Grafton Group plc

Half Year Report
For the Six Months Ended 30 June 2021

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Grafton Group plc ("Grafton"), the international building materials distributor and DIY retailer is pleased to announce its half year results for the period ended 30 June 2021.

Continuing Operations[1]	**H1 2021**	H1 2020[3] (restated)	Change
Revenue	**£1,028m**	£704m	+46.1%
Adjusted[2] operating profit	**£157.8m**	£46.9m	+236.2%
Adjusted operating profit before property profit	**£142.4m**	£46.9m	+203.9%
Adjusted profit before tax	**£148.6m**	£33.8m	+340.1%
Adjusted earnings per share	**50.4p**	11.1p	+355.2%
Dividend	**8.5p**	-	-
Net cash (before IFRS 16 leases) [4]	**£302.5m**	£57.0m	+£245.5m
Net (debt) – (including IFRS 16 leases) [5]	**(£209.9m)**	(£479.2m)	-£269.3m

Statutory Results – Continuing Operations	**H1 2021**	H1 2020 (restated)	Change
Operating profit	**£152.1m**	£42.7m	+256.6%
Profit before tax	**£142.9m**	£29.5m	+384.8%
Basic earnings per share	**48.5p**	9.6p	+403.4%

[1] Supplementary financial information in relation to Alternative Performance Measures (APMs) is set out on pages 43 to 48.
[2] The term "Adjusted" means before exceptional items and amortisation of intangible assets arising on acquisitions in both years.
[3] H1 2020 has now been restated as the Traditional Merchanting Business in Great Britain is now classified as a discontinued operation. Details are set out in Note 14.
[4] Net cash from total operations (before IFRS 16 lease liabilities), which includes cash of the discontinued operations.
[5] Net debt from total operations (including IFRS 16 lease liabilities), which includes the discontinued operations.

Operational Highlights

- Strong performance across the Group and a notable record contribution from the Woodie's DIY, Home and Garden business in Ireland
- Agreement to divest Traditional Merchanting Business in Great Britain for an enterprise value of £520 million
- Completed acquisition of IKH in Finland on 1 July 2021
- Good contribution from StairBox acquisition which performed ahead of plan
- Continued progress of sustainability agenda

Financial Highlights

- Record half year adjusted operating profit of £142.4 million (before property profit)
- Record Group adjusted operating profit margin of 13.9% (before property profit) and adjusted return on capital employed of 20.5%
- Record half year cash generation of £255.3 million from all operations
- Net cash at 30 June 2021 of £302.5 million (before IFRS 16 lease liabilities)

Gavin Slark, Chief Executive Officer Commented:

"I want to thank all of our colleagues for their tremendous contribution and commitment in delivering an exceptional first half outcome in which Grafton achieved record operating profits and margins as well as record cash generation.

2021 marks a key phase of a very considered strategic transformation we have executed at Grafton over recent years, which today comprises a portfolio of high returning, differentiated businesses with the capacity to grow and outperform in our chosen markets.

The overall outlook for the Grafton businesses is positive given the strength of our current market positions, geographic diversity, strong balance sheet and investment pipeline, alongside supportive sector and macro trends together with the successful rollout of vaccines to date in the four countries where the Group now operates."

Webcast and Conference Call Details

A pre-recorded results presentation and a copy of the results presentation document are available at 7:00am today via the home page of the Company's website www.graftonplc.com.

A live audio conference call for analysts and investors will be hosted by Gavin Slark and David Arnold at 9:00am today. If investors would like to listen to the conference call, they can do so either via the "Live Audio Conference Call" webcast link on the home page of the Company's website or by clicking on the following link: https://brrmedia.news/GFTU_H121

Analysts will be invited to raise questions on the call. Should investors wish to submit a question in advance, they can do so before 8.15am today by sending an email to ir@graftonplc.com. A recording of the call will be available on the Company's website later today.

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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.

Interim Results for the Six Months to 30 June 2021

Statement from Gavin Slark, Chief Executive Officer

This was a half year of high performance, operational excellence and significant strategic development.

Results for Half Year

The results for the half year highlight the success of our strategy and the exceptional management teams and colleagues across the Group who have again delivered excellent results and outperformance against the backdrop of favourable market conditions. We continued to innovate and deliver a great experience for our customers while also investing strategically to develop and grow our businesses.

Our strategic growth focus is to invest in higher returning businesses with good market positions that have a differentiated customer offering. The end use market for these businesses is primarily the more resilient residential repair, maintenance and improvements ("RMI") sector and we saw the benefits of this strategy in the half year. We continued to invest in our digital channels to increase traffic to our websites and on-line engagement and transactions with our customers.

Despite the disruption caused by the pandemic, we have delivered adjusted operating profit of £142.4 million (before property profit) in continuing operations, which excludes the Traditional Merchanting Business in Great Britain that is now classified as discontinued operations. This level of profitability established a new half year record for Grafton and the adjusted operating profit margin of 13.9 per cent was also a record performance.

Each of our market leading businesses in the UK, Ireland and the Netherlands contributed to these record results with a notable record profit contribution from the Woodie's DIY, Home and Garden retail business in Ireland.

Our colleagues responded with enterprise and agility to the significant pressure on the Group's supply chains during the half year that was caused by elevated international demand for building materials, disruption to supply and container shipping logistics issues.

Cashflow generated from total operations, including discontinued operations, for the half year more than doubled to £255.3 million and the Group ended the half year with net cash of £302.5 million before IFRS 16 lease liabilities, up from £181.9 million at the start of the year. On 1 July 2021 the Group completed the IKH acquisition at a cost of €199.3 million.

When we divested our Belgium distribution business in 2019, we retained the freehold properties. We completed the sale of these properties in the half year for £13.6 million and this transaction accounted for most of the property profit of £5.3 million on disposals realised in the half year. A further property profit of £10.1 million related to an uplift in fair value recognised on investment properties.

Group Strategy

We announced on 1 July 2021 that the Group had entered into an agreement to divest its Traditional Merchanting Business in Great Britain for an enterprise value of £520 million and that it will retain freehold properties with development potential that have a market value of circa £25 million. The decision to divest this business followed a comprehensive strategic review which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value. Divestment provides an opportunity to deploy our capital resources towards more differentiated, higher growth potential businesses offering superior returns and greater resilience through the cycle. This transaction will complete our programme of disposals and we thank all of our colleagues in this business for their longstanding and valued contribution to Grafton and wish them every success in the future.

Divestment of the Traditional Merchanting Business in Great Britain will enable increased focus on our international development strategy which will be a key priority over the coming years.

Our entry into the Netherlands market at the end of 2015 and the acquisition of Leyland SDM in 2018, Polvo in 2019 and StairBox in 2020 demonstrate our disciplined use of capital and our track record of creating shareholder value through growth and development.

Our very successful Selco Builders Warehouse business now accounts for almost three quarters of our UK distribution activities. The remainder of our UK distribution business now comprises the very successful MacBlair operations in Northern Ireland and the TG Lynes and Leyland SDM specialist distributors which trade in and around London. The operating profit margin in the continuing UK distribution business was 13.3 per cent in the half year which marks a significant uplift on the margin of 6.4 per cent returned for the first half of 2019 including the businesses that we have agreed to divest.

We were pleased to announce that Grafton completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH") in Finland on 1 July 2021. IKH is one of the largest workwear, personal protective equipment ("PPE"), tools, spare parts and accessories wholesalers and distributors in Finland. It has a track record of over twenty years of uninterrupted revenue growth and has a number two market position in its core tools and PPE segment. IKH is a very good strategic and cultural fit for Grafton and we are delighted to welcome our new colleagues in Finland to Grafton and look forward to working with them over the coming years.

The acquisition of IKH strengthens our operations in mainland Europe in line with our development strategy and provides Grafton with a new growth platform in the Nordic region. IKH also expands our product ranges and customer reach into attractive core and adjacent markets.

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

Implementing Our Sustainability Strategy

Grafton is committed to building a sustainable business for all of its stakeholders. The Board and the management teams recognise that sustainability is a core element of our strategy and is critical to the long-term success of our portfolio of businesses. Our sustainability agenda is based on reflecting the interests of stakeholders in our business decisions and focusing on those areas in our distribution, retailing and manufacturing businesses that are likely to have the most success and that can deliver tangible results and outcomes that make a real difference to stakeholders.

Our strategy is aligned with the UN Sustainable Development Goals and identifies five key areas of focus and activity which are Customers and Products; People; Resources, Communities and Ethics.

We have made further progress during the half year and the commentaries that follow on the individual businesses highlight a range of initiatives implemented that are linked to these goals.

Capital Markets Day

We intend to hold a Capital Markets Day for investors towards the end of the year to update investors on the progress of the Group and its businesses, capital allocation model and sustainability strategy.

Gavin Slark
Chief Executive Officer

Group Results – Trading Summary, Cashflow, Dividend and Outlook

The strength of the customer offering in the Group's market leading distribution, retailing and manufacturing business together with strong demand in the RMI and new housing markets contributed to a very positive performance and record operating profit for the half year.

Trading in January and February was subdued due to national restrictions at a time when rollout of vaccines was still in the early stages. Strong revenue growth trends developed in the Group's continuing operations in March and April and were maintained through May and June.

Distribution

UK (Continuing Business)
The Group's continuing distribution business in the UK now comprises Selco, Leyland SDM, MacBlair and TG Lynes following the agreement to dispose of the Traditional Merchanting Business in Great Britain. The continuing business fully recovered from the impact of the lockdown in the first half of last year and average daily like-for-like revenue in the first half 2021 was 16.7 per cent ahead of the first half of 2019. There was a strong advance in operating profit in the continuing business and the operating profit margin of 13.3 per cent was up from 10.2 per cent in 2019. The strategic investment made to develop the Selco branch network, which accounted for almost three quarters of UK distribution revenue in the half year, was well rewarded as its self-select operating model and well stocked branches were ideally placed to support an increased level of spending on home and garden improvement projects.

Ireland
Chadwicks branches remained open to support those parts of the construction sector that were permitted to continue operating from early January to mid-April when a phased re-opening of the construction sector including house building got under way. Chadwicks, the market leader in Ireland, experienced exceptional demand in the residential RMI and new build markets from mid-April. Half year profitability was materially higher than the pre-pandemic result for the first half of 2019 and the operating profit margin was 11.6 per cent, 310 basis points ahead of the first half of 2019. Daly Brothers, the Dundalk builders merchant acquired last year was fully integrated into the network and Proline, the architectural ironmongery business acquired in February, performed in line with plan.

The Netherlands
The Isero ironmongery, tools and fixings business, that was permitted to continue operating as an essential distributor during 2020, reported good growth in revenue and profitability for the half year. Trading conditions were generally favourable as the economy recovered faster than expected. Volume gains in the substantial Polvo business acquired in July 2019 contributed to the positive outcome. The operating profit margin was 10.8 per cent, 60 basis points ahead of the prior year.

Retailing

Woodie's market leading DIY, Home and Garden business in Ireland managed an unprecedented level of demand and volume of products flowing through its stores in the half year. Whilst Covid restrictions affected much of Irish retail, Woodie's was deemed an essential retailer and permitted to trade throughout the first half. As a result, new records were decisively established for revenue and profitability leading to a more than doubling of the operating profit margin to 21.6 per cent.

Manufacturing

The manufacturing segment now incorporates our long established market leading CPI EuroMix dry mortar business in Great Britain, StairBox, the staircase manufacturing business in Stoke-on-Trent that we were pleased to acquire at the end of November 2020 and MFP, a manufacturer of PVC drainage and roofline products based in Dublin .

Volumes in the **CPI EuroMix** mortar manufacturing business started to recover in March and continued on an improving trend although they remained below pre-pandemic levels in line with the gradual upturn in house building. This business has a flexible operating model and produced an operating margin of 21.6 per cent in the half year.

StairBox had an excellent start under Grafton ownership performing ahead of expectations. It produced an operating profit margin of 36.7 per cent, the highest level ever reported by a Grafton business. The half year performance endorsed our pre-acquisition assessment of this high quality business and management team. Stairbox, a leader in technology in its field, gives Grafton access to a new cohort of customers in an attractive segment of the residential RMI market in Great Britain.

Cash Flow

The Group's cashflow generated from total operations in the half year more than doubled to £255.3 million from £121.5 million. This excellent cash generation was driven by better trading in the Group's businesses and included cashflow of £37.7 million released from working capital.

The Group had net cash of £302.5 million at 30 June 2021 before IFRS 16 lease liabilities having started the year with net cash of £181.9 million. Net debt on an IFRS 16 basis which includes lease liabilities was £209.9 million (31 December 2020: £355.0 million), an improvement of £145.1 million in the half year.

Dividend

The Group had a cash outflow on dividends of £64.6 million during the half year comprising the second interim dividend for 2019 of 12.5p per share that was paid on 19 February 2021 in the amount of £29.9 million and the final dividend for the year ended 31 December 2020 of 14.5p per ordinary share that was paid on 5 May 2021 and amounted to £34.7 million.

The Board has decided to pay an interim dividend for 2021 of 8.5p per share in the amount of approximately £20.4 million. This interim dividend is in line with the Board's progressive dividend policy and reflects both the Group's strong profitability and cashflow from operations for the half year and its (pre-IFRS 16) net cash position at 30 June 2021.

The interim dividend will be paid on 1 October 2021 by Grafton Group plc, following the simplification of the Grafton Unit that was approved by shareholders at the EGM on 21 January 2021, to shareholders on the Register of Members at the close of business on 3 September 2021, the record date. The Ex-dividend date is 2 September 2021.

Outlook

The overall outlook for the Grafton businesses is positive following the successful rollout of vaccines to date in the four countries where the Group now operates. Risks nevertheless remain that a further spread of Covid-19 in communities following the lifting of most restrictions or the emergence of new vaccine resistant variants could require restrictions to be reimposed and slow or reverse the international recovery that is now becoming established.

It is expected that supply chains will continue to be disrupted to some extent over the coming months and we will continue to work with our partners to minimise the impact on our customers.

The recovery in the UK economy is on track and the outlook is positive. Some elements of the construction sector including housing RMI saw volumes fall sharply during the first lockdown then quickly recover by the end of last year. The UK RMI housing market was not directly impacted by further lockdowns this year and performed strongly in the first half at a time of reduced spending on travel, leisure and hospitality. We believe that this trend is likely to continue in the second half given the desire of households to improve the amount and quality of indoor and outdoor living space. The spending of an element of savings built up during the pandemic on housing RMI is also likely to add some impetus to the market. The recovery in housebuilding in the UK is expected to continue and to be sustained beyond the ending of the stamp duty holiday in September supported by good demand at a time when the stock of new houses for sale is low.

In Ireland, there are encouraging signs that economic activity is normalising following the lifting of restrictions and the near-term outlook for the economy is favourable. Activity in the residential RMI market is predicted to remain strong and, following the reopening of sites in April, house building is expected to gain momentum in response to the scarcity of supply and the high level of pent up and forecast demand. The exceptional revenue growth trends in the Woodie's DIY, Home and Garden business eased as expected following the reopening of non-essential retail and leisure activities and it is anticipated that this trend will continue in the second half.

The Netherlands economy saw a pick-up in activity in the second quarter and the outlook is favourable with an expectation of a return to a steady growth path by the year end. Consumers have become more confident and underlying demand in the RMI and new build housing markets should sustain a continuation of the positive first half trends in the ironmongery, tools and fixings distribution market.

Average daily like-for-like Group revenue increased by 4.4 per cent in the period from 1 July to 15 August 2021. This comprised increases of 6.9 per cent in UK Distribution, 9.4 per cent in Irish Distribution, 9.7 per cent in Netherlands Distribution and by 7.4 per cent in Manufacturing. Average daily like-for-like revenue declined as anticipated by 16.7 per cent in Retailing which compares to growth of 35.6 per cent in the same period last year.

We are very encouraged by the strong first half performance across the Group and, while our markets are not without risk concerning how demand will unfold, we are confident in the delivery of full year Group adjusted operating profit in continuing operations of approximately £240 million, as previously guided, subject to increasing property profit by £10 million related to the retention of four investment properties as part of the divestment of the traditional merchanting business in Great Britain.

Operating Review – Continuing Operations

The Distribution businesses in the UK, Ireland and the Netherlands contributed 79.8 per cent of Group revenue (2020: 82.3 per cent), Retailing 15.4 per cent (2020: 14.1 per cent) and Manufacturing 4.8 per cent (2020: 3.6 per cent).

UK businesses contributed 44.8 per cent (2020: 39.0 per cent) of Group revenue, Ireland 40.9 per cent (2020: 41.4 per cent) and the Netherlands 14.3 per cent (2020: 19.6 per cent).

Distribution Segment **(80% of Group Revenue)**

	2021 £'m	2020 £'m	2019 £'m	Change*
Revenue	820.3	579.0	651.6	41.7%
Adjusted operating profit before property profit	101.2	39.3	63.5	157.3%
Adjusted operating profit margin before property profit	12.3%	6.8%	9.7%	+550bps
Adjusted operating profit	111.9	39.4	67.3	183.7%
Adjusted operating profit margin	13.6%	6.8%	10.3%	+680bps

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

UK distribution generated 40.3 per cent (2020: 35.7 per cent) of Group revenue, Irish Distribution 25.2 per cent (2020: 27.0 per cent) and Netherlands Distribution 14.3 per cent (2020: 19.6 per cent).

UK Distribution

	2021 £'m	2020 £'m	2019 £'m	Change*
Revenue	414.1	250.7	344.4	65.2%
Adjusted operating profit before property profit	55.1	10.1	35.2	448.0%
Adjusted operating profit margin before property profit	13.3%	4.0%	10.2%	+930bps
Adjusted operating profit	65.0	10.1	39.0	540.3%
Adjusted operating profit margin	15.7%	4.0%	11.3%	+1,170bps

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

The results of the UK distribution business for the half year and comparative results for 2020 do not include the Traditional Merchanting Business in Great Britain which is classified as discontinued operations.

Revenue growth of 65.2 per cent reflects strong underlying demand continuing the trends that developed in the second half of last year and a weaker performance in the comparative period in 2020 because of the measures adopted in the second quarter to contain the spread of Covid-19. These measures resulted in the closure of all branches, except for the Leyland SDM branches, on 24 March and the phased reopening in May and June.

Average daily like-for-like revenue was up by 63.5 per cent on the first half of 2020 and by 16.7 per cent on the first half of 2019. There was one less trading day in the first half of 2021.

The GDC Paints business acquired in July 2020 contributed revenue of £3.6 million in the half year and new Selco and Leyland SDM branches contributed revenue of £3.9 million.

The gross margin was up by 100 basis points on the level reported for the first half of 2019, when trading conditions were more comparable than 2020. This improvement was attributed to changes in product mix, improved procurement arrangements and stock gains realised from materials price inflation.

First half operating profit before property profit increased to £55.1 million (H1 2020: £10.1 million) at an operating profit margin of 13.3 per cent that represents a structural shift in the quality of the UK Distribution business following the agreement to divest the Traditional Merchanting Business in Britain.

There was no recognition of rates relief of £3.8 million received in the continuing UK distribution business in the period which is in the process of being repaid.

Selco Builders Warehouse

Selco Builders Warehouse experienced a remarkable level of demand and a step up in revenue in the half year. This strong performance endorsed the benefits of a multi-year strategic investment programme in the branch network and digital infrastructure that made it possible to support more customers and deliver record breaking sales.

Selco management and colleagues accomplished a great deal in the half year in their response to a very dynamic trading and operational environment while at all times prioritising the health and safety of customers and each other.

Average daily like-for-like revenue increased by 74.4 per cent on the same period in 2020. This follows a decline in total revenue of 30.7 per cent in the first half of 2020 compared to the first half of 2019 as all branches were closed on 24 March 2020, because of the pandemic, and reopened on a phased basis between 6 May 2020 and 22 June 2020. Half year average daily-like-for-like revenue growth of 18.4 per cent over the two years to the end of June 2021 is more reflective of the excellent progress made by the business.

Revenue growth trends improved in the second half of last year and continued into the early weeks of this year. Trading began to show a further improvement in the second half of February and gained significant momentum in March that carried through to the end of the half year.

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

Selco is primarily exposed to the residential RMI market which recovered quickly following the lifting of lockdown measures. The pandemic appears to have changed the relationship between households and their homes and the sharp rise in savings from reduced spending on leisure, travel and non-essential retail has provided the resources to invest in the home at a time of increased demand for more and better quality space both inside and outside the home. This has taken the form of multiple projects inside the home including extensions, loft works and garage conversions. Outdoor projects have typically involved paving, decking, fencing and construction of garden sheds.

There was significant pressure on the supply chain because of shortages of core materials at various stages during the half year including aggregates, cement, plasterboard, treated timber, sheet materials, landscaping, steel and plastics. The procurement team worked closely and successfully with supply chain partners to diminish the impact on customers and optimise our in-stock positions. Supply chain pressures also contributed to significant price inflation, particularly in core products including timber, and we estimate that overall cost price inflation was circa 7.5 per cent compared to the first half of last year.

The new branches that were opened last year in Orpington and Salford, the Bristol branch that was relocated to an enlarged modern facility and the Chessington branch that was extended into an adjoining unit materially outperformed plan.

The operational leverage from the strong growth in revenue and an increase in the gross margin contributed to an improvement in the operating profit margin to 13.7 per cent.

Last year Selco completed a major upgrade to its website to incorporate several new features that make it easier for customers to transact online. This significantly improved on-line engagement and continues to be the focus of investment with the goal of further enhancing the customer experience. Digital sales accounted for 5.4 per cent of first half revenue and approximately 80 per cent of on-line orders were fulfilled through deliveries from branches and delivery hubs.

The branch estate increased to 70 with the opening of a new branch in Liverpool, where early trading indications are very encouraging, and new branches will open later this year in Canning Town and Rochester while a pipeline of branch openings over the coming years is being actively developed. Major upgrades were completed to the Catford and Ruislip branches as part of a rolling programme of investment in the branch estate and mini upgrades were also completed on a number of branches.

Following the success of the delivery hub in Edmonton, that centralised customer deliveries for six branches in North London, a second hub was recently opened that will centralise deliveries on a phased basis for the seven branches in the Birmingham Area. These hubs also provide a fulfilment service for heavyside products ordered on-line through the Click & Deliver facility.

The Selco Sustainability Pledge, a blueprint including targets and commitments for what can be achieved over the next decade, was recently launched. The business has already taken decisive action this year, as part of its responsibility to the environment, with the launch of 'Selco Forest', an initiative designed to accelerate the process of offsetting its carbon footprint. The trees planted this year will offset 8,000 tonnes of carbon during their life cycle which is equivalent to the amount of carbon used on customer deliveries over two years. Selco is also testing and trialling greener delivery vehicles utilising compressed natural gas technology.

Leyland SDM

Leyland SDM, London's largest specialist decorators' merchant, was categorised as an essential business and continued to trade throughout 2020. Like-for-like revenue and operating profit were in line with the first half of last year. While the re-opening of non-essential retail on 12 April 2021 helped to increase footfall and the level of transactions conducted with retail customers, demand from trade customers was weak because the limited number of workers and international tourists in central London has significantly reduced investment particularly in offices, restaurants and the leisure sector. This backdrop was reflected in revenue in the like-for-like stores being down by 7.4 per cent on the first half of 2019. The stores located in the commuter belt continued to make gains from increased spending by households and trade customers on painting and decorating products.

The five store GDC Paints acquired in July 2020 completed a successful first year under Grafton ownership and performed ahead of expectation. The five branches were integrated into the Leyland SDM store network and ERP system and now benefit from the distinctive branding and corporate identity of Leyland SDM. The new store that opened in Kingston-Upon-Thames in November 2020 is developing a revenue stream and in June Leyland SDM opened its 30th store in Clapham Junction. The Shoreditch, Chelsea and Victoria stores were upgraded.

MacBlair

The Northern Ireland distribution business traded very strongly in the second half of last year and this trend gathered pace leading to record revenue and operating profit for the first half while the operating profit margin of 12.0 per cent also established a new record for the business and compares to the full year outturn of 8.6 per cent for 2020. First half revenue was ahead of last year by 58.3 per cent and up by 26.7 per cent on 2019.

MacBlair experienced exceptional demand in the attractive residential RMI market which was the strongest driver of revenue growth. There was notable growth in the volume of landscaping, fencing, decking and timber products supplied. The new housing sector returned to growth in March and traded strongly in the run up to the end of the half year with most of the increase in activity concentrated on self build customers and smaller house builders. Demand from the major house builders in the province involved in housing scheme developments was more subdued. Trading with customers operating in the commercial and industrial sectors was also very positive. The higher proportion of revenue from the residential RMI end-use market, product price inflation stock gains and changes in product mix contributed to a favourable gross margin outcome.

TG Lynes

Revenue in TG Lynes, a leading distributor of commercial pipes and fittings in London, recovered to within four per cent of the level reported for the first half of 2019. In line with the trend that developed in the second half of last year, demand was strongest from subcontractors engaged in upgrades to existing properties, residential new build, public sector and RMI projects. Investment in the hotel, leisure, retail and office sub-sectors continued to be impacted by the pandemic although there were indications of improving order books at the end of the half year. Good pricing discipline was maintained in a competitive market and a strong operating profit performance was delivered with a high double digit operating profit margin for the half year coming in only marginally behind the level reported prior to the pandemic.

TG Lynes installed solar panels on the roof of its 55,000 sq. ft. freehold property in Enfield. Generating solar energy for use on this site will lower demand for energy from the national grid and reduce the company's carbon footprint. The business also demonstrated its commitment to sustainability by replacing traditional light fittings with LED lighting and supported colleagues switching to electric cars by installing electric vehicle charging points at its workplace. The ERP system was updated to a solution designed for distributors that provides greater visibility on the trading, operations and performance of the business.

Irish Distribution

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	258.7	190.2	226.2	36.1%	37.3%
Adjusted operating profit before property profit	30.1	15.2	19.3	97.6%	102.8%
Adjusted operating profit margin before property profit	11.6%	8.0%	8.5%	+360bps	-
Adjusted operating profit	30.9	15.2	23.1	102.9%	107.5%
Adjusted operating profit margin	11.9%	8.0%	10.2%	+390bps	-

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

Trading in the half year fell into two distinct phases that were linked to the introduction of lockdown measures in Ireland to reduce a surge in Covid-19 cases at the turn of the year and the subsequent phasing out of these measures. The first phase covered the period from early January to mid-April when non-essential construction, with certain exceptions, was required to cease and sites were closed. During this period all Chadwicks branches remained open to support those elements of construction that were permitted to continue operating. Customer activity in our branches was down and average daily like-for-like revenue declined by 2.0 per cent on the same period in 2019.

There was a significant acceleration in trading in the second phase which started with the lifting of restrictions on house building from mid-April and the complete reopening of the construction sector from early May. Trading across the branch estate was very strong as households invested in a wide variety of home maintenance and improvement projects and house building restarted in Dublin and other provincial cities. Average daily like-for-like revenue in the period from mid-April to the end of June increased by circa 30 per cent compared to the same period in 2019 in response to exceptional levels of customer demand. Revenue growth incorporates materials price inflation estimated at circa 6.9 per cent which affected a number of core commodities including steel and timber categories.

In May and June Chadwicks performed at its highest level of activity since 2008 which contributed to overall growth in average daily like-for-like revenue of 11.7 per cent for the half year compared to the first half of 2019.

The Steel division, a value-added segment of the business that differentiates Chadwicks from competitors and provides early-stage supply opportunities to support new build projects, performed strongly and made a significant contribution to profitability.

There was a shortage of certain building materials due to exceptional demand in May and June that was mainly resolved by working closely with supply chain partners to prioritise the stocking of core lines.

There was a marked recovery in housing starts following the lifting of restrictions in mid-April. There were 12,700 units started in the second quarter and 27,000 units in the year to end of June which remains well short of underlying annual demand which is estimated at 40,000 units. House completions quickly recovered in the second quarter and 9,000 units were completed in the half year partly driven by a doubling of the number of apartments completed, particularly in Dublin.

The sharp improvement in the operating margin reflected operating leverage from growth in revenue and an increase in the gross margin that benefitted from favourable changes to mix and inflation related stock gains realised in core categories.

Chadwicks opened its third Fixings Centre, a concept that provides builders, engineers and trades people with a wide range of fixings and tools, as part of the upgrade to the Galway branch.

The acquisition of Proline Architectural Hardware ("Proline") that completed on 11 February 2021 brought specialist expertise to Chadwicks in the distribution of architectural ironmongery products. Proline performed in line with plan in the period and generated an operating profit margin of 21.9 per cent. The Daly Brothers branch in Dundalk, County Louth acquired in July 2020 was integrated into the Chadwicks branch network and ERP system and performed ahead of plan.

Our multi-year programme of branch upgrades continued with an upgrade to the Galway branch that incorporates Chadwicks first dedicated ECO Centre to showcase sustainable products for energy efficient new build and retrofit projects. This development is part of a wider programme by Chadwicks, a member of the Irish Green Council, to take a leading role supporting customers and communities in Ireland through the distribution of building materials that improve the sustainability of buildings.

Netherlands Distribution

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	147.5	138.1	80.9	6.8%	7.6%
Adjusted operating profit	16.0	14.1	9.0	13.9%	15.1%
Adjusted operating profit margin	10.8%	10.2%	11.1%	+60bps	-

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

The specialist Isero and Polvo ironmongery, tools and fixings business in the Netherlands was categorised as an essential business and continued to trade throughout the pandemic. These very good results for the half year show a continuation of the strong performance reported for last year.

The business worked closely with supply chain partners during the period to reduce lead times and optimise the stock holding of ironmongery, tools and fixings products at a time of supply shortages.

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

There was a pick-up in the rate of growth in like-for-like revenue in the second quarter as the Netherlands economy reopened and consumer sentiment recovered. There was also a rise in confidence in the housing market as a shortage of new builds combined with strong demand, a reduction in property transfer tax for first time buyers and a relaxation of certain mortgage lending conditions contributed to double digit year-on-year growth in house prices.

Spending on residential RMI projects benefitted generally from a strong labour market and households channelling a proportion of savings set aside during the pandemic into home improvement projects. Demand was also strong from national key account customers engaged in house building, commercial construction and renovation projects.

The performance of the Polvo business, acquired in July 2019, was very positive and underpinned by broadly based growth across its markets including increased demand in the new housing and projects markets and outperformance by branches in the Southern region of the Netherlands.

Activity in the Amsterdam Area was most affected by the lockdown with the loss of revenue from retail customers for a period in a small number of end-consumer orientated ironmongery branches. Revenue from Housing Corporations involved in the maintenance and refurbishment of social housing in the City was lower and demand also continued to be weaker in the tourism, leisure and entertainment sectors due to the pandemic. Revenue in the Schiphol branch, that was acquired in late 2019 and integrated into the Polvo branch network last year, was impacted by reduced activity in the airport due to the pandemic.

The acquisition in April of Govers B.V, an ironmongery, tools and workwear business, expanded geographic coverage for the first time into the North West Netherlands region where Govers trades from four branches. In January, the acquisition of Van den Anker Ijzerhandel Katwijk B.V., a single branch distributor of ironmongery, tools and fasteners, strengthened the market position of Polvo in the Mid-Western region.

Organic developments in the period included the opening of a branch in Lelystad, a growth city in the centre of the Netherlands, and relocation of one of the Rotterdam branches in February to a higher profile location that has since then made good progress growing in-branch customer collection transactions.

The half year performance of the Netherlands business reflects the success of the strategic investments made over the last two years while there was also a focus in the half year on laying the foundations for the future growth and development of the business.

Retail Segment (15% of Group Revenue)

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	158.4	99.3	99.9	59.4%	62.2%
Operating profit	34.2	9.7	9.5	252.4%	268.3%
Operating profit margin	21.6%	9.8%	9.5%	+1,180bps	-

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

Woodie's outstanding performance in the second half of 2020 continued through the first half 2021 as the business delivered record half year revenue and operating profit while more than doubling the operating profit margin to 21.6 per cent.

Growth in demand was broadly based across all DIY, home and garden categories and reflected the benefits of a colleague and customer centred strategy so successfully pursued in recent years. The retail backdrop that saw Woodie's categorised as an essential retailer, and allowed to continue trading during the lockdown, was also supportive.

The rate of growth in revenue moderated, as anticipated, following the full re-opening in May of non-essential retail in Ireland that had been closed since the beginning of the year.

Woodie's flexible operating model and managements agile response to exceptional demand conditions in the half year provided customers with a great shopping experience in a safe environment. These results demonstrate the hard work and commitment of Woodie's colleagues to deliver an exceptional service to customers. Service levels were maintained with the appointment of 150 additional colleagues during the period.

Management ensured that Woodie's branches were well stocked for an early start to seasonal trading at the beginning of March and exceptional demand was experienced through to the end of the second quarter for outdoor products including garden furniture, barbeques, garden sheds, plants, shrubs and composts. Households also undertook a range of projects inside the home and we saw significant growth in the sale of decorative and DIY products.

Woodie's procurement colleagues worked closely with domestic and international supply chain partners to mitigate the impact of disruption to the supply of certain products at a time of unprecedented global demand. Record levels of stock were moved through branches during the half year with a particular focus on the supply of fast moving lines and seasonal categories.

The increase in revenue was broadly split between an increase in the number of shopping transactions and an increase in the average basket value related to the purchase of higher value seasonal products and an increase in the range of products purchased during a single store visit.

The gross margin expanded due to several factors including a more favourable sales mix and reduced promotional activity.

Woodie's branches have a "new look and feel" following the multi-year investment programme, including two branches upgraded in the half-year, that has created a unique DIY, Home and Garden retail proposition in the Irish market.

Upgrading the branch network was complemented with further investment in Woodie's digital platform to improve the on-line customer experience and strengthen Woodie's longer term competitive advantage. Working with partners, the on-line platform was upgraded to increase the speed and improve the user experience. The marketing content was made more relevant and customer on-line communications were streamlined onto a single platform.

The efficiency of the on-line order fulfilment and delivery service was also improved with the creation of a new 15,000 sq. ft. home delivery service that utilises spare capacity in the Drogheda branch. We also deployed the latest electronic labelling, track and trace and proof of delivery technology. These strategic investments are essential elements of Woodie's ongoing response to evolving customer preferences as the proportion of on-line transactions increase. On-line transactions represented 3.1 per cent of revenue in the first half.

Woodie's was recently recognised with a national award in Ireland for the connection it created between its learning and development programmes and colleague engagement and business performance. All people managers completed "conscious inclusion" training over the past 18 months as part of Woodie's diversity programme which also benefitted from the use of artificial intelligence tools to substantially remove unconscious bias in recruitment.

Manufacturing Segment (5% of Group Revenue)

	2021 £'m	2020 £'m	2019 £'m	Change*	Constant Currency Change*
Revenue	49.1	25.4	40.7	93.5%	93.6%
Operating profit	12.7	3.6	9.2	256.4%	254.0%
Operating profit margin	25.9%	14.1%	22.5%	+1,180bps	-

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

CPI EuroMix, which pioneered the use of dry mortar technology in Great Britain, supplies national, regional and local house builders and plastering contractors with high quality mortars from ten plants that provide almost national coverage of the market.

Mortar demand was soft in January and February due to the disruption to house building caused by the pandemic before starting to gradually recover in March. This recovery continued in the second quarter although volumes remained below the same period in 2019. Trading towards the end of the second quarter was impacted by a shortage of cement and tight delivery capacity. The operating profit margin recovered to 21.7 per cent in the half year from 14.0% in the first half of 2020.

Government support for first time buyers, improving levels of mortgage availability and long term under supply continued to provide favourable demand conditions for new housing, the primary end-market for CPI EuroMix products.

CPI EuroMix ended the half year with a healthy order book and a record number of mortar silos on customers sites providing a competitive advantage and further enhancing its market leading reputation for quality and service.

The manufacturing segment now incorporates the results of StairBox, the staircase manufacturer, that was acquired on 30 November 2020 for a total consideration of £44.0 million. Stairbox uses technology to design and manufacture an extensive range of high-quality customised staircases from its facility in Stoke-on-Trent.

Revenue, operating profit and cashflow outperformed plan and StairBox had a very successful half year under Grafton ownership. Revenue in the period was £12.8 million and operating profit was £4.7 million, an operating margin of 36.7 per cent.

The StairBuilder on-line stairs designer software, the first of its kind in the UK, was updated in June to provide a new version of this interactive software with additional features and improved functionality making it easier for customers to design, price and buy a staircase on-line. The new features include a live 3D model that updates with each click as customers create their own unique staircase designs virtually.

Operating Review – Discontinued Operations

Discontinued Operations

	2021 £'m	2020 £'m	2019 £'m	Change*
Revenue	522.9	354.7	521.4	47.4%
Adjusted operating profit/(loss) before property profit	30.4	(7.8)	20.2	-
Adjusted operating profit/(loss) margin before property profit	5.8%	(2.2%)	3.9%	+800bps

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

The Group entered an agreement on 30 June 2021 to divest the Traditional Merchanting Business in Great Britain which comprises the Buildbase, Civils & Lintels, PDM Buildbase, The Timber Group, Frontline, Bathroom Distribution Group and NDI brands for an enterprise value of £520 million. The Group will also retain freehold properties with development potential that have a market value of circa £25 million and will retain responsibility for the UK defined benefit pension scheme which was closed to future accrual at the end of 2020 when alternative arrangements were put in place.

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

A net gain on the deemed disposal of £95.3 million, net of the costs of disposal, has been recognised and more details are set out in Note 14.

The Group balance sheet reflects a debtor of £465.7 million relating to proceeds receivable on completion. In addition, the Group will receive £116.0 million on settlement of inter-Group amounts that are outstanding. The net debt position of £209.9m at 30 June 2021 includes net debt of £36.7 million (cash and the lease liability) which form part of the deemed disposal.

Revenue increased by 47.4 per cent to £522.9 million from £354.7 million in the first half of 2020 and by 0.3 per cent from £521.4 million in the first half of 2019. Average daily like-for-like revenue was up 53.3 per cent on the first half of 2020 and by 5.3 per cent on the first half 2019. There was one less trading day in the first half of 2021 and the consolidation and closure of branches reduced revenue by £11.8 million. The Timber Group opened a new branch in Poole that contributed revenue of £1.3 million.

Like-for-like revenue was down by £161.8 million during the first half of 2020 as a result of the closure of branches on 24 March, except for a limited service to provide emergency supplies, and their phased reopening between early May and mid-June.

Good revenue and operating profit growth was achieved by all brands in the period supported by a strong recovery in the residential RMI and new build markets.

Financial Review

Revenue

Group revenue from continuing operations, which excludes the Traditional Merchanting Business in Britain that is classified as discontinued, increased by 46.1 per cent to £1.03 billion from £703.7 million in the first half of 2020 and was up by 29.7 per cent from £792.2 million in the first half of 2019. First half revenue in the continuing like-for-like business increased by 42.3 per cent (£297.9 million) on the prior year and by 17.8 per cent on the first half of 2019. Acquisitions contributed revenue of £27.0 million and new branches £3.9 million. A currency translation loss reduced revenue by £4.7 million.

Adjusted Operating Profit

Adjusted operating profit from continuing operations of £157.8 million (2020: £46.9 million) was up by 236.2 per cent due to the decline in profitability last year in the distribution and manufacturing businesses in the UK and the distribution business in Ireland as a result of the temporary closure of branches and plants.

Adjusted operating profit before property profit of £142.4 million (2020: £46.9 million) grew by 203.9 per cent and the adjusted operating profit margin increased by 7.2 per cent to 13.9 per cent before property profit.

Property

The Group recognised property profits of £15.4 million in the half year in continuing operations.

The disposal of properties in Belgium that were retained following divestment of the distribution business in 2019, together with small number of properties in Ireland and the UK that were held for sale, generated proceeds of £17.0 million (2020: £1.1 million) and a profit on disposal of £5.3 million (2020: £0.3 million).

In addition, a fair value gain £10.1 million was recognised on five properties which were transferred to investment properties during the period. Four of these were properties which were retained by the Group following the agreement to divest the Traditional Merchanting business in Great Britain. These four properties have a fair value of £15.75 million and a market value of circa £25 million.

Net Finance Income and Expense

The net finance expense decreased by £3.9 million to £9.2 million (2020: £13.2 million). This charge includes £7.2 million (2020: £7.8 million) of an interest charge on lease liabilities recognised under IFRS 16.

Interest payable on bank borrowings and US Private Placement Senior Unsecured Notes, net of bank interest received on deposits, decreased by £0.9 million to £3.1 million (2020: £4.0 million). The decline was mainly due to the repayment of cash drawndown during the first half of 2020 as a precautionary measure to increase liquidity in response to the Covid-19 crisis. The rate of interest receivable on bank deposits declined in the first half of 2021 because of excess liquidity in the banking system which led to lower interest rates on sterling deposits and an increase in negative interest rates on euro deposits.

The net finance expense included a foreign exchange translation gain of £1.4 million which compares to a loss of £1.1 million in the same period last year.

Taxation

The income tax expense of £26.9 million (2020: £6.5 million) is equivalent to an effective tax rate of 18.8 per cent on profit from continuing operations (2020: 22.1 per cent) and is based on the current forecast rate for the year. This is a blended rate of corporation tax on profits in the three jurisdictions where the Group operates. The forecast charge includes a once-off increase in deferred tax arising from the UK tax rate increasing to 25 per cent from 19 per cent which is effective from 1 April 2023. This change was enacted in UK legislation in May 2021 and adds 0.7 per cent to the tax rate on profits in the Group's continuing operations.

Certain items of expenditure charged in arriving at profit before tax, including depreciation on buildings, are not eligible for a tax deduction. This factor increased the rate of tax payable on profits above the headline rates that apply in the UK, Ireland and the Netherlands.

Cashflow

Cash generated from total operations increased to £255.3 million (2020: £121.5 million) including the release of £37.7 million from working capital (2020: £25.1 million).

The reduction in working capital in the first half was a reflection of the strong trading in the Group's cash based businesses, notably Selco and Woodie's, and we would expect this position to reverse in the second half of the year.

Expenditure on acquisitions and capital expenditure amounted to £30.0 million (2020: £13.6 million).

Capital Expenditure and Investment in Intangible Assets

We maintained disciplined control over the allocation of capital and capital expenditure for the period was £17.1 million (2020: £13.2 million). There was also expenditure of £0.5 million (2020: £0.3 million) on software costs that is classified as intangible assets.

Proceeds of £17.0 million (2020: £1.4 million) were received on disposal of fixed assets generating a net outflow of £0.6 million from assets sold and purchased (2020: £12.2 million net outflow).

The Group incurred capital expenditure of £5.1 million (2020: £6.5 million) on a range of development initiatives including new branches in Selco, Leyland SDM and the Netherlands, upgrades to Woodie's, Chadwicks, Selco and Leyland SDM branches and the creation of additional manufacturing capacity in StairBox.

Asset replacement capital expenditure of £12.0 million (2020: £6.7 million) compares to the depreciation charge on property, plant and equipment of £22.5 million and related principally to replacement of the distribution fleet that supports customer deliveries, replacement of fixtures and fittings, plant and machinery, forklifts, plant and tools for hire by customers and other assets required to operate the Group's branch network.

Pensions

The IAS 19 deficit on defined benefit pension schemes was £33.3 million at 30 June 2021, a decrease of £17.3 million from £50.6 million at 31 December 2020. Changes to financial assumptions decreased scheme liabilities by £11.1 million. Experience gains reduced the deficit by £3.0 million and changes in demographics by £1.6 million.

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

There was an actuarial gain of £0.9 million on plan assets due to the investment performance in the period exceeding the assumed interest income on assets.

A payment of £20.0 million was made in July 2021 as part of a funding arrangement with Trustees to reduce the deficit on the UK defined benefit scheme.

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

Net Cash/Debt

The Group's net cash position, before recognising lease liabilities, increased to £302.5 million at 30 June 2021, up from £181.9 million at 31 December 2020. This includes cash of £103.8 million that are in discontinued operations.

On 1 July 2021 the Group completed the IKH acquisition at a cost of €199.3 million.

The Group remains in a very strong financial position with pre-IFRS 16 EBITDA interest cover of 53.1 times (Year ended 31 December 2020: 30.7 times).

Net debt including lease obligations declined by £145.1 million to £209.9 million at 30 June 2021 from £355.0 million at 31 December 2020. This includes £67.1 million of lease obligations that are in the discontinued operations.

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

Liquidity

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

The Group had liquidity of £913.5 million at 30 June 2021 (30 June 2020: £693.4 million) of which £560.2 million (30 June 2020: £419.0 million) was held in accessible cash and £353.3 million (30 June 2020: £274.4 million) in undrawn revolving bank facilities.

At 30 June 2021, the Group had bilateral loan facilities of £478.8 million with six relationship banks and debt obligations of £137.3 million (31 December 2020: £143.8 million) from the issue of unsecured senior notes in the US Private Placement market.

The average maturity of the committed bank facilities and unsecured senior notes at 30 June 2021 was 3.1 years.

The Group's key financing objective continues to be to ensure that it has the necessary liquidity and resources to support the short, medium and long-term funding requirements of the business. These resources together with strong cash flow from operations provide good liquidity and the capacity to fund investment in working capital, routine capital expenditure and development activity including acquisitions.

The Group's gross debt is drawn in euros and provides a hedge against exchange rate risk on euro assets in the businesses in Ireland, the Netherlands and Finland following the acquisition of IKH on 1 July 2021.

IFRS 16 Leases

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

IFRS 16 increased operating profit by £6.3 million and the finance (interest) expense by £7.2 million in the half year. Profit before tax was reduced by £0.9 million and profit after tax by £0.8 million as a result of IFRS 16.

The right-of-use asset in the balance sheet at 30 June 2021 in total operations was £480.5 million (31 December 2020: £505.9 million). The right of use asset includes £60.8 million in respect of the Traditional Merchanting Business in Great Britain which was deemed to have been disposed.

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

Shareholders' Equity

The Group's balance sheet strengthened further with shareholders' equity up by £170.1 million to £1.64 billion. Profit after tax increased shareholders' equity by £231.4 million and there was a loss of £14.4 million on translation of euro denominated net assets to sterling. Shareholders' equity was increased by £13.5 million for a remeasurement loss on pension schemes and reduced for dividends paid of £64.6 million. Other changes increased equity by £4.2 million.

Return on Capital Employed

Return on Capital Employed in continuing operations before recognising IFRS 16 leased assets improved by 1,580 basis points to 29.3 per cent (30 June 2020: 13.5 per cent) and by 1,080 basis points to 20.5 per cent (30 June 2020: 9.7 per cent) including leased assets.

Principal Risks and Uncertainties

The primary risks and uncertainties affecting the Group are set out on pages 59 to 65 of the 2020 Annual Report and will be updated in the 2021 Annual Report. These risks refer to Macro Economic Conditions in the UK, Ireland, the Netherlands and Finland including the Impact of Brexit; Colleagues; Pandemic Risk – Covid-19 Virus; Competition in Distribution, Retailing and Manufacturing Markets; Sustainability and Climate Change; Information Technology Systems and Infrastructure; Cyber Security and Data Protection; Health and Safety; Acquisition and Integration of New Businesses; Supplier Management and Rebates; and Internal Controls and Fraud.

As noted above, the Group experienced supply chain disruption and significant building materials price inflation in the first half which is expected to continue in the second half with the risk that the Group is unable to fulfill customer demand because of volume shortages or because customer demand reduces due to increased prices.

The Covid-19 pandemic has increased the potential impact of certain of these risks and the longer term impacts will depend on a range of factors including the duration and scope of the pandemic, the impact of the pandemic on economic activity in the UK, Ireland, the Netherlands and Finland and the nature and severity of measures adopted by governments in these countries, including restrictions on or temporarily requiring the closure of the Group's businesses including, distribution branches, DIY, Home and Garden stores and manufacturing plants, travel, regulations that require avoiding large gatherings and orders to self-quarantine or self-isolate. The Covid-19 pandemic may have significant negative impacts in the medium and long term on the Group's businesses. Changes in consumer behaviour as a result of government imposed lock downs and the need for people to self-quarantine or self-isolate or observe social distancing for an indeterminate period of time may lead to the closure of distribution branches, DIY, Home and Garden stores and manufacturing plants. The severity of government-imposed lock downs and the period for which they continue in the UK, Ireland, the Netherlands and Finland will have an impact on customer demand in those countries. A deterioration in the financial position of customers and consumers as a result of Covid-19 pandemic may also impact demand for the Group's distribution, DIY and mortar products. In addition, disruptions as a result of Covid-19 in manufacturing, supply and distribution arrangements may also adversely impact the performance of the overall Group.

Period End Financial Information

The consolidated period-end financial statements presented on pages 20 to 42 comprise:

- the Group condensed balance sheet as at 30 June 2021;
- the Group condensed income statement and Group condensed statement of comprehensive income for the six months to 30 June 2021;
- the Group condensed statement of cash flows for the six months to 30 June 2021;
- the Group condensed statement of changes in equity; and
- the explanatory notes to the condensed consolidated half year financial statements on pages 26 to 42.

Grafton Group plc

Group Condensed Income Statement
For the six months ended 30 June 2021

	Notes	**Six months to 30 June 2021 (unaudited) £'000**	Six months to 30 June 2020 (unaudited) Restated £'000
Revenue	**2**	**1,027,787**	703,675
Operating costs		**(891,081)**	(661,101)
Property profits	**3**	**15,418**	83
Operating profit		**152,124**	42,657
Finance expense	**4**	**(10,730)**	(13,700)
Finance income	**4**	**1,490**	515
Profit before tax		**142,884**	29,472
Income tax expense	**17**	**(26,855)**	(6,512)
Profit after tax for the financial period from continuing operations		**116,029**	22,960
Profit/(loss) after tax from discontinued operations	**14**	**115,387**	(7,006)
Profit after tax for the financial period		**231,416**	15,954
Profit attributable to:			
Owners of the Company		**231,416**	15,954
Profit attributable to:			
Continuing operations		**116,029**	22,960
Discontinued operations		**115,387**	(7,006)
Earnings per ordinary share (continuing operations) - basic	**5**	**48.5p**	9.6p
Earnings per ordinary share (continuing operations) - diluted	**5**	**48.4p**	9.6p
Earnings per ordinary share (discontinued operations) - basic	**5**	**48.2p**	(2.9p)
Earnings per ordinary share (discontinued operations) - diluted	**5**	**48.2p**	(2.9p)
Earnings per ordinary share (total) - basic	**5**	**96.7p**	6.7p
Earnings per ordinary share (total) - diluted	**5**	**96.6p**	6.7p

Grafton Group plc

Group Condensed Statement of Comprehensive Income
For the six months ended 30 June 2021

	Notes	**Six months to 30 June 2021 (Unaudited) £'000**	Six months to 30 June 2020 (Unaudited) £'000
Profit after tax for the financial period		**231,416**	15,954
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Currency translation effects:			
- on foreign currency net investments		**(14,397)**	16,034
Fair value movement on cash flow hedges:			
- effective portion of changes in fair value of cash flow hedges		**194**	(68)
- net change in fair value of cash flow hedges transferred from equity		**-**	-
Deferred tax on cash flow hedges		**-**	-
		(14,203)	15,966
Items that will not be reclassified to the income statement			
Remeasurement gain/(loss) on Group defined benefit pension schemes	**13**	**16,602**	(22,998)
Deferred tax on Group defined benefit pension schemes		**(3,148)**	4,089
		13,454	(18,909)
Total other comprehensive expense		**(749)**	(2,943)
Total comprehensive income for the financial period		**230,667**	13,011
Total comprehensive income attributable to:			
Owners of the Company		**230,667**	13,011
Total comprehensive income for the financial period		**230,667**	13,011

Grafton Group plc - Group Condensed Balance Sheet as at 30 June 2021

	Notes	30 June 2021 (Unaudited) £'000	30 June 2020 (Unaudited) £'000	31 Dec 2020 (Audited) £'000
ASSETS				
Non-current assets				
Goodwill	15	570,132	676,450	704,064
Intangible assets	16	81,506	99,764	115,905
Property, plant and equipment	9	298,322	498,208	493,539
Right-of-use asset	8	419,685	504,012	505,922
Investment properties	9	27,491	12,752	12,328
Deferred tax assets		10,441	12,143	13,386
Lease receivable		259	2,266	2,015
Retirement benefit assets	13	3,843	890	2,099
Other financial assets		127	128	128
Total non-current assets		**1,411,806**	1,806,613	1,849,386
Current assets				
Properties held for sale	9	6,984	19,936	18,058
Inventories	10	245,491	303,163	321,558
Trade and other receivables	10	804,081	294,462	336,944
Lease receivable		26	151	301
Derivative financial instruments	11	113	-	-
Cash and cash equivalents	11	460,428	422,988	456,028
Total current assets		**1,517,123**	1,040,700	1,132,889
Total assets		**2,928,929**	2,847,313	2,982,275
EQUITY				
Equity share capital		8,583	8,552	8,569
Share premium account		217,902	213,785	216,496
Capital redemption reserve		621	621	621
Revaluation reserve		12,631	12,864	12,733
Shares to be issued reserve		8,749	8,745	6,714
Cash flow hedge reserve		129	(59)	(65)
Foreign currency translation reserve		67,522	86,176	81,919
Retained earnings		1,324,927	1,049,926	1,143,933
Treasury shares held		(3,897)	(3,897)	(3,897)
Equity attributable to owners of the Parent		**1,637,167**	1,376,713	1,467,023
Total equity		**1,637,167**	1,376,713	1,467,023
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	11	261,821	364,308	274,030
Lease liabilities	11	395,538	480,656	479,019
Provisions		15,663	17,742	20,620
Retirement benefit obligations	13	37,146	45,572	52,683
Deferred tax liabilities	17	42,301	49,342	54,399
Total non-current liabilities		**752,469**	957,620	880,751
Current liabilities				
Lease liabilities	11	49,759	57,144	57,915
Trade and other payables	10	461,812	424,154	545,949
Current income tax liabilities	17	20,593	22,824	21,116
Derivative financial instruments	11	-	62	65
Provisions		7,129	8,796	9,456
Total current liabilities		**539,293**	512,980	634,501
Total liabilities		**1,291,762**	1,470,600	1,515,252
Total equity and liabilities		**2,928,929**	2,847,313	2,982,275

Grafton Group plc - Group Condensed Cash Flow Statement

For the six months ended 30 June 2021	Notes	Six months to 30 June 2021 (Unaudited)	Six months to 30 June 2020 Restated (Unaudited)
		£'000	£'000
Profit before taxation from continuing operations		**142,884**	29,472
Profit/(loss) before taxation from discontinued operations	14	**124,811**	(8,994)
Profit before taxation		**267,695**	20,478
Finance income		**(1,490)**	(515)
Finance expense	4,14	**11,973**	15,161
Operating profit		**278,178**	35,124
Depreciation	8,9	**53,872**	53,270
Amortisation of intangible assets	16	**7,810**	6,829
Share-based payments charge		**2,599**	949
Movement in provisions		**(1,027)**	248
Loss on sale of property, plant and equipment		**106**	293
Property profits – continuing operations		**(5,258)**	(83)
Property profits – discontinued operations		**(396)**	(225)
Fair value gains recognised as property profits		**(10,160)**	-
Profit on deemed disposal of Group businesses	14	**(107,240)**	-
Asset impairment adjustments		**-**	506
Gain on derecognition of leases		**(576)**	-
Contributions to pension schemes in excess of IAS 19 charge		**(298)**	(592)
Decrease in working capital	10	**37,691**	25,137
Cash generated from operations		**255,301**	121,456
Interest paid		**(10,402)**	(14,791)
Income taxes paid		**(24,715)**	(10,251)
Cash flows from operating activities		**220,184**	96,414
Investing activities			
Inflows			
Proceeds from sale of property, plant and equipment	9	**95**	304
Proceeds from sale of properties held for sale	9	**16,945**	1,078
Interest received		**106**	515
		17,146	1,897
Outflows			
Acquisition of subsidiary undertakings (net of cash acquired)	14	**(12,323)**	-
Net cash deemed disposed with Group businesses	14	**(103,778)**	-
Investment in intangible asset – computer software	16	**(504)**	(336)
Purchase of property, plant and equipment	9	**(17,137)**	(13,232)
		(133,742)	(13,568)
Cash flows from investing activities		**(116,596)**	(11,671)
Financing activities			
Inflows			
Proceeds from the issue of share capital		**1,455**	102
Proceeds from borrowings		**316**	261,099
		1,771	261,201
Outflows			
Repayment of borrowings		**-**	(262,640)
Dividends paid	6	**(64,577)**	-
Payment on lease liabilities		**(29,686)**	(19,164)
		(94,263)	(281,804)
Cash flows from financing activities		**(92,492)**	(20,603)
Net increase in cash and cash equivalents		**11,096**	64,140
Cash and cash equivalents at 1 January		**456,028**	348,787
Effect of exchange rate fluctuations on cash held		**(6,696)**	10,061
Cash and cash equivalents at the end of the period		**460,428**	422,988
Cash and cash equivalents are broken down as follows:			
Cash at bank and short-term deposits		**460,428**	422,988

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 equity £'000
Six months to 30 June 2021 (Unaudited)										
At 1 January 2021	**8,569**	**216,496**	**621**	**12,733**	**6,714**	**(65)**	**81,919**	**1,143,933**	**(3,897)**	**1,467,023**
Profit after tax for the financial period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**231,416**	**-**	**231,416**
Total other comprehensive income										
Remeasurement loss on pensions (net of tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,454**	**-**	**13,454**
Movement in cash flow hedge reserve (net of tax)	**-**	**-**	**-**	**-**	**-**	**194**	**-**	**-**	**-**	**194**
Currency translation effect on foreign currency net investments	**-**	**-**	**-**	**-**	**-**	**-**	**(14,397)**	**-**	**-**	**(14,397)**
Total other comprehensive expense	**-**	**-**	**-**	**-**	**-**	**194**	**(14,397)**	**13,454**	**-**	**(749)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**194**	**(14,397)**	**244,870**	**-**	**230,667**
Transactions with owners of the Company recognised directly in equity										
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(64,577)**	**-**	**(64,577)**
Issue of Grafton Units	**49**	**1,406**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,455**
Cancellation of A Shares	**(35)**	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**-**	**-**
Share based payments charge	**-**	**-**	**-**	**-**	**2,599**	**-**	**-**	**-**	**-**	**2,599**
Transfer from shares to be issued reserve	**-**	**-**	**-**	**-**	**(564)**	**-**	**-**	**564**	**-**	**-**
Transfer from revaluation reserve	**-**	**-**	**-**	**(102)**	**-**	**-**	**-**	**102**	**-**	**-**
	14	**1,406**	**-**	**(102)**	**2,035**	**-**	**-**	**(63,876)**	**-**	**(60,523)**
At 30 June 2021	**8,583**	**217,902**	**621**	**12,631**	**8,749**	**129**	**67,522**	**1,324,927**	**(3,897)**	**1,637,167**
Six months to 30 June 2020 (Unaudited)										
At 1 January 2020	8,516	213,719	621	12,954	12,889	9	70,142	1,047,698	(3,897)	1,362,651
Profit after tax for the financial period	-	-	-	-	-	-	-	15,954	-	15,954
Total other comprehensive income										
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(18,909)	-	(18,909)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(68)	-	-	-	(68)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	16,034	-	-	16,034
Total other comprehensive expense	-	-	-	-	-	(68)	16,034	(18,909)	-	(2,943)
Total comprehensive income	-	-	-	-	-	(68)	16,034	(2,955)	-	13,011
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	-	-	-
Issue of Grafton Units	36	66	-	-	-	-	-	-	-	102
Share based payments charge	-	-	-	-	949	-	-	-	-	949
Transfer from shares to be issued reserve	-	-	-	-	(5,093)	-	-	5,093	-	-
Transfer from revaluation reserve	-	-	-	(90)	-	-	-	90	-	-
	36	66	-	(90)	(4,144)	-	-	5,183	-	1,051
At 30 June 2020	8,552	213,785	621	12,864	8,745	(59)	86,176	1,049,926	(3,897)	1,376,713

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 equity £'000
Year to 31 December 2020 (Audited)										
At 1 January 2020	8,516	213,719	621	12,954	12,889	9	70,142	1,047,698	(3,897)	1,362,651
Profit after tax for the financial year	-	-	-	-	-	-	-	107,542	-	107,542
Total other comprehensive income										
Remeasurement loss on pensions (net of tax)	-	-	-	-	-	-	-	(18,070)	-	(18,070)
Movement in cash flow hedge reserve (net of tax)	-	-	-	-	-	(74)	-	-	-	(74)
Currency translation effect on foreign currency net investments	-	-	-	-	-	-	11,777	-	-	11,777
Total other comprehensive expense	-	-	-	-	-	(74)	11,777	(18,070)	-	(6,367)
Total comprehensive income	-	-	-	-	-	(74)	11,777	89,472	-	101,175
Transactions with owners of the Company recognised directly in equity										
Dividends paid	-	-	-	-	-	-	-	-	-	-
Issue of Grafton Units	53	2,777	-	-	-	-	-	-	-	2,830
Share based payments charge	-	-	-	-	719	-	-	-	-	719
Tax on share based payments	-	-	-	-	(352)	-	-	-	-	(352)
Transfer from shares to be issued reserve	-	-	-	-	(6,542)	-	-	6,542	-	-
Transfer from revaluation reserve	-	-	-	(221)	-	-	-	221	-	-
	53	2,777	-	(221)	(6,175)	-	-	6,763	-	3,197
At 31 December 2020	8,569	216,496	621	12,733	6,714	(65)	81,919	1,143,933	(3,897)	1,467,023

Grafton Group plc
Notes to Condensed Consolidated Half Year Financial Statements for the six months ended 30 June 2021

1. General Information

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

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

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 2021 are unaudited but have been reviewed by the auditor whose report is set out on pages 50 and 51.

The 2020 income statement has been restated as a result of the divestment of the GB Traditional Merchanting Business which is treated as discontinued operations.

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 Group annual financial statements and should be read in conjunction with the Group's annual financial statements in respect of the year ended 31 December 2020 that are available on the Company's website www.graftonplc.com.

The condensed consolidated half year financial statements presented do not constitute financial statements prepared in accordance with IFRS. The financial information included in this report in relation to the year ended 31 December 2020 does not comprise statutory annual financial statements within the meaning of section 295 of the Companies Act 2014. The 2020 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 Rules of the Financial Conduct Authority ('FCA') and International Accounting Standard ("IAS") 34 Interim Financial Reporting". They do not include all the information and disclosures necessary for a complete set of financial statements prepared in accordance with IFRS. 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 financial statements as at and for the year ended 31 December 2020.

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 annual financial statements as at and for the year ended 31 December 2020.

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, being at least 12 months from the date of approval of the financial statements. 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.

1. General Information (continued)

Basis of Preparation, Accounting Policies and Estimates (continued)

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

(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 Group's annual financial statements as at and for the year ended 31 December 2020.

Impacts of standards and interpretations in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Impacts of standards effective from 1 January 2021

Certain new accounting standards and interpretations have been published that are effective from 1 January 2021. These standards did not have a material impact on the Group in the current reporting period and are not expected to have a material impact on future reporting periods and on foreseeable future transactions.

2. Segmental Analysis

The amount of revenue and operating profit under the Group's reportable segments of Distribution, Retailing and Manufacturing is shown below. Segment profit measure is operating profit before exceptional items and amortisation of intangible assets arising on acquisitions. The UK distribution, United Kingdom revenue and distribution assets and liabilities exclude amounts related to the discontinued operations in both the current and comparative values.

	Six months to 30 June 2021 (Unaudited)	Six months to 30 June 2020 (Unaudited) Restated
	£'000	£'000
Revenue		
UK distribution	**414,085**	250,706
Ireland distribution	**258,735**	190,150
Netherlands distribution	**147,522**	138,125
Total distribution - continuing	**820,342**	578,981
Retailing	**158,354**	99,319
Manufacturing	**55,478**	29,680
Less: inter-segment revenue - manufacturing	**(6,387)**	(4,305)
Total revenue from continuing operations	**1,027,787**	703,675
Segmental operating profit before exceptional items and intangible amortisation arising on acquisitions		
UK distribution	**55,145**	10,061
Ireland distribution	**30,099**	15,231
Netherlands distribution	**16,005**	14,055
Total distribution – continuing	**101,249**	39,347
Retailing	**34,158**	9,694
Manufacturing	**12,717**	3,568
	148,124	52,609
Reconciliation to consolidated operating profit		
Central activities	**(5,707)**	(5,745)
	142,417	46,864
Property profits	**15,418**	83
Operating profit before exceptional items and intangible amortisation arising on acquisitions	**157,835**	46,947
Amortisation of intangible assets arising on acquisitions	**(5,711)**	(4,290)
Operating profit	**152,124**	42,657
Finance expense	**(10,730)**	(13,700)
Finance income	**1,490**	515
Profit before tax	**142,884**	29,472
Income tax expense	**(26,855)**	(6,512)
Profit after tax for the financial period from continuing operations	**116,029**	22,960
Profit/(loss) after tax from discontinued operations	**115,387**	(7,006)
Profit after tax for the financial period	**231,416**	15,954

2. Segmental Analysis (continued)

The amount of revenue by geographic area is as follows:

	Six months to 30 June 2021 (Unaudited) £'000	Six months to 30 June 2020 (Unaudited) Restated £'000
Revenue*		
United Kingdom	**460,174**	274,226
Ireland	**420,091**	291,324
Netherlands	**147,522**	138,125
Total revenue – continuing operations	**1,027,787**	703,675

**Service revenue, which is recognised over time, amounted to £18.0 million for the period (2020: £12.6 million)*

	30 June 2021 (Unaudited) £'000	30 June 2020 (Unaudited) £'000
Segment assets		
Distribution*	**2,148,343**	2,147,057
Retailing	**202,153**	216,111
Manufacturing	**103,481**	47,996
	2,453,977	2,411,164
Unallocated assets		
Deferred tax assets	**10,441**	12,143
Retirement benefit assets	**3,843**	890
Other financial assets	**127**	128
Cash and cash equivalents	**460,428**	422,988
Derivative financial instruments (current)	**113**	-
Total assets	**2,928,929**	2,847,313

**Distribution segment assets at 30 June 2021 include amounts receivable of £581.7 million (Note 10) in relation to the deemed disposal of the Traditional Merchanting Business in Great Britain.*

	30 June 2021 (Unaudited) £'000	30 June 2020 (Unaudited) £'000
Segment liabilities		
Distribution	**678,397**	750,830
Retailing	**222,027**	224,542
Manufacturing	**29,477**	13,120
	929,901	988,492
Unallocated liabilities		
Interest bearing loans and borrowings (current and non-current)	**261,821**	364,308
Retirement benefit obligations	**37,146**	45,572
Deferred tax liabilities	**42,301**	49,342
Current income tax liabilities	**20,593**	22,824
Derivative financial instruments (non-current)	**-**	62
Total liabilities	**1,291,762**	1,470,600

3. Operating Profit

Operating profit, from total operations, includes Government Assistance of £Nil (2020: £25.1 million) in respect of the Coronavirus Job Retention Scheme in the UK and the Temporary Covid-19 Wage Subsidy Scheme in Ireland.

The property profit of £5.3 million (2020: £0.3 million) relates to the disposal of one UK property, one Irish property and six properties in Belgium (2020: four UK properties).

In addition, a fair value gain £10.1 million was recognised on five properties which were transferred to investment properties during the period. Four of these were properties which were retained by the Group following the agreement to divest the Traditional Merchanting business in Great Britain. These four properties have a fair value of £15.75 million and a market value of circa £25 million.

4. Finance Expense and Finance Income

	Six months to 30 June 2021 (Unaudited) £'000		Six months to 30 June 2020 (Unaudited) Restated £'000	
Finance expense				
Interest on bank loans, US senior notes and overdrafts	**3,237**	*	4,555	*
Net change in fair value of cash flow hedges transferred from equity	**-**		-	
Interest on lease liabilities	**7,232**	*	7,831	*
Net finance cost on pension scheme obligations	**261**		169	
Foreign exchange loss	**-**		1,145	
	10,730		13,700	
Finance income				
Interest income on bank deposits	**(106)**	*	(515)	*
Foreign exchange gain	**(1,384)**		-	
	(1,490)		(515)	
Net finance expense	**9,240**		13,185	

** Net bank and US senior note interest of £3.1 million (2020: £4.0 million). Including interest on lease liabilities, this amounts to £10.4 million (2020: £11.9 million)*

5. Earnings per Share

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

	Half Year 30 June 2021 (Unaudited) **£'000**	Half Year 30 June 2020 (Unaudited) Restated £'000
Numerator for basic, adjusted and diluted earnings per share:		
Profit after tax for the financial period from continuing operations	**116,029**	22,960
Profit/(loss) after tax for the financial period from discontinued operations	**115,387**	(7,006)
Numerator for basic and diluted earnings per share	**231,416**	15,954
Profit after tax for the financial period from continuing operations	**116,029**	22,960
Amortisation of intangible assets arising on acquisitions	**5,711**	4,290
Tax relating to amortisation of intangible assets arising on acquisitions	**(1,226)**	(874)
Numerator for adjusted earnings per share	**120,514**	26,376
	Number of Grafton Units	Number of Grafton Units
Denominator for basic and adjusted earnings per share:		
Weighted average number of Grafton Units in issue	**239,275,910**	238,352,174
Dilutive effect of options and awards	**353,873**	-
Denominator for diluted earnings per share	**239,629,783**	238,352,174
Earnings per share (pence) – from total operations		
- Basic	**96.7**	6.7
- Diluted	**96.6**	6.7
Earnings per share (pence) – from continuing operations		
- Basic	**48.5**	9.6
- Diluted	**48.4**	9.6
Earnings per share (pence) – from discontinued operations		
- Basic	**48.2**	(2.9)
- Diluted	**48.2**	(2.9)
Adjusted earnings per share (pence) – from continuing operations		
- Basic	**50.4**	11.1
- Diluted	**50.3**	11.1

6. Dividends

On 24 March 2020, the Group announced that, as a precautionary measure to preserve liquidity in light of Covid-19, it was suspending the second interim dividend for 2019 of 12.5p per share, which was due to be paid on 6 April 2020. On 21 January 2021, the Group announced the reinstatement of this dividend and it was paid on 19 February 2021 in the amount of £29.9 million.

A final dividend for the year ended 31 December 2020 of 14.5p per ordinary share was paid on 5 May 2021 in the amount of £34.7 million. An interim dividend for 2021 of 8.5p per share will be paid to all holders of Grafton Units on the Company's Register of Members at the close of business on 3 September 2021 (the 'Record Date'). The Ex-dividend date is 2 September 2021. The cash consideration will be paid on 1 October 2021. A liability in respect of the interim dividend has not been recognised at 30 June 2021, as there was no obligation to pay any dividends at the end of 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 2021 was Stg86.80p (six months to 30 June 2020: Stg87.46p). The sterling/euro exchange rate at 30 June 2021 was Stg85.81p (30 June 2020: Stg91.24p and 31 December 2020: Stg89.90p).

8. Right-Of-Use Asset

	Right-of-use asset £'000
Recognised at 1 January 2021	**505,922**
Additions	**10,562**
Disposals	**(2,372)**
Depreciation	**(31,358)**
Remeasurements	**5,400**
Arising on acquisition (Note 14)	**2,108**
Deemed disposal of Group businesses (Note 14)	**(60,838)**
Currency translation adjustment	**(9,739)**
As at 30 June 2021	**419,685**

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

Net Book Value	Property, plant and equipment £'000	Properties held for sale £'000	Investment properties £'000
As at 1 January 2021	**493,539**	**18,058**	**12,328**
Additions	**17,137**	**-**	**-**
Depreciation	**(22,514)**	**-**	**-**
Disposals	**(201)**	**(11,291)**	**-**
Fair value gains	**-**	**-**	**10,160**
Transfer to properties held for sale	**(324)**	**882**	**(558)**
Transfer to investment properties	**(5,900)**	**-**	**5,900**
Arising on acquisition (Note 14)	**743**	**-**	**-**
Deemed disposal of Group businesses (Note 14)	**(177,515)**	**-**	**-**
Currency translation adjustment	**(6,643)**	**(665)**	**(339)**
As at 30 June 2021	**298,322**	**6,984**	**27,491**

10. Movement in Working Capital

Current	Inventories £'000	Trade and other receivables £'000	Trade and other payables £'000	Total £'000
At 1 January 2021 - Continuing	228,463	184,694	(365,909)	47,248
At 1 January 2021 - Discontinued	93,095	152,250	(180,040)	65,305
At 1 January 2021	**321,558**	**336,944**	**(545,949)**	**112,553**
Currency translation adjustment	**(6,773)**	**(5,671)**	**10,639**	**(1,805)**
Deemed disposal of Group businesses (Note 14)	**(99,253)**	**(212,547)**	**242,167**	**(69,633)**
Deferred acquisition consideration (Note 14)	**-**	**-**	**(658)**	**(658)**
Proceeds receivable on deemed disposal (Note 14)	**-**	**465,734**	**-**	**465,734**
Other receivables on deemed disposal (Note 14)	**-**	**115,969**	**-**	**115,969**
Arising on acquisition (Note 14)	**2,932**	**2,323**	**(1,964)**	**3,291**
Working capital movement in 2021	**27,027**	**101,329**	**(166,047)**	**(37,691)**
At 30 June 2021	**245,491**	**804,081**	**(461,812)**	**587,760**
Working Capital Movement				
Discontinued operations	**6,158**	**60,297**	**(62,127)**	**4,328**
Continuing operations	**20,869**	**41,032**	**(103,920)**	**(42,019)**
Total working capital movement	**27,027**	**101,329**	**(166,047)**	**(37,691)**

The increase in trade receivables and other receivables reflects increased activity including seasonality.

11. Interest-Bearing Loans, Borrowings and Net Debt

	30 June 2021 £'000	30 June 2020 £'000	31 Dec 2020 £'000
Non-current liabilities			
Bank loans	**125,115**	219,020	130,842
US senior notes	**136,706**	145,288	143,188
Total non-current interest-bearing loans and borrowings	**261,821**	364,308	274,030
Leases			
Included in non-current liabilities	**395,538**	480,656	479,019
Included in current liabilities	**49,759**	57,144	57,915
Total leases	**445,297**	537,800	536,934
Derivatives			
Included in current liabilities	**-**	62	65
Included in current assets	**(113)**	-	-
Total derivatives	**(113)**	62	65
Cash and cash equivalents	**(460,428)**	(422,988)	(456,028)
Net debt	**246,577**	479,182	355,001

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

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

	30 June 2020 £'000	31 Dec 2020 £'000
Assets/liabilities measured and recognised at fair value		
Designated as hedging instruments		
Interest rate swaps and other derivatives	**(113)**	65
Liabilities not measured at fair value		
Liabilities recognised at amortised cost		
Bank loans	**125,537**	131,521
US senior notes	**137,296**	143,840

Financial assets and liabilities recognised at amortised cost
It is considered that the carrying amounts of other financial assets and liabilities including trade payables, trade receivables and 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 and other derivatives are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using forward currency rates and market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

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

	30 June 2021 £'000	30 June 2020 £'000
Net increase in cash and cash equivalents	**11,096**	64,140
Net movement in derivative financial instruments	**178**	(69)
Lease liabilities deemed disposed (Note 14)	**67,100**	-
Movement in debt and lease financing	**13,858**	7,228
Change in net debt resulting from cash flows	**92,232**	71,299
Currency translation adjustment	**16,192**	(16,647)
Movement in net debt in the period	**108,424**	54,652
Net debt at 1 January	**(355,001)**	(533,834)
Net debt at end of the period (reported)	**(246,577)**	(479,182)
Net cash deemed disposed (Note 14)	**36,678**	-
Net debt including cash/debt deemed disposed	**(209,899)**	**(479,182)**

13. Retirement Benefits

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

	Irish Schemes		UK Schemes	
	At 30 June 2021	At 31 Dec 2020	**At 30 June 2021**	At 31 Dec 2020
Rate of increase in salaries	**2.70%**	2.25%	**0.00%** *	0.00% *
Rate of increase of pensions in payment	**-**	-	**2.70%**	2.70%
Discount rate	**1.15%**	0.70%	**1.90%**	1.40%
Inflation	**1.50%**	1.05%	**2.50%** **	2.00% **

* Pensionable salaries are not adjusted for inflation
** The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)

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 2021	Year to 31 Dec 2020	**Half year to 30 June 2021**	Year to 31 Dec 2020	**Half year to 30 June 2021**	Year to 31 Dec 2020
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**263,604**	249,933	**(314,188)**	(271,116)	**(50,584)**	(21,183)
Interest income on plan assets	**1,357**	3,998	**-**	-	**1,357**	3,998
Contributions by employer	**1,955**	4,209	**-**	-	**1,955**	4,209
Contributions by members	**234**	598	**(234)**	(598)	**-**	-
Benefit payments	**(5,146)**	(11,701)	**5,146**	11,701	**-**	-
Current service cost	**-**	-	**(1,191)**	(2,443)	**(1,191)**	(2,443)
Other long term benefit (expense)	**-**	-	**(66)**	(81)	**(66)**	(81)
Past service cost (exceptional)	**-**	-	**-**	(5,000)	**-**	(5,000)
Curtailment loss (exceptional)	**-**	-	**-**	(2,463)	**-**	(2,463)
Interest cost on scheme liabilities	**-**	-	**(1,618)**	(4,337)	**(1,618)**	(4,337)
Administration costs	**(400)**	(305)	**-**	-	**(400)**	(305)
Administration costs (exceptional)	**-**	(556)	**-**	-	**-**	(556)
Remeasurements						
Actuarial gains/(loss) from:						
-experience variations	**-**	-	**3,027**	(4,433)	**3,027**	(4,433)
-financial assumptions	**-**	-	**11,070**	(27,394)	**11,070**	(27,394)
-demographic assumptions	**-**	-	**1,616**	(534)	**1,616**	(534)
Return on plan assets excluding interest income	**889**	10,582	**-**	-	**889**	10,582
Translation adjustment	**(6,003)**	6,846	**6,645**	(7,490)	**642**	(644)
At 30 June / 31 December	**256,490**	263,604	**(289,793)**	(314,188)	**(33,303)**	(50,584)
Related deferred tax asset (net)					**7,551**	8,660
Net pension liability					**(25,752)**	(41,924)

13. Retirement Benefits (continued)

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

The net pension scheme deficit of £33.3 million (31 December 2020: £50.6 million) is shown in the Group balance sheet as (i) retirement benefit obligations (non-current liabilities) of £37.1 million (31 December 2020: £52.7 million) and (ii) retirement benefit assets (non-current assets) of £3.8 million (31 December 2020: £2.1 million). £10.9 million (31 December 2020: £18.3 million) of the retirement benefit obligations relates to schemes in Ireland and the Netherlands and £26.2 million (31 December 2020: £34.3 million) relates to one UK scheme.

14. Acquisitions and Discontinued Operations

Acquisitions

On 22 December 2020, the Group announced that it had agreed to acquire Proline Architectural Hardware Limited ("Proline"), a leading distributor of architectural ironmongery products for doors from a single location in Dublin. Proline specialises in the supply of a wide range of high quality traditional and contemporary architectural ironmongery products, in a variety of designs and finishes, including door locks, hinges and handles. The acquisition was completed on 11 February 2021 and is incorporated in the distribution segment.

On 13 January 2021, the Group acquired the entire share capital of Van Den Anker IJzerhandel Katwijk B.V. ("VDA"). VDA is a single branch merchanting business based in the Netherlands and is incorporated in the distribution segment. On 21 April 2021, the Group acquired the entire share capital of Govers B.V. ("Govers"). Govers is a four-branch business located in the Netherlands that complements the Isero branch network and is incorporated in the distribution segment.

The provisional fair value of assets and liabilities acquired in 2021 are set out below:

	Total £'000
Property, plant and equipment	**743**
Right-of-use asset	**2,108**
Intangible assets – trade names	**2,465**
Intangible assets – customer relationships	**2,275**
Inventories	**2,932**
Trade and other receivables	**2,323**
Trade and other payables	**(1,964)**
Lease liability	**(2,108)**
Corporation tax asset	**45**
Deferred tax liability	**(593)**
Cash acquired	**3,248**
Net assets acquired	**11,474**
Goodwill	**4,755**
Consideration	**16,229**
Satisfied by:	
Cash paid	**15,571**
Deferred consideration (Note 10)	**658**
	16,229
Net cash outflow – arising on acquisitions	
Cash consideration	**15,571**
Less: cash and cash equivalents acquired	**(3,248)**
	12,323

14. Acquisitions and Discontinued Operations (continued)

The fair value of the net assets acquired have been determined on a provisional basis. Goodwill on these acquisitions reflects the anticipated cashflows to be realised as part of the enlarged Group.

Any adjustments to provisional fair value of assets and liabilities including recognition of any newly identified assets and liabilities, will be made within 12 months of respective acquisition dates.

Acquisitions contributed revenue of £6.4 million and operating profit of £1.0 million for the period from the date of acquisition to 30 June 2021. If all three acquisitions had occurred on 1 January 2021, they would have contributed revenue of £9.3 million and operating profit of £1.1 million in the year. The Group incurred acquisition costs of £0.2 million in 2021 (2020: £1.4 million) which are included in operating costs in the Group Income Statement.

Deferred consideration is payable within 3 years and is not contingent. In addition to this deferred consideration, the Group has an agreement to make further payments to selling shareholders who as part of the agreement are required to remain in employment with the Group for the deferred period.

Discontinued Operations – Traditional Merchanting Business in the UK

In April 2021, the Group announced that it had appointed Rothschild & Co to undertake a review of certain of its traditional merchanting businesses in Great Britain. This strategic review was focused solely on the Buildbase, Civils & Lintels, PDM Buildbase, The Timber Group, Bathroom Distribution Group and NDI businesses.

On 30 June 2021, the Group entered into an agreement to divest its Traditional Merchanting Business in Great Britain ("the Business") for an enterprise value of £520.0 million to Huws Gray, one of the UK's largest independent builders' merchants, that is controlled by equity funds managed by Blackstone. The Group will retain freehold properties with development potential that have a market value of circa £25 million.

The decision to divest followed a comprehensive strategic review of the Business which concluded that exiting this segment of the building materials distribution market in Great Britain would enable the Group to optimise shareholder value. Completion of this transaction will also enable the Group to focus on its international development strategy which will be a key priority over the coming years.

Huws Gray has notified the transaction to the Competition and Markets Authority ("CMA"). The divestment is expected to close by the end of the first quarter of 2022 and completion is not conditional on the outcome of the CMA process.

In accordance with IFRS, for reporting purposes, the deemed disposal of the Traditional Merchanting Business in Great Britain has been accounted for as discontinued operations. As a result, the net assets of the Group increased by £95.3 million representing an overall profit on deemed disposal after costs of disposal. The profit on the deemed disposal reflects the expected cash consideration of £465.7 million offset by the net book value of the assets being disposed of £358.5 million. The net assets deemed disposed include the write-off of the carrying value of the allocated goodwill of £126.3 million.

The proceeds, which amount to £465.7 million, were receivable at 30 June 2021. In addition to this, £116.0 million was due to Grafton Group and this will be settled as part of the disposal.

14. Acquisitions and Discontinued Operations (continued)

The carrying value of assets and liabilities deemed disposed are as follows:

	Total £'000
Goodwill	**126,291**
Intangible assets	**29,827**
Property, plant and equipment	**177,515**
Right-of-use assets	**60,838**
Finance lease receivable	**2,143**
Deferred tax asset	**1,729**
Inventory	**99,253**
Trade and other receivables	**212,547**
Cash	**103,778**
Trade and other payables	**(242,167)**
Amounts owed by discontinued operations to the Group	**(115,969)**
Provisions	**(5,339)**
Lease liabilities (current and non-current)	**(67,100)**
Deferred tax liability	**(18,691)**
Income tax liability	**(6,161)**
Net assets of deemed disposal	**358,494**
Cash consideration receivable (Note 10)	**(465,734)**
Net profit on deemed disposal of discontinued operations, before disposal costs	**(107,240)**

Net cash/debt movement of deemed disposal

	£'000
Cash and cash equivalents	**103,778**
Lease liabilities	**(67,100)**
Net cash flow movement	**36,678**

Amounts recognised in the period within discontinued operations

	£'000
Gross profit on deemed disposal	**107,240**
Disposal costs*	**(11,945)**
Profit on deemed disposal, net of disposal costs	**95,295**
Result for the period from discontinued operations	**20,092**
Total amount recognised in discontinued operations	**115,387**

* Disposal costs include professional fees of £4.9 million, legal fees of £1.0 million, vendor financial, tax & IT due diligence fees of £0.9 million, property related costs of £0.3 million and £4.8 million of other costs related to the divestment of the business.

14. Acquisitions and Discontinued Operations (continued)

Results from discontinued operations

	30 June 2021 (unaudited) £'000	30 June 2020 (unaudited) £'000	31 December 2020 (unaudited) £'000
Revenue	**522,895**	354,737	829,842
Operating costs	**(492,532)**	(362,495)	(808,470)
Operating profit before property profits	**30,363**	(7,758)	21,372
Property profits	**396**	225	2,699
Operating profit pre-exceptional items	**30,759**	(7,533)	24,071
Exceptional items*	**95,295**	-	(12,820)
Operating profit	**126,054**	(7,533)	11,251
Net finance costs	**(1,243)**	(1,461)	(2,746)
Profit before tax	**124,811**	(8,994)	8,505
Income tax	**(9,424)**	1,988	(1,151)
Profit after tax for the financial period	**115,387**	(7,006)	7,354

* Exceptionals items at 30 June 2021 relate to the profit on the deemed disposal, net of disposal costs.

Cash flows from discontinued operations

	30 June 2021 (unaudited) £'000	30 June 2020 (unaudited) £'000	31 December 2020 (unaudited) £'000
Net cash flow from operating activities	**36,592**	37,195	84,427
Net cash flow from investing activities	**(3,346)**	(723)	530
Net cash flow from financing activities	**(4,794)**	(4,312)	(9,845)
Net cash flow from discontinued operations	**28,452**	32,160	75,112

The overall impact on the Group income statement for June 2021 and June 2020 is set out below. The results for the period ended 30 June 2020 have been restated to include the Traditional Merchanting Business of Great Britain as discontinued operations.

Impact on the Group Condensed Income Statement for the six months ended 30 June 2021

	2021 (unaudited) Continuing £'000	2021 (unaudited) Discontinued £'000	2021 (unaudited) Total £'000
Revenue	**1,027,787**	**522,895**	**1,550,682**
Operating costs	**(891,081)**	**(492,532)**	**(1,383,613)**
Operating profit before property profits	**136,706**	**30,363**	**167,069**
Property profits	**15,418**	**396**	**15,814**
Operating profit before exceptional items	**152,124**	**30,759**	**182,883**
Exceptional items	**-**	**95,295**	**95,295**
Operating profit	**152,124**	**126,054**	**278,178**
Finance expense	**(10,730)**	**(1,243)**	**(11,973)**
Finance income	**1,490**	**-**	**1,490**
Profit before tax	**142,884**	**124,811**	**267,695**
Income tax expense	**(26,855)**	**(9,424)**	**(36,279)**
Profit after tax for the financial period	**116,029**	**115,387**	**231,416**

14. Acquisitions and Discontinued Operations (continued)

Impact on the Group Condensed Income Statement for the six months ended 30 June 2020

	2020 (unaudited) Continuing Restated £'000	2020 (unaudited) Discontinued Restated £'000	2020 (unaudited) Total Reported £'000
Revenue	703,675	354,737	1,058,412
Operating costs	(661,101)	(362,495)	(1,023,596)
Operating profit before property profits	42,574	(7,758)	34,816
Property profits	83	225	308
Operating profit before exceptional items	42,657	(7,533)	35,124
Exceptional items	-	-	-
Operating profit	42,657	(7,533)	35,124
Finance expense	(13,700)	(1,461)	(15,161)
Finance income	515	-	515
Profit before tax	29,472	(8,994)	20,478
Income tax expense	(6,512)	1,988	(4,524)
Profit after tax for the financial period	22,960	(7,006)	15,954

15. Goodwill

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. The deemed disposal of the Traditional Merchanting Business in Great Britain has resulted in a movement of £126.3 milion in the period ended 30 June 2021. There were no indications of impairment during the period (2020: £Nil).

	Goodwill £'000
Net Book Value	
As at 1 January 2021	**704,064**
Deemed disposal of Group businesses (Note 14)	**(126,291)**
Arising on acquisition (Note 14)	**4,755**
Currency translation adjustment	**(12,396)**
As at 30 June 2021	**570,132**

16. Intangible Assets

	Computer Software £'000	Trade Names £'000	Customer Relationships & Technology £'000	Total £'000
Net Book Value				
As at 1 January 2021	**32,946**	**11,157**	**71,802**	**115,905**
Additions	**504**	**-**	**-**	**504**
Amortisation	**(2,099)**	**(913)**	**(4,798)**	**(7,810)**
Arising on acquisition (Note 14)	**-**	**2,465**	**2,275**	**4,740**
Deemed disposal of Group businesses (Note 14)	**(27,522)**	**(222)**	**(2,083)**	**(29,827)**
Currency translation adjustment	**(130)**	**(203)**	**(1,673)**	**(2,006)**
As at 30 June 2021	**3,699**	**12,284**	**65,523**	**81,506**

16. Intangible Assets (continued)

The computer software asset of £3.7 million at 30 June 2021 (December 2020: £32.9 million) primarily reflects the cost of the Group's investment on upgrading the IT systems and infrastructure.

The amortisation expense of £7.8 million (H1 2020: £6.8 million) has been charged in 'operating costs' in the income statement. Amortisation on intangible assets arising on acquisitions amounted to £5.7 million (H1 2020: £4.3 million).

17. Taxation

The income tax expense of £26.9 million (2020: £6.5 million) is equivalent to an effective tax rate of 18.8 per cent on profit from continuing operations (2020 Full Year: 19.0 per cent) and is based on the current forecast rate for the year. This is a blended rate of corporation tax on profits in the three jurisdictions where the Group operates. The forecast charge includes a once-off increase in deferred tax arising from the UK tax rate increasing to 25 per cent from 19 per cent which is effective from 1 April 2023. This change was enacted in UK legislation in May 2021, and it adds 0.7 per cent to the tax rate on profits in the Group's continuing operations.

Certain items of expenditure charged in arriving at profit before tax, including depreciation on buildings, are not eligible for a tax deduction. This factor increased the rate of tax payable on profits above the headline rates that apply in the UK, Ireland and the Netherlands.

The liability shown for current taxation includes a liability for tax uncertainties and is based on the Directors' estimate of (i) the most likely amount; or (ii) the expected value of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

Accounting estimates and judgements

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

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

Deferred tax

At 30 June 2021, there were unrecognised deferred tax assets in relation to capital losses of £1.9 million (31 December 2020: £1.7 million), trading losses of £1.9 million (31 December 2020: £2.0 million) and deductible temporary differences of £8.4 million (31 December 2020: £7.7 million).

Deferred tax assets were not recognised in respect of certain capital losses as they can only be recovered against certain classes of taxable profits. The Directors believe that it is not probable that such profits will arise in the foreseeable future. The trading losses arose in entities that have incurred historic losses and the Directors believe that it is not probable there will be sufficient taxable profits in the particular entities against which they can be utilised. Separately, the Directors believe that it is not probable the deductible temporary differences will be utilised.

18. Related Party Transactions

There have been no new related party transactions. There were no other changes in related parties from those described in the 2020 Annual Report that materially affected the financial position or the performance of the Group during the period to 30 June 2021.

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

LTIP awards were made over 683,694 Grafton Units on 17 May 2021. The fair value of the awards of £7.4 million, which are subject to vesting conditions, will be charged to the income statement over the vesting period of three years. The 2020 Annual Report discloses details of the LTIP scheme.

20. Issue of Shares

During the year 82,675 Grafton Units were issued under the 2011 Grafton Group Long Term Incentive Plan (LTIP) on the vesting of the 2018 grants. A further 218,302 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

Further to the announcement on 22 June 2021, the Group completed the acquisition of Isojoen Konehalli Oy and Jokapaikka Oy ("IKH") on 1 July 2021. IKH is one of the largest workwear, personal protective equipment ("PPE"), tools, spare parts and accessories technical wholesalers and distributors in Finland. The business will be incorporated in the distribution segment.

IKH reported revenue of €158.8 million and an adjusted operating profit of €21.0 million for the year ended 28 February 2021. The purchase consideration of €199.3 million, on a cash and debt free basis, was funded from the Group's existing cash resources. Due to the short time frame between completion date and the date of issuance of this report, it was not possible to reliably estimate the fair value of assets and liabilities or the goodwill associated with the acquisition.

Other than the above, there have been no material events subsequent to 30 June 2021 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 24 August 2021.

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 2020 are available in the 2020 Annual Report and the 2020 Half Year Report, subject to restatement for discontinued operations.

Note: *The Traditional Merchanting Business in Great Britain is now classified as discontinued operations for the period ended 30 June 2021. In the computation of APMs* below *the revenue and operating profit of the business are excluded from the Group. Revenue and the operating result are reflected in the profit/(loss) after tax from discontinued operations. Prior year comparatives have been updated to conform to the current year presentation.*

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

Gearing — The Group net debt divided by the total equity attributable to owners of the Parent times 100, expressed as a percentage.

Like-for-like revenue — Changes in like-for-like revenue is a measure of underlying revenue performance for a selected period. Branches contribute to like-for-like revenue once they have been trading for more than twelve months. Acquisitions contribute to like-for-like revenue once they have been part of the Group for more than 12 months. When branches close, or where a business is disposed of, revenue from the date of closure, for a period of 12 months, is excluded from the prior year result.

Return on Capital Employed — Operating profit divided by average capital employed (where capital employed is the sum of total equity and net debt at each period end) times 100, expressed as a percentage.

Adjusted Operating Profit/EBITA before Property Profit

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Revenue - continuing	1,027.8	703.7
Operating profit	152.1	42.7
Property profit	(15.4)	(0.1)
Amortisation of intangible assets arising on acquisitions	5.7	4.3
Adjusted operating profit/EBITA before property profit	142.4	46.9
Adjusted operating profit/EBITA margin before property profit	13.9%	6.7%

Operating Profit Margin

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Revenue - continuing	1,027.8	703.7
Operating profit	152.1	42.7
Operating profit/EBITA margin	14.8%	6.1%

Adjusted Operating Profit/EBITA

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Revenue - continuing	1,027.8	703.7
Operating profit	152.1	42.7
Amortisation of intangible assets arising on acquisitions	5.7	4.3
Adjusted operating profit/EBITA	157.8	46.9
Adjusted operating profit/EBITA margin	15.4%	6.7%

Adjusted Profit before Tax

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Profit before tax	142.9	29.5
Amortisation of intangible assets arising on acquisitions	5.7	4.3
Adjusted profit before tax	148.6	33.8

Adjusted Profit after Tax

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Profit after tax	116.0	23.0
Amortisation of intangible assets arising on acquisitions	5.7	4.3
Related tax on amortisation of intangible assets arising on acquisitions	(1.2)	(0.9)
Adjusted profit after tax	120.5	26.4

Reconciliation of Profit to EBITDA – Continuing Operations

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Profit after tax	116.0	23.0
Net finance expense	9.2	13.2
Income tax expense	26.9	6.5
Depreciation	40.8	39.0
Intangible asset amortisation	5.9	4.4
EBITDA – continuing operations	198.8	86.1

Net Debt to EBITDA

	Six months to 30 June 2021 Impact £'m	Six months to 30 June 2020 Restated £'m
EBITDA (rolling 12 months)	350.1	214.9
Net debt including discontinued operations	209.9	479.2
Net debt to EBITDA – times	0.60	2.23

EBITDA Interest Cover (including interest on lease liabiliites)

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
EBITDA	198.8	86.1
Net bank/loan note interest including interest on lease liabilities	10.4	11.9
EBITDA interest cover – times	19.2	7.3

EBITDA Interest Cover (excluding interest on lease liabiliites)

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
EBITDA	198.8	86.1
Net bank/loan note interest excluding interest on lease liabilities	3.1	4.0
EBITDA interest cover – times	63.5	21.3

Gearing

	30 June 2021 Reported £'m	30 June 2020 Restated £'m
Total equity	1,637.2	1,376.7
Net debt including discontinued operations	209.9	479.2
Gearing	13%	35%

Return on Capital Employed – Continuing Operations

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Operating profit (rolling 12 months)	257.9	130.8
Exceptional items (rolling)	11.9	-
Amortisation of intangible assets arising on acquisitions (rolling)	9.8	8.1
Adjusted operating profit (rolling 12 months)	279.6	138.8
Total equity – current period end	1,637.2	1,376.7
Deemed disposal adjustment	-	115.4
Net debt including discontinued operations	209.9	479.2
Net cash of discontinued operations	36.7	-
Deemed disposal adjustment	(581.7)	(545.0)
Capital employed – current period end	1,302.0	1,426.3
Total equity – prior period end	1,376.7	1,313.5
Deemed disposal adjustment	115.4	115.4
Net debt – prior period end	479.2	540.5
Deemed disposal adjustment	(545.0)	(545.0)
Capital employed – prior period end	1,426.3	1,424.4
Average capital employed	1,364.2	1,425.4
Return on capital employed	20.5%	9.7%

Capital Turn

	Six months to 30 June 2021 Reported £'m	Six months to 30 June 2020 Restated £'m
Revenue H2 prior period	975.6	851.3
Revenue H1 current period	1,027.8	703.7
Total revenue for previous 12 months	2,003.4	1,555.0
Average capital employed	1,364.2	1,425.4
Capital turn - times	1.5	1.1

Liquidity

	30 June 2021 Reported £'m	30 June 2020 Reported £'m
Cash and cash equivalents	460.4	423.0
Cash included in discontinued operations	103.8	-
Less: cash held against letter of credit	(4.0)	(4.0)
Accessible cash	560.2	419.0
Undrawn revolving bank facilities	353.3	274.4
Liquidity	913.5	693.4

Net Debt (Including Discontinued Operations)

	30 June 2021 Reported £'m	30 June 2020 Reported £'m
Net debt reported	246.6	479.2
Cash included in discontinued operations	(103.8)	-
Lease liabilities included in discontinued operations	67.1	-
Net Debt – Including discontinued operations	209.9	479.2

Net Cash – before IFRS 16 Leases

	30 June 2021 Reported £'m	30 June 2020 Reported £'m
Net cash at 30 June (before IFRS 16 Leases)	198.7	57.0
Cash included in discontinued operations	103.8	-
Net Cash – Including discontinued operations	302.5	57.0

The Impact of IFRS 16 “Leases” on APM’s

Reconciliation of Profit to EBITDA – pre-IFRS 16 (Continuing)

	Six months to 30 June 2021 Reported £’m	Six months to 30 June 2020 Restated £’m
Profit after tax	116.9	24.8
Net finance expense	2.0	5.4
Income tax expense	27.0	6.9
Depreciation	14.5	13.7
Intangible asset amortisation	5.9	4.4
EBITDA	166.2	55.2

EBITDA Interest Cover – pre-IFRS 16 (excluding interest on lease liabilities)

	Six months to 30 June 2021 Reported £’m	Six months to 30 June 2020 Restated £’m
EBITDA	166.2	55.2
Net bank/loan note interest excluding interest on lease liabilities	3.1	4.0
EBITDA interest cover – times	53.1	13.7

Responsibility Statement in Respect of the Six Months Ended 30 June 2021

The Directors, whose names and functions are listed on pages 78 and 79 in the Group's 2020 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 2021 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 2021, 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	David Arnold
Chief Executive Officer	Chief Financial Officer

Independent review report to Grafton Group plc

Report on the condensed consolidated half year financial statements

Our conclusion

We have reviewed Grafton Group plc's condensed consolidated half year financial statements (the "interim financial statements") in the Half Year Report of Grafton Group plc for the six month period ended 30 June 2021. 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' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements, comprise:

- the Group Condensed Balance Sheet as at 30 June 2021;
- 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 explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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.

Responsibilities for the interim financial statements and the review

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 Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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 Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority 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.

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
24 August 2021
Dublin

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.