Share Scheme is as follows:

	2014		2013	
	Number	**Weighted Average exercise price**	Number	Weighted Average exercise price
		€		€
Outstanding at 1 January	**7,099,301**	**6.57**	9,143,801	6.40
Forfeited#	**(1,057,300)**	**7.24**	(1,193,250)	6.10
Expired*	**(959,300)**	**6.20**	(424,950)	5.45
Exercised	**-**	**-**	(426,300)	5.45
Outstanding at 31 December	**5,082,701**	**6.50**	7,099,301	6.57

 # Share entitlements forfeited by employees who have left the Group and have no further entitlements under the scheme.

** Performance conditions not met.*

Grafton Merchanting GB Limited

Notes *(continued)*

6 Share-based payments *(continued)*

Share entitlements under both schemes are exercisable within six months upon a change of control of the Company. The weighted average remaining contractual life of the share entitlements is 2.7 years *(2013: 3.2 years).*

At 31 December 2014 none of the share entitlements were exercisable as the conditions for exercise were not fulfilled before the year-end.

UK SAYE Scheme

Options over 2,643,630 *(2013: 1,998,060)* Grafton Units were outstanding at 31 December 2014, pursuant to a new 2014 and existing 2012 three year saving contracts under the Grafton Group (UK) plc Savings Related Share Option Scheme at a price of £5.97 and €2.85 respectively *(2013: €2.85)* under 2012 SAYE Scheme. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being April 2018 for the 2014 SAYE scheme and March 2016 for the 2012 SAYE scheme. The number of Grafton Units issued during the year under the Group's 2012 SAYE scheme to good leavers was 19,213 *(2013: 8,694)* and the total consideration received amounted to £44,000 *(2013: £21,000).* Options forfeited in the year were 146,782 *(2013: 130,046).*

A summary of the new 2014 SAYE Grant on 16 October 2014 and the previous 2012 SAYE grant on 25 September 2012 is set out below:

	UK SAYE Scheme 2014	UK SAYE Scheme 2012
Grant Date	**16 October 2014**	25 September 2012
Share price at date of grant	**£6.63**	€3.17
Exercise price	**£5.97**	€2.85
Number of employees	**1,132**	1,161
Share under option	**811,565**	2,154,235
Vesting period	**3 years**	3 years
Expected volatility	**32.9%**	38.7%
Option life	**3.5 years**	3.5 years
Expected life	**3.5 years**	3.5 years
Risk free rate	**1.11%**	0.32%
Expected dividends expressed as dividend yield	**1.99%**	2.62%
Possibility of ceasing employment before vesting	**5%**	5%
Valuation model	**Binomial model**	Binomial model
Fair value of option	**£1.25**	€0.97

The expected volatility is based on historic volatility over the last 3 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on bonds from the European Central Bank of a term consistent with the life of the option.

6 Share-based payments *(continued)*

A reconciliation of options granted under the 2012 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2014		2013	
	Number	**Option Price €**	Number	Option Price €
Outstanding at 1 January	**1,998,060**	**2.85**	2,136,800	2.85
Forfeited	**(141,147)**	**2.85**	(130,046)	2.85
Exercised	**(19,213)**	**2.85**	(8,694)	2.85
Outstanding at 31 December	**1,837,700**		1,998,060	

A reconciliation of options granted under the 2014 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2014		2013	
	Number	**Option Price £**	Number	Option Price £
Outstanding at 1 January	**-**	**-**	-	-
Granted	**811,565**	**5.97**	-	-
Forfeited	**(5,635)**	**5.97**	-	-
Outstanding at 31 December	**805,930**		-	

At 31 December 2014 and 2013 none of the UK SAYE shares were exercisable.

7 Interest payable and similar charges

	2014	2013
	£'000	£'000
Loan interest payable	**5,780**	10,772

Of the above amount £5,780,456 *(2013: £10,772,000)* was payable to group undertakings.

8 Interest receivable and similar income

	2014	2013
	£'000	£'000
Bank interest payable	**560**	237

Notes *(continued)*

9 Taxation

(i) Analysis of charge/ (credit) for the year

	Year ended 31 December 2014		Year ended 31 December 2013	
	£'000	**£'000**	£'000	£'000
Current tax				
Current year charge	**5,919**		3,363	
Adjustment in respect of prior periods	**2,690**		(704)	
Total current taxation		**8,609**		2,659
Deferred tax				
Origination and reversal of timing differences	**946**		1,171	
Adjustment in respect of prior periods	**-**		18	
Effect of tax rate charge on opening balance	**-**		1,146	
Total deferred tax		**946**		2,335
Tax charge on profit on ordinary activities		**9,555**		4,994

(ii) Factors affecting the tax charge for the year

The tax assessed in the year is different from the standard rate of corporation tax in the UK of 21.5% *(2013: 23.25%)*. The differences are explained below:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit on ordinary activities before tax	**24,409**	18,003
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (*2013: 23.25%*)	**5,247**	4,186
Effects of:		
Expenses not deductible for tax purposes	**350**	438
Share scheme deductions	**318**	142
Differences between capital allowances and depreciation charged	**(987)**	(1,171)
Depreciation on non-qualifying assets	**775**	1,103
Goodwill amortisation/written off	**928**	1,001
Group relief not paid for	**1,917**	(4,430)
Other short term timing differences	**903**	1,634
Change in UK tax rate	**(74)**	(190)
Adjustments to current tax charge in respect of prior periods	**(768)**	(704)
Property impairment	**-**	650
Current tax charge for the year	**8,609**	2,659

Notes *(continued)*

10 Intangible fixed assets

	Goodwill arising on transfer of trade £'000	Purchased goodwill £'000	Computer software £'000	Total Intangibles £'000
Cost				
At 1 January 2014	70,157	12,571	-	82,728
Acquired during the year	-	-	5,881	5,881
At 31 December 2014	70,157	12,571	5,881	88,609
Amortisation				
At 1 January 2014	41,072	5,114	-	46,186
Charged in year	3,526	789	124	4,439
At 31 December 2014	44,598	5,903	124	50,625
Net book value				
At 31 December 2014	**25,559**	**6,668**	**5,757**	**37,984**
At 31 December 2013	29,085	7,457	-	36,542

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill is however, generally amortised over 20 years as the directors consider that this period fairly reflects the useful economic life of the goodwill acquired.

The intangible asset of £5.8 million at 31 December 2014 reflects the cost of the Group's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment.

Grafton Merchanting GB Limited

Notes *(continued)*

11 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Plant, machinery fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2014	194,865	22,649	145,643	363,157
Reclassification	(12,482)	-	12,482	-
Additions	1,290	-	23,220	24,510
Disposals	(1,520)	-	(4,699)	(6,219)
At 31 December 2014	182,153	22,649	176,646	381,448
Depreciation				
At 1 January 2014	32,824	15,044	106,380	154,248
Reclassification	(10,163)	-	10,163	-
Charge for the year	2,724	680	12,171	15,575
Disposals	(218)	-	(4,543)	(4,761)
At 31 December 2014	25,167	15,724	124,171	165,062
Net book value				
At 31 December 2014	**156,986**	**6,925**	**52,475**	**216,386**
At 31 December 2013	162,039	7,605	39,263	208,909

Land and buildings contains £65,656,636 *(2013: £68,303,825)* attributable to land which is not depreciated.

Grafton Merchanting GB Limited

Notes *(continued)*

12 Fixed asset investments

	2014 £'000	2013 £'000
Shares acquired in Jackson Building Centres Limited	**104,877**	104,877
Shares acquired in other group companies	**11**	11
Trade investments	**37**	37
	104,925	104,925

The above investment in Jackson Building Centres Limited (company number 413760, incorporated in the UK) represents 100% of the class A shares of the company. As at 31 December 2014, Jackson Building Centres Limited had net assets of £271,445,000 and profit before taxation of £31,000.

13 Stocks

	2014 £'000	2013 £'000
Finished goods and goods for resale	**111,686**	111,026

14 Debtors

	2014 £'000	2013 £'000
Trade debtors	**126,083**	126,072
Prepayments and accrued income	**50,469**	72,548
Amounts owed by group undertakings	**70,688**	70,137
Net investment in head lease	**16**	16
Deferred taxation (note 18)	**5,533**	6,479
	252,789	275,252
Due after more than one year		
Amounts owed by group undertakings	**131,704**	131,704
	384,493	406,956

15 Creditors: amounts falling due within one year

	2014	2013
	£'000	£'000
Trade creditors	**165,295**	174,400
Amounts owed to other group undertakings	**122,522**	129,463
Social security and other taxes	**8,583**	5,128
Accruals and deferred income	**16,176**	17,947
Corporation tax	**12,307**	3,514
	324,883	330,452

16 Creditors: amounts falling due after more than one year

	2014	2013
	£'000	£'000
Amounts owed to other group undertakings	**446,198**	446,585
Preference shares (note 19)	**2,330**	2,330
	448,528	448,915

17 Provisions for liabilities

	Dilapidations	**Onerous leases**	**Total**
	£'000	**£'000**	**£'000**
At beginning of year	2,426	497	2,923
Charge to the profit and loss for the year	102	113	215
At end of year	**2,528**	**610**	**3,138**

Provisions have been recognised for dilapidations and onerous leases where it is expected that the Company may have to transfer economic benefits in settlement of obligations existing at the balance sheet date. The amount recognised is the best estimate of the expenditure required to settle the obligation and has been discounted. The amounts are classified as provisions due to the uncertainty regarding their timing and ultimate amount that may be required.

18 Deferred taxation

The amounts provided and not provided for deferred taxation are set out below:

	2014		2013	
	Provided	**Unprovided**	Provided	Unprovided
	£'000	**£'000**	£'000	£'000
Difference between accumulated depreciation and capital allowances	**5,533**	-	6,479	-
Other timing differences	-	-	-	-
	5,533	-	6,479	-

The movement in deferred taxation in the year is as follows:

	Deferred tax
	£'000
At beginning of the year	6,479
Charge to the profit and loss account for the year (note 9)	(946)
At end of the year (note 14)	**5,533**

Grafton Merchanting GB Limited

Notes *(continued)*

19 Called up share capital

Allotted, called up and fully paid	**2014**	2013
	£'000	£'000
Ordinary Shares of £1 each	**110,000**	110,000
1,778,257 "A" preference shares	**1,778**	1,778
104,125 "B" preference shares	**104**	104
275,278 "C" preference shares	**275**	275
95,507 "D" preference shares	**96**	96
37,111 "E" preference shares	**37**	37
40,223 "F" preference shares	**40**	40
Total allotted, called up and fully paid share capital	**112,330**	112,330

	2014	2013
	£'000	£'000
Equity shares		
Ordinary Shares of £1 each	**110,000**	110,000
	110,000	110,000

	2014	2013
	£'000	£'000
Shares classified as financial liabilities		
"A" preference shares of £1 each	**1,778**	1,778
"B" preference shares of £1 each	**104**	104
"C" preference shares of £1 each	**275**	275
"D" preference shares of £1 each	**96**	96
"E" preference shares of £1 each	**37**	37
"F" preference shares of £1 each	**40**	40
	2,330	2,330

Grafton Merchanting GB Limited

Notes *(continued)*

19 Called up share capital *(continued)*

The preference shares were issued at par and were fully paid up. The holders of the preference shares are entitled to a fixed cumulative preferential dividend at a floating rate which is calculated as 70% of LIBOR plus 0.65%. On winding up, these rank first and will be entitled to the capital and premium paid on subscription, together with any arrears of the fixed dividend.

The preference shares do not entitle the holder to attend or vote at any general meetings, unless the dividends are six months or more in arrears, in which case the holders will be entitled to vote. These terms mean that, in accordance with FRS 25, the preference shares are recognised as a liability of the company and the dividends as a component of the interest payable.

20 Reserves

	Capital reserve £'000	**Capital contribution reserve £'000**	**Profit and loss account £'000**
At 1 January 2014	2,000	1,227	9,565
Share based payments charged to the profit and loss	-	1,481	-
Profit for the financial year	-	-	14,854
Dividends paid	-	-	(34)
At 31 December 2014	**2,000**	**2,708**	**24,385**

21 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Total recognised gains and losses for the financial year	**14,854**	13,009
Capital contribution: share-based payments	**1,481**	693
Dividends paid	**(34)**	(25,025)
Equity capital introduced	-	100,000
Net increase/(decrease) in shareholders' funds	**16,301**	88,677
Opening shareholders' funds	**122,792**	34,115
Closing shareholders' funds	**139,093**	122,792

22 Commitments

(i) There were no capital commitments at the end of the year for which a provision had not been made.

(ii) Total lease commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Amounts due:				
Within 1 year	**14,944**	14,302	3,631	3,804
Between 2 and 5 years	**43,672**	45,583	4,667	4340
Over five years	**106,595**	106,340	11	11
	165,211	166,225	8,309	8,155

23 Pension scheme

Grafton Group (UK) plc pension scheme

Grafton Merchanting GB Limited and its subsidiaries were formally members of the Grafton Group (UK) plc pension scheme, which is a final salary scheme covering a number of the UK subsidiaries of Grafton Group plc. On 18 December 2006, the G A Day Limited pension scheme was merged with the Grafton Group (UK) plc pension scheme. A single scheme was set up at this time under the ultimate parent undertaking Grafton Group plc.

Following the pension scheme merger, consistent with the past position on the Grafton Group (UK) plc pension scheme, Grafton Merchanting GB Limited is unable to identify its share of the G A Day Limited pension scheme on a consistent and reasonable basis. Therefore, as permitted by FRS 17 *'Retirement Benefits'*, the company has availed itself of the multi-employer exemption in the current and prior year and accounts for the scheme as if it were a defined contribution scheme.

Further details in respect of the Grafton Group (UK) plc pension scheme can be found in the annual financial statements of Grafton Group (UK) plc.

Externally managed funds

The company also contributes to externally managed funds (money purchase schemes) for the benefit of certain employees.

The amount charged to the profit and loss account in respect of contributions to these defined contribution schemes was £2,050,076 *(2013: £2,434,000).*

Profit and loss charge	**2014**	2013
	£000	£000
Grafton scheme (merged)	**570**	1,846
Defined contribution scheme	**2,050**	2,434
	2,620	4,280

24 Contingent liabilities

Grafton Merchanting GB Limited, along with other UK subsidiaries of Grafton Group plc, acts as guarantor for the group bank borrowings which at the balance sheet date amounted to £256.3 million *(2013: £235.1 million).* Undrawn committed facilities at the balance sheet date amounted to £207.5 million.

In addition Grafton Merchanting GB Limited along with other UK subsidiaries of Grafton Group plc, acts as guarantor for other group bank overdraft facilities (£43.9 million) which were undrawn at the year end.

Grafton Merchanting GB Limited

Notes *(continued)*

25 Ultimate parent company

The company is a subsidiary undertaking of Grafton Group (UK) plc incorporated in the United Kingdom.

The ultimate holding company is Grafton Group plc incorporated in the Republic of Ireland. The consolidated accounts of this company are available to the public and may be obtained from Grafton Group plc, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.