



**Grafton Group plc**  
**Half Year Report**  
**For The Six Months Ended 30 June 2018**

# Grafton Group plc

## Half Year Report for the Six Months Ended 30 June 2018

### Strong set of Results with all Segments Reporting Growth in Profitability

£m*	H1 2018	H1 2017	Change
Revenue**	<b>1,448</b>	1,333	+9%
<b>Adjusted***</b>			
Operating profit before property profit	<b>88.0</b>	77.0	+14%
Operating profit	<b>92.5</b>	79.1	+17%
Profit before tax	<b>90.0</b>	75.4	+19%
Earnings per share – basic	<b>30.8p</b>	25.9p	+19%
<b>Statutory results</b>			
Operating profit	<b>90.1</b>	77.7	+16%
Profit before tax	<b>87.6</b>	74.1	+18%
Earnings per share – basic	<b>30.0p</b>	25.5p	+18%
Dividend	<b>6.00p</b>	5.25p	+14%
Net debt	<b>101.7</b>	80.2	+\$21.5m
Adjusted operating profit margin pre property profit	<b>6.1%</b>	5.8%	+30bps
Adjusted operating profit margin	<b>6.4%</b>	5.9%	+50bps
Return on capital employed	<b>14.0%</b>	13.2%	+80bps

\*Additional information in relation to Alternative Performance Measures (APMs) is set out on pages 35 to 38.

\*\*2017 H1 revenue has been updated to reflect a change in the presentation of rebates payable to customers and the segmental presentation has also been updated. There was no impact on operating profit as a result of this change.

\*\*\*The term “Adjusted” means before amortisation of intangible assets arising on acquisitions in both periods.

### Highlights

- Revenue up 9% to £1.45 billion – 8% increase in constant currency
- Further positive progress towards medium term financial objectives with the operating margin increasing by 50 bps to 6.4% and ROCE by 80bps to 14.0%
- Strong organic growth in Irish and Netherlands Merchandising
- Excellent performance by Woodie’s Retailing in Ireland and Mortar Manufacturing in the UK
- Strong cash flow of £109.7 million from operations
- Continued investment to support future profit growth with £120.1 million spend on Leyland SDM acquisition and capital projects
- 14% increase in dividend in line with progressive dividend policy

**Gavin Slark, Chief Executive Officer commented:**

*“We are pleased to report a strong first half performance across the Group with all segments reporting double digit growth in profitability. Excellent organic growth in key markets has been complemented by the positive impact of self-help measures and development activity. The geographic diversity of our operations continues to be an important strength of the Group. We made further progress towards our medium term financial objectives and invested £120 million on the Leyland SDM acquisition and capital projects to support future growth in profitability.”*

**Webcast Details**

A results presentation for analysts and fund managers will be hosted by Gavin Slark and David Arnold today 22 August 2018 at 9.30 am (GMT) at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. The results presentation can be viewed/downloaded at [www.graftonplc.com](http://www.graftonplc.com) and a live webcast of the results presentation can be accessed on <http://www.graftonplc.com/webcasthy18>. A recording of this webcast will be available for replay later today on the Group’s website.

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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 as a result of new information, future developments or otherwise.

# Half Year Report

## For the Six Months Ended 30 June 2018

### Group Results

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Grafton is pleased to report further progress in these half year results with all segments contributing to strong growth in revenue, profitability and earnings per share. Organic growth in the established businesses and a good contribution from the Leyland SDM acquisition were the key drivers of the improved performance. The Group also benefitted from its exposure to multiple geographic markets reporting double digit growth in UK operating profit and growth of over 20 per cent in both Ireland and the Netherlands.

The **UK** merchanting business strengthened its market position through revenue growth in new Selco branches and the acquisition of Leyland SDM in February. Despite relatively flat underlying activity in the market, the overall business increased profitability from realising self-help benefits complemented by a good contribution from the Leyland SDM acquisition.

The market leading merchanting business in **Ireland** delivered a strong performance in a favourable market that saw house building increase from a low base and non-residential construction gain momentum.

Strong growth in profitability in the **Netherlands** specialist merchanting business resulted from good like-for-like revenue growth, supported by positive market conditions, and profit initiatives in the established Isero and Gunters en Meuser businesses.

The **Belgian** merchanting business, which contributed three per cent of Group revenue, faced reduced demand in its market and operating profit was lower.

The **Woodie's** DIY, Home and Garden retailing business in Ireland celebrated its 30<sup>th</sup> anniversary recording exceptional growth in revenue and profitability with a particularly strong performance from seasonal products. The operating profit margin increased by 190 basis points to 7.5 per cent.

**CPI EuroMix**, the market leading mortar business in the UK, reported excellent growth in profitability and the manufacturing segments operating profit margin increased by 220 basis points to 23.5 per cent. The success of the business in recent years has made it a significant contributor to Group profitability.

Property profit of £4.5 million was slightly above our expectations and any further disposals in the second half are unlikely to contribute materially to profitability.

The Group continued to be very cash generative with **cash flow** from operations of £109.7 million in the period. A cash outflow of £120.1 million on the Leyland SDM acquisition and capital projects contributed to a modest increase in net debt to £101.7 million.

### Dividend

The interim dividend has been increased by 14.3 per cent to 6.00p from 5.25p. This increase is in line with growth in earnings per share and the Board's progressive dividend policy which is based on increasing dividends as earnings grow.

### Outlook

Overall conditions in the UK merchanting market are expected to remain relatively flat over the remainder of the year with competitive pressure on pricing continuing. Progress in the Group's merchanting

business will continue to be dependent on internal initiatives and realising benefits from the Selco branch opening programme and a profit contribution from the Leyland SDM acquisition. House building is expected to remain strong supported by good underlying demand and the availability of mortgage finance.

The outlook for Ireland remains positive with relatively strong growth forecast for the year supported by increased employment and earnings. The merchanting and DIY markets should continue to benefit from growth in consumer spending and increased house building, RMI and non-residential construction activity.

The prospects for the Netherlands economy and merchanting market remain favourable with growth in jobs and disposable income supportive of growth in the new and secondary housing markets.

The Belgian merchanting business will continue to focus on improving performance from internal initiatives.

Total revenue growth in the period from 1 July 2018 to 31 July 2018 was 12.0 per cent with the benefit of an additional trading day. Average daily like-for-like revenue increased by 3.3 per cent in the overall Group, 2.6 per cent in the UK merchanting business, 8.1 per cent in the Irish merchanting business, 5.3 per cent in the Dutch merchanting business and 18.5 per cent in the manufacturing business. Like-for-like revenue was behind by 1.7 per cent in the Belgium merchanting business and 3.2 per cent in the retailing business in Ireland.

The outcome for the half year leaves the Group well placed to meet our expectations for the full year.

## Operating Review

### Merchanting Segment (90% of Group Revenue)

	H1 2018 £'m	H1 2017 £'m	Actual Change
Revenue	1,310.1	1,215.9	+7.7%
Adjusted operating profit before property profit	78.9	72.5	+8.8%
Adjusted operating profit margin before property profit	6.0%	6.0%	-
Adjusted operating profit	83.4	74.6	+11.8%
Adjusted operating profit margin	6.4%	6.1%	+30bps

The merchanting businesses in the UK, Ireland, the Netherlands and Belgium accounted for 90 per cent of Group revenue (H1 2017: 91 per cent). Revenue growth of 7.7 per cent incorporates like-for-like growth of 2.6 per cent that reflected strong growth in the merchanting businesses in Ireland and the Netherlands, modest growth in the UK and a small decline in a weaker Belgian market.

### UK Merchanting

	H1 2018 £'m	H1 2017 £'m	Actual Change
Revenue	976.0	914.3	+6.7%
Adjusted operating profit before property profit	53.7	50.1	+7.1%
Adjusted operating profit margin before property profit	5.5%	5.5%	-
Adjusted operating profit	58.2	51.1	+13.8%
Adjusted operating profit margin	6.0%	5.6%	+40bps

The UK economy had a difficult start to the year before recovering in the second quarter but continuing to trend below its long term growth rate. The weaker economy had a moderating influence on activity in the housing market and on house price inflation particularly in the London market. Housing transactions, a driver of activity in the housing RMI market, were flat in recent years and showed a mid-single-digit decline in the first half.

Like-for-like revenue growth of 1.9 per cent (£17.1 million) was impacted by building materials price inflation estimated at 3.0 per cent and a decline in volumes by 1.1 per cent. Average daily like-for-like revenue growth was 1.8 per cent. New branches generated revenue growth of 3.3 per cent (£30.6 million), the Leyland SDM acquisition contributed growth of 2.0 per cent (£18.4 million) and branch consolidations reduced revenue by 0.5 per cent (£4.4 million) resulting in overall revenue growth of 6.7 per cent.

Strong revenue and market share growth in Selco and the Leyland SDM acquisition improved the mix of higher margin revenue and contributed to an overall increase in the gross margin by 20 basis points in line with the Group's strategy of investing in higher margin businesses.

The UK merchanting business delivered a good performance against the backdrop of a weaker economy and housing RMI market increasing operating profit by 7.1 per cent, including a contribution from the Leyland SDM acquisition, and maintained the adjusted operating profit margin before property profit at 5.5 per cent.

**Selco Builders Warehouse**, the retail style merchanting model for trade and business customers, reported good double digit revenue growth maintaining Selco's position as the UK's fastest growing general builders merchant. Growth was driven by the opening of new branches and modest growth in like-for-like revenue. The growth in like-for-like revenue was influenced by a softening of demand in the market

generally and the transfer of sales from a number of long established branches, that were operating close to capacity, to a number of branches that were opened over the past year in locations where the trading areas overlapped. As a consequence of the revenue transfer and the high number of branch openings in recent years, Selco's operating profit was marginally down on the prior year

Selco's growth strategy remained firmly on track with the opening of six branches in the half year. The opening of the seventh branch in Chelmsford in July completed the branch opening programme scheduled for this year. The rollout of these branches increased the estate to 66 including 30 branches that were opened since January 2015. The branch opening programme has sharply increased the scale of the business and leaves a significant revenue growth opportunity over the coming years as these new branches mature. Plans were well advanced during the half year to relocate the large branch in Cricklewood to a nearby property before the year-end. We currently anticipate opening approximately four new Selco branches in 2019, with the more modest pace of expansion providing an opportunity to trial new formats and further strengthen the customer proposition.

**Leyland SDM**, London's largest independent specialist decorators' merchant that operates from 21 convenience led stores located in prominent locations in the city, traded in line with pre-acquisition expectations since it was acquired in February 2018.

**Buildbase** trading was mixed with a good start to the year followed by weaker trading in March and April due to adverse weather conditions and a recovery in May and June that left the business with marginally positive growth in like-for-like revenue for the half year. Volume weakness contributed to pricing pressure in a very competitive market that was partly offset by procurement gains and a wide range of other initiatives. Management was focused on delivering high service levels to customers, maintaining pricing discipline and controlling costs. With lower volumes, operating profit was slightly below the prior year level.

The parallel pilot testing phase of the new Buildbase trading and back office system was successfully completed and confirmed that the functionality of the system was robust. End-to-end testing recently commenced and rollout to the branches is expected to commence at the end of the year.

**Plumbbase** delivered a significant improvement in operating profit from a low base building on the firm progress made during 2017. Operating leverage from growth in like-for-like revenue, procurement gains through working closely with key suppliers in a competitive market and cost savings from simplifying business processes and structures contributed to the improved performance. The bathroom distribution business increased revenue and continued to generate good levels of profitability and returns.

**Buildbase Civils**, a distributor of heavyside building materials, made solid progress in a competitive market increasing operating profit through revenue growth, pricing discipline and cost control. The strongest gains were made from supporting groundworks and civils sub-contractors operating in the new housing market. Market coverage and service levels were improved with the opening of a new branch in Leeds. The branches in Scotland, that trade under the PDM brand, reported good profit growth from focusing on improving the mix of business in a competitive environment and on opportunities in the new housing market.

**MacBlair**, the Northern Ireland merchanting business, increased operating profit and the operating margin, making good gains and strengthening its position in the house building market and in the tourism and education segments of the commercial new build market where there was a good level of activity. A strong focus on costs also contributed to the favourable outcome.

**TG Lynes**, increased the volume of pipes and fittings distributed to its heating, plumbing and mechanical services contractor customer base and reported good growth in revenue and operating profit. Increased demand in its core market in Greater London was supported by a range of commercial and domestic new build projects and refurbishment of public sector buildings in the health and education sectors. Capacity was expanded in the business' single site facility in Enfield.

## Irish Merchanting

	H1 2018 £'m	H1 2017 £'m	Actual Change	Constant Currency Change
Revenue	212.1	192.8	+10.0%	+7.6%
Operating profit before property profit	17.1	15.4	+10.7%	+8.7%
Operating profit margin before property profit	8.1%	8.0%	+10bps	
Operating profit	17.1	16.5	+3.6%	+1.2%
Operating profit margin	8.1%	8.6%	(50bps)	

The Irish Merchanting business maintained good revenue and operating profit growth momentum and produced a very solid performance for the half year. Overall revenue growth of 7.6 per cent in constant currency was underpinned by like-for-like growth of 6.3 per cent in an attractive market where our strong brands have an established leadership position.

Growth in the operating profit margin before property profit reflected a change in the mix of business with an increase in the volume of revenue delivered to customers, as anticipated at this relatively early stage in the new build construction cycle, and reinvestment in the business through the creation of 60 new full time positions to support ongoing growth and to take advantage of product development opportunities.

The three branches that were opened last year in Dublin to provide convenient collection points for customers in a growth market made excellent progress. Three branches were upgraded to a new format with improved ranging and merchandising and a further three branches will be upgraded in the second half as part of a multi-year programme to capitalise on trading opportunities and to protect and enhance the market position of the business in the long term.

The rate of growth in house building accelerated in the half year from a very low base with completions now estimated at 14,436 units in 2017 and just 53,600 units in the seven years to the end of 2017, both of which are lower than originally estimated. Population growth has widened the gap between house building and housing demand, despite the recent increase in supply, leading to increased revisions to medium term demand for housing to 40,000 units per annum.

Growth in house building was a significant contributor to revenue growth in the half year particularly for building materials used in the early stages of construction including site services, groundworks and foundations. There was also good demand in non-residential markets with significant activity coming from infrastructure projects.

## Netherlands Merchanting

	H1 2018 £'m	H1 2017 £'m	Actual Change	Constant Currency Change
Revenue	76.8	63.3	+21.4%	+18.8%
Adjusted operating profit	8.1	6.6	+23.0%	+20.5%
Adjusted operating profit margin	10.5%	10.4%	10bps	

The Netherlands businesses performed strongly, increasing constant currency revenue by 18.8 per cent and extending its leadership position in the tools, ironmongery and fixings segment of the merchanting market. Revenue growth of 7.1 per cent in the like-for-like business was supported by good market conditions and a favourable economy. Average daily like-for-like revenue growth was 7.9 per cent. The strongest growth segment of the market was national key account customers engaged in new housing, commercial construction and renovation projects who require complex logistics solutions.



Growth in constant currency operating profit of 20.5 per cent was primarily driven by volume growth and procurement gains in the established Isero and Gunters en Meuser businesses. Integration of the Amsterdam based four branch Scholte & de Vries - Estoppey business acquired in November 2017 is underway and will be completed in the second half enabling it to support its major customers through the wider Isero and Gunters en Meuser branch networks.

A new branch was opened in February in Dordrecht to extend geographic coverage of the Greater Rotterdam Region.

Freke Inbraakbeveiliging, a single branch ironmongery and access control business, was acquired on 1 June 2018 and Isero continues to consider growth opportunities to expand its geographic coverage in the Netherlands Market.

### Belgium Merchanting

	H1 2018 £'m	H1 2017 £'m	Actual Change	Constant Currency Change
Revenue	45.2	45.5	(0.8%)	(2.9%)
Operating profit	0.1	0.4	(81.2%)	(79.9%)
Operating profit margin	0.2%	0.9%	(70bps)	

After an encouraging start to the year, the Belgium merchanting business experienced weak demand in the house building sector of the market. The branch in Central Brussels was relocated in February to a new purpose built facility on an adjoining site. The new branch supplies new and expanded product ranges and also benefits from improved merchandising and site logistics.

### Retail Segment (7% of Group Revenue)

	H1 2018 £'m	H1 2017 £'m	Actual Change	Constant Currency Change
Revenue	97.8	84.4	+15.8%	+13.4%
Operating profit	7.3	4.7	+55.0%	+52.8%
Operating profit margin	7.5%	5.6%	+190bps	

Woodie's very strong performance was driven by good fundamentals in the DIY, Home and Garden market and the benefits of investment in the business over recent years.

Like-for-like revenue growth of 13.4 per cent was broadly divided between an increase in the number of customer transactions and an increase in average transaction values. The business continued to work with suppliers to improve its product ranges and to deliver more choice and better value for its customers. Seasonal ranges including garden furniture, barbecues, gardening equipment, plants and exterior decorative products were particularly strong.

Woodie's marked the 30<sup>th</sup> anniversary of the opening of its first branch with a major marketing campaign and the launch of a new brand positioning under the "We're all Homemakers" banner that reflects the universal appeal that differentiates Woodie's in the Irish retail market.

Four stores were upgraded in the first half and a further three upgrades scheduled for the second half will take the number completed by the year end to 27 representing 80 per cent of revenue. The results to date of the upgrade programme are very encouraging with increased revenue relative to comparable stores, improved merchandising and a more positive customer experience supported by the deployment of more colleagues in store areas where customers require advice and assistance.

The increase in the operating profit margin by 190 basis points follows an increase of 140 basis points in the same period last year and was driven by maintaining the gross margin on significantly higher revenue and tight control of overheads while investing in people to support growth in customer numbers. On-line revenue more than doubled to a level that provides a solid foundation to build long term growth.

## Manufacturing Segment (3% of Group Revenue)

	H1 2018 £'m	H1 2017 £'m	Actual Change	Constant Currency Change
Revenue	39.9	32.9	+21.1%	+21.0%
Operating profit	9.4	7.0	+33.7%	+33.6%
Operating profit margin	23.5%	21.3%	+220bps	

CPI EuroMix enhanced its position in the dry mortar market in Britain where it trades almost nationally from ten plants and leads the industry with its high quality product and customer service proposition.

The business traded strongly, reporting record volumes and operating profit in the half year. An incremental improvement in the operating margin by 220 basis points reflected volume growth and the positive impact of operational improvements implemented across the business in recent years. Market conditions were favourable supported by strong underlying demand for new homes in a stable market that benefitted from low interest rates and good mortgage availability and the Government's Help to Buy scheme. These results are the outcome of a flexible operating model that has seen a record number of silos placed on customer sites and increased distribution capacity to support volume growth.

## Financial Review

The Group achieved a strong set of results for the half year producing mid double-digit growth in adjusted operating profit and profit before taxation and increased the interim dividend by 14.3 per cent, consistent with the Group's progressive dividend policy. Cash generation was strong with cash flow from operations of £109.7 million contributing to funding a cash outflow of £120.1 million on the Leyland SDM acquisition and capital expenditure.

### Revenue

Group revenue increased by 8.6 per cent to £1.4 billion (2017: £1.3 billion) and by 7.9 per cent in constant currency. Volume and price growth of 3.8 per cent in the like-for-like business increased revenue by £50.5 million. Acquisitions and new branches contributed revenue of £59.8 million which was partially offset by a revenue decline of £4.5 million from branch consolidations. A favourable currency translation gain, due to the strengthening of the euro, increased sterling revenue by £8.6 million.

### Adjusted Operating Profit

Adjusted operating profit of £92.5 million (2017: £79.1 million) increased by 17.0 per cent due to strong growth in the like-for-like business and a contribution from the Leyland SDM acquisition. Operating profit before property profit increased by 14.3 per cent to £88.0 million (2017: £77.0 million).

The adjusted operating profit margin increased by 50 basis points to 6.4 per cent and by 30 basis points to 6.1 per cent excluding property profit. The improvement was due to a stable or positive operating margin outcome in the merchanting businesses in the UK, Ireland and the Netherlands and strong operating margin progression in the retailing and manufacturing businesses.

## Property

A profit of £4.5 million was realised on the disposal of two properties in the UK and the proceeds of £5.9 million were deployed within the business. Property profit for the full year is not expected to be materially different from the first half result.

## Net Finance Income and Expense

The net finance expense declined by £1.1 million to £2.5 million (2017: £3.6 million). Net bank interest payable declined to £2.1 million (2017: £2.4 million) due to a reduction in gross debt and a higher interest rate receivable on sterling cash balances following the interest rate increase in November 2017. There was a net foreign exchange translation gain of £0.1 million on the translation of Euro and US dollar denominated cash and overdrafts which compares to a translation loss of £0.6 million in the same period last year and the net finance cost of pension scheme obligations fell by £0.1 million.

## Taxation

The income tax expense of £16.2 million (2017: £13.7 million) is equivalent to an effective tax rate of 18.5 per cent (2017: 18.5 per cent) and is based on the forecast rate for the year. This is a blended rate of corporation tax on profits in the various jurisdictions where the Group operates. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax where the highest proportion of Group profits are earned. The UK rate is currently 19 per cent and a two percentage point reduction to 17 per cent will take effect on 1 April 2020.

## Capital Expenditure and Investment in Intangible Assets

Gross capital expenditure was £36.7 million (2017: £34.8 million) and there was also expenditure of £3.6 million (2017: £3.1 million) on intangible assets. Proceeds of £6.2 million (2017: £4.7 million) were received on disposal of fixed assets and the net investment on capital expenditure and intangible assets was £34.1 million (2017: £33.2 million).

Development expenditure of £22.3 million (2017: £22.0 million) was incurred on six new Selco branches, relocation of the Selco Cricklewood branch, relocating the Brussels branch, upgrading Woodie's stores and upgrading branches and other projects across the Group.

Asset replacement expenditure of £14.4 million (2017: £12.8 million) compares to the depreciation charge for the period of £20.5 million and related principally to replacement of the distribution fleet that supports delivered revenue, replacement of equipment, plant and tools that are hired to customers and other assets required to operate the Group's branch network.

An investment of £3.6 million (2017: £3.1 million) was made on the new IT platform in Buildbase and on other software development projects across the Group.

## Pensions

The IAS 19 deficit on defined benefit pension schemes was £15.3 million at 30 June 2018, a reduction of £8.2 million from £23.5 million at 31 December 2017. The positive movement was due to a reduction in liabilities related to changes in financial assumptions, principally an increase in the rates used to discount liabilities by 20 basis points in the UK, and an experience gain related to the actual experience of the UK scheme over the past three years being more favourable than the original estimates assumed for the period.

## Net Debt

Net debt increased by £38.8 million to £101.7 million at 30 June 2018 (31 December 2017: £62.9 million) following a cash outflow during the period of £79.7 million on acquisitions.

The Group remains in a very strong financial position with EBITDA interest cover of 54.9 times (Year ended 31 December 2017: 48.4 times) and net debt was equivalent to 0.46 times EBITDA (Year ended 31 December 2017: 0.31 times). The gearing ratio increased marginally to eight per cent at 30 June 2018 from five per cent at 31 December 2017.

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

## Financing

The Group had bilateral loan facilities of £528.0 million with six relationship banks at the end of June 2018. An option was exercised in February 2018 to extend facilities of £430.5 million for a further year to March 2023. The remaining facility for £97.5 million matures in March 2021 and the average maturity of all committed facilities at 30 June 2018 was 4.3 years.

Earlier this month the Group agreed to raise €160 million (£141.8 million) through an issue of unsecured senior notes in the US Private Placement market with ten and twelve year maturities at an average annual coupon of 2.5 per cent. The notes will be issued in September 2018 and the proceeds received will be used to refinance existing debt and for general corporate purposes. The issue of these notes will diversify the Group's sources of funding by re-entering the US Private Placement market, extend the maturity profile of debt and provide greater certainty over the cost of debt for an extended period at attractive rates.

The Group's key financing objective is to ensure that it has the necessary liquidity and resources to support the short, medium and long term funding requirements of the business. At 30 June 2018 the Group had undrawn bank facilities of £243.7 million (31 December 2017: £213.1 million) and cash balances and deposits of £183.1million (31 December 2017: £253.7 million) which together with the US Private Placement Notes and strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, replacement assets 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 invested in the Group's businesses in Ireland, the Netherlands and Belgium.

## IFRS 16 Leases

IFRS 16 Leases, which replaces IAS 17 Leases, brings most leases onto the balance sheet and eliminates the distinction between operating and finance leases. Under the new standard, a lessee recognises a right-of-use asset and a lease liability. The lease liability is initially measured at the discounted value of lease payments over the lease term. The Group expects to adopt IFRS 16 by applying the modified retrospective approach.

The Group is currently assessing the impact of IFRS 16 and estimates that the value of right-of-use assets and the corresponding lease liability that will be brought onto the balance sheet at the transition date of 1 January 2019 will be in the region of £500 million to £600 million. This is estimated to be equivalent to circa 7.5 times the Group's annual operating lease commitments.

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

## **Shareholders' Equity**

The Group's balance sheet continued to strengthen with shareholders' equity up by £57.6 million in the period driven by profit after tax of £71.4 million and other movements of £10.5 million. The payment of the second interim dividend for 2017 reduced shareholders equity by £24.3 million. Shareholders equity grew by £114.0 million in the year to 30 June 2018.

## **Return on Capital Employed**

Return on Capital Employed increased by 80 basis points to 14.0 per cent (Year to 30 June 2017: 13.2 per cent). The increased returns were achieved through driving profitable growth in existing businesses and allocating development capital to projects that are expected to meet demanding hurdle rates of return on capital employed.

## **Principal Risks and Uncertainties**

The primary risks and uncertainties affecting the Group are set out on pages 50 to 53 of the 2017 Annual Report and will be updated in the 2018 Annual Report. These risks are expected to remain the same for the remainder of the year.

## **Period End Financial Information**

The consolidated period-end financial statements presented on pages 13 to 34 comprise:

- the Group condensed balance sheet as at 30 June 2018;
- the Group condensed income statement and Group condensed statement of comprehensive income for the six months to 30 June 2018
- the Group condensed statement of cash flows for the six months to 30 June 2018;
- the Group condensed statement of changes in equity; and
- the explanatory notes to the condensed consolidated half year financial statements on pages 19 to 34.



## Grafton Group plc

### Group Condensed Income Statement

For the six months ended 30 June 2018

<b>Continuing activities</b>	<b>Notes</b>	<b>2018 (unaudited) £'000</b>	<b>2017 (unaudited) £'000</b>
<b>Revenue</b>	<b>2</b>	<b>1,447,703</b>	1,338,583
Operating costs		<b>(1,362,062)</b>	(1,262,910)
Property profits	<b>3</b>	<b>4,454</b>	2,028
<b>Operating profit</b>	<b>3</b>	<b>90,095</b>	77,701
Finance expense	<b>4</b>	<b>(2,943)</b>	(3,879)
Finance income	<b>4</b>	<b>460</b>	269
<b>Profit before tax</b>		<b>87,612</b>	74,091
Income tax expense	<b>17</b>	<b>(16,230)</b>	(13,722)
<b>Profit after tax for the financial period</b>		<b>71,382</b>	60,369
<b>Profit attributable to:</b>			
Owners of the Company		<b>71,382</b>	60,277
Non-controlling interests	<b>8</b>	-	92
<b>Profit after tax for the financial period</b>		<b>71,382</b>	60,369
<b>Earnings per ordinary share - basic</b>	<b>5</b>	<b>30.0p</b>	25.5p
<b>Earnings per ordinary share - diluted</b>	<b>5</b>	<b>30.0p</b>	25.4p



## Grafton Group plc

### Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months to 30 June 2018 (Unaudited) £'000	Six months to 30 June 2017 (Unaudited) £'000
Profit after tax for the financial period		71,382	60,369
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to the income statement</b>			
<b>Currency translation effects:</b>			
- on foreign currency net investments		(47)	5,397
<b>Fair value movement on cash flow hedges:</b>			
- effective portion of changes in fair value of cash flow hedges		412	(55)
- net change in fair value of cash flow hedges transferred from equity		168	163
Deferred tax on cash flow hedges		(21)	(21)
		512	5,484
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement gain/(loss) on Group defined benefit pension schemes	13	6,930	10,523
Deferred tax on Group defined benefit pension schemes	13	(1,228)	(1,489)
		5,702	9,034
<b>Total other comprehensive income</b>		6,214	14,518
<b>Total comprehensive income for the financial period</b>		77,596	74,887
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		77,596	74,795
Non-controlling interests	8	-	92
<b>Total comprehensive income for the financial period</b>		77,596	74,887



## Grafton Group plc - Group Condensed Balance Sheet as at 30 June 2018

	Notes	30 June 2018 (Unaudited) £'000	30 June 2017 (Unaudited) £'000	31 Dec 2017 (Audited) £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	15	646,475	589,497	591,746
Intangible assets	16	80,488	50,673	54,340
Property, plant and equipment	9	518,915	485,731	504,412
Investment properties	9	15,968	22,171	22,056
Deferred tax assets		9,441	12,583	11,867
Retirement benefit assets	13	1,527	1,400	1,527
Other financial assets		126	125	126
<b>Total non-current assets</b>		<b>1,272,940</b>	<b>1,162,180</b>	<b>1,186,074</b>
<b>Current assets</b>				
Properties held for sale	9	12,171	6,625	5,055
Inventories	10	349,931	325,880	328,525
Trade and other receivables	10	496,291	459,731	413,095
Derivative financial instruments	11	362	-	-
Cash and cash equivalents	11	183,066	243,373	253,659
<b>Total current assets</b>		<b>1,041,821</b>	<b>1,035,609</b>	<b>1,000,334</b>
<b>Total assets</b>		<b>2,314,761</b>	<b>2,197,789</b>	<b>2,186,408</b>
<b>EQUITY</b>				
Equity share capital		8,514	8,478	8,494
Share premium account		213,418	210,303	212,167
Capital redemption reserve		621	621	621
Revaluation reserve		13,237	13,418	13,327
Shares to be issued reserve		8,143	6,787	8,744
Cash flow hedge reserve		132	(444)	(427)
Foreign currency translation reserve		77,458	78,756	77,505
Retained earnings		914,540	804,138	858,053
Treasury shares held		(3,897)	(3,897)	(3,897)
<b>Equity attributable to owners of the Parent</b>		<b>1,232,166</b>	<b>1,118,160</b>	<b>1,174,587</b>
Non-controlling interests	8	-	3,214	-
<b>Total equity</b>		<b>1,232,166</b>	<b>1,121,374</b>	<b>1,174,587</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	11	284,112	322,250	315,165
Provisions		21,538	20,745	21,888
Retirement benefit obligations	13	16,842	21,607	25,006
Derivative financial instruments	11	263	507	484
Deferred tax liabilities	17	42,193	38,345	37,986
<b>Total non-current liabilities</b>		<b>364,948</b>	<b>403,454</b>	<b>400,529</b>
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	11	703	862	916
Trade and other payables	10	673,598	632,880	572,130
Current income tax liabilities	17	33,377	26,292	27,613
Provisions		9,969	12,927	10,633
<b>Total current liabilities</b>		<b>717,647</b>	<b>672,961</b>	<b>611,292</b>
<b>Total liabilities</b>		<b>1,082,595</b>	<b>1,076,415</b>	<b>1,011,821</b>
<b>Total equity and liabilities</b>		<b>2,314,761</b>	<b>2,197,789</b>	<b>2,186,408</b>





## Grafton Group plc Group Condensed Cash Flow Statement

For the six months ended 30 June 2018

	Notes	Six months to 30 June 2018 (Unaudited) £'000	Six months to 30 June 2017 (Unaudited) £'000
<b>Profit before taxation</b>		<b>87,612</b>	74,091
Finance income		(460)	(269)
Finance expense		2,943	3,879
<b>Operating profit</b>		<b>90,095</b>	77,701
Depreciation	9	20,491	18,800
Amortisation of intangible assets	16	3,061	1,988
Share-based payments charge		3,046	2,504
Movement in provisions		(962)	(1,763)
Loss on sale of property, plant and equipment		322	220
Property profit		(4,454)	(2,028)
Loss on disposal of Group business		-	3
Contributions to pension schemes in excess of IAS 19 charge (Increase)/decrease in working capital	10	(1,484) (416)	(1,324) 21,796
<b>Cash generated from operations</b>		<b>109,699</b>	117,897
Interest paid		(2,600)	(3,328)
Income taxes paid		(10,215)	(7,150)
<b>Cash flows from operating activities</b>		<b>96,884</b>	107,419
<b>Investing activities</b>			
<i>Inflows</i>			
Proceeds from sale of property, plant and equipment	9	5,864	674
Proceeds from sales of properties held for sale	9	350	3,989
Proceeds from sale of Group business (net)		-	512
Interest received		370	269
		<b>6,584</b>	5,444
<i>Outflows</i>			
Acquisition of subsidiary undertakings and businesses (net of cash)	14	(72,314)	(30,684)
Investment in intangible asset – computer software	16	(3,625)	(3,115)
Purchase of property, plant and equipment	9	(36,736)	(34,793)
		<b>(112,675)</b>	(68,592)
<b>Cash flows from investing activities</b>		<b>(106,091)</b>	(63,148)
<b>Financing activities</b>			
<i>Inflows</i>			
Proceeds from the issue of share capital		1,271	61
Proceeds from borrowings		64,091	34,048
		<b>65,362</b>	34,109
<i>Outflows</i>			
Repayment of borrowings		(102,433)	(21,310)
Dividends paid	6	(24,334)	(21,267)
Payment on finance lease liabilities		(233)	(210)
		<b>(127,000)</b>	(42,787)
<b>Cash flows from financing activities</b>		<b>(61,638)</b>	(8,678)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(70,845)</b>	35,593
Cash and cash equivalents at 1 January		253,659	205,857
Effect of exchange rate fluctuations on cash held		252	1,923
<b>Cash and cash equivalents at the end of the period</b>		<b>183,066</b>	243,373
<b>Cash and cash equivalents are broken down as follows:</b>			
Cash at bank and short-term deposits		183,066	243,373



## Grafton Group plc Group Condensed 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 £'000	Non- Controlling Interests £'000	Total equity £'000
<b>Six months to 30 June 2018</b>												
<b>(Unaudited)</b>												
At 1 January 2018	8,494	212,167	621	13,327	8,744	(427)	77,505	858,053	(3,897)	1,174,587	-	1,174,587
Profit after tax for the financial period	-	-	-	-	-	-	-	71,382	-	71,382	-	71,382
<b>Total other comprehensive income</b>												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	5,702	-	5,702	-	5,702
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	559	-	-	-	559	-	559
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	(47)	-	-	(47)	-	(47)
<b>Total other comprehensive income</b>	-	-	-	-	-	559	(47)	5,702	-	6,214	-	6,214
<b>Total comprehensive income</b>	-	-	-	-	-	559	(47)	77,084	-	77,596	-	77,596
<b>Transactions with owners of the Company recognised directly in equity</b>												
Dividends paid	-	-	-	-	-	-	-	(24,334)	-	(24,334)	-	(24,334)
Issue of Grafton Units	20	1,251	-	-	-	-	-	-	-	1,271	-	1,271
Share based payments charge	-	-	-	-	3,046	-	-	-	-	3,046	-	3,046
Transfer from shares to be issued reserve	-	-	-	-	(3,647)	-	-	3,647	-	-	-	-
Transfer from revaluation reserve	-	-	-	(90)	-	-	-	90	-	-	-	-
	20	1,251	-	(90)	(601)	-	-	(20,597)	-	(20,017)	-	(20,017)
<b>At 30 June 2018</b>	<b>8,514</b>	<b>213,418</b>	<b>621</b>	<b>13,237</b>	<b>8,143</b>	<b>132</b>	<b>77,458</b>	<b>914,540</b>	<b>(3,897)</b>	<b>1,232,166</b>	<b>-</b>	<b>1,232,166</b>
<b>Six months to 30 June 2017</b>												
<b>(Unaudited)</b>												
At 1 January 2017	8,449	210,271	621	13,507	8,446	(531)	73,359	751,842	(3,897)	1,062,067	3,122	1,065,189
Profit after tax for the financial period	-	-	-	-	-	-	-	60,277	-	60,277	92	60,369
<b>Total other comprehensive income</b>												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	9,034	-	9,034	-	9,034
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	87	-	-	-	87	-	87
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	5,397	-	-	5,397	-	5,397
<b>Total other comprehensive income</b>	-	-	-	-	-	87	5,397	9,034	-	14,518	-	14,518
<b>Total comprehensive income</b>	-	-	-	-	-	87	5,397	69,311	-	74,795	92	74,887
<b>Transactions with owners of the Company recognised directly in equity</b>												
Dividends paid	-	-	-	-	-	-	-	(21,267)	-	(21,267)	-	(21,267)
Issue of Grafton Units	29	32	-	-	-	-	-	-	-	61	-	61
Share based payments charge	-	-	-	-	2,504	-	-	-	-	2,504	-	2,504
Transfer from shares to be issued reserve	-	-	-	-	(4,163)	-	-	4,163	-	-	-	-
Transfer from revaluation reserve	-	-	-	(89)	-	-	-	89	-	-	-	-
	29	32	-	(89)	(1,659)	-	-	(17,015)	-	(18,702)	-	(18,702)
<b>At 30 June 2017</b>	<b>8,478</b>	<b>210,303</b>	<b>621</b>	<b>13,418</b>	<b>6,787</b>	<b>(444)</b>	<b>78,756</b>	<b>804,138</b>	<b>(3,897)</b>	<b>1,118,160</b>	<b>3,214</b>	<b>1,121,374</b>



## Grafton Group plc Group Condensed Statement of Changes in Equity (continued)

	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 £'000	Non- Controlling Interests £'000	Total equity £'000
<b>Year to 31 December 2017 (Audited)</b>												
At 1 January 2017	8,449	210,271	621	13,507	8,446	(531)	73,359	751,842	(3,897)	1,062,067	3,122	1,065,189
Profit after tax for the financial year	-	-	-	-	-	-	-	127,719	-	127,719	110	127,829
<b>Total other comprehensive income</b>												
Remeasurement gain on pensions (net of tax)	-	-	-	-	-	-	-	6,369	-	6,369	-	6,369
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	104	-	-	-	104	-	104
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	4,146	-	-	4,146	-	4,146
<b>Total other comprehensive income</b>	-	-	-	-	-	104	4,146	6,369	-	10,619	-	10,619
<b>Total comprehensive income</b>	-	-	-	-	-	104	4,146	134,088	-	138,338	110	138,448
<b>Transactions with owners of the Company recognised directly in equity</b>												
Dividends paid	-	-	-	-	-	-	-	(33,708)	-	(33,708)	-	(33,708)
Issue of Grafton Units	45	1,896	-	-	-	-	-	-	-	1,941	-	1,941
Share based payments charge	-	-	-	-	4,908	-	-	-	-	4,908	-	4,908
Tax on share based payments	-	-	-	-	439	-	-	-	-	439	-	439
Transfer from shares to be issued reserve	-	-	-	-	(5,049)	-	-	5,049	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	602	-	602	(3,232)	(2,630)
Transfer from revaluation reserve	-	-	-	(180)	-	-	-	180	-	-	-	-
	45	1,896	-	(180)	298	-	-	(27,877)	-	(25,818)	(3,232)	(29,050)
<b>At 31 December 2017</b>	<b>8,494</b>	<b>212,167</b>	<b>621</b>	<b>13,327</b>	<b>8,744</b>	<b>(427)</b>	<b>77,505</b>	<b>858,053</b>	<b>(3,897)</b>	<b>1,174,587</b>	<b>-</b>	<b>1,174,587</b>



## Grafton Group plc

### Notes to Condensed Consolidated Half Year Financial Statements for the six months ended 30 June 2018

#### 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 merchandising markets in the UK, Ireland, the Netherlands and Belgium. Grafton is also the market leader in the DIY retailing market in Ireland and is the largest manufacturer of dry mortar in Great Britain.

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.

The condensed consolidated half year financial statements for the six months ended 30 June 2018 are unaudited but have been reviewed by the auditor whose report is set out on pages 40 and 41.

The financial information presented in this report has been prepared in accordance with *IAS 34 Interim Financial Reporting* as adopted by the European Union. These condensed consolidated half year financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements in respect of the year ended 31 December 2017 that are available on the Company’s website [www.graftonplc.com](http://www.graftonplc.com).

The condensed consolidated half year financial statements presented do not constitute full statutory accounts. The financial information included in this report in relation to the year ended 31 December 2017 does not comprise statutory annual financial statements within the meaning of section 295 of the Companies Act 2014. The 2017 annual financial statements have been filed with the Registrar of Companies and the audit report thereon was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

#### **Basis of Preparation, Accounting Policies and Estimates**

##### *(a) Basis of Preparation and Accounting Policies*

The condensed consolidated half year financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with *IAS 34 Interim Financial Reporting* as adopted by the European Union. They do not include all the information and disclosures necessary for a complete set of IFRS compliant financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Group’s financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

The accounting policies applied by the Group in the condensed consolidated half year financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017, except for those noted below.

Having made enquiries, 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. Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements.

The financial statements are prepared in GBP (Sterling) which is the functional currency of the majority of the Group’s business.



## 1. General Information (continued)

### Basis of Preparation, Accounting Policies and Estimates (continued)

#### (a) Basis of Preparation and Accounting Policies (continued)

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) Estimates

The preparation of half-yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated half year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

### Impacts of standards and interpretations in issue but not yet effective

#### IFRS 16 – Leases (effective date: financial year beginning 1 January 2019)

This standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations.

The distinction between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lease accounting. The principal difference to lease accounting at present under IAS 17 is the requirement to bring almost all leases onto the balance sheet except for leases with a term of less than 12 months and leases of low value assets. The Group expects to adopt IFRS 16 by applying the modified retrospective approach and to recognise a lease liability and corresponding right of use asset. The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid as of that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The standard is expected to have a material impact on the Group with the recognition of lease liabilities and right of use assets. The directors are in the process of reviewing contracts to identify lease arrangements that would need to be recognised under IFRS 16. Based on the impact analysis performed, the Group expects to recognise a lease liability and corresponding right of use asset of approximately £500 million to £600 million at transition.

There will be a higher income statement charge in the earlier years post-implementation which will unwind over time such that the overall impact of IFRS 16 will be neutral on the income statement over the life of a lease.

### Impacts of standards effective from 1 January 2018

#### IFRS 9 – Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group adopted *IFRS 9 - Financial Instruments* from 1 January 2018, with the practical expedient as stated below. In accordance with the transitional provisions, comparative figures have not been restated. The impact of adopting IFRS 9 was not material to the Group's consolidated financial statements and there was no adjustment to retained earnings on application at 1 January 2018.



## 1. General Information (continued)

### Impacts of standards effective from 1 January 2018 (continued)

#### IFRS 9 – Financial Instruments (continued)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost or fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVPL). The classification is based on the business model for managing the financial assets and the contractual terms of the cash flows.

On 1 January 2018 (the date of initial application of IFRS 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories as follows:

	<b>Original Classification</b>	<b>New Classification</b>	<b>Carrying amount 1 January 2018 £m</b>
Trade and other receivables	Loans and receivables	Amortised Cost	413.1
Cash and cash equivalents	Loans and receivables	Amortised Cost	253.7
Interest rate swaps	Cashflow hedge	FVOCI*	(0.5)

\*when hedge accounting is applied

Trade and other receivables and cash and cash equivalents that were classified as loans and receivables under *IAS 39 - Financial Instruments: Recognition and Measurement* are now classified at amortised cost as the Group's business model is to hold the financial asset to collect contractual cash flows. Interest rate swaps which were classified as cashflow hedges are now classified as FVOCI.

Trade receivables are subject to the new expected credit loss model in *IFRS 9 – Financial Instruments*. The Group has therefore revised its impairment methodology. The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and the commencement of legal proceedings.

The adoption of *IFRS 9 – Financial Instruments* has not had a significant impact on the Group's accounting policies related to financial liabilities and derivative financial instruments.

*IFRS 9 - Financial Instruments* requires that when a financial liability measured at amortised cost is modified without being derecognised, a gain or loss should be recognised in the income statement. This change in accounting policy did not have a material impact on the Group's financial results.

The Group has elected to adopt the new general hedge accounting model in IFRS 9. The new hedge accounting does not have an impact on the Group's accounting for hedging instruments. The Group's risk management practices and documentation has been assessed in line with the new standard and all current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9.



## 1. General Information (continued)

### Impacts of standards effective from 1 January 2018 (continued)

#### IFRS 15 – Revenue from Contracts with Customers

The Group has adopted *IFRS 15 - Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes to the Group's accounting policies. This standard did not have a material impact on the condensed consolidated interim financial information included in this report.

#### ***Accounting Policies***

Revenue comprises the fair value of consideration receivable for goods and services supplied to external customers in the ordinary course of the Group's activities and excludes inter-company revenue and value added tax.

In general, revenue is recognised to the extent that the Group has satisfied its performance obligations to the buyer and the buyer has obtained control of the goods or services being transferred. In the case of sales of goods, this generally arises when products have either been delivered to or collected by a customer and there is no unfulfilled obligation that could affect the acceptance of the products.

Revenues are recorded based on the price specified in the sales invoices/contracts net of actual and estimated returns, rebates and any discounts granted.



## 2. Segmental Analysis

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

	<b>Six months to 30 June 2018 (Unaudited) £'000</b>	Six months to 30 June 2017 (Unaudited) £'000
<b>Revenue</b>		
Merchanting	<b>1,310,070</b>	1,221,413
Retailing	<b>97,753</b>	84,389
Manufacturing	<b>46,117</b>	39,059
Less: Inter-segment revenue - manufacturing	<b>(6,237)</b>	(6,278)
	<b><u>1,447,703</u></b>	<u>1,338,583</u>
<b>Segment operating profit before exceptional items and intangible assets amortisation arising on acquisitions</b>		
Merchanting	<b>78,930</b>	72,544
Retailing	<b>7,326</b>	4,727
Manufacturing	<b>9,367</b>	7,010
	<b><u>95,623</u></b>	<u>84,281</u>
<b>Reconciliation to consolidated operating profit</b>		
Central activities	<b>(7,580)</b>	(7,256)
	<b><u>88,043</u></b>	<u>77,025</u>
Property profits	<b>4,454</b>	2,028
<b>Operating profit before intangible assets amortisation arising on acquisitions</b>	<b>92,497</b>	79,053
Amortisation of intangible assets arising on acquisitions	<b>(2,402)</b>	(1,352)
<b>Operating profit</b>	<b>90,095</b>	77,701
Finance expense	<b>(2,943)</b>	(3,879)
Finance income	<b>460</b>	269
<b>Profit before tax</b>	<b>87,612</b>	74,091
Income tax expense	<b>(16,230)</b>	(13,722)
<b>Profit after tax for the financial period</b>	<b><u>71,382</u></b>	<u>60,369</u>

The amount of revenue by geographic area is as follows:

	<b>Six months to 30 June 2018 (Unaudited) £'000</b>	Six months to 30 June 2017 (Unaudited) £'000
<b>Revenue</b>		
United Kingdom	<b>1,013,732</b>	950,347
Ireland	<b>311,986</b>	279,388
Netherlands	<b>76,817</b>	63,272
Belgium	<b>45,168</b>	45,576
	<b><u>1,447,703</u></b>	<u>1,338,583</u>

Revenue has been further disaggregated by segment within the Operating Review on pages 5 to 9.





## 2. Segmental Analysis (continued)

Operating segment assets are analysed below:

	<b>30 June 2018</b> <b>(Unaudited)</b> <b>£'000</b>	31 Dec 2017 (Audited) £'000
<b>Segment assets</b>		
Merchanting	<b>2,010,452</b>	1,830,917
Retailing	<b>61,416</b>	64,233
Manufacturing	<b>48,371</b>	45,158
	<b>2,120,239</b>	1,940,308
<b>Unallocated assets</b>		
Deferred tax assets	<b>9,441</b>	12,583
Retirement benefit assets	<b>1,527</b>	1,400
Other financial assets	<b>126</b>	125
Cash and cash equivalents	<b>183,066</b>	243,373
Derivative financial instruments (current)	<b>362</b>	-
<b>Total assets</b>	<b>2,314,761</b>	2,197,789

Operating segment liabilities are analysed below:

	<b>30 June 2018</b> <b>(Unaudited)</b> <b>£'000</b>	31 Dec 2017 (Audited) £'000
<b>Segment liabilities</b>		
Merchanting	<b>628,061</b>	598,592
Retailing	<b>55,688</b>	49,717
Manufacturing	<b>21,356</b>	18,243
	<b>705,105</b>	666,552
<b>Unallocated liabilities</b>		
Interest bearing loans and borrowings (current and non-current)	<b>284,815</b>	323,112
Retirement benefit obligations	<b>16,842</b>	21,607
Deferred tax liabilities	<b>42,193</b>	38,345
Current income tax liabilities	<b>33,377</b>	26,292
Derivative financial instruments (non-current)	<b>263</b>	507
<b>Total liabilities</b>	<b>1,082,595</b>	1,076,415

## 3. Operating Profit

The property profit of £4.5 million (2017: £2.0 million) relates to the disposal of two UK properties (2017: seven UK properties and one Irish property).



#### 4. Finance Expense and Finance Income

	<b>Six months to 30 June 2018 (Unaudited) £'000</b>		<b>Six months to 30 June 2017 (Unaudited) £'000</b>
<b>Finance expense</b>			
Interest on bank loans and overdrafts	2,439 *		2,647 *
Net change in fair value of cash flow hedges transferred from equity	168		163
Interest on finance leases	82		98
Net finance cost on pension scheme obligations	254		352
Foreign exchange loss	-		619
	<u>2,943</u>		<u>3,879</u>
<b>Finance income</b>			
Interest income on bank deposits	(370) *		(269) *
Foreign exchange gain	(90)		-
	<u>(460)</u>		<u>(269)</u>
 Net finance expense	 <u>2,483</u>		 <u>3,610</u>

\* Net bank interest of £2.1 million (2017: £2.4 million).



## 5. Earnings per Share

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

	<b>Half Year 30 June 2018 (Unaudited) £'000</b>	Half Year 30 June 2017 (Unaudited) £'000
<b>Numerator for basic, adjusted and diluted earnings per share:</b>		
Profit after tax for the financial period	71,382	60,369
Non-controlling interest	-	(92)
<b>Numerator for basic and diluted earnings per share</b>	<b>71,382</b>	<b>60,277</b>
Amortisation of intangible assets arising on acquisitions	2,402	1,352
Tax relating to amortisation of intangible assets arising on acquisitions	(487)	(303)
<b>Numerator for adjusted earnings per share</b>	<b>73,297</b>	<b>61,326</b>
	<b>Number of Grafton Units</b>	Number of Grafton Units
<b>Denominator for basic and adjusted earnings per share:</b>		
Weighted average number of Grafton Units in issue	237,626,579	236,474,749
Dilutive effect of options and awards	561,395	574,673
<b>Denominator for diluted earnings per share</b>	<b>238,187,974</b>	<b>237,049,422</b>
<b>Earnings per share (pence)</b>		
- Basic	30.0	25.5
- Diluted	30.0	25.4
<b>Adjusted earnings per share (pence)</b>		
- Basic	30.8	25.9
- Diluted	30.8	25.9

## 6. Dividends

The payment in 2018 of a second interim dividend for 2017 of 10.25 pence on the 'C' Ordinary shares in Grafton Group (UK) plc from UK-sourced income amounted to £24.3 million (2017: £21.3 million).

An interim dividend for 2018 of 6.00 pence per share will be paid on the 'C' Ordinary Shares in Grafton Group (UK) plc from UK-sourced income to all holders of Grafton Units on the Company's Register of Members at the close of business on 31 August 2018 (the 'Record Date'). The cash consideration will be paid on 28 September 2018. A liability in respect of the interim dividend has not been recognised at 30 June 2018, as there was no present obligation to pay the dividend at the half-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 half-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 six months ended 30 June 2018 was Stg87.98p (six months to 30 June 2017: Stg86.06p). The sterling/euro exchange rate at 30 June 2018 was Stg88.61p (30 June 2017: Stg87.93p and 31 December 2017: Stg88.72p).

## 8. Non-Controlling Interests

In December 2017, the Group acquired the non-controlling interest of YouBuild NV (formerly BMC Groep NV). This is now accounted for as a 100% subsidiary undertaking.

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

	Property, plant and equipment £'000	Properties held for sale £'000	Investment properties £'000
<b>Net Book Value</b>			
<b>As at 1 January 2018</b>	<b>504,412</b>	<b>5,055</b>	<b>22,056</b>
Additions	36,736	-	-
Acquisition (note 14)	1,457	-	-
Depreciation	(20,491)	-	-
Disposals	(1,787)	(295)	-
Transfer to properties held for sale	(1,345)	7,413	(6,068)
Currency translation adjustment	(67)	(2)	(20)
<b>As at 30 June 2018</b>	<b>518,915</b>	<b>12,171</b>	<b>15,968</b>

## 10. Movement in Working Capital

	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
<b>At 1 January 2018</b>	<b>328,525</b>	<b>413,095</b>	<b>(572,130)</b>	<b>169,490</b>
Currency translation adjustment	(100)	(117)	363	146
Acquisition through business combinations (note 14)	6,339	2,739	(6,506)	2,572
Movement in 2018	15,167	80,574	(95,325)	416
<b>At 30 June 2018</b>	<b>349,931</b>	<b>496,291</b>	<b>(673,598)</b>	<b>172,624</b>



## 11. Interest-Bearing Loans, Borrowings and Net Debt

	<b>30 June 2018 £'000</b>	30 June 2017 £'000	31 Dec 2017 £'000
<b>Non-current liabilities</b>			
Bank loans	<b>282,190</b>	319,843	312,980
Finance leases	<b>1,922</b>	2,407	2,185
<b>Total non-current interest-bearing loans and borrowings</b>	<b>284,112</b>	322,250	315,165
<b>Current liabilities</b>			
Bank loans	<b>238</b>	443	478
Finance leases	<b>465</b>	419	438
<b>Total current interest-bearing loans and borrowings</b>	<b>703</b>	862	916
<b>Derivatives</b>			
Included in non-current liabilities	<b>263</b>	507	484
Included in current assets	<b>(362)</b>	-	-
<b>Total derivatives</b>	<b>(99)</b>	507	484
<b>Cash and cash equivalents</b>	<b>(183,066)</b>	(243,373)	(253,659)
<b>Net debt</b>	<b>101,650</b>	80,246	62,906

The following table shows the fair value of financial assets and liabilities including their level in 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.

	<b>30 June 2018 £'000</b>	31 Dec 2017 £'000
<b>Assets/liabilities measured at fair value</b>		
<i>Designated as hedging instruments</i>		
Interest rate swaps (Level 2)	<b>263</b>	484
Foreign exchange forward contracts	<b>(362)</b>	-
<b>Liabilities not measured at fair value</b>		
<i>Liabilities at amortised cost</i>		
Bank loans	<b>282,428</b>	313,458
Finance leases	<b>2,387</b>	2,623
	<b>284,815</b>	316,081

### *Financial assets and liabilities recognised at amortised cost*

Except as detailed above, it is considered that the carrying amounts of financial assets and liabilities including trade payables, trade receivables, net debt and deferred consideration, which are recognised at amortised cost in the condensed consolidated half year financial statements, approximate to their fair values.

### *Financial assets and liabilities carried at fair value*

All of the Group's financial assets and liabilities which are carried at fair value are classified as Level 2 in the fair value hierarchy. 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 interest rate swaps 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.



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

	<b>30 June 2018 £'000</b>	30 June 2017 £'000
Net (decrease)/increase in cash and cash equivalents	<b>(70,845)</b>	35,593
Net movement in derivative financial instruments	<b>583</b>	186
Bank loans and loan notes acquired with subsidiaries (Note 14)	<b>(7,386)</b>	-
Cash-flow from movement in debt and lease financing	<b>38,574</b>	(12,528)
<b>Change in net debt resulting from cash flows</b>	<b>(39,074)</b>	23,251
Currency translation adjustment	<b>330</b>	(7,202)
<b>Movement in net debt in the year</b>	<b>(38,744)</b>	16,049
Net debt at 1 January	<b>(62,906)</b>	(96,295)
<b>Net debt at end of the year</b>	<b>(101,650)</b>	(80,246)
<b>Gearing</b>	<b>8%</b>	7%

## 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:

	<b>Irish Schemes</b>		<b>UK Schemes</b>	
	<b>At 30 June 2018</b>	At 31 Dec 2017	<b>At 30 June 2018</b>	At 31 Dec 2017
Rate of increase in salaries	<b>2.75% *</b>	2.65% *	<b>0.00% **</b>	0.00% **
Rate of increase of pensions in payment	-	-	<b>3.00%</b>	3.10%
Discount rate	<b>1.80%</b>	1.85%	<b>2.80%</b>	2.60%
Inflation	<b>1.55%</b>	1.45%	<b>2.00% ***</b>	2.10% ***

\*2.75% applies from 2 January 2019 (31 December 2017: 2.65% from 2 January 2019)

\*\* Pensionable salaries are not adjusted for inflation

\*\*\* The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)



### 13. Retirement Benefits (continued)

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)	
	Half year to 30 June 2018 £'000	Year to 31 Dec 2017 £'000	Half year to 30 June 2018 £'000	Year to 31 Dec 2017 £'000	Half year to 30 June 2018 £'000	Year to 31 Dec 2017 £'000
<b>At 1 January</b>	<b>239,363</b>	221,966	<b>(262,842)</b>	(253,251)	<b>(23,479)</b>	(31,285)
Acquired in year	-	-	-	(198)	-	(198)
Interest income on plan assets	<b>2,658</b>	5,296	-	-	<b>2,658</b>	5,296
Contributions by employer	<b>2,756</b>	4,193	-	-	<b>2,756</b>	4,193
Contributions by members	<b>317</b>	688	<b>(317)</b>	(688)	-	-
Benefit payments	<b>(3,673)</b>	(8,179)	<b>3,673</b>	8,179	-	-
Current service cost	-	-	<b>(1,276)</b>	(2,677)	<b>(1,276)</b>	(2,677)
Other long term benefit (credit)/expense	-	-	<b>(30)</b>	(56)	<b>(30)</b>	(56)
Past service credit	-	-	<b>34</b>	282	<b>34</b>	282
Settlement gain	-	-	-	98	-	98
Interest cost on scheme liabilities	-	-	<b>(2,912)</b>	(6,017)	<b>(2,912)</b>	(6,017)
<b>Remeasurements</b>						
Actuarial gains/(loss) from:						
-experience variations	-	-	<b>5,261</b>	183	<b>5,261</b>	183
-financial assumptions	-	-	<b>3,925</b>	(6,216)	<b>3,925</b>	(6,216)
-demographic assumptions	-	-	<b>768</b>	1,900	<b>768</b>	1,900
Return on plan assets excluding interest income	<b>(3,024)</b>	11,571	-	-	<b>(3,024)</b>	11,571
Translation adjustment	<b>(137)</b>	3,828	<b>141</b>	(4,381)	<b>4</b>	(553)
<b>At 30 June / 31 December</b>	<b>238,260</b>	239,363	<b>(253,575)</b>	(262,842)	<b>(15,315)</b>	(23,479)
Related deferred tax asset (net)					<b>2,118</b>	3,581
<b>Net pension liability</b>					<b>(13,197)</b>	(19,898)

The net pension scheme deficit of £15.3 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £16.8 million and retirement benefit assets (non-current assets) of £1.5 million. £14.5 million of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £2.3 million relates to one UK scheme. £1.1 million of the retirement benefit asset relates to a second UK scheme and £0.4 million is one scheme in Ireland.



### 13. Retirement Benefits (continued)

The 2017 net pension scheme deficit of £23.5 million is shown in the Group balance sheet as retirement benefit obligations (non-current liabilities) of £25.0 million and retirement benefit assets (non-current assets) of £1.5 million. £13.0 million of the retirement benefit obligations relates to schemes in Ireland, Belgium and the Netherlands and £12.0 million relates to one UK scheme. £1.0 million of the retirement benefit asset relates to a second UK scheme and £0.5 million to one scheme in Ireland.

### 14. Acquisitions

On 16 February 2018, the Group acquired the entire share capital (100%) of LSDM Limited (“Leyland SDM”). Leyland SDM is a very recognisable and trusted decorating and DIY brand in Central London selling paint, tools, ironmongery and accessories. The Leyland SDM "small box" convenience trading format is a proven business model in Central London that complements the Group's larger Selco branches located in Greater London. Leyland SDM trades from 21 branches. The transaction was funded from the Group's cash and debt facilities. The business is incorporated in the merchanting segment.

On 1 June 2018, the Group acquired 100% of Freke Inbraakbeveiliging (“Freke”), a single branch full service security/access control specialist in the Netherlands. The business is incorporated in the merchanting segment.

Details of the acquisitions made in 2017 are disclosed in the Group's 2017 Annual Report.

*The provisional fair value of assets and liabilities acquired in 2018 are set out below:*

	<b>Leyland £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Property, plant and equipment	1,323	134	<b>1,457</b>
Intangible assets – customer relationships	23,033	-	<b>23,033</b>
Intangible assets – trade names	1,880	-	<b>1,880</b>
Intangible assets – computer software	701	-	<b>701</b>
Inventories	6,339	-	<b>6,339</b>
Trade and other receivables	2,556	183	<b>2,739</b>
Trade and other payables	(6,216)	(290)	<b>(6,506)</b>
Corporation tax liability	(703)	-	<b>(703)</b>
Deferred tax (liability)	(4,289)	-	<b>(4,289)</b>
Deferred tax asset	-	22	<b>22</b>
(Debt) acquired	(7,386)	-	<b>(7,386)</b>
Cash acquired	5,477	136	<b>5,613</b>
Net assets acquired	22,715	185	<b>22,900</b>
Goodwill	53,813	1,214	<b>55,027</b>
<b>Consideration</b>	<b>76,528</b>	<b>1,399</b>	<b>77,927</b>
Satisfied by:			
Cash paid	76,528	1,399	<b>77,927</b>
<b>Net cash outflow – arising on acquisitions</b>			
Cash consideration	76,528	1,399	<b>77,927</b>
Less: cash acquired	(5,477)	(136)	<b>(5,613)</b>
	<b>71,051</b>	<b>1,263</b>	<b>72,314</b>





## 14. Acquisitions (continued)

In view of the short period since these acquisitions were completed, the fair value of the net assets acquired have been determined on a provisional basis pending finalisation of values. Goodwill on these acquisitions reflects the anticipated purchasing and operational synergies to be realised as part of the enlarged Group.

The acquisition of Leyland SDM in February 2018 contributed revenue of £18.4 million and operating profit of £2.3 million for the period from the date of acquisition to 30 June 2018. If the acquisition had occurred on 1 January 2018 it would have contributed revenue of £24.4 million and operating profit of £3.0 million in the half-year. The Group incurred acquisition costs of £0.7 million in the half year (H1 2017: £0.3 million) which are included in operating costs in the Group Income Statement.

## 15. Goodwill

Goodwill is subject to impairment testing on an annual basis and more frequently if an indicator of impairment is considered to exist. The Board is satisfied that the carrying value of goodwill has not been impaired.

	<b>Goodwill £'000</b>
<b>Net Book Value</b>	
<b>As at 1 January 2018</b>	<b>591,746</b>
Arising on acquisitions (note 14)	55,027
Currency translation adjustment	(298)
<b>As at 30 June 2018</b>	<b>646,475</b>

## 16. Intangible Assets

	<b>Computer Software £'000</b>	<b>Trade Names £'000</b>	<b>Customer Relationships £'000</b>	<b>Total £'000</b>
<b>Net Book Value</b>				
<b>As at 1 January 2018</b>	<b>31,233</b>	<b>2,743</b>	<b>20,364</b>	<b>54,340</b>
Additions	3,625	-	-	3,625
Arising on acquisition (note 14)	701	1,880	23,033	25,614
Amortisation	(659)	(245)	(2,157)	(3,061)
Currency translation adjustment	(4)	(1)	(25)	(30)
<b>As at 30 June 2018</b>	<b>34,896</b>	<b>4,377</b>	<b>41,215</b>	<b>80,488</b>

The computer software asset of £34.9 million at 30 June 2018 (December 2017: £31.2 million) 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. A number of these systems are not yet available for use in the business and are therefore not amortised.

The amortisation expense of £3.1 million (H1 2017: £2.0 million) has been charged in 'operating costs' in the income statement. Amortisation on acquired intangibles amounted to £2.4 million (H1 2017: £1.4 million).



## 17. Taxation

The income tax expense of £16.2 million (2017: £13.7 million) is equivalent to an effective tax rate of 18.5 per cent (2017: 18.5 per cent). The effective tax rate forecast for the year is 18.5 per cent (2017: 18.5 per cent). The rate is based on the prevailing rates of corporation tax and the mix of profits between the UK, Ireland, the Netherlands and Belgium. The tax rate is impacted by the disallowance of a tax deduction for certain overheads including depreciation on property. The tax rate for the Group is most sensitive to changes in the UK rate of corporation tax where the highest proportion of Group profits are earned. The current UK rate is 19 per cent and two percentage point reduction to 17 per cent will take effect on 1 April 2020.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors' single best estimate 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. The Group is party to transactions, in the ordinary course of business, 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 provisions and assets in the period in which the determination was made.

### *Deferred tax*

At 30 June 2018, there were unrecognised deferred tax assets in relation to capital losses of £1.9 million (31 December 2017: £0.6 million), trading losses of £3.3 million (31 December 2017: £3.4 million) and deductible temporary differences of £nil (31 December 2017: £nil).

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 and deductible temporary differences arose in entities that have incurred losses in recent years and the Directors believe that it is not probable there will be sufficient taxable profits in the relevant entities against which they can be utilised.

## 18. Related Party Transactions

There have been no new related party transactions. There were no other changes in related parties from those described in the 2017 Annual Report that materially affected the financial position or the performance of the Group during the period to 30 June 2018.

## 19. Grafton Group plc Long Term Incentive Plan (LTIP)

LTIP awards were made over 967,455 Grafton Units on 9 April 2018. The fair value of the awards of £6.4 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. The 2017 Annual Report discloses details of the LTIP scheme.

## 20. Issue of Shares

During the year 267,857 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2015 grant. A further 211,728 Grafton Units were issued under the Group's Savings Related Share Option Scheme (SAYE) to eligible UK employees.



## **21. Events after the Balance Sheet Date**

Other than the signing of an agreement to issue unsecured senior notes in the US Private Placement market in September 2018, as referred to on page 11, there have been no material events subsequent to 30 June 2018 that would require adjustment to or disclosure in this report.

## **22. Board Approval**

These condensed consolidated half year financial statements were approved by the Board of Grafton Group plc on 21 August 2018.



## Supplementary Financial Information Alternative Performance Measures

Certain financial information set out in this consolidated half year financial statements is not defined under International Financial Reporting Standards (“IFRS”). These key Alternative Performance Measures (“APMs”) represent additional measures in assessing performance and for reporting both internally and to shareholders and other external users. The Group believes that the presentation of these APMs provides useful supplemental information which, when viewed in conjunction with IFRS financial information, provides readers with a more meaningful understanding of the underlying financial and operating performance of the Group.

None of these APMs should be considered as an alternative to financial measures drawn up in accordance with IFRS. The key Alternative Performance Measures (“APMs”) of the Group are set out below. As amounts are reflected in £’m some non-material rounding differences may arise. Numbers that refer to 2017 are available in the 2017 Annual Report and the 2017 Half Year Report.

<b>APM</b>	<b>Description</b>
<b>Adjusted operating profit/EBITA</b>	Profit before amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
<b>Adjusted operating profit/EBITA before property profit</b>	Profit before profit on the disposal of Group properties, amortisation of intangible assets arising on acquisitions, exceptional items, net finance expense and income tax expense.
<b>Adjusted operating profit/EBITA margin before property profit</b>	Adjusted operating profit/EBITA before property profit as a percentage of revenue.
<b>Adjusted profit before tax</b>	Profit before amortisation of intangible assets arising on acquisitions, exceptional items and income tax expense.
<b>Adjusted profit after tax</b>	Profit before amortisation of intangible assets arising on acquisitions and exceptional items but after deducting the income tax expense.
<b>Capital Turn</b>	Revenue for the previous 12 months divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end).
<b>Constant Currency</b>	Constant currency reporting is used by the Group to eliminate the translational effect of foreign exchange on the Group's results. To arrive at the constant currency change, the results for the prior period are retranslated using the average exchange rates for the current period and compared to the current period reported numbers.
<b>EBITDA</b>	Earnings before exceptional items, net finance expense, income tax expense, depreciation and amortisation of intangible assets arising on acquisitions. EBITDA (rolling 12 months) is EBITDA for the previous 12 months.
<b>EBITDA Interest Cover</b>	EBITDA divided by net bank/loan note interest.
<b>Gearing</b>	The Group net debt divided by the total equity attributable to owners of the Parent times 100.



<b>Like-for-like revenue</b>	Like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.
<b>Operating profit/EBITA margin</b>	Profit before net finance expense and income tax expense as a percentage of revenue.
<b>Return on Capital Employed</b>	Adjusted operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100.

### Adjusted Operating Profit/EBITA before Property Profit

	<b>Six months to 30 June 2018</b>	Six months to 30 June 2017
	£'m	£'m
Revenue	1,447.7	1,338.6
Operating profit	90.1	77.7
Property profit	(4.5)	(2.0)
Amortisation of intangible assets arising on acquisitions	2.4	1.4
Adjusted operating profit/EBITA before property profit	<u>88.0</u>	<u>77.0</u>
Adjusted operating profit/EBITA margin before property profit	<u>6.1%</u>	<u>5.8%</u>

### Operating Profit/EBITA Margin

	<b>Six months to 30 June 2018</b>	Six months to 30 June 2017
	£'m	£'m
Revenue	1,447.7	1,338.6
Operating profit	90.1	77.7
Operating profit margin	<u>6.2%</u>	<u>5.8%</u>

### Adjusted Operating Profit/EBITA

	<b>Six months to 30 June 2018</b>	Six months to 30 June 2017
	£'m	£'m
Operating profit	90.1	77.7
Amortisation of intangible assets arising on acquisitions	2.4	1.4
Adjusted operating profit/EBITA	<u>92.5</u>	<u>79.1</u>
Adjusted operating profit/EBITA margin	<u>6.4%</u>	<u>5.9%</u>



## Adjusted Profit before Tax

	<b>Six months to 30 June 2018</b>	Six months to 30 June 2017
	<b>£'m</b>	£'m
Profit before tax	<b>87.6</b>	74.1
Amortisation of intangible assets arising on acquisitions	<b>2.4</b>	1.4
Adjusted profit before tax	<b>90.0</b>	75.4

## Adjusted Profit after Tax

	<b>Six months to 30 June 2018</b>	Six months to 30 June 2017
	<b>£'m</b>	£'m
Profit after tax for the financial period	<b>71.4</b>	60.4
Amortisation of intangible assets arising on acquisitions	<b>2.4</b>	1.4
Tax on amortisation of intangible assets arising on acquisitions	<b>(0.5)</b>	(0.3)
Adjusted profit after tax	<b>73.3</b>	61.4

## Reconciliation of Profit to EBITDA

	<b>Six months to 30 June 2018</b>	Year to 31 Dec 2017	Six months to 30 June 2017
	<b>£'m</b>	£'m	£'m
Profit after tax for the financial year	<b>71.4</b>	127.8	60.4
Net finance expense	<b>2.5</b>	6.4	3.6
Income tax expense	<b>16.2</b>	26.6	13.7
Depreciation	<b>20.5</b>	39.5	18.8
Intangible asset amortisation	<b>3.1</b>	4.0	2.0
EBITDA	<b>113.6</b>	204.4	98.5

## Net debt to EBITDA

	<b>Six months to 30 June 2018</b>	Year to 31 Dec 2017
	<b>£'m</b>	£'m
EBITDA (rolling 12 months)	<b>219.5</b>	204.4
Net debt	<b>101.7</b>	62.9
Net debt to EBITDA - times	<b>0.46</b>	0.31

## EBITDA Interest Cover

	<b>Six months to 30 June 2018</b>	Year to 31 Dec 2017
	<b>£'m</b>	£'m
EBITDA	<b>113.6</b>	204.4
Net bank/loan note interest	<b>2.1</b>	4.2
EBITDA interest cover - times	<b>54.9</b>	48.4



## Gearing

	Six months to 30 June 2018 £'m	Year to 31 December 2017 £'m	Six months to 30 June 2017 £'m
Total equity	1,232.2	1,174.6	1,121.4
Group net debt	101.7	62.9	80.2
Gearing	<u>8%</u>	<u>5%</u>	<u>7%</u>

## Return on Capital Employed

	Six months to 30 June 2018 £'m	Six months to 30 June 2017 £'m
Operating profit (rolling 12 months)	173.3	131.7
Exceptional items charged in operating profit (rolling)	-	18.5
Amortisation of intangible assets arising on acquisitions (rolling)	3.8	2.5
Adjusted operating profit (rolling 12 months)	<u>177.1</u>	<u>152.7</u>
Total equity - current period end	1,232.2	1,121.4
Net debt - current period end	101.7	80.2
Capital employed - current period end	<u>1,333.8</u>	<u>1,201.6</u>
Total equity - prior period end (June 17/16)	1,121.4	1,015.3
Net debt - prior period end (June 17/16)	80.2	95.7
Capital employed - prior period end (June)	<u>1,201.6</u>	<u>1,111.0</u>
Average capital employed	<u>1,267.7</u>	<u>1,156.3</u>
Return on capital employed	<u>14.0%</u>	<u>13.2%</u>

## Capital Turn

	Six months to 30 June 2018 £'m	Year to 31 Dec 2017 £'m
Revenue H2 2017	1,377.2	1,377.2
Revenue H1 2018 / 2017	1,447.7	1,338.6
Total revenue for previous 12 months	<u>2,824.9</u>	<u>2,715.8</u>
Average capital employed	<u>1,267.7</u>	<u>1,199.5</u>
Capital turn – times	<u>2.2</u>	<u>2.3</u>



## **Responsibility Statement in Respect of the Six Months Ended 30 June 2018**

The Directors, whose names and functions are listed on pages 64 and 65 in the Group's 2017 Annual Report, are responsible for preparing this interim management report and the condensed consolidated half year financial statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, Interim Financial Reporting as adopted by the European Union.

The Directors confirm that, to the best of their knowledge:

- the condensed consolidated interim financial statements for the half year ended 30 June 2018 have been prepared in accordance with the international accounting standard applicable to interim financial reporting, IAS 34 as adopted by the EU;
- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the condensed consolidated interim financial statements for the half year ended 30 June 2018, and a description of the principal risks and uncertainties for the remaining six months;
- the interim management report includes a fair review of related party transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

On behalf of the Board:

Gavin Slark  
Chief Executive Officer

David Arnold  
Chief Financial Officer



# ***Independent review report to Grafton Group Plc***

## **Report on the condensed consolidated half year financial statements**

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### **Our conclusion**

We have reviewed Grafton Group Plc's condensed consolidated half year financial statements (the "interim financial statements") as set out on pages 13 to 34 and as defined below, in the Half Year Report of Grafton Group Plc for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

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### **What we have reviewed**

The interim financial statements, comprise:

- the Group Condensed Balance Sheet as at 30 June 2018;
- the Group Condensed Income Statement and Group Condensed Statement of Comprehensive Income for the period then ended;
- the Group Condensed Cash Flow Statement for the period then ended;
- the Group Condensed Statement of Changes in Equity for the period then ended; and
- the Notes to the Condensed Consolidated Half Year Financial Statements on pages 19 to 34.

The interim financial statements included in the Half Year Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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## **Responsibilities for the interim financial statements and the review**

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### **Our responsibilities and those of the directors**

The Half Year Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Year Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland.

Our responsibility is to express a conclusion on the interim financial statements in the Half Year Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### **What a review of interim financial statements involves**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom and Ireland. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half Year Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers  
Chartered Accountants  
21 August 2018  
Dublin, Ireland

Notes:

- (a) The maintenance and integrity of the Grafton Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.